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2011–2014

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I—REPORTS AND PROCEEDINGS OF SELECT COMMITTEES

IN THE REIGN OF HER MAJESTY
QUEEN ELIZABETH THE SECOND

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Parliament of New Zealand

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Introduction

This is a compendium of all the select committee reports on the 2013/14 Estimates. The Fiscal Strategy Report 2013 and the Economic and Fiscal Update 2013 are included in a combined report by the Finance and Expenditure Committee. The Finance and Expenditure Committee’s report on the 2012/13 Supplementary Estimates will be printed in the Appendix to the Journals – Select Committee Reports 2013.

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 report on the examinations of Vote Communications Security and Intelligence and Vote Security Intelligence has been included in this compendium for ease of reference. Its report on the 2012/13 Supplementary Estimates for Vote Communications Security and Intelligence and Vote Security Intelligence will be printed in the Appendix to the Journals – Select Committee Reports 2013.
2013/14 Estimates for Vote ACC

Report of the Transport and Industrial Relations Committee

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Vote ACC

**Recommendation**

The Transport and Industrial Relations Committee recommends that the appropriations for the year ending 30 June 2014 for Vote ACC, administered by the Ministry of Business, Innovation and Employment, as set out in Parliamentary Paper B.5, be accepted.

**Introduction**

The appropriations sought for Vote ACC decrease to approximately $1.116 billion in 2013/14 from an estimated actual expenditure of $1.131 billion in 2012/13.

The multi-class output appropriation for Policy Advice and Related Outputs decreases to $2.912 million in 2013/14 from an estimated actual expenditure of $3.351 million in 2012/13. This follows the transfer in November 2012 of funds for monitoring ACC to the Treasury and Vote Finance. The Ministry of Business, Innovation and Employment remains responsible for policy advice regarding ACC initiatives.

**Rebuilding trust and confidence**

When we heard from the Minister, she acknowledged that 2012 was a difficult year for the corporation, with security of private information issues distracting attention from its core work. Improving public perception is now a priority, and her view is that better management of private information will be central to regaining trust and confidence, and to improving the service provided to claimants and levy payers.

We concur with this assessment and are pleased by the emphasis on rebuilding the corporation’s reputation and public confidence in it. While there is much still to be done, we note also that progress is being made. In our day-to-day dealings with the corporation as constituency and list members, the New Zealand National Party members of the committee observed they have been impressed with the professionalism of the staff. New Zealand Labour Party members of the committee note that they expect professionalism from the staff.

Of the 45 recommendations arising from the Independent Review of ACC’s Privacy and Security of Information, 15 have been implemented, and the rest will be actioned in the next two years. We are pleased to note that ACC reports publicly each month on its progress in implementing the recommendations.

ACC has established a dedicated privacy team to improve practice, and a taskforce of senior managers to work on reducing privacy breaches. A privacy index has been created and a compulsory privacy training module for staff was launched in May 2013.

The corporation has made a good start on addressing deficiencies, and we will continue to monitor its progress.

**ACC accounts and levies**

The corporation’s investment returns at the end of April 2013 exceeded budget projections by $1.6 billion; the Minister attributes this to market conditions and good active
management by the investment team. We note that, among diversified funds over the last ten years, the ACC fund was outperformed only by the Yale investment fund.

We asked the Minister about the setting of levy rates, and were told that the Earners Account and the Workers Account are now fully funded, and fully funding the Motor Vehicle Account is being considered. Levies were reduced in 2012/13, and average work account levies are at a historical low.

We heard that the Government expects to reduce ACC levies further, and is confident that this would be sustainable. It is allowing for a reduction of about $300 million in 2014/15 increasing to a reduction of $1 billion in 2015/16. The Minister cautioned, however, that ACC will need to maintain a careful and prudent approach to setting levies in the short term, because of volatile international conditions.

We asked why the Government had kept the levy higher than the top rate proposed in 2013/14 ACC Levies by the former Department of Labour or the rate proposed by ACC, and heard that this had been decided by Cabinet, because of uncertainty about whether a lower rate would be sustainable, and the Government’s goal of reaching surplus by 2014/15. The Minister assured us that any surplus collected would be invested by ACC and would help to manage the cost of future levies.

We were informed by ACC that it had already considered a number of factors including future levy stability when recommending a lower levy than those decided by Cabinet.

The Minister stated that ACC represented a major part of the Government accounts and therefore has an important part to play in achieving a surplus. She also said that the Cabinet decision was based on the need for sustainability, and the need to make sure that the Government books for New Zealand are well protected against international conditions, and also to make sure that ACC is never again in a situation such as that in 2008 when the New Zealand National Party was elected to Government and had to increase levies.

We were told that the Minister is not considering privatising the ACC accounts since the corporation is outperforming its overseas competitors; she considers that there would be no room for competition. She also noted that levies are “substantially less” than the Australian equivalents or those of any other workplace insurance scheme.

**Injury prevention strategy**

The Minister told us that injury prevention is a priority for her, and that the ACC board has agreed to this.

The corporation is reviewing the way it provides and funds injury prevention work, to ensure that the desired outcomes are being achieved. Areas being reviewed relate to injury prevention in the home, the community, the workplace, sport, and on the road. The corporation will focus in 2013/14 on preventing injuries caused by sexual violence, reducing road transport injuries, and working with the New Zealand Rugby Union to reduce injuries through the RugbySmart programme (which includes first aid kits for rugby players, sideline concussion checks, and an instructional DVD about safety).

We noted that the funding available for injury prevention work decreased by about 42 percent between 2008 and 2012. While the corporation could not tell us why this had happened, we were told that the board had decided to increase expenditure in this area by about $20 million in the coming year if it “can do so responsibly”, and that a further increase was possible. This funding would not, however, be spent in traditional areas, and
the corporation intends to ensure coverage of areas that might previously have been missed.

**Independent medical assessors**

We asked for a progress report on the ACC’s work on the independence of medical assessors, and were told that the corporation was undertaking several initiatives, the first being to ensure that people understand that they have a choice of medical assessors. The corporation intends to work with professional bodies over the next 12 to 18 months to explain the information, quality, and timeliness standards required of a medical assessment. We were told that finding a medical assessor can be challenging in certain specialist areas, but that the corporation is working with professional bodies to ensure that those available can be used most effectively.

**Osseointegration service**

We were interested to hear that ACC is working with the Ministry of Health to fund the clinical trial of an osseointegration service for amputees. Prostheses are implanted directly into bone, without intervening soft tissue. Although the surgery is complex, the results can be extremely beneficial. We are pleased to hear that the corporation is supporting new, innovative ways of improving long-term outcomes for claimants.

**New Zealand Labour Party minority view**

Labour Party members of the committee are disappointed that the Government plans to reach surplus by collecting higher ACC levies than necessary, rather than by achieving economic growth. We received confirmation during the hearing that Cabinet decided to set ACC levies at higher rates than the rates proposed by ACC following its annual levy-setting consultation process. ACC officials confirmed that in recommending reduced ACC levy rates they had taken into account Ministers’ expectations of ensuring funding certainty, collecting the minimum necessary, having the appropriate incentives in place, and providing levy stability.

Information provided to the committee from ACC during this hearing shows that $400 million more will be collected in levies in the Earners Account in the forthcoming year than ACC recommended. Labour Party members of the committee believe that working people are paying $400 million more this year than is necessary for ACC’s purposes.

Information provided to the committee from ACC also showed that $150 million more will be collected in levies in the Workers Account than ACC recommended. Labour Party members of the committee believe that employers are paying $150 million more this year than is necessary for ACC’s purposes.

The Minister confirmed that the factor Cabinet considered in its decision to keep levies high that ACC officials did not, was the Government’s commitment to reaching surplus by 2014/15.

The Labour Party members believe that this $550 million would be better off circulating in the economy to achieve the Government’s goal of achieving economic growth, than being paid to ACC as a way of creating a surplus in the Crown’s overall accounts, as advised by ACC and the Ministry of Business, Innovation and Employment.
Appendix A

Approach to this examination

We met on 13 June, and 4 and 11 July 2013 to consider Vote ACC. Evidence was heard from the Minister of ACC and the Accident Compensation Corporation, and advice received from the Office of the Auditor-General.

Committee members

David Bennett (Chair)
Chris Auchinvole
Dr Cam Calder
Darien Fenton
Iain Lees-Galloway
Sue Moroney
Simon O’Connor
Denise Roche
Mike Sabin

Evidence and advice received

We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote ACC, received 13 June 2013.
Minister of ACC Response to standard Estimates questionnaire.
Response to additional questions, received 11, 20, and 26 June 2013.
Corrected transcript of hearing of evidence 13 June 2013

Members
David Bennett (Chair)
Chris Auchinvole
Dr Cam Calder
Darien Fenton
Iain Lees-Galloway
Sue Moroney
Simon O’Connor
Mike Sabin

Witnesses
Hon Judith Collins, Minister for ACC
Mark Dossor, Chief Financial Officer, ACC
Paula Rebstock, Chair, ACC
Scott Pickering, Chief Executive, ACC
Kurutia Seymour, General Manager: Governance, Legal, Policy and Research, ACC
Sid Miller, General Manager: Claims Management, ACC
Peter Nelson, Senior Advisor, MBIE

Bennett Welcome, everybody, to the estimates for Vote ACC, and a particular welcome to our lovely Minister, and to Paula and Scott, thank you very much for coming in. To everybody here from ACC, welcome, and to the media and all that as well. We’re running a little bit ahead of schedule, so we’ll kick into it straight away. We’ve got 45 minutes for the hearing, so if we start now, Minister, if you’d like to give us a brief introduction, then we can open up for questions.

Collins Thank you, Mr Chair and committee members. I was wanting today to speak for probably about 10 minutes then just open up for questions. If I can just introduce Paula Rebstock, chair of the ACC board, and also, on my left here, Mr Scott Pickering, the new CEO of ACC. This will be Scott’s first attendance here at Parliament, and almost the first media outing, isn’t it, Scott? Something like that.

Anyway, I’d like to begin by acknowledging the terrific work that the corporation has under way to improve the performance and, as a result, the sustainability of the ACC scheme. I’d like to acknowledge our new CEO and the board, and also our leadership team, who are here today. I’m not going to try to introduce everyone, because that would take up 45 minutes—unless you want me to. A renewed focus on rebuilding—[Interruption] We need time to talk about the good work of ACC. A renewed focus on rebuilding trust and confidence in prudent management
of ACC has set the corporation on the right track to continue achieving excellent results. The fiscal discipline shown by ACC, supported by a strong focus on improving client services, has also put the scheme on sound financial footing.

A major priority for me is that ACC achieves a marked improvement in the public’s perception of it, and improving the management of private information is crucial to regaining the trust and confidence of New Zealanders and on improving the service that ACC provides to claimants and levy payers. ACC is tackling this on many fronts. A dedicated privacy team has been established to provide support to the organisation for improving its privacy practices. A new taskforce of senior managers has been set up with an immediate focus on reducing the number of privacy breaches. ACC has created a privacy index and publicly reports monthly on progress against completing the recommendations of the independent report on privacy and security of information. And a new compulsory privacy training module for staff was launched in May this year as part of Privacy Week.

ACC’s job is to help people get quality treatment so that they can return to independence as soon as possible. ACC is working hard to improve its customer services to achieve the best-possible outcomes for all parties involved. ACC is very focused on getting better return-to-work outcomes for claimants. New Zealand’s return-to-work rates, particularly our durable return rates, remain higher than Australia’s, but the corporation is not resting on its laurels. ACC is designing a national service that will embed the success of the Better at Work trial, and this trial allows GPs to help employers get their staff back on deck sooner where they are able. The focus of rehabilitation is on what someone can do rather than what they can’t do, because work is not a punishment, and all evidence shows that being at work helps people to rehabilitate.

Improved claims management performance is helping to reduce the number of people who have been receiving entitlements for a long time. Thanks to proactive rehabilitation during the initial 12 months of a claim, more claimants are returning to independence before becoming long-term claimants. So far this year there has been a net reduction of 170 long-term claimants, which is a great result for those individuals.

In February this year ACC committed to improving the public’s trust and confidence in external medical assessments by ensuring that there is a consistent and transparent process for purchasing external medical opinions. ACC is also ensuring that claimants are aware of their ability to choose an assessor, should they wish to do so.

ACC is working with the Ministry of Health to fund the clinical trial of an osseointegration service for amputees. I think the clerk has some of these diagrams here and pictures for the committee, so you know what I’m talking about here. This is very new technology that ACC with the Ministry of Health is funding the trial for. Osseointegration involves inserting implants directly into a patient’s bone and can be used as a method of
attaching prosthetics. Although it is complex surgery, the results, if they are successful, can be life changing. Regardless of the result of these trials, this is an example of the extent that ACC goes to to find the best-possible treatment for clients, and also the complexity involved in mitigating risks.

In the end, excellence in customer service is all about people. Since I became Minister, I have been able to travel around the country and to visit many ACC branches, and I’ve always been impressed by the attitude of the staff and their commitment to getting good outcomes for people. The Minister’s Awards for Excellence, which I instituted last year, recognise people who have gone above and beyond normal expectations of customer service, and I know that they are making a positive contribution to the culture of customer service within ACC.

Two ACC accounts are now fully funded and a third is nearly there. Levies reduce substantially for the 2012-13 year, and average work account levies are now at an historical low. While I’m optimistic that these gains made are sustainable, it would be premature to take our foot off the pedal when international conditions remain volatile. So we need to continue a prudent and careful approach to setting levies in the short term. So I’m pleased that continuing improvements in ACC’s financial position are expected to provide an opportunity for significant levy reductions to benefit all New Zealanders who are working.

At the end of April 2013, ACC’s investment returns were $1.6 billion ahead of budget, and this result reflects both market conditions and very good active management by the investment team. The Government has therefore announced our expectation to reduce ACC levies. We are confident that a decrease in ACC levies is sustainable. We are allowing for a reduction of around $300 million for the 2014-15 year, increasing to a reduction of around $1 billion in 2015-16. This follows a $630 million reduction in levies for households and businesses in 2012-13.

The impacts of injury go beyond an individual’s pain, loss of earnings, and reduced quality of life, to their families, employers, our health care system, and our communities. And that is why injury prevention at work, home, and play is crucial and is, in fact, a primary task of ACC. Members of the committee will have, hopefully, this slide here on examples of ACC’s injury prevention activity. I think this is absolutely crucial to ACC but also absolutely crucial for the welfare of New Zealanders.

The corporation is working on a renewed injury prevention strategy, leading initiatives across the injury prevention sector to prevent injuries in the home and community, road, workplace, and on the sports field. ACC is also working collaboratively with several other agencies, for example in the transport sector, to help meet this target of reduced road transport injuries. ACC already collaborates with the police and justice sector agencies to help reduce violence, and the ACC and New Zealand Rugby Union’s RugbySmart programme helps reduce the numbers of injuries. The new scrum rules are an example of this, and we’ve got for the committee presents. We’re bringing you these, which are RugbySmart—sorry, Clerk,
could you get all of those out? These are some of the things that are handed out to rugby players through the Rugby Union, and there is enough there for each of you to have. I have put one on yesterday in the hope that it will help my balance. So we'll wait and see.

Sabin I'm sure the Minister’s already well balanced.

Collins Well, I already am balanced, anyway, but I thought I’d even be more balanced. I put it on the left hand, just in case. Then we have these cute little first-aid kits that are handed out to all the rugby players; sideline concussion check for everybody; and there’s even a DVD, which I’m not giving to you today, which is What You Do Keeps You Safe, with Conrad Smith on it. So there’s a lot of work going on there, but very practical things. And ACC, by the way, is not only working with the New Zealand Rugby Union but now with the IRB on this. So we are world leading, and I think that’s a good thing.

At the same time, the corporation is actively encouraging better workplace health and safety practices. The Government has bold ambitions for reducing workplace fatalities and injuries, setting a target of 25 percent reduction in fatalities and serious injuries by 2020. To help reach this target, the Government has signalled reform in the workplace health and safety system to respond to the recommendations of the Independent Taskforce on Workplace Health and Safety, and ACC is actively engaged in these developments. The experience rating on ACC workplace levies, which this Government introduced, builds on other ACC incentive programmes to reward businesses who have good health and safety systems in place. And I have already announced the new safety star ratings system that is being developed.

Perhaps just to give members a good idea about—have you got this last chart—where injuries actually come from, because we hear an awful lot about “Oh, it’s rugby.” or “It’s this.” or “It’s work” or whatever. If you have a look at this diagram, you’ll see that workplace accidents are a significant but actually not an overwhelming number of accidents compared to all the other accidents that ACC deals with. In fact, one of the biggest areas of accidents are falls, and that can be, in many cases, in the home. And I’d say to those of you who like cycling that cycling is very unsafe, according to ACC’s charts. So, anyway—mountain biking, too.

Now that we have successfully strengthened ACC’s financial performance, my attention remains focused on the continuing need for ACC to develop and deliver top-class services and making sure that legal entitlements are delivered fairly and transparently. I want all New Zealanders to be as proud as I am of ACC. I also want ACC and the people who work for it to be proud of the work that is being done to help employers and workers and families and communities. We can now take questions. If anything is too detailed, I’ll ask one of these myriad of fabulous people we’ve got here from ACC, MBIE, and also COMU to assist.

Bennett Thank you, Minister, and thank you for your introduction and your gifts for the committee.
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Collins Some of you have got gifts you can take home.

Bennett But I also wanted to thank you very much for your acknowledgment of your staff, and to Scott and your team, if you want to pass on from the committee members—as constituents and list MPs in the committee, we deal a lot with ACC, and we’re always very impressed with the manner and the professionalism of your staff. If you would like to pass that on—a big thankyou—because they do a tremendous job and we really appreciate that. OK?

Pickering Thank you very much.

Moroney Thank you, Minister. Thanks for the presentation. I want to explore the levy rate setting process that you’ve referred to in your presentation. Can you or perhaps one of the people you’ve brought along with you tell me what the projected levy income is for the earners account for the year?

Collins For which year?

Moroney For the financial year for the Budget.

Collins You mean for the current financial year that we’re in at the moment?

Moroney No, the one we’re about to go into—the one of the Budget.

Collins OK. So can someone give us some detailed advice on that one?

Dossor I’m Mark Dossor, the chief financial officer. It’s about $1.1 billion.

Moroney It’s $1.1 billion for the earners account?

Dossor Yes.

Moroney And what about the work account?

Dossor The work account I think is $800 million.

Moroney About $800 million. Are you sure about those figures? Because what I’ve got in front of me is the answer to the written questions, which says that the earners account—

Dossor Have you got the written question number there?

Collins Which number is it?

Moroney No. 23. Yes, sorry, questions 21, 22, 23, which have all been put together into a format for us, into a table—that’s what I’m trying to say. The question has been asked about the options that were consulted on for the levy-setting process. Option A, which is substantially below the levy that was set, the answer’s come back from ACC that the earners account would have $1.3 billion in it, gathered by levies in this financial year, and yet you’re telling me that the higher levy that in fact ended up being set is going to bring in a billion dollars in levies. Something doesn’t compute there.

Dossor So essentially you’re looking at questions 21, 22, 23 in that table there.

Moroney That’s right. So it says there that option A, which is about 15c less per $100 earned for the earners account, is going to bring $1.3 billion in in levies. I’ve
just asked you the question of the levies as they’ve been set. You’ve given me a lower figure. That can’t possibly be right.

Bennett So the 1.1, can you reconcile that with option C or—

Collins So you have the detail, anyway.

Dossor I think the figures we gave you were 2012-13 year, I think. These are referring—

Moroney It says the 2013-14 levy rate.

Collins Yes, well, that’s the one to come.

Bennett So have you got the answers in front of you?

Moroney Because the question—

Bennett Just wait, Sue. I’ll just make sure he’s got the answers.

Dossor Yes. I’m just not quite sure of the question.

Moroney So the questions were what is the projected amount of money that would be generated in the 2013-14 financial year if option A levy rate was introduced? And the answer for the earners account was $1.3 billion. So I’ve just asked you the question about the in fact higher levy rate that is in place from option A, and you’ve given me a lower figure. That can’t possibly be right.

Collins Well, I’m sorry but, Mr Chair, the answer’s already been given in the supplementary written form, so I’m just—what is the point of this?

Moroney No, no, it hasn’t. I’m asking about the levy option that was chosen.

Bennett OK. So the question to the—

Collins So what’s the question?

Bennett Sue, am I right in that your question is you’ve got the 1.1 answer just before, and it’s 1.3 here, and so Sue wants to reconcile that difference?

Moroney Because, in fact, the question that I’ve asked—I just want to clarify this, Mr Chair, the question that I’ve asked. So the option that was chosen is a higher rate of levy than option A.

Witness No.

Moroney So I’ve just asked the question—yes, it is.

Bennett No, no, just wait for their reply to that, OK?

Nelson It’s approximately $1.7 billion.

Moroney In total—thank you, that makes sense.

Bennett OK, so it’s 1.7, not 1.1.

Moroney It’s $1.7 billion for the earners account—

Bennett So what would the—

Moroney And the work account, please.
Bennett: Is that still the 800? So the work account would be—

Witness: It’s around $1 billion.

Bennett: So it’s about 1.

Moroney: OK. Thank you.

Bennett: Are those figures better?

Moroney: They compute more. That just didn’t make sense before. So my question is: ACC recommended option A. Can I just check that ACC in recommending option A had taken into account all of the factors that the Ministers had set out in their expectations of their policy, their core principles for setting the levy policy? In other words, I’m really asking if that took into account funding certainty, collecting the minimum necessary, the appropriation incentives, and the levy stability in particular in recommending option A?

Dossor: Yes.

Moroney: So that was already taken into account? OK. Thank you.

So I’ll ask the Minister, then, why—given ACC took all those factors that you had asked them to take into account, and they came out with option A, which brings in substantially less in those two accounts, and, therefore, would have taken substantially less out of the pockets of employers and workers—did you choose to keep the levy at the higher rate?

Collins: Well, that’s a really good question. It was answered in December last year when I put out a press release with the finance Minister about the fact that the Cabinet had agreed that, despite the recommendations of ACC and MBIE, we would in fact wait just a little bit longer to check that everything was as sustainable as we hoped. But also we’re very committed and we’ve made this publicly known in our press statements and everywhere else to reaching surplus by 2014-15. That was one of the factors taken into account, which was not actually a factor in the advice from ACC or MBIE. So that is a Cabinet decision, and we accept that they were giving us the advice that they were, but the Cabinet decision was based on primarily those two factors—sustainability and also reaching surplus by 2014-15. That’s a very important thing for all businesses and all people with mortgages.

Sabin: Thanks, Minister. That’s clarified, I guess, the picture from the broader perspective. Is it fair to say that there were some significant challenges confronting ACC, and part of what you’ve been leading here is a process of getting to a position where you have a much more stable and sound footing upon which to financially operate? Part of that actually does—there is a degree of time that needs to see that play through. Have you got a comment on that?

Collins: Well, that is true. ACC had a very difficult year last year, in particular, and I think was distracted from some of its core work, having to remediate some of the errors of the past, particularly around the fact that ACC, when it went into an electronic operating model back before 2008—I think it was 2007—didn’t have in place the sorts of privacy measures to make sure that people were protected. So it’s had to commit to quite a huge programme,
frankly, right throughout the organisation, but also it’s really important to make sure that we don’t end up with the situation of lowering levies and then next year putting them up again. People would rather—it’s not as though the money’s being spent on anything else. It’s being invested, any money that’s being collected this year that is going into the investments, it will help future levies to keep down, as well. So it’s not as though it’s charged off into some other part of Government. It stays with ACC.

Moroney So you accept, then, that you’ve taken about $400 million out of workers’ pockets and about $150 million out of employers’ pockets to fund—to give the illusion of funding a Government surplus?

Collins No, I don’t accept that at all. I’m just telling you that it is an important part of the Government achieving surplus, and ACC is a major part of Government accounts. Anyone who thinks that $23 billion, which ACC currently has as investments, is some sort of illusion is, frankly, talking through a hole in their head. It’s a major part of Government accounts, just as the Government Superannuation Fund, which I think stands at about $21 billion—that is a major part, and no one’s suggesting that we stop paying into, saving for our future when we can. So that’s the same with ACC—paying for our future.

Moroney Is this the first time that Cabinet has made a decision to accept a particular level of ACC levy based on the fact of taking into account the Crown surplus?

Collins Well, I’ve been here for a while, but I certainly haven’t been here for ever, and so I can’t possibly state what any previous Cabinet has done. But I can tell you that the Cabinet decision is based on the need for sustainability, the need to make sure that the Government books for the whole of New Zealand are well protected against the international conditions, and also to make sure that ACC is never placed in the position that it was in 2008, when we came into Government and had to put up those levies.

Moroney So given that the ACC officials have assured us that they already had taken into account in making their recommendation funding sustainability going forward and levy stability, how can you say that that money is for that purpose?

Collins Well, I’m sorry, Ms Moroney, but you must be the only person who is interested in ACC who didn’t get the press release we put out in December last year.

Moroney No, I did get the press release, Minister.

Collins Well, I’m sorry, Ms Moroney, but you must be the only person who is interested in ACC who didn’t get the press release we put out in December last year.

Moroney It’s already there, so I’m not quite sure what you’re trying to achieve. You know, if you read the press release—you’d know that.

Collins I did read the press release.

Moroney And the Minister of Finance made it perfectly plain in the Budget speech exactly what this was, so I don’t think it’s, you know, something new—

Moroney So I’m just asking you to reiterate that, Minister.
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Collins —it’s been there for, what, 6 months.

Moroney So can you just reiterate—

Bennett No, Sue. Simon.

O’Connor Could I just reiterate, firstly, thanks to you and through you to your team at ACC and the work they do and the support they provide electorates like my own. I’m interested in the leadership changes—in particular, Mr Pickering’s role. To you, Minister, or through you, the chance for Mr Pickering to speak of how you view those first months have gone, and the priorities for the chief executive.

Collins Perhaps I’ll ask Scott and also Paula to—because she’s been appointed.

Pickering Well, from my perspective, I’m 6 weeks into the role, and I’m certainly very much enjoying the challenge of the job. I’ve spent a lot of the early part of the job, really, meeting with as many of our staff as I possibly can. Certainly from a feedback point of view I feel very motivated and very positive by the organisation. I think that our staff are absolutely committed to doing the right thing.

Where I’m presently at at the present is, obviously, continuing those office visits, but, importantly, starting to review—look at our strategy, review that strategy, and start to look at our position for the future as well. But critical for me is restoring public trust and confidence. I think that that is the overarching priority for me and for this organisation. Clearly, the focus that we have around privacy, and the restoration and the work that we have as a result of the privacy task force, is a significant priority for me.

So that strategy review, but, really, also taking the opportunity to really get around our offices, understand the business and the organisation—those have really been my key priorities over the first 6 weeks that I’ve been with the organisation.

Moroney Point of order, Mr Chair. My point of order is that I hadn’t finished my line of questioning before you gave another member an opportunity to raise a different line of questioning. I assumed you were doing that because it was supplementary to the issue that I was pursuing. Could I please ask you to ensure that lines of questioning are completed before you move on to another questioner.

Bennett It’s up to the Chair to decide, and that’s not a point of order. Simon O’Connor.

Moroney Well, it is a point of order, actually.

O’Connor Feeding back what I’m hearing, basically, you’re trying to build up, obviously, the trust with your role to your own teams in these visits, in order, then, to provide a good foundation.

Pickering Absolutely, absolutely, and that’s critical.

Moroney Back to the line of questioning that we were pursuing before we were rudely interrupted—
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Bennett  Sue, just stick to the question. If you say things like that, you’re going to get responses from other members of the committee, which won’t be helpful, OK? So just stick to the question.

Moroney  OK, so I will also respond if the flow of the questioning is interrupted, Mr Chair.

Bennett  Sue, you do not make those decisions. That’s my decision as Chair, OK?

Moroney  I’m just letting you know that I will contest it.

Bennett  Your role is to ask a question. Please ask it.

Moroney  I am the asking questions now, about the officials telling us that they have already considered the forward funding issues and the levy stability issue when they recommended a substantially lower levy than the one that you agreed as Minister—

Collins  No, no, you’re wrong. It’s a Cabinet decision. And, actually, I think what you need to realise, too—

Moroney  OK, so Cabinet.

Bennett  Sue, let the Minister finish.

Collins  If you wouldn’t mind, I’m happy to answer.

Moroney  Well, can I finish my question before she interrupts?

Bennett  Sue, just let her finish.

Collins  No, no, you’re giving me a speech. So if you want to ask me a question, that’s great, and I’m happy to help.

Moroney  OK. So when Cabinet decided that, why did Cabinet believe that they had superior knowledge about the levy stability issue or the funding sustainability than ACC officials themselves?

Collins  Well, actually, it’s not just ACC officials; there’s advice from MBIE and also Treasury. And, actually, that’s one of the things Cabinet does. Cabinet makes decisions. When, one day, should you ever be in Cabinet, let me tell you, you get to make decisions, and sometimes those decisions are very tough and sometimes Ministers have to just go with the flow and have those decisions made, and you’ve just got to go with it. Those are the decisions made. I’ve already given you the answers. It’s already been in the press release in December last year. It’s been in the Budget statement from the finance Minister, and there’s been copious amounts written on it. None of this is new, and it’s 6 months old.

Bennett  Yes, and that press release is on our documents as well.

Moroney  Yes, I’ve read the press release.

Collins  I’m just wondering what it is that I’m supposed to answer. It’s already there.

Moroney  Here’s the question that I’d like you to answer: Minister, are you disappointed that your Government is returning to surplus not because of economic growth but because of taking $400 million out of the pockets of workers in an increased levy or an inflated levy, and $150 million out of the
pockets of employers that, under MoBIE’s own assessment, would be better in their pockets, creating economic activity?

Collins OK, so the question is wrong. You say “increased levies”, except there’s no increased levies, and I think we’ve already established that we’ve substantially reduced levies just a year ago—so about $630 million, from memory, cut in levies already. It’s like a tax for most people. This will mean that—we can either cut taxes or cut levies from people’s point of view. So if you are now arguing, Ms Moroney, that we should be cutting taxes, well, you’re on the wrong side.

Sabin I just want to be clear: so you were in a position earlier where because of the financial stresses and issues that ACC had been under for some time, you were in a far less secure position to make the sort of judgments that now as a Minister you’re able to make, projecting forward, in terms of what can be done with levies. Is that the case?

Collins Well, that is true, and my colleague and predecessor in the role was faced with the position of having to increase levies. But levies are not only about— levy-setting process is not the only thing that’s so important in terms of the financials of ACC. Of course, it’s also the investment environment—a lot of it is overseas as well as in New Zealand—but there’s another factor, and that is the number of people who come off or go on to long-term benefits through ACC. So when we had, I think, long-term people, about 14,000 people when we came into office, there are now—I think it’s almost less than 11,000. There has been a huge reduction through the much-improved rehabilitation of ACC.

You can’t always rely on that being permanent. You’ve got to constantly work at it. You can’t sort of just say “We’re not going to have people on long-term assistance.”, because people need it. That’s been a major contributing factor in us being able to say—and ACC being able to project—that we will be able to drop levies substantially.

Sabin Yes, and that’s the other thing that I want to pick up on. While levies is one part of the equation, another part of the equation, quite obviously, is prevention efforts, or the efforts in terms of getting those who are seriously injured in a position to return to work, back into the economy. So obviously those—if you could give me some sense of how those things also come into play in terms of changing the financial status.

Collins Well, it’s very, very important. I think in the past there’s been a bit of an idea that ACC could just pay out money to people to do injury prevention work. I think we’ve gone way past that, and I think ACC needs to be very careful when it works in injury prevention that we’re getting very good outcomes, and I expect that ACC is currently reviewing how it actually provides and funds injury prevention work, to make sure that we’re getting the outcomes.

But if I look at ACC levies—and, I mean, I’ve heard from the left and the right on this, and all sorts of people who want us to privatisate it, and all that sort of stuff, which I’m completely uninterested in doing—I look at the
Australian equivalents. ACC levies are substantially less than our Australian counterparts, or any other workplace insurance scheme. So it’s a really efficient and effective scheme, and a lot of that is the fact that we have been able to build up in the last some years, in fact, to have this investment and to be able to fully fund these accounts.

We’re now looking at another funding review to make sure that the way we even look at how we fund these accounts—because the other account that’s coming up to being almost fully funded is the motor vehicle account. We’re currently looking at what we can do there so that all New Zealanders can benefit from that as well.

Calder Thank you, Minister. You mentioned that ACC would work on the independence of medical assessors in the past. What progress has been made in this area?

Collins Just a moment, we’ll get the expert. Who’s our expert on that? Sid.

Miller As part of our claims programme of work over the next 12 to 18 months, we have an initiative that’s solely around the medical assessors, and in place are going a range of initiatives. The first one, which we’ve already done, is make sure people are aware that they do have a choice. We’re also then doing other work in terms of working with the professional bodies to look at working with them to understand the quality standards that we require and the information that we require from them and also sort of helping them on how they can provide it in the most expeditious manner so we can actually ensure that people get the rehabilitation or the decisions from those—that medical advice as quickly as possible.

Broadening out, in terms of using—and the pool sizes around the country to making sure that internally we’re actually assessing and making sure that people are utilising the pool of assessors that we have in place. Now, there’s challenges at times, because, obviously, New Zealand only has a few of certain specialisations, so we’ve got to make sure, though, that even in that space we’re making sure that we can use those that are actually available to get the information that we need in the most expeditious manner. So we’re doing it very collaboratively, working with the professional bodies.

Calder Supplementary. Is there ability to broaden the pool of registered or ACC-approved assessors? Is there the depth of expertise?

Miller Yes, absolutely. That’s one of the purposes of working with the bodies themselves, actually, to get a far better definition around the standards that we require and how to provide the information to then broaden the pool, to get the assessors—to have even more choice in terms of number of assessors.

Moroney Can I just move on to look at some issues around the competition element, the privatisation agenda that you referred to before. Can I take it from your answer, Minister, that the competition that was proposed for the work account or the earners account are off the agenda?

Collins Well, it is for me, yes.
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Moroney  It is?
Collins  Yes.
Moroney  Great, thank you.
Collins  Well, what basically I can say is that ACC is so outperforming its competitors overseas, there wouldn’t really be any space for any competition, frankly.
Moroney  Great, I’m very happy with that answer. On the privacy review that you made reference to in your presentation, can you tell me how many of the 22 recommendations that were to be in place by the end of 2013 have been enacted, please?
Pickering  To date, 15 of those recommendations have been closed, and we’re on target to close the balance by the end of this year.
Moroney  2013?
Pickering  Yes.
Moroney  And what about the remaining 22 recommendations? What’s your time frame for those?
Pickering  There’s a total of 45 in all, and that timetable—it will be over the next 18 months.
Collins  Can I just check that?
Pickering  Sorry—
Pickering  Two years.
Collins  Two years, sorry. So at present there is 35 streams of work in progress to cover off the 45 recommendations. It’s just some of those have a longer tail than others in order to complete. But, certainly, we have a total focus on privacy and, as I mentioned earlier, it’s a No. 1 priority for me.
Moroney  Thank you. Would you be able to provide to the committee the report on each of those recommendations and whether they’ve been implemented or not; and if not, when the time frame is for them?
Pickering  Certainly. If we could provide that separately, in writing, to the committee, I’d be happy to do so.
Bennett  Yes, we have our process for that afterwards. You can liaise with the clerk and we can go from there.
Moroney  And on injury prevention funding, I noticed that between the years 2008 and 2012 there’s been in the order of a 42 percent cut in funding for injury prevention work within ACC. What is the projected funding for the Budget that we’re considering today, 2013-14, for injury prevention?
Rebstock  I might answer that, if I can. The board has taken a decision to increase the amount of money spent on injury prevention by about $20 million in the upcoming year, if we can do so responsibly. We have also had a preliminary discussion about increasing it further again to bring it back up to the levels that we have seen in the past. We do not intend to simply spend the money
where we’ve traditionally spent it. We are going to look at where the liability sits and look to make sure we’re covering important areas that have been missed in the past. So a focus in the year coming up will be on sexual violence, where we have a responsibility to cover the cost of injury to claimants, and we are looking to substantially invest in prevention activity in that space.

Moroney Why did it drop so dramatically and what do you think the impacts have been?

Rebstock I can’t tell you why it dropped in the past. I think that, going forward, the board’s view is that injury prevention can have an important effect and impact. We do have to demonstrate that where we invest earns a return for levy holders and the community. We think we can do that, and we see that part of the future direction for the scheme is to invest more in injury prevention, and we’re looking at doing that in a fairly comprehensive way.

O’Connor I want to pick up on performance and particularly around your investment performance. Minister, you mentioned that ACC are going very well, and, Paula, when you were here in front of our committee a few weeks or months ago you, basically, highlighted how well the financial investments are going. I just wondered if you can provide us a bit of context on that, and for me particularly, around how that’s comparing to other jurisdictions, basically.

Rebstock We don’t benchmark every month, but we did recently look at the benchmark of the scheme against virtually every other diversified fund in the world when we hit the 20-year mark. The ACC investment team is quite extraordinary. Over the last 10 years, I think, there’s only one diversified fund in the world that has outperformed the ACC fund and that’s the Yale fund—

O’Connor Sorry, Yale?

Rebstock The Yale Investment Fund.

O’Connor Is that their endowment sort of system, is it?

Rebstock Yes. So we’ve had a tremendous performance from that team. They’re highly committed to public service and working in our institution. I’m perfectly confident to say that any investment bank in this country would be happy to have any number, if not all of them. So they have performed well. In the current year they’re well outperforming the expected returns. We do expect those returns to fall off in response to falling interest rates. It’s only a matter of time before we see that happen, but in the current year we have managed to shift some of the investments into the equity market and we rode that upturn. So ACC is probably now the biggest player in the New Zealand market. It’s a substantial player in the Australian market, and we invest also in the property market, in private equity, and other offshore markets. Onshore we do have our own investment team running those investments and they, in particular, performed very well, not just this year but in the past.

O’Connor So it’s quite comprehensive.
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Moroney Just back to the injury prevention funding, in making decisions about increasing the funding and starting to climb back up to the levels where it once was, what’s that based on? What were you concerned about?

Collins Well, I think what you need to realise is that there is a different board, a different board chair, and as the new Minister coming into ACC, as I did last year, I am absolutely committed to injury prevention, as I was to preventative policing when I was the police Minister. Prevention, I think, is one of the secrets, but it’s got to be clever, and it’s got to be sustainable, and it’s got to be targeted. And the new board has absolutely committed to that. So that’s why there’s been an increase—is that I’ve made it a priority and the board has agreed to that priority.

Moroney OK. Can I just ask some questions about ACC’s involvement with Christchurch? I notice again in the answers to written questions—and I’m now looking at question 10 on the standard estimates questionnaire—that there are 83 children receiving death benefit entitlements from ACC. From 1 April some of those children will now be getting taxed under the infamous paper boy tax from the previous Budget. Do you know how many of those 83 children are now facing a taxation liability from having lost a parent who died in the earthquake?

Seymour Kia ora. My name’s Kurutia Seymour. I’m the General Manager, Governance, Legal, Policy and Research. It depends on what entitlements the children are receiving. If they’re receiving a component of what we call weekly compensation, which is an income protection portion which they’re entitled to as survivor of the person who’s died, there is a tax component to that.

Moroney There is now, from 1 April this year?

Seymour No, there has always been—

Moroney Oh, there has always been?

Collins Always been.

Seymour So that tax component on weekly compensation has always been paid on their behalf by ACC to Inland Revenue, but there’s no increase as a result of the recently introduced legislation.

Moroney But for other people there are?

Seymour The other entitlements that they receive are non-taxable. They’re grants. So on that basis they don’t attract that particular tax, no.

Moroney So you’re telling me that, for children receiving the death benefit entitlement from ACC, that was always taxed prior to 1 April?

Seymour The portion that was relying on income protection, which is the weekly compensation side, always received a tax component.

Moroney OK. So what’s the other part that didn’t?
Seymour  Those are the non-taxable grants, so that’s the child care allowance, for a child is below the age of 14, or there is a one off lump-sum payment paid to a child of about $3,000. That’s also a non-taxable grant.

Moroney  And they’ve remained non-taxable?

Seymour  They are still non-taxable grants.

Bennett  Last question, Sue.

Moroney  No, I think that’s probably about it.

Bennett  Well, thank you very much, Minister. We appreciate your time, and thank you to your staff once again. Thank you.

conclusion of evidence
The Government Administration Committee has examined the 2013/14 Estimates for Vote Arts, Culture and Heritage, and recommends that the appropriations in respect of Vote Arts, Culture and Heritage for the year ending 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
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Vote Attorney-General

Recommendation

The Justice and Electoral Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Attorney-General, administered by the Crown Law Office as set out in Parliamentary Paper B.5, 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 2013/14 amount to $64.483 million, a decrease of $13.471 million from the estimated actual expenditure for 2012/13. This is due mainly to the transition to a new funding model for Crown prosecution services, and one-off capital expenditure in 2012/13 to relocate Crown Law’s Wellington office.

Judicial appointments

The Attorney-General makes recommendations to the Governor-General on the appointment of judges to the higher courts, a process which is transparent but not very well-known. We learned that the Chief Justice and Attorney-General have been working on a protocol for the appointment of judges, which sets out the criteria used and steps taken to appoint a judge. We were pleased to hear this protocol is now available on the Crown Law website.

We acknowledge the recent sad death of Justice Chambers, resulting in the appointment of Justice Arnold to the Supreme Court.

Conduct of Crown Legal Business

We heard that the Cabinet directions of 1993 have been revoked and replaced with the updated Cabinet Directions for the Conduct of Crown Legal Business 2012. We asked to what extent the directions have been rewritten, and were told they now provide a current definition of a core Crown legal matter. They also specify who is to conduct Crown legal work, and what work may be done by government agencies. Where confusion arises some discussion between the chief departmental lawyer and the Solicitor-General would be required.

Crown solicitors

We note that the funding for Vote Attorney-General will decrease by nearly $13.5 million in the next financial year. Some of us expressed concern that reduced funding might mean prosecutions and other Crown work would not be done. The Attorney-General is very aware of the pressure. Close contact is being maintained with Crown solicitors, who have confirmed they can continue the work. We heard that criminal litigation remains static in some areas, and has fallen in others, and court reforms are also starting to reduce associated workloads.

One of us noted comments about junior lawyers being assigned to cases, and the possible implications for the quality of legal work. The Attorney-General assured us he had not
heard of major trials being put in the hands of junior lawyers, but if he did he would take action.

The Crown solicitors’ scheme is one of the oldest and considered one of the best public-private partnership schemes. We asked about the new invoicing system for the Crown solicitor network. Under the Crown Solicitor’s Regulations 1994, work was billed at capped hourly rates, with the ability to apply for special fees, but the network is now moving to a bulk funding mechanism. Funding will be allocated using justice-sector forecasts for each region, and taking into consideration the complexity of cases. We heard there will be more focus on quality, timeliness, and service. We will follow the progress of this new funding system with interest.

**Queen’s Counsel appointments**

We congratulated the Attorney-General on his recent appointment as Queen’s Counsel. The Attorney-General explained the increase in Queen’s Counsel appointments in the last year, telling us that the 26 appointments announced in May this year were the first to be made since 2007, following changes to the Lawyers and Conveyancers Act 2006. He expects the number of appointments to return to the normal eight to 10 in the next round.

**International Court of Justice representation**

We note that New Zealand will be represented by the Attorney-General in a case in July at the International Court of Justice. Australia has taken Japan to the International Court of Justice for whaling in the Southern Oceans. New Zealand applied to intervene, and will present arguments on this country’s interpretation of the international whaling convention. The Attorney-General believes that International Court of Justice rulings are increasingly important, along with those of the International Criminal Court; and international law has increasing influence on our domestic laws.

We understand that there could be a decision on the whaling case in about six months. We will be interested in the outcome.

**Attorneys-General meeting**

We asked about the recent Quintet of Attorneys-General meeting held in Auckland on 8 May 2013. These meetings have been held since 2009 to share experiences and knowledge, and improve cooperation on complex and cross-border legal issues. We were pleased to hear that the recent meeting, the first to be held in New Zealand, involved some useful discussion of matters including gun control, co-operation on civil litigation, and judicial appointments.
Appendix

Approach to this examination

We met on 13 June and 4 July 2013 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

Scott Simpson (Chairperson)
Paul Foster-Bell
Hon Lianne Dalziel
Julie Anne Genter
Andrew Little
Alfred Ngaro
Denis O’Rourke
Katrina Shanks
Hon Kate Wilkinson

David Clendon replaced Julie Anne Genter for this item of business.

Evidence and advice received

We considered the following evidence and advice during this examination:
Attorney-General, Response to standard Estimates questionnaire.
Attorney-General, Response to committee questions, received 12 June 2013.
Attorney-General, Response to additional questions, received 25 June 2013.
Office of the Auditor-General, Briefing on Vote Attorney-General, dated 30 May 2013.
Vote briefing paper, prepared by committee staff, dated 13 June 2013.
The Finance and Expenditure Committee has examined the 2013/14 Estimates for Vote Audit, and recommends that the appropriations in respect of Vote Audit for the year ending 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

Paul Goldsmith
Chairperson
2013/14 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 2014 for Vote Canterbury Earthquake Recovery as set out in Parliamentary Paper B.5, administered by the Canterbury Earthquake Recovery Authority, be accepted.

Introduction

Rebuilding Canterbury after the earthquakes is one of the Government’s four top priorities. Vote Canterbury Earthquake Recovery provides funding to support the activities of the Canterbury Earthquake Recovery Authority (CERA) in coordinating the earthquake recovery effort. It does not cover all earthquake-related costs. The Minister for Canterbury Earthquake Recovery, Hon Gerry Brownlee, is responsible for the appropriations within the Vote.

Annual appropriations sought for Vote Canterbury Earthquake Recovery in 2013/14 total $149.694 million. A further $110.74 million is expected to be spent in 2013/14 under several new multi-year appropriations for anchor projects in central Christchurch. Estimated expenditure under the Vote in 2013/14 therefore totals $260.434 million. This compares with estimated actual spending of nearly $2.3 billion in 2012/13.

Because Parliament’s authority is required for the full amount of multi-year appropriations in the year they are established, the total appropriations sought for Vote Canterbury Earthquake Recovery in 2013/14 amount to $357.694 million.

Cabinet approval has been given to transfer any under-spending from 2012/13 to the 2013/14 financial year.

Uncertainty of estimates

We note that estimating the earthquake recovery costs has proved extremely difficult, and spending under Vote Canterbury Earthquake Recovery has varied considerably from initial estimates each year. In 2012/13, for example, $90.7 million was initially budgeted, but estimated actual spending in that year now totals nearly $2.3 billion.

We also note that the Treasury has recently revised its estimate of the overall cost of post-earthquake rebuilding from $30 billion to $40 billion. Of this, it estimates the Crown’s share as $15.2 billion, an increase of $2.1 billion from its previous estimate.¹ We asked the Minister what this figure covers, and how confident he is that the Crown’s full liability is included in the public accounts.

The Minister said that some opinions, including his own, would place the total cost even higher than $40 billion, but he confirmed that $15.2 billion is the Treasury’s best estimate of the cost to the Crown for earthquake-related expenditure. He said half this amount, $7.6 billion, represents the amount set aside to cover the Earthquake Commission’s estimated funding shortfall for claims. The balance, which had been $5.5 billion and has now

¹ The Treasury, Budget Economic and Fiscal Update, 16 May 2013, p. 33.
increased to $7.6 billion, is funding that needs to be appropriated, and this is being done through several Votes as well as this one, including Justice, Health, and Education.

We asked the Minister whether he is aware of any additional earthquake-related costs which have not been included in the public accounts, at least as contingencies. The Minister said the Treasury’s estimate does not yet include the full amount the Government expects to spend under Vote Education over the next decade. Otherwise, he said, the best estimate is in the public accounts, but he could not give an assurance it covered everything. He observed that “in reality, you don’t know what you don’t know”. For example, estimates for repairs to horizontal infrastructure had been derived by extrapolating from the cost of work completed so far, but unexpected costs could arise.

Asked about other uncertainties, the Minister observed that such topics went beyond Vote Canterbury Earthquake Recovery, but as Minister responsible for the Earthquake Commission (EQC) he is aware that there is still uncertainty about the amount of EQC’s funding shortfall. While the scope of work under the home repairs programme is assessed carefully, the actual repair work required can still differ significantly. The big unknown, he said, is the net amount the Crown will end up paying for land purchases in Canterbury’s red zone under its voluntary acquisition offer. In effect, the offer gave homeowners the certainty they needed to move on, but the Crown took on itself the uncertainty as to what might eventually be recovered for the land from insurers.

**Estimated contribution to growth**

We understand that the Treasury has estimated the first-round effect of post-earthquake rebuilding as about a third, or 0.7 percent, of GDP growth over the next few years. We are interested in the overall effect on growth once second-round effects are included, and asked whether CERA has examined this issue, or whether the Minister could provide an overall estimate. We were told that the Treasury is the lead agency for such work, but that CERA feeds in the information it has.

Some of us are disappointed that no estimate appears to have been compiled of the full impact of the reconstruction on New Zealand’s future GDP growth, given the importance of this issue for economic management.

**Financial risks**

In addition to such broad uncertainties, CERA has highlighted two significant financial risks relating to this Vote: the construction of anchor projects under the Christchurch Central Recovery Plan, and the restoration of local horizontal infrastructure in greater Christchurch.²

In both cases, there is a risk to the Crown that the amount contributed by the Christchurch City Council or other third-party participants is less than forecast, resulting in the Crown shouldering a higher proportion of the costs. In the case of the anchor projects, CERA notes that re-prioritisation might also be necessary.

We sought to explore these risks in our hearing with the Minister but were unable to do so within our timeframe for reporting on the Estimates. We will, however, use future opportunities to do so.

² Response to standard Estimates questionnaire, p. 2.
Cost sharing with local authorities

The day after our hearing with the Minister, an announcement was to be made about the cost-sharing arrangements negotiated between the Government and the Christchurch City Council for anchor projects in central Christchurch and the replacement of the city’s essential horizontal infrastructure. The Minister told us he could not discuss the agreement with us prior to the announcement, but was willing to return to answer further questions if invited. Unfortunately, we were unable to arrange another meeting with him before our reporting deadline for this item of business. Some of us found this very regrettable, noting that the amount to be contributed by the Christchurch City Council and others will have a crucial bearing on the future costs and risks borne by the Crown—and therefore on the Government’s operating balance—which we would have liked to explore.

We note from the Minister’s announcement on 27 June that the agreement envisages joint investment of $4.8 billion, of which $2.9 billion would come from the Crown, and $1.9 billion from the Christchurch City Council. The major component, horizontal infrastructure, would be split with a commitment of $1.8 billion from the Crown and $1.14 billion from the council.

We are pleased that the completion of the cost-sharing negotiations has enabled the council to finalise and release its three-year plan, providing more certainty for Christchurch residents and ratepayers.

Anchor projects

Planned funding under the Vote includes $208 million, to be spread over four years, for six new multi-year appropriations (MYAs). Five would fund the development costs of major public projects in Christchurch, while the sixth covers management costs for the land acquired for the projects. The Supplementary Estimates for 2012/13 included about $749 million in appropriations for the purchase of the land.

The Estimates specify the total amount of each MYA and the amount estimated to be spent in 2013/14 as follows:

<table>
<thead>
<tr>
<th>Anchor project</th>
<th>Appropriation</th>
<th>Estimated spending 2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Te Papa o Ōtākaro/Avon River Precinct</td>
<td>$90 million</td>
<td>$55.74 million</td>
</tr>
<tr>
<td>City Frame</td>
<td>$71 million</td>
<td>$26 million</td>
</tr>
<tr>
<td>Convention Centre</td>
<td>$7 million</td>
<td>$4 million</td>
</tr>
<tr>
<td>Metro Sports Facility</td>
<td>$9 million</td>
<td>$4 million</td>
</tr>
<tr>
<td>Transport Plan</td>
<td>$12 million</td>
<td>$12 million</td>
</tr>
<tr>
<td>Holding Costs for Land Acquired for Anchor Projects</td>
<td>$19 million</td>
<td>$9 million</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$208 million</strong></td>
<td><strong>$110.74 million</strong></td>
</tr>
</tbody>
</table>

It should be noted that these amounts do not cover the full cost of the anchor projects, and that the eventual cost to the Crown is dependent on cost-sharing agreements with the Christchurch City Council and other parties.
We also note that, with the exception of the transport plan, which is expected to be fully developed within 2013/14, expenditure in 2013/14 would cover only the preparation of business cases for the projects and the start of construction. We asked the Minister whether he is concerned about the risk involved in appropriating such amounts before business cases have even been prepared. The Minister said he is not concerned, as he is confident about the prospects for growth in the city’s population, economy, and employment, which he expects to see borne out in the census data. He sees it as important for a dynamic city to have civic facilities of a good size and quality, which the Government’s funding commitment would help achieve.

We asked whether consideration had been given to scaling down the anchor projects to make them more affordable, noting that the stadium and convention centre would be larger than those they replaced. The Minister did not wish to comment before the next day’s announcement, but he noted that before the earthquakes the council had been discussing with the Government the possibility of enlarging the existing convention facility. We note that the arrangement announced envisages the Government funding the convention centre fully.

The Minister also told us he could not comment before the announcement on funding being sought from parties other than the Christchurch City Council.

**Horizontal infrastructure**

The Crown’s share of the cost of repairs to roads and pipes is uncertain, and will be affected by cost-sharing arrangements with local authorities. We note that the Treasury has forecast total expenditure by the Government on local infrastructure of nearly $2.4 billion through 2017, with $100 million to be spent in 2013/14.

The Minister told us that the repairs are being managed by the Stronger Christchurch Infrastructure Rebuild Team (SCIRT), an alliance of five of New Zealand’s largest civil construction companies, with staff seconded from the Christchurch City Council and Waimakariri District Council, under a governance group composed of CERA, the city council, and the New Zealand Transport Agency. It had recently been decided to strengthen and clarify the lines of responsibility, with a more direct relationship between the governance group and SCIRT’s chief executive, to provide more certainty for both central and local government about overall expenditure. The Minister said he believes progress has been remarkable, overall, and people’s tolerance for the work very high, but another three or four years would still be needed.

**Red zone issues**

CERA is responsible for the management of the residential red zones. Funding for 2013/14 includes an appropriation of $89.6 million for the management of properties in the red zone after settlements have been completed, including clearing and grassing unoccupied areas. We heard that so far 2,334 buildings have been either demolished or moved from the residential red zone, with another 592 to go over the next two or three months. The Minister told us that while he is keen to make progress with clearing up vacant areas, the first focus has been on getting apportionment issues settled between insurers and EQC before demolitions proceed. Building materials are being salvaged and recycled where possible, before demolitions begin.

CERA is also responsible for claiming insurance recoveries from properties in the residential red zones that are sold to the Crown. We heard that such properties represent
about a quarter of claims; as they tend to be the least damaged, the owners have been slower to move on. Once they do and settlement with the Crown is completed, CERA will make progress on recovering money from insurers.

**The Port Hills**

The Minister noted that the Port Hills area has been a particular challenge, with a number of people seeking a review of the zoning decision. He hopes in the next month to be more certain about the line between heightened-risk and absolute-risk areas, which will help people make decisions.

**Infrastructure services in the red zone**

We asked about the situation facing people who choose not to accept one of the Crown’s purchase options, and remain in the residential red zone. Before our hearing, the Minister had provided us with information which appeared to indicate that utilities would remain connected in the area, and we asked whether he could provide an assurance that utilities and services for such properties will not be cut off.3

The Minister told us the only assurance he could give was that if services break down in red-zone areas, they will not be repaired or replaced. His role, he said, was to offer such property owners options so they could leave; if they chose not to accept, it was for local authorities to determine whether or not they continued to provide services. He said he considered it unreasonable to expect any council to continue to fund services in red zone areas. He did not see it as his role to offer advice, but believes residents who choose to remain in the red zone will at some point need to make provision for obtaining their services by alternative means, as the cost to ratepayers to keep such services going indefinitely was very high.

We heard from CERA that the city council has estimated the cost of providing infrastructure services in the red zones as $5 million per annum. In all of the red zones, a total of 124 property owners have not taken up one of the Crown’s purchase offers; the total includes some bare sections and commercial properties. The cost of continuing services was therefore very high per property. The Minister said he doubted whether any ratepayer would be happy to see their rates spent in this way long term.

**Future use of red-zoned land**

The Minister said the Christchurch City and Waimakariri District councils will be closely involved when decisions are taken about the eventual use of land in the red zones. Engineers have assessed that the city has sunk by at least 200mm, and twisted by up to 1500mm, so water flows across the whole city have changed. While rebuilding may be impossible on the worst-affected areas, the land may present opportunities for protecting the city from tides or severe weather.

**Performance audits**

We asked how the contracts for earthquake repairs are audited to ensure that work being paid for is delivered as contracted, and that Fletcher Construction is providing value for money in managing the home repair programme. The Minister said the issue relates to EQC rather than this Vote, but told us that random audits are carried out, and the Auditor-General has been asked to work closely with the government agencies involved and be

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3 Minister for Canterbury Earthquake Recovery, response to additional questions dated 21 June 2013, question 130.
extremely vigilant in monitoring the way public money is spent. On questioning, the
Minister expressed the view that the Office of the Auditor-General was taking too narrow
a view of its responsibilities and could do more to examine the implementation of the
Fletcher Construction contract.

We sought clarification from the Auditor-General about her office’s role, as we understand
that it cannot directly audit Fletcher Construction because it is not a public entity. The
Auditor-General confirmed this, and provided the following information:

The Office of the Auditor-General is conducting a performance audit examining
EQC’s governance, management and implementation of the Canterbury home repair
programme. The work is looking at whether the EQC is managing the programme
effectively (whether intended results are being delivered) and efficiently (whether
resources are being used in the best way), including the contract with Fletcher
Construction.

The audit will result in a report to Parliament about EQC’s performance. If necessary,
the report will include recommendations for improving the management of the
Canterbury home repair programme.

We were told that the office expects to release its findings in the first quarter of 2013/14.
We also understand that the Office of the Auditor-General is undertaking a performance
audit of the horizontal infrastructure repair programme being delivered through SCIRT.

The challenges ahead

The Minister suggested that, almost three years after the September 2010 earthquake, as the
risk of further seismic shocks settles to about a 1-in-5 chance over the next 12 months,
people are becoming more aware of the magnitude of the damage and the task ahead. This
is especially so as the cordon in the central city has gradually been lifted, leaving vast open
spaces; it would be fully removed in the following week, apart from barriers around
individual buildings.

He emphasised that there is still a long way to go to rebuild the city physically and in
supporting people’s recovery from the effects of the earthquakes. Replacing everything that
has been lost—infrastructure, residential housing, commercial facilities, and civic assets—
will still take many, many years, he said. However, he is encouraged that some of the dire
early predictions have not come to pass; for example, rather than land values plummeting,
there are signs that developers are competing for opportunities.

Wellbeing of Canterbury residents

The Minister noted that a survey of Cantabrians’ wellbeing has just been published. The
findings highlight the large number of people seeking treatment for depression and other
mental health issues. In his view, this is a positive sign, as the alternative would be a lot of
bottled-up stress in the community. The chief executive of CERA added that it has funded
about 50,000 counselling sessions over the past two years, as well as arranging numerous
community meetings and events to get people involved and relaxing with their
communities. He noted that while all agencies, government and non-government, are
trying to proceed with the recovery as quickly as possible, they are also aware that life
remains very difficult for residents, and are trying to help people to look after themselves
and ease the stresses.
Insurance settlements

We are very aware that a major factor in people’s stress has been their frustration in trying to get their claims settled with EQC and their insurers so they can get on with their lives. We were told that insurance issues will probably remain difficult for some time yet, but the Minister noted that the pace has picked up greatly, and all apportionments should be finished by the end of July. The Minister added that part of the difficulty has been the frustration of attempts by EQC and insurers to get timely consents from the Christchurch City Council, but this was being addressed.

Some of us are of the view that the Minister has not sought to take any action, either using his extensive powers under the Canterbury Earthquake Recovery Act 2011, or by exercising regulatory or legislative options, in order to bring pressure to bear on insurance companies to expedite insurance settlements and resolve insurance disputes with earthquake victims.
Appendix A

Approach to this examination

We met on 26 June and 10 July 2013 to consider Vote Canterbury Earthquake Recovery. We heard evidence from the Minister of Canterbury Earthquake Recovery, Hon Gerry Brownlee, and the Canterbury Earthquake Recovery Authority, and received advice from the Office of the Auditor-General.

Committee members

Paul Goldsmith (Chairperson)
Maggie Barry
David Bennett
Hon Clayton Cosgrove
Hon David Cunliffe
John Hayes
Dr Russel Norman
Hon David Cunliffe
Rt Hon Winston Peters
Jami-Lee Ross
Hon Kate Wilkinson

Evidence and advice received

We considered the following evidence and advice during this examination:

- Office of the Auditor-General, Briefing on Vote Canterbury Earthquake Recovery, dated 26 June 2013.
- Office of the Auditor-General, Additional information, dated 26 June and 1 July 2013.
- Minister of Canterbury Earthquake Recovery, Response to standard Estimates questionnaire.
- Minister of Canterbury Earthquake Recovery, Responses to additional questions, received 26 June and 2 July 2013.
Welcome, Minister. Very good to have you here. Sorry for the slight delay, we had lots of questions for the Auditor-General. If you could please just give us a quick summary, and then leave plenty of time for questions. Thank you.

Well, thank you, Mr Chairman. Can I just say I was concerned that it might have been a bit of a glitch in your own elevation that was holding us up.

No, no.

Firstly, can I just start by saying I think as we now sort of head towards the 3-year mark from the September 2010 earthquake event, for many people I think the magnitude of the damage that occurred from that point right through until relatively recent times—although we’re now in settled seismic times, we’re still living with the probability of one 5 earthquake in the next 12 months—is starting to be realised by people. Those events have done enormous amounts of damage, and it takes a long time to firstly understand that, I think, but also get to a point where you can move forward. But I’m confident that we’re in a strong growth point at the moment, and just at the beginning of what will be quite a rapid rebuild, qualifying that by saying to replace everything that was lost in Christchurch, from infrastructure...
through to residential housing and then commercial facilities and civic assets, is still going to be many, many years away.

I think CERA over the last year has progressed its programme very, very confidently, very competently. I’m joined today by Roger Sutton, the chief executive; Warwick Isaac, the deputy chief executive; it’s another deputy chief, Benesia Smith, back here; and the chief financial officer as well. So we can answer all of your questions. Their work has focused on producing in the last 12 months a full recovery plan for Christchurch City. A significant amount of work progressing post the court decision around the use of section 27 of the Act relating to land designation on a thing called the land-use recovery programme, which has involved all of the councils, including ECan, in its development. I’d expect to receive that document towards the beginning of the week after next, and then get it, after consultation processes required, enacted so that we can get some go-ahead in that regard.

And also working through the various suburbs where there’s been significant need to buy out properties, so the voluntary sale process to the Crown has progressed extremely well. The numbers are available and regularly published. But it is in excess of—or close to 6,000 or 7,000 now who have accepted an offer and settled with the Crown. Quite an extraordinary movement of people, in my opinion.

And we’ve got work under way in the CBD with one of the world’s biggest ever managed demolition programmes coming towards an end. It’s been done, I think, in a way that’s been environmentally sensitive, that has maximised recycling of materials, but most importantly done in a way that’s been very safe, so there’s been no loss of life, when in fact the predictions were that we could have expected that, given the size of that work. That’s left open spaces, large open spaces, that now challenge people to fill them up, and there’s, you know, going from a point where the general speculation was that land prices in Christchurch would fall through the floor and we’d see significant negative equity—all sorts of commercial carnage—to a point where there is competition for land and, indeed, competition among developers to get their particular outline development plans accepted and under way.

The Port Hills zoning remains a challenge at this point. We have been able to give certainty to a very large number of people in the Port Hills, and they have responded positively. A number wanted to have a review of that, and we would hope that in the next month we’ll be able to come up with a programme for the Port Hills that makes clear the difference between what is an absolute life risk line and what might be some heightened risk out to a further line. There’s good information available to people who are either choosing to remain living there or wishing to reconstruct homes in that area. There will be, as we already know, parts that are red zones, where it’s just not a goer, really, for people to contemplate building there. They may choose to, but it would be unreasonable to expect that any council would continue to fund services into those areas.
There are further recovery plans being discussed with the Waimakariri District Council and Lyttelton at the present time. Those may be recovery plans under the Act, but they may also be some variation of that using existing law so that we start to see that sort of transition away from the emergency sort of position that the CER Act enabled.

For the next short while—in fact, today we’re releasing the well-being survey, which looks at the general, sort of, I suppose you’d say how people in Christchurch, the greater Christchurch area, are feeling about things. The standout point on that, I think, is the heightened number of people who are seeking treatment for depression and other mental health issues. Personally, I think that’s a positive thing, and we need to encourage people to continue doing that. If we weren’t seeing that trend, then I think it would be a bigger worry; it would indicate there is a lot of bottled-up stress inside a community.

The last Budget gave the department two additional strands of funding: $210 million of new money, and $228 million in contingencies. There was a larger sum totalling up to $2 billion allocated across the education, justice, health, and a couple of other projects as well. One of the things that I think will be positive this week will be the announcement tomorrow of the cost-sharing arrangements between the Christchurch City Council and the Government with regard to the horizontal infrastructure and the anchor projects that are part of the city. So that has been a process that’s been ongoing since January of 2012. I think I’d have to describe the discussions as being highly constructive all the way through, with a pretty professional recognition on all parts of the problems that people were trying to grapple with. And the difficulty that you always get presented with is complying with Public Finance Act requirements and also making sure that you don’t expose massive commercial opportunities to some of the people who would be involved in the delivery of those projects.

So with those opening remarks, Mr Chairman, I’m very happy that we do get into discussion.

Parker Thank you. The total cost of the earthquake rebuild—correct me if I’m wrong—has been, the estimate of that, has been revised upward from approximately $30 billion to approximately $40 billion. Is that roughly right?

Brownlee Yeah, look, it depends on how you measure that. There are opinions around that would say it could be higher than that figure. That’s a reasonable figure to settle on, and that takes into account all expenditures, so all insurance payment—

Parker And all Crown expenditure.

Brownlee And all Crown and local government expenditure.

Parker And the Crown portion of that expenditure in the latest estimate, I understand, has increased by $2.1 billion to a total of $15.2 billion. Have I got that right?

Brownlee That’s right.
And of that $15.2 billion, $7.6 billion, roughly—well, exactly half—was always sitting in the EQC fund, and the other half has been additional appropriations or money that has been appropriated or has to be appropriated in the future to make up to that $15.2 billion. Have I got that right?

So the first point is round the EQC—that’s the estimated shortfall in the funding available through EQC.

OK. So of the $15.2 billion Crown cost, $7.6 billion is a top-up to EQC and $7.6 billion is outside EQC. Is that what you’re saying?

Look, this is Vote CER, so I won’t want to be held totally correct on what the EQC position is. But that is my understanding.

Right. So in respect of the $2.1 billion increase to the estimate of the Crown’s contribution recently—have I got that right? I’m not trying to trick you.

No, no. That’s right.

So there’s been a $2.1 billion increase in the estimate future Crown contribution, and I think you said in your opening remarks that crosses over justice, health, education, and your—

Well, actually, not all of education, I must say. It’s not in there at this point. Education is coming. There’ll be an amount in there, but it’s not the full amount that we’d expect to spend over the next decade.

So I suppose my question is do the Crown accounts already or now reflect the total of the long-term cost to the Crown of the Canterbury rebuild, or do you already know of additional costs that aren’t yet properly in there as a contingency or otherwise?

There are contingencies in there. But, look, I think how I’d answer that is if you look at the horizontal infrastructure, you can see—and I’m going to be able to hand this out at some point—there is around about 40 percent of the stormwater completed, 24 percent of the waste-water completed, 16 percent of the roading completed, and 3 percent of the water completed. Now, that lets you extrapolate that out and make an estimate of where your costs are likely to lie, and that’s been good for us; it’s been good for the council. The reality is you don’t know what you don’t know, and that is something you have to be prepared. So trying to give you a straight-up answer, I can’t say: “Yep, that’s it. It’s all capped. There’ll be no more.”

Your best estimate of that total cost is already in the books in total.

That’s right. Yes, it is.

Point of order. Minister, did you say you had a presentation that was going to be handed out, or did I mishear you?

Yes, you misheard me.

I apologise.

If you could circulate a copy of that, that’d be good.
Parker: So if we put aside the top-up to the EQC fund, I suppose I should ask first is the top-up to the EQC-related costs—is there uncertainty as to the total amount there, or is that—

Brownlee: Yes, there is.

Parker: Is there? And how much uncertainty does there lie around that number? Is it a large degree of uncertainty, or are we talking—

Brownlee: Well, remember that we’re not actually talking about EQC here; it’s a separate vote. But as the EQC Minister, what I can tell you is our big unknown there is the total land payments that will be required, and that’s because there’s ongoing assessment about that. There is all sorts of opinions about what the Act actually means in regard to land payments. And also while we have an idea, clearly, of what the programme that’s being run through the Fletcher organisation is likely to cost, the reality is that the difference often between the scoped works and the works required can be quite significant.

Parker: In terms of other uncertainties, we’ve been advised that there’s some uncertainty around the amount that the Crown may recover in respect of the red zone properties that have been acquired by the Crown, under which the Crown has the right to the insurance payments that the—

Brownlee: It’s the same question, really, because it’s the land issue.

Parker: So is that the land issue? Is that the same issue?

Brownlee: By and large. There might be some—so if you think about where we started with that programme, it was to be able to say to about 8,000 households: “Here is a way forward from pretty dire circumstances, and there are two options that you can take. You can either just up and run, sell to the Crown holus bolus, or you can sell your land and deal with your insurer, if your policy allows it, for a rebuild somewhere else.” So we have to say that—I would say that we were encouraged by the largest number of people taking option 2, which was making choices for themselves about how they relocated. I think that’s a hell of a positive thing. But what it does mean is that—

Brownlee: —there’s uncertainty on the insurance claim.

Parker: There’s uncertainty on the insurance claim.

Brownlee: —there’s uncertainty about the option 1s on a built property, but the land itself is also uncertain.

Parker: Yes, I understand that. Can I ask an unrelated question. The Treasury has estimated that of current economic growth, the first-round effects of the Canterbury rebuild are approximately one-third of the increase in GDP that’s predicted—I think about 0.7 percent of GDP per annum is their estimate. Has your ministry been involved in those estimates or done any other work as to what are the first-round effects, for a start, of the Canterbury rebuild on overall economic growth?

Brownlee: Look, they work with Treasury very closely. I’m not aware that there’s a specific work stream looking at the growth potential, but Roger might have a comment on that.
Sutton We work with Treasury, but Treasury are the lead agency on doing GDP numbers and those sorts of things. We work with them feeding through the information we have, but they are the lead agency.

Parker Has there been any work done by you or the Treasury as to what is the second-round effect? Because obviously the first time you spend the money, it has that instant effect, but there will be flow-on effects which presumably, are also significant. Because I’m trying to get a handle as to how much it is of New Zealand’s economic growth is actually reliant on the Christchurch rebuild at the moment. I’ve got that answer as to the first-round effect. Do you know if anyone’s looking at the overall effect?

Sutton You’d really have to address that to our friends at the Treasury.

Parker So you’re not doing any of that work.

Sutton No. I mean, we have enough without trying to do all that sort of difficult, hard economic—

Parker No, no, I’m just trying to find out—

Sutton No.

Brownlee I think it’s worth, just on that issue, so you did have that effect because there was a lot of money paid out very quickly. There’s still a lot to come, and I look at it and say some people are saying at the moment the Government should take hold of this and have a managed rebuild programme across all sectors. We can certainly manage a rebuild programme across core civic assets, across the horizontal infrastructure, which we’re doing, and through the under $100,000 repairs. Those all come to a figure, but I do know that there are plans before Christmas for about $4.5 billion worth of commercial consents to go into the Christchurch City Council, and that’s the private sector making their own choices. So how we get hold of that is a bigger difficulty.

Parker I suppose my interest arises from the fact that always in politics one of the issues that is at large is who’s the best economic manager, and I’m trying to drill down as to how—

Brownlee Well, not at the moment. There’s no question at the moment.

Parker Right. Well, it would be an easier question to answer if someone within Government was calculating how much of New Zealand’s economic growth, including second-round effect, is coming from the Canterbury rebuild, and I’m surprised that CERA says that they’re not doing it. As far as I’m—well, you would know, Minister. Is anyone else doing it?

Brownlee I think you’d need to address that to Treasury. That would be the sort of work they would do.

Parker So you don’t know. I’m surprised by that.

Brownlee My job is to keep things moving, and they certainly are at the present time.

Cosgrove With respect, Minister—
Brownlee Well, it’s never been with respect, Clayton—come on. Let’s not kid ourselves.

Goldsmith We’ll keep things in order.

Cosgrove If you don’t know, then you should tell us why you don’t know. You sit in Cabinet. We’re not asking you to break the Official Secrets Act. The question is—

Brownlee No, no. OK.

Cosgrove Can I finish? The question was simply do you know if other agencies are doing this work, because they’re dependent on data from your agency.

Brownlee Well, I would assume that—

Cosgrove You’d assume.

Brownlee —yes, and it’s a reasonable assumption—that in the preparation of all predictions about the New Zealand economy the Treasury are working through that. Of course they’ll be considering it.

Cosgrove Thank you. We could have saved some time with that answer a few steps back. Could you just tell us, the anchor project funding announcement that you’ve alluded to—why tomorrow? Is it happenstance or coincidence that we sit here examining your vote today, and yet there’s an announcement 24 hours later, or is this just sort of the sun rises and falls?

Brownlee Well, I could have come next week, but I was called this week.

Cosgrove Would you be willing to come back after the announcement and have us examine the announcement with you and discuss it with you?

Brownlee Well, I’m sure you’re going to do that anyway in a fairly public medium, but—

Cosgrove No, my question is—

Brownlee —if that’s a requirement that the committee has, they can make that request.

Cosgrove Would you be willing to come back to the committee—

Brownlee Well, let’s see if the committee wants to make that request.

Cosgrove Would you be willing to come back to the committee and discuss a project of major financial significance that you’re announcing 24 hours after this hearing?

Brownlee Well, I think you’re trying to create a degree of—

Cosgrove No, I’m just asking you would you be willing to come back? It’s a simple question.

Brownlee Well, you think it’s a simple question; I think it’s—

Cosgrove It’s like saying: will you have a cup of tea or not?

Brownlee Well, the answer to that would be no.

Cosgrove Are you willing to come back or not?
Goldsmith We’ve had the question; we’re going to get the answer.

Brownlee Look, if the committee made that request, of course I would want to honour it.

Cosgrove Thank you, Minister. It’s a bit like pulling teeth this morning.

Brownlee No, it’s not. I mean—

Cosgrove Could I ask you—

Brownlee Can I make the point here—no, I’m sorry—

Bennett Point of order, Mr Chair.

Goldsmith We’ve got a point of order from David Bennett.

Bennett Mr Chairman, the member just shows no respect for the Minister here in front of the—

Goldsmith All right, I’ve got the gist of the point.

Bennett He’s just got to give him a chance to answer questions if he’s going to ask questions.

Cosgrove With respect, Mr Chairman, I asked three times would he be willing to come back to a committee. I didn’t attack the man; I just asked him would he be willing to come back, and he took three goes to get to it.

Goldsmith Yes. OK. Let’s just get on with the questions.

Cosgrove Could I refer you to question 130. I’ll try and make this one a simple one. In your answer you refer to certain levels of comfort that you are anticipating for those in red zone areas who have declined the 50 percent offer and are going to stay. And am I right in assuming that those who are wanting to remain in those red zone areas and didn’t accept the 50 percent offer, that the infrastructure services for their homes will not be cut?

Brownlee Well, they won’t be repaired if they break. I think that’s the more important point.

Cosgrove I’m sorry?

Brownlee They won’t be repaired if they fail. That’s the more important point.

Cosgrove That may be, but my question, with respect, was: are you giving them a guarantee that if they remain and if the services don’t break, those services will not be cut off?

Brownlee Well, I think the first point I’d like to make is that the estimated cost for maintaining services into those homes is very, very expensive. Roger will give you the figure.

Sutton The latest number from the city council is about $5 million a year to keep the services going.

Cosgrove For those who choose to remain?

Sutton Yeah, so if you had—shall I carry on, Minister? So if you talked about something like 100 households—in fact in the core red zone actually, I
Think, there’s 25 who are staying, but if there was, say, 100—you do $5 million divided by 100, because I could do those numbers in my head, that’s $50,000 per household per year. So that number’s, you know, a big number. And, of course, for a lesser number, so if it was 50, then that number becomes $100,000 per household per year. So there’s a lot of assumptions behind that number, but the number’s a really big number.

Cosgrove I’ll ask you: do you have an actual number of those who at this point have chosen to remain in the totality of the red zone?

Sutton So there’s 124 people who haven’t taken up—

Cosgrove 124.

Sutton Across all the red zones, so that’s Kairaki, Brooklands, and what I call the core red zone. Some of those are vacant sections; some of those are commercial properties. So I mean, either way, Mr Cosgrove, it’s a really big number, you know? Five million even divided by 100 is still a really big number. So that’s the sort of stuff that I think we as a community are going to have to work out how we go forward there. Because it’s just not easy.

Cosgrove Thank you for that. Could I go back to your Minister for some answer, given that background information? Can you or can you not give a guarantee at this point that services will not be cut off from those people if they remain?

Brownlee I can give a fairly categorical assurance that if services break down they won’t be replaced. The other part of the answer is one that the local authorities, both Waimakariri District and Christchurch City, would need to answer.

Cosgrove But you say in the answer to question 130 that the Government has made it clear that residential red zone is a boundary for the purposes of policy making*, and it has no different legal status from any other area. CERA is working closely with councils to ensure that they’re able to meet these obligations and continue to provide infrastructure services to properties that remain occupied in the red zone. Now, I’m trying to be positive here. That seems quite helpful. What I’m seeking for those folks is an interpretation of what that actually means if they sit and stay. And I accept your point—well, I note your point about infrastructure breaking, but if infrastructure doesn’t break, will they at some point have their services cut off, given Mr Sutton’s comments about cost?

Brownlee Well, I think they would have to make provisions for at some point providing those services in some different way.

Cosgrove So they could have the services cut off, then? Assuming if they’re having to make that provision.

Brownlee I don’t think there’s a ratepayer in Christchurch or Waimakariri District who would be happy for their rates to be spent at the levels that would be required to maintain those places long term in order that people could avail themselves of what is a wider community utility.
Cosgrove So what advice do you have for those people going forward? I presume your advice relates to your previous answer. So they should—what—start buying generators, looking to make provision for their own sewerage, their own pathways, whatever, if they’re going to be sort of an island of isolation in these red zones. What advice do you have for them going forward so that they can prepare?

Brownlee Well, this is a voluntary offer, and it’s always been a matter of choice—

Cosgrove True.

Brownlee —for the person receiving that. So I think the point is there was no Government policy that created this situation. No Government policy determined that the land was going to be of such a liquefied condition. Maintaining services in that land or over that land was going to present a long-term difficulty. People need to think of it in that light. Can I make a comment about the offer itself, because I think that’s the biggest problem.

Cosgrove With respect, I understand the offer, and the points you’ve made about it are correct.

Brownlee No, no, I think the construction of the offer—

Cosgrove What I’m seeking—

Goldsmith OK, we’ll have concise questions and concise answers, and then we’ll get through.

Cosgrove What I’m seeking from you for these people is any advice, because you’ve now signalled that at some point they’re going to have to provide for themselves. What advice would you give those people in terms of what they should do immediately? So, at some point if the lights go out, they aren’t in a position where they’re scrambling around looking as to what they should do. So what advice, formally, do you as Minister, given they have rejected the offer, have for them?

Brownlee It’s not my role to give them that advice. It’s my role to give them an option to depart.

Cosgrove Have you made any decisions in respect of the use of red zone land? Because you’ll be aware that Waimakariri and other councils are somewhat dependent on your decisions for forward planning. Has there been any decision as to what will happen with, and what use, if any, red zone land will be put to?

Brownlee No, and what we’ve agreed with Waimakariri District is that obviously there’ll be an involvement with them and what happens with that land. And the same is the case in Christchurch. One of the things we’ve got to do in Christchurch is look at where the potential problems might lie in those areas with regards to future big weather events, big tide events. Last week has been quite instructive because there was a lot of rain. I haven’t spoken directly to the council, but I heard one of the engineers from the council saying that the flows of water across the area of the city as were understood pre-earthquake have changed. That’s understandable. The whole city has sunk by a minimum of 200 mm, and twisted on somewhere between 750
mm and 1,500 mm in a clockwise position from the Port Hills out. So you would expect that the worst-affected areas, while they are difficult for future building, they may present some opportunity for protection of the rest of the city from the worst effects of those big weather events.

Goldsmith  Final question for you and then I’ll come to Maggie Barry, and then Eugenie Sage.

Cosgrove  Presumably, though, you will have some planning in place for those areas that will just be vacant—there might be grass or gravel or something. And if that is the case, have you got demolition scheduled? Because, as you’d be aware, there are large areas of no-man’s land where it’s like a ghost town in some areas of Christchurch. Residents like these things at least knocked over. Is there a schedule?

Brownlee  I’ll get Warwick to talk about the demolition programme, but what I do want to say is that there are houses in those areas where they might have sunk, they might have tipped, bent, or otherwise, but they have subfloors and frames and roof structures that can be salvaged, and where that’s possible we’re keen for that to happen. And so there is a bit of work going on in that regard. The other point about speed around that has been around the issue of apportionment. So the Crown has its interests in those houses—as I said to your colleague before, we’ve made it clear that while we want as much progress as possible, we’d like apportionment for the people who are remaining in their homes dealt with before that’s totally settled on behalf of the Crown. So we’re working at the moment on demolition of properties or removal of properties where all those issues are cleared. For the sake of perhaps another few months we haven’t thought it was necessary just to bowl houses out of the way. That might end up being quite a cost. But areas where they have been demolished, and you can see that out in Kaiapoi—I’m just trying to think of the name of the street that was so very badly damaged.

Cosgrove  Courtenay Drive.

Brownlee  Courtenay Drive, where the area is being grassed in the interim, awaiting perhaps a future use, or it might continue to be simply open space. But Warwick might want to talk about—

Isaacs  Thank you, Minister. So far there’s been just under 2,400 buildings cleared from the residential red zone. That’s a mix of demolition and removal.

Cosgrove  Two thousand—

Isaacs  —three hundred and thirty-four.

Cosgrove  Thank you.

Isaacs  That’s as at yesterday. And that’s a mix of demolition as well as removal for relocation and reuse elsewhere. And in addition, at the moment there’s 592 that are out for tender and in the pipeline for demolition at the next 2 to 3 months.

Barry  My first question is continuing on with the red zone and is to Roger Sutton. As far as CERA is concerned, you’re responsible for claiming the insurance
recoveries from those properties in the residential zone. Can you give us an update on how that’s progressing, please?

Sutton About three-quarters of the residents have taken what we call option 2. In that case they’re actually dealing with their own insurance company and they’re merely selling us the land, so to speak. So we’re dealing with about a quarter of the claims. Those properties tend to be—or they don’t tend to, they are—the lesser damaged, so they’re also properties where people have been the slowest to move on because they’ve been the least damaged. So we’ve been working through that process with the insurers, and that’s just a gradual process as we conclude our assessment of those properties and then we start negotiating settlements for those. That work is very much under way. But you can’t really do that work until people have gone, because until they’ve gone, they aren’t our properties, either. They aren’t actually ours to actually go off and deal with the insurance company.

Barry You’re happy with the progress it has made and the decisions?

Sutton You always want these processes to be going more quickly, but I’m happy with the way it’s going, yes.

Barry To the Minister, as far as restoring the essential infrastructure is concerned, you’ve outlined some of that in that it is the world’s biggest demolition. When it comes to opening up the central part of Christchurch that we all identify with, can you give us an update on progress there, please?

Brownlee Yes, I can. A lot of that has been opened up already, and there are vast tracts of open space in there. The intention is that the cordon will be completely gone from the end of this week, beginning of next week, and there will simply be individual buildings that are barriered off, I suppose—some of them awaiting demolition, others awaiting significant repair. So that will be interesting. I think one of the good things is that the cordon has opened up and people have been able to drive into areas and almost not recognise which part of the city they were in because of the vast open space. That big realisation of the challenge ahead of us has become more stark.

Barry And the infrastructure surrounding that? You made a reference to it earlier in terms of water and, you know, the mains, the sewerage, and so forth. Again, the progress update on that, please?

Brownlee So we set up SCIRT, which is an alliance of five of New Zealand’s biggest civil construction companies, and gave them the opportunity to run their own board. Two hundred people from the Christchurch City Council and WDC were seconded into the operation, and a programme was put together to systematically recover all that infrastructure. I think what we’ve now got to, and all parties agree, is that it’s a little bit open-ended, and so the Client Governance Group, which is CERA, the New Zealand Transport Agency, and city council, with an independent chair, is going to take on a stronger role and direct relationship with the chief executive of SCIRT so that we have higher levels of certainty around the public expenditure that’s going on. And that’s good for both us and the city council, because one gets dragged with the other on the 60:40 split. Overall, I think their progress has
been quite remarkable, and the tolerance of people around the city for that work is very high, but unfortunately it’s going to go on for another probably 3 or 4 years.

Barry A quick final question on this well-being survey that you referred to earlier, and perhaps Roger Sutton might like to come in on this as well. We have heard increased reportings of people seeking medical attention for depression issues and so forth. You indicated, Gerry, you felt that that was a healthy sign of a community that is actually seeking help for understandable problems. Roger, do you have a view on the importance of this well-being survey?

Sutton Yeah, I mean the No. 1 thing in those surveys is still risk of aftershock, they’re worried about the shakes that are coming, and that’s dropping off as the quakes, you know, recede. I think we’ve paid for something like 50,000 counselling sessions for people over the last 2 years—you know, really outrageous numbers. We’ve had something like 250 community meetings, we’ve had, was it, 70 Summer of Fun events we had last summer; the summer before we were trying to get people and communities to—“hold hands” is the wrong expression, but basically get outside and do things within their community. So we’ve been active with other community organisations, trying to get people to participate, if you like—have some fun. But, you know, for a lot of people it’s still very stressful. On average, things are really moving along, but that doesn’t mean for a lot of people that life isn’t still very difficult. And we work closely with all the agencies, both Government and non-Government, to try and understand what those people’s needs are and then deliver them stuff so they can actually, you know, look after themselves.

Cosgrove Just on the survey of people’s stress levels, isn’t it correct that one of the major components of their stress level, along with the fear of an earthquake, is the frustration in terms of trying to unlock, firstly, their EQC payment and, secondly, their insurance payment, to progress their own lives?

Sutton You’re absolutely right, and what we’re seeing over time is we’re seeing those stresses are decreasing, but for some people they’re still very high. I would agree with you. We’ve now got the residential advisory service in play, and that’s taking calls from people and working through issues, and all the feedback I’ve had has been positive around that. But, I mean, yeah—I mean, I think the insurance issues are actually difficult for a lot of people, and will probably remain difficult for a period of time. But we want to work as closely as we can to support those people.

Brownlee I don’t want to downplay what Roger said, because I think it is clearly a concern for a lot of people, but you’ve got to contextualise it against the size of the whole population down here. So a lot of the stress is around just ease of movement and, you know, not being able to do things. Work is a little different. All those sorts of stresses that come into things. But if you look at the insurers, they’re now working at a rate of six times what they were 12 months ago. EQC is clearing their books rapidly. All apportionment will be finished by the end of next month, and that will clear
a whole lot of stuff away. So those properties are flowing back to the insurers. If you take an insurer like *Southern Response, 96 percent of all their claimants are currently in the process, working with the insurer about what they want. Four percent are more difficult properties. Some will be awaiting apportionment, some will be Port Hills, and there will be a range of other reasons why they’re not moving. The other insurers all report higher and engaging numbers. But, look, you can’t disconnect some of that from the issues that we’ve had with consenting around the Christchurch City Council and the frustrations that both insurers and EQC have had over the gaining of those consents in a timely fashion to get moving on things. So we seem to be getting on top of that.

Sage Going to the central city recovery plan, what’s the size of the contribution or the proportion that you’re looking for from parties other than the Christchurch City Council?

Brownlee Well, that’s yet to be determined. I don’t want to speak about that until we—remember that we are in this with the Christchurch City Council and it’s only appropriate that we let that announcement occur tomorrow. The Prime Minister and the *mayor are both making that announcement, and it’ll become clearer after that.

Sage So how will you manage the risk that the council is not able to provide the amount of funding that was agreed by council last Friday, I understand?

Brownlee I think we’ve tried to work—well, we have worked with the council all the way through. There are some uncertainties about their financing. I think they are predicating rate increases that are very high, and that is a worry to me as a resident of the city. But, as it’s presented, this is an affordable programme for the city council.

Sage Has there been any consideration by CERA of scaling down some of the size of the anchor projects, given that the stadium is considerably bigger than the former AMI Stadium*, given that the convention centre that’s being proposed is considerably bigger than the former convention centre, to make it a more affordable programme for the city?

Brownlee Well, look, I don’t want to comment on that ahead of tomorrow’s announcement, either. So that’s why I’ve said if you invite me back I’ll talk about them. What I would say about the convention centre, though, is that the city was in discussions with the Government about increasing the size of that facility prior to the earthquakes.

Sage So, given that the city council’s 3-year plan isn’t subject to the same level of audit scrutiny as a 10-year long-term plan would be, does CERA have any, or do you have any concerns, Minister, about just the security of the numbers, then, in terms of the council’s financial projections?

Brownlee No, and I think that’s part of the reason why the council were keen—were eventually persuaded to have a 3-year plan, because they do need to have some short-term security before they really start thinking about the longer term when so much of this falls back into their lap.
2013/14 ESTIMATES FOR VOTE CANTERBURY EARTHQUAKE RECOVERY

**Sage** When $208 million is in the appropriations for the central city anchor projects, and when a business case for a number of these projects has yet to be done, isn’t there a high level of risk, both to the Crown and the city council, when Parliament’s being asked to appropriate that amount of money without a business case having been done?

**Brownlee** Oh, no. I think the reality is that Christchurch is New Zealand’s second-biggest city. I’m confident that the census data is going to show that our population is on the up as opposed to falling. And if we keep going back to the sort of when we trying initially to find out what’s likely to happen here, the predictions were pretty dire: population falling, unemployment through the roof, economic collapse of the city. None of that’s occurred. To keep a dynamic in a city you do need to have sound, sizable civic facilities, and I think that’s what the commitment is—or the Government commitment so far—and then the discussions with the city council are all about.

**Sage** So can you give us any information on what progress has been made in doing the business cases for projects such as the convention centre and the new stadium? Because that’s an output that’s in the vote for the—

**Brownlee** That’s right. And what I would say is that I’ll be able to speak with more authority about that after the announcement tomorrow. Invite me back and we’ll talk about it.

**Cosgrove** We accept your invitation.

**Brownlee** No, I haven’t invited myself.

**Peters** We’ll probably move a motion before we finish this committee to have Mr Brownlee back.

**Cosgrove** Given his offer.

**Peters** Given his generous offer.

**Goldsmith** We can move on with the questions.

**Cosgrove** He’s being very generous. He’s offered to come back. Be nice to him.

**Peters** You know, why do you use the phrase “the world’s biggest demolition”?

**Brownlee** Because we can’t find anywhere else in the world where there’s been a managed demolition of this size. So you’ve had, obviously, *wartime destruction, which would have been a bigger demolition, effectively.

**Cosgrove** World War II? World War I?

**Brownlee** Whatever. But this as a tight area inside a CBD is, we’re told, quite unique.

**Peters** By who?

**Brownlee** By almost everybody who comes into the city who’s got some expertise or has had a history of looking at these things.

**Peters** Worldwide?

**Brownlee** Yes.

**Peters** Can you name one of them?
Brownlee: I’m sure we can find a name of someone who’s come and made those comments.

Peters: I’d like you to, if you could please, now.

Brownlee: Yes, we’ll do that. I don’t have it at the tip of my fingers.

Peters: Is this your phrase, that the rebuild is between $30 billion and $40 billion?

Brownlee: Well, I think it’s upwards of $40 billion. That’s my own personal view.

Peters: Is that an honest statement? That the rebuild is going to cost upwards of $40 billion?

Brownlee: Yes, I think it is.

Peters: Is it all rebuild?

Brownlee: Well, you can lump some things in there that are smaller amounts, say, and they are included. That would be some of the insurance payments around business continuity. Business continuity insurance is, none the less, a cost that’s paid, and it’s about someone being able to rebuild a business that’s actually stopped in its tracks at a particular time.

Peters: If I have a 10-bedroom motel and I decide to make it a 30-bedroom motel, is that a rebuild or is it a reconstruction of one-third—

Brownlee: No, we’re not talking about—that’s a betterment. That figure doesn’t include betterment.

Peters: Well, hang on, now. Look, there have been people who came out originally—and you were one of them—estimating cost to be between $15 billion and $20 billion, and then it went to $25 billion, then it’s $30 billion. Now it’s $40 billion. During that time other experts have said that significant parts of that is not exactly rebuild. A significant part of that is something new in replacement, but not the exact replacement and often costing far more than the original replacement would have cost.

Brownlee: What I can tell you is that there has been, if you look at initially—in fact, I can think of two buildings right now where they are under demolition but were originally slated as being repair jobs. Now, you know, the reality is as assessments of building conditions have been made over the last couple of years, a heck of a lot more are coming down. We initially thought it might be 900 buildings in the suburban areas of Christchurch. I would think we’re over that number in recent time that have been demolished, but many others have got the sword hanging over them.

Peters: I don’t think you grasp what I’m asking you. We had the Audit Office here before, before you arrived, and it would appear to me that they believe there was some merit in examining the veracity of that sort of statement: $40 billion on the rebuild.

Brownlee: Well, they haven’t spoken to me about that. It’s odd, because I talk to them frequently.
Peters: Well, a lot of people have said that, really, parts of this so-called rebuild is in fact a new build that did not exist in the first place, but they’re on the same business.

Brownlee: Yeah, OK. What do I do? I mean, I can’t see the importance, quite frankly.

Peters: Well, I think it’s rather important when you’re tossing billions around like an eight-armed octopus in your calculations—

Brownlee: No, that’s not true. That’s absolutely not true.

Peters: It’s a worry.

Brownlee: No, it’s not.

Peters: Well, hang on. Excuse me. You’ve got experts out there. You start off with a figure of 15, they go to 20, 25, 30, 40 billion. One’s got to ask oneself on what basis did they make the first examination or analysis?

Brownlee: Well, I would assume that the first analysis was based on the September 4 event.

Peters: No, no. After that.

Brownlee: No, actually, that’s not right. Analysis has been something that’s occurred and been revised over a longer period of time. And, look, there’s lots of assets that are lost. If you think about a building like—I was going to say the Town Hall, but it’s not the right example.

A member: Forsyth Barr* building?

Brownlee: The Forsyth Barr building is a good one. Sitting there at the moment. They’re uncertain about what to do with it. It’s build cost some time ago was relatively low, but its build cost, should it come down now, continues to rise day by day.

Peters: No, no, I’m not talking about replacing like with like. My point is that it has been said by people in authority, including the Prime Minister, that parts of this so-called rebuild statement is in fact a new or expanded build that, because there is going to be rebuilding going on, may as well be done now. Now, he’s made that statement. Why do you demur from that?

Brownlee: Well, I’m not. The reality is that if you’re building something to replace something, it’s a rebuild, but you’ll be building it at a new code, not the old one. It’s going to be more expensive.

Peters: No, what the Prime Minister said—but if you’re building much bigger or a different place, including all the elements of the old place, then it’s not strictly right to call that total cost a rebuild, is it?

Brownlee: Well, OK. We’ll change our language and say rebuild and betterment. I mean, I’m not sure what you want to have here.

Peters: I just want to hear the facts.

Sutton: I mean, I was going to say, in terms of infrastructure—

Brownlee: Infrastructure is a very example. You could dig up a road and find that you’ve got a pipe this long—this clay pipe or concrete pipe or asbestos pipe.
If you go and replace it, you’re going to replace it with a pipe that’s going to be 6 to 8 metres long, because that’s how they come these days. What do you call that? Is that rebuild or is it betterment?

Peters No, no, no. If you’ve got a broken pipeline you’re renewing the old pipeline with new materials. That’s understood. But if you’re going to build 2 kilometres of a former 1 kilometre pipeline, then that’s not strictly just doing up the old pipeline, is it? That’s the point I’m trying to get to you.

Brownlee OK. I’ll come back to you with more.

Goldsmith OK, we’ve come to the end of our time. We’ll give Clayton Cosgrove—

Peters One question. What systems have you got in place to ensure that there is a proper random audit, at least, of contracts to ensure that you’re paying on work contracted for and delivered as contracted for? What systems have you got in place?

Brownlee That is not a CER question, it’s an EQC question. But I’ll answer it. Yes, we do have those random audits, and I engaged with the Auditor-General very early on in the piece, and have continued to do so, asking them to work alongside those agencies that are spending our money so they can have a look at their systems—

Peters The Auditor-General tells us they don’t do that job.

Brownlee Well, I’ve asked them to.

Peters They just told us this morning.

Brownlee Well, I’m disappointed—very disappointed—because I’ve asked them to.

Peters Well, who’s doing it then?

Brownlee I beg your pardon?

Peters Who’s doing the job, then? If the Auditor-General tells us this morning that they’re not doing that job, and they told us—

Brownlee Well, you may have stumbled on a scandal, because they should be doing it.

Peters I’ve not stumbled on it. We know it’s going on, and you were warned about it. You were warned about it.

Goldsmith We’ll get the answer from the Minister.

Brownlee I agree with you, it’s a shocker. They should be.

Peters Thank you.

Brownlee Can I make one other point, though. You know, we get these allegations of fraud dumped on us all the time. So there have been a number of cases that have gone to court and people have been prosecuted. There have been a larger number of cases that have been investigated and found there is no fraud. There was a recent case raised in Parliament where the accusation was that a particular demolition company, which was named, had somehow ripped off the system. That was investigated and it was found that that company was demolishing two properties side by side and that an amount
of $5,000 was inappropriately written against one property as opposed to
the other because one of them had a long-reach crane on it.

Peters Yes, but the bucket was charged for for the whole time it was not used.
That’s the point in that contract.

Brownlee No, that’s not true.

Peters It’s true all right. Just because your prosecutor didn’t get to the bottom of it
doesn’t make my informant incorrect in what he said. He knows what he’s
talking about.

Brownlee Well, why don’t you tell us who your informant is. We’ll get him in and
open the books up and have a bit of a look and see if he’s got it wrong.

Goldsmith All right, so we’ve got a final supplementary from Clayton Cosgrove related
to the—[Interruption] Thank you, Mr Peters. Thank you.

Cosgrove Minister, as I understand what Audit told us this morning, either they don’t
have the jurisdiction—they’re going to do an audit, as you’ll be aware, of the
monitoring processes between EQC and Fletcher’s. They’re not going to go
beyond that to look at, for instance, is the monopoly that you gave
Fletcher’s value for money or the number of the anecdotal issues that Mr
Peters has raised. You’ll be aware that Fletcher’s has refused my request to,
at the very least, each month divulge the number of contracts, not who, and
the number of contractors or subcontractors, not who, just to give the
industry a layer of comfort that the work is being spread, not just given to
their mates. If Audit doesn’t have the power to do that, why won’t you
either get some independent person to look at those issues or do it yourself,
or take any action, to give industry, taxpayers, and others a layer of comfort
that the monopoly that you set up legally is giving us value for money?

Brownlee Right, so here’s the first point.

Cosgrove Because the Commerce Commission, which I should tell you also—

Brownlee I hear you—

Cosgrove —sorry, one other piece of information that might be helpful to you is even
the Commerce Commission isn’t even bothering to have a look at this, even
after other people requested that, and it’s a natural, legal matter of—

Brownlee I would dare you to go outside this room and make the statement that I
have somehow given a preferment to Fletcher’s in the way that you just
stated.

Cosgrove It’s a legal monopoly. It’s in the legislation. It’s one provider.

Brownlee It is a system that allows about 2,500 contractors, over 5,000 individual
participants, to price work themselves, buy their materials from any source
they choose, and to complete that work and be paid through a payment
system. And this constant sort of suggestion that there is something corrupt
between the arrangement that I’m supposed to have made with Fletcher’s—

Cosgrove No, I’m not saying that.

Brownlee —is completely offensive—
| Cosgrove | I didn’t say that at all. I didn’t make that accusation. I simply put it to you— |
| Brownlee | —and I’ve got to say that it’s not doing anyone any good whatsoever— |
| Cosgrove | I didn’t make that accusation. |
| Goldsmith | No, we’ve got a point of order from Mr Cunliffe. |
| Peters | It works for the power systems, but it does not work for— |
| Brownlee` | No, we went through a tender system, Mr Peters, to get to this position. |
| Goldsmith | Sorry, we’ve got a point of order. |
| Cosgrove | All I simply put to you, Minister—all I simply put to you, I didn’t make any allegations. |
| Brownlee | You did. |
| Cosgrove | There’s no need to get excited. |
| Brownlee | You did, and you frequently do. |
| Cosgrove | I simply said— |
| Brownlee | It’s like everything—you never back anything up. |
| Cosgrove | I simply said—you’ve got one project manager called Fletcher’s, and they have a monopoly over— |
| Goldsmith | Sorry, is this another supplementary, because we’ve had a number. |
| Cosgrove | And I simply asked you this: given that there are some accusations flying around—I’m not making any—don’t you think it would be helpful, if Audit can’t delve into that because of their legislative limitations, that you or some other independent agency have a look and have a check so you can dispel these anecdotal issues? No one’s making accusations. Don’t be so sensitive. |
| Brownlee | I’m going to find out why Audit are describing themselves as so toothless and poodle-like in this situation, because it disappoints me. I’ve had the meetings directly with the Auditor-General and asked her to be extremely vigilant in this regard, and have been assured that they are. It is public money that’s being expended, and I can’t understand what the barrier is to the Audit Office being able to go in there and do their job. |
| Goldsmith | Thank you very much for coming in. Thank you very much, Minister, and we appreciate your time. |

**Conclusion of evidence**
2013/14 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 2014 for Vote Commerce, as set out in Parliamentary Paper B.5, administered by the Ministry of Business, Innovation and Employment, be accepted.

**Introduction**

The appropriations sought for Vote Commerce decrease by 1.04 percent to $139.136 million in 2013/14 from $140.577 million in estimated actual expenditure in 2012/13.

**Commerce Commission**

The Commerce Commission promotes and monitors competitive behaviour. For 2013/14 appropriations of $16.435 million are sought to fund the commission.

We noted that the Commerce Commission had received $245 million funding from penalties, amongst other sources, in 2012/13. We asked the Minister for his view on the effectiveness of sanctions imposed by the commission, and he said that he thinks it is good at ensuring consumers are treated fairly in a small economy. It can impose various types of sanctions under the several pieces of legislation it administers, and it can impose large financial penalties. For example, in 2010, it recovered $45 million for New Zealanders who invested in funds misrepresented by ING (NZ) Limited and ANZ National Bank Limited.

We asked the Minister about the commission’s comparatively low rate, internationally speaking, of declining merger and acquisition applications. The Minister said that all economic activity slowed down during the recent global financial crisis, including mergers and acquisitions, but they have picked up again recently.

The Minister said that as a small economy, New Zealand has more opportunity for large players to dominate the market. However New Zealanders in general compare prices, increasingly internationally, and will not only choose more competitively priced options, but also reject business to companies who are exploitative in their pricing.

**Work in Christchurch**

The Minister has said that the Commerce Commission is “active” in the Christchurch rebuild. We asked the Minister what active meant in this context. He said that Christchurch residents have been receiving large amounts of money in insurance pay-outs, and so there was a higher than usual demand for financial advice. The commission seeks to ensure it gets advice, and that the advice follows prescribed guidelines. It does not talk directly to consumers, but rather to the Chamber of Commerce and registered financial advisors.

We asked the Minister if the number of allegations about Fletcher Building’s potentially anti-competitive behaviour in Christchurch was of concern. The Minister said he was not concerned, as Fletcher Building’s actions have been legal, and he is satisfied the commission is discharging its duties. We also noted that during our recent 2011/12 financial review of the Commerce Commission, the general manager said that the
commission talks to sector participants about prohibitions on anti-competitive behaviour and that it would act if it was concerned about information received.

**New Zealand Labour Party minority view**

With respect to the Commerce Commission’s so-called “activity” in Christchurch, Labour members do not accept that the Minister, his department, and the commission are taking adequate steps to ensure that the Fletcher Building project management contract, which provides a legal monopoly to Fletcher Building, is being implemented appropriately. Further, given the amount of anecdotal evidence that has been raised with the Minister’s ministerial colleagues, particularly the Minister for Canterbury Earthquake Recovery, and others around the allocation of earthquake repair work, we are concerned that the Minister of Commerce has not directed or encouraged any of the aforementioned entities within his portfolio responsibility to engage in active monitoring and reporting to him. We encourage the Minister to engage fully in the issue in order to safeguard the public interest and taxpayers’ money.

**International cooperation**

**Madrid System for the International Registration of Marks**

For 2013/14 an appropriation of $13.904 million is sought for registration and granting of intellectual property rights.

We asked the Minister to outline the benefit of the Madrid system, to which New Zealand is a signatory, for registering trademarks in several jurisdictions at once. He said it effectively means a single trademark application covers 80 jurisdictions, which saves money, provides New Zealand companies with certainty around the use of their brands, and speeds up a previously slow process. It also represents a step towards a single economic market with Australia, which is also a signatory.

**Australia—single economic market**

We asked the Minister for an update on the single economic market agenda that has been agreed with Australia. We heard that nine of about 24 tasks were completed, two were close to completion and five are subject to legislation currently before the House. Recent progress has been made on the international information-sharing agreement between the Commerce Commission and the Australian Competition and Consumer Commission. There is still some way to go on the more technical aspects of the agreement, but the goodwill and the determination of both parties to succeed in this project is encouraging.

Many businesses operate in both countries, and so need to be regulated in both jurisdictions. A single accreditation for both is likely to encourage expansion into the other country.

**Financial literacy**

The 2013 Financial Literacy Summit was held recently in Auckland, with over 300 participants from various sectors attending, including the Minister. The Minister said that he has a strong interest in promoting financial literacy, with the aim of protecting people from predatory financial behaviour, and ensuring people understand the transactions they undertake, particularly when borrowing. He is working with the Retirement Commissioner to get an all-of-Government approach to improving financial understanding, especially in lower socio-economic groups.
2013/14 ESTIMATES FOR VOTE COMMERCE

We asked the Minister about the work he is doing with the Minister of Social Development on budgeting assistance, and particularly on the provision of low-interest loans, noting that the appropriation for provision of budgeting services increases from $8.9 million to $10.4 million. He said that he is looking closely at examples of low-interest or assisted loans, in Australia and the few small examples in New Zealand. The aim is to help people out of difficult situations, by means linked with their financial obligations to the state or other parties.

A survey at the financial literacy summit showed that awareness of the need to restrict certain financial behaviours was high, but acting on this awareness is much less common.

Financial Markets Conduct Bill

We asked the Minister about the implications of the Financial Markets Conduct Bill, which we considered last year. Among other changes it proposed raising the threshold over which an investor is deemed to be a wholesale investor, and tightening the rules for smaller managed schemes. We heard that the Minister was confident that the preparation of the regulations associated with this legislation was going well. Both the Financial Markets Authority and the Commerce Commission will have new obligations, for which they have been preparing for some time. They will shortly discuss implementation with affected sectors, to be ready when the new rules take effect.

KiwiSaver disclosure rules

We asked the Minister about the new KiwiSaver disclosure rules that come into effect on 1 July 2013. All KiwiSaver providers will need to report in a specified format, quarterly, six-monthly and annually, providing more information than is currently required. The aim of these reports is to make it easier for New Zealanders to compare funds and make decisions. The providers understand the need for a fair comparison, and are confident they can do what is required. We note that the reports are intended to be available online for ease of access, but also available in hard copy upon request.
Appendix A

Approach to this examination

We met on 27 June and 11 July 2013 to consider Vote Commerce. Evidence was heard from the Minister of Commerce, the Hon Craig Foss, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members

Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Clayton Cosgrove
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell
Dr Jian Yang

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister of Commerce, Response to standard Estimates questionnaire.
Minister of Commerce, Response to additional questions received 24 June and 9 July 2013.
Office of the Auditor-General, Briefing on Vote Commerce, received 24 June 2013.
Corrected transcript of hearing of evidence 27 June 2013

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Clayton Cosgrove
Clare Curran
Julie Anne Genter
Peseta Sam Lotu-Iiga
Mark Mitchell
Dr Jian Yang

Witnesses
Hon Craig Foss, Minister of Commerce

Young Welcome, Minister. We’ve agreed to extend your introduction time from 5 to 10 minutes, if you want to take that extra time. It’s up to you. We’d like to invite you to give us your introduction, then we’ll come to questions.

Foss OK. Good morning. Thanks very much for asking us along here again this year.

Cosgrove It’s always good to see you, Minister.

Foss It’s good to see yourselves, as well. Could I just introduce Gaye Searancke and Melanie Porter, who will be sitting up here at the table with me, probably through both votes, as we’re doing Consumer Affairs, as you know, after this one. We have a team of experts behind me, if we get too technical.

Cosgrove Minister, do they include anybody from Saunders Unsworth, or anybody else we should know about?

Foss I’m unaware of who’s in the public gallery, but I know there are people here from MBIE.

Young The member’s in a jovial mood, all right, but we’ll carry on. Thank you, sir.

Foss Members, as you know, building a more competitive and productive economy for New Zealand is one of the key priorities of our Government. The Business Growth Agenda will drive this by ensuring that the Government is, stays, and remains focused on what matters to business, thereby encouraging confidence, and increasing investment, growing exports and real jobs across New Zealand.
The commerce portfolio is making a very important contribution to this work, as it always does, of course, but my No. 1 priority is to make sure we can create the best environment possible within New Zealand for business in terms of regulation, of course, but also in terms of ensuring firms have the capital they need to grow, the capital they need to access innovation, and, of course, a regulatory framework that supports them to export, to grow, and to hire more New Zealanders over the medium to long term.

Before I discuss some of the initiatives in Vote Commerce, in the BGA areas of innovation, capital, and, particularly, exports, I will just touch on the financials from the vote. Vote Commerce appropriation is and remains the same as last year, despite the heavy workload under way, and we are achieving good results from that vote. If the clerk and the chair are OK, I just have a handout to distribute to members, which, for their information, explains the breakdown of the vote, and we can talk to that if members are interested.

Young: That would be great, thank you.

Foss: Okay, we’ll arrange to table that and distribute that. As you see from that document, the greatest share of non-departmental expenditure is, of course, to our two Crown entities, the Commerce Commission and the Financial Markets Authority, the FMA. Both are doing fantastic jobs, and, in fact, recently I learnt that in the last few years, since 2009, the Commerce Commission has received a total of $245 million—$70.8 million in penalties, achieved by enforcement of the Commerce Act and the various Acts it administers; $8.2 million in costs being received back to the Commerce Commission; and compensation to those who have been harmed by egregious activity and found wanting under the various Acts, a total since 2009 to present of $166.6 million in recompense to New Zealanders from the various activities such as the Credit Sales, the Air New Zealand freight decision recently, and the Telecom decision recently.

Innovation, of course, is a key part and one part of our Business Growth Agenda, and we have several processes under way that will encourage businesses to innovate and to secure their intellectual property. The Patents Bill will update 60 years of patents legislation in New Zealand, and will align our patents system more closely with those of our trading partners and international best practice. By providing higher-quality patents, we will ensure that patents provide stronger incentives to genuine innovators, while also ensuring that the patents system does not restrain innovation in key sectors.

The Commerce (Cartels and Other Matters) Amendment Bill will also assist, by promoting pro-competitive collaboration between firms, while deterring anti-competitive hard-core cartel behaviour. The bill will also remove exemptions for the shipping industry, and transition shipping to a regime under the Commerce Act. I look forward to confirmation from across Parliament of continued support for those and the various other commerce bills that we have before us, which, I understand, are supported generally across the Parliament.
I’m also seeking to improve New Zealand’s standards system, given the contribution that standards make to innovation. MBIE has released a document on how the standards system might be improved, and I intend to be making policy decisions and taking those to Cabinet towards the end of the year.

Under exports, as Minister of Commerce, I am focused on the BGA goal of growing exports to meet our goal to 40 percent of GDP by 2025, from the current 33-odd percent. Members may note that to achieve that, models have shown that about NZ$200 billion more in capital will be required for our export sector. So therein lie further challenges for New Zealand.

The portfolio has a key role in helping build a single economic market, and following that agenda, of course, with our good friend Australia, we have made good progress in key SEM initiatives over the recent past year. Also, a comprehensive review of the New Zealand trademark regulations was completed last April, including joining some key international agreements, such as the Madrid Protocol.

Second, New Zealand has also signed an agreement with Australia to implement a trans-Tasman registration regime for Australia and New Zealand patent attorneys. As a result of recently passed information-sharing legislation, the Commerce Commission and the ACCC have now signed and completed a cooperation agreement.

Regarding our capital markets, the BGA also notes that improved capital market performance is essential for strong business growth. The Financial Markets Conduct Bill will provide a step change in the regulation of New Zealand’s financial markets, and has been informed by the lessons of the global financial crisis, the unfortunate collapse of many finance companies within New Zealand, and the recommendations of the Capital Market Development Taskforce. Once passed, it will complete a set of comprehensive reforms in New Zealand’s financial sector, which has already included the introduction of the financial advisers regime, the licensing of trustees and statutory supervisors, and the establishment of the FMA. The bill aims to promote the confident and informed participation by businesses, New Zealanders, investors, and consumers in our financial markets.

Among the changes, the bill will set out standards of conduct expected of financial market participants, based on the requirements under the Fair Trading Act. It will also promote innovation and new sources of capital—for example, for providing for lower-cost publicly listed markets and crowd-funding, or crowd-sourcing, as it is sometimes known, platforms. There will be improved disclosure, licensing of fund managers, and improved governance of managed funds offered to retail investors.

The Companies and Limited Partnerships Amendment Bill, meanwhile, tightens the rules for company directors and company registration, and aims to prevent the use of shell companies within New Zealand for international criminal activity. In response to some of the issues raised by this committee, I have developed an SOP that is clearer and more focused by the provisions
currently in the bill. On that note, I do thank the committee for their ongoing work in much of this very technical legislation, and generally note the unanimous reports that come from the committee around my legislation.

Finally, the Financial Reporting Bill will also assist firms, as it substantially reduces compliance costs for medium-sized companies preparing financial reports, and removes the requirement for smaller companies to produce complex full financial statements.

There are a number of other non-legislative initiatives under way, which ensure that we build and deepen our capital markets. New disclosure rules will give New Zealanders better information to compare KiwiSaver funds, so they can make better and informed decisions about which scheme to join or switch to, or that they believe is appropriate for them. In conjunction with the Retirement Commissioner, I have been building partnerships and developing a mutual understanding about financial literacy, so that financial literacy initiatives are delivered with a common purpose across government and, in fact, the private sector.

I will also be working with the Minister for Social Development to progress work on the recently announced Budget initiative of a low-interest or no-interest loan scheme, to be designed and piloted in collaboration with the banking and charitable sectors. Thank you very much, chair. I am happy and welcome the committee’s questions.

Young Thanks very much, Minister. There is just one quick question from me, then we’ll come across to Labour and the Greens. There was, I think, in the financial review of the Commerce Commission some comment from some members of the Opposition regarding the effectiveness of the Commerce Commission. You have mentioned here that they received $248 million of penalties, etc. How is the Commerce Commission performing, do you feel, in terms of protecting our competitive markets?

Foss I think the Commerce Commission are doing a very, very good job. At the end of the day, they are there to ensure that New Zealanders, New Zealand families, consumers, are able to have fair pricing and discovery of information. Of course, they administer the various Acts, the Commerce Act and the FTA Act, and if organisations are found wanting, they have many options at their disposal. As seen, $245 million was the total, actually, Mr Chair. In recent times we would have seen $60 million received from the Credit Sales settlement, shall we say, and various other fines or settlements from various court proceedings, such as the total from the various freight air cartels ongoing proceedings, which is something like $42.5 million of penalties received thus far. Remember the ANZ-ING settlement a couple of years ago now was $45 million of compensation, and Telecom, I think, was a section 36 settlement—$31.6 million was received—and there was the other $12 million from the “data tails” settlement.

Often they are not everyone’s favourite friend, but I think, on behalf of New Zealanders and the New Zealand economy, they do a pretty good job
in a small economy that can often be dominated by one or two large participants in various sectors.

Cosgrove

Minister, since the chair went down the Commerce Commission road, in respect of the Canterbury earthquake, we see from your documents that you talk about both the Commerce Commission and the FMA being very active in Christchurch. Could you define what “active” means? We cannot find a definition.

Foss

The Commerce Commission and FMA are very active across the country—

Cosgrove

No, no, Christchurch is my question.

Foss

Sure. Obviously, because of the intensity of issues in Christchurch, particularly as far as the FMA is concerned, individuals having large financial transactions happening because of their circumstances, however that might play out, making sure that in the advice given to people in Christchurch by various entities the rules are followed correctly, because, essentially, there is financial advice being provided—so just reminding everyone: “Hey, these are the rules under which advice must be given to families that may, for example, have received a large pay-out for whatever their circumstances are.”

Cosgrove

So, if we are dealing with the FMA for the moment, could you give us an example of who they have reminded?

Foss

Well, they talk generally to their registered advisers, RSPs down there, be they accountants, other financial advisers—I am sure they probably went via the Chamber of Commerce down there—and then that should filter down. They wouldn’t be talking often directly to individuals; they would talk to those who they regulate, who advise individuals, and perhaps reminding some who may be quite genuinely, with good intent, trying to offer advice of a financial sense—just reminding them, actually, of what they need to adhere to if, in fact, they are doing that.

Cosgrove

And the Commerce Commission? They appear to be athletically active, according to your documents. Could you provide some definition as to what that activity is?

Foss

Well, I’m sure there’re some fine athletes in the Commerce Commission. But there were concerns, as I read in the media, and interest in any non-competitive behaviour down there in Christchurch. I understand they have examined or looked at things in Christchurch, and have not found any reason to investigate further. But, once again, because of the unusual situation and the intensity of everything that’s going on down there, issues were brought to their attention, but I understand they are not proceeding with any further investigation.

Cosgrove

Would it surprise you to know that the last time, which was, I think, a couple of months ago, the Commerce Commission came before this committee we specifically asked them had they taken even a cursory look at the legalised monopoly that exists with Fletcher’s and the project management regime, and they told us they hadn’t. Actually, they minced around for 5 or 6 minutes trying to invent something, and then when we
got to the tin tacks, they hadn’t done anything in respect of looking at that—even giving it a cursory look. I’m not arguing that there is definitely a problem; there’s certainly a lot of anecdotal evidence. But wouldn’t you have thought, where there is a legal monopoly put in place by your Government, that the Commerce Commission would get active in some way, shape, or form and look at it? You haven’t described any activity, and they’ve told us they’ve done nothing.

Foss Well, regardless of how you frame it, legal monopoly or not, if it’s legal, it’s legal. But they have told me—because I have asked them—

Cosgrove So if ripping people off is legal, that’s OK?

Foss No. You may say that, but I’m certainly not saying that.

Cosgrove You said if it’s legal, it’s legal.

Foss But you took it to the next point. If there are things happening in Christchurch by individuals or entities, anyone can take a complaint to the Commerce Commission and—

Cosgrove I realise that. The question, Minister, was this—

Foss —as far as I’m aware, they’ve had a look at Christchurch, because I raised similar questions in and around Christchurch, and they have not found the need to pursue or investigate any of those matters further.

Cosgrove With respect, Christchurch is different from the legalised Fletcher’s monopoly, and you would acknowledge, as has your earthquake Minister counterpart, that there has been a large amount of allegations—anecdotal, admittedly—around whether work, for instance, is being farmed out as wide as possible to entities there, whether subcontracting entities are being encouraged to become Fletcher’s contractors or PlaceMakers purchasers, and the Commerce Commission has told us that they have not looked at any of that. They came before this committee and said they haven’t even taken a glance at it.

Foss Well, I understand that they actually have looked at the issues in and around Christchurch, and if you’ve asked specific questions—

Cosgrove No; with respect, Minister, you’re talking about Christchurch. I am talking about Fletcher’s, the legal monopoly that you put in place. So please don’t widen the question. I acknowledge your response with Christchurch. I haven’t had any examples of what they’ve done in Christchurch from you, but I’m talking about Fletcher’s.

Foss Well, Minister Brownlee may be the right person to go to around specifics—

Cosgrove I asked Minister Brownlee yesterday and he referred it back to you.

Foss That’s very good of him, then.

Cosgrove You’re the Minister.

Foss Yes, but he’s in charge of CERA, who may have those contracts with—
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<th>Name</th>
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<tr>
<td>Cosgrove</td>
<td>With respect, I asked the Minister that, and he advised, if I recall his words, he gave us the impression that was not within his bailiwick. You’re Minister of Commerce. He is not Minister of Commerce. The Commerce Commission is within your portfolio. They’ve told us they have not looked at it. Doesn’t that worry you at all?</td>
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<td>Mitchell</td>
<td>Clayton, your recollection is different to mine, because I don’t think the Commerce Commission said they hadn’t looked at it.</td>
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<td>Cosgrove</td>
<td>Well, with respect, I didn’t know you were the Minister. I’m asking the Minister.</td>
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<td>Foss</td>
<td>As far as I’m aware, they haven’t found reason to examine or investigate further any issues in and around Christchurch—</td>
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<td>Cosgrove</td>
<td>And that doesn’t concern you at all.</td>
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<td>Foss</td>
<td>—be they within an individual company or otherwise. It would concern me if they didn’t consider that they should look at things in and around New Zealand and/or Christchurch—of course.</td>
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<td>Cosgrove</td>
<td>I’m sorry, you’ve just contradicted yourself.</td>
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<tr>
<td>Foss</td>
<td>No, I haven’t.</td>
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<tr>
<td>Cosgrove</td>
<td>Are you concerned or not? Are you concerned that your commission has not looked at Fletcher’s—</td>
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<tr>
<td>Foss</td>
<td>I’m concerned that the Commerce Commission carry out their duties under the Commerce Act. That’s what concerns me.</td>
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<tr>
<td>Lotu-Iiga</td>
<td>So Minister, you’re confident that the Commerce Commission is discharging its duties in a lawful and appropriate and proper manner, both in Christchurch and around the country? Are you confident about that?</td>
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<td>Foss</td>
<td>Yes, I am, and actually the numbers for non-Christchurch issues, to be fair, I read out earlier show that in fact they are achieving positive results. And, once again, they are charged with carrying out the Commerce Act, the Fair Trading Act, and you-name-it, and I understand they have had a look in Christchurch along the way and have had no reason to investigate any of those matters further.</td>
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<tr>
<td>Cosgrove</td>
<td>With respect to Mr Lotu-Iiga’s question, how can you be confident that they are discharging their job correctly when they haven’t investigated, for instance, Fletcher’s? And if they haven’t even had a cursory look at it, how do we know, and how can you be confident, that all is OK? Do you just get a crystal ball out and—</td>
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<td>Foss</td>
<td>Because they are charged with carrying out the Act, which covers all the individual companies, the behaviours that you’re talking about, and those experts have found no reason to investigate further. I’d suggest they probably have had more than a cursory glance.</td>
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<td>Cosgrove</td>
<td>Not according to them.</td>
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<tr>
<td>Foss</td>
<td>Well, maybe that’s your interpretation of it. I wasn’t here.</td>
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<tr>
<td>Lotu-Iiga</td>
<td>That’s not correct.</td>
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2013/14 ESTIMATES FOR VOTE COMMERCE

<table>
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<tr>
<th>Young</th>
<th>No, it’s not correct.</th>
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<td>Cosgrove</td>
<td>Well, go back and have a look at the transcript. Do you think, as Minister—</td>
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<td>Young</td>
<td>We will, and a previous financial review in which they state they do and have.</td>
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<tr>
<td>Cosgrove</td>
<td>Well, you can make it up.</td>
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<td>Young</td>
<td>Education programme.</td>
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<td>Cosgrove</td>
<td>You’re the chair. You’re not supposed to be interjecting on a questioner last time I checked. Do you believe you should even perhaps have a chat with them and say: “Should you have a look?” You may not wish to direct them, you may not be able to direct them, but shouldn’t you have a chat, pick up the phone and say: “It might be worth just doing a health check to ensure that your Government’s legislation is working correctly, given that there has been a lot of anecdotal evidence about the nature of this contract.”?</td>
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<td>Foss</td>
<td>Actually, along the way I’ve asked exactly that. Are any issues—</td>
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<td>Cosgrove</td>
<td>Well, why haven’t they done it?</td>
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<td>Foss</td>
<td>Obviously, they found no reason to investigate further, but along the way I’ve asked: “Are there any issues in and around Christchurch that could be of interest to myself as Minister under the Commerce Act?”, and they along the way said they’ve had a look and they didn’t find any reason to investigate any matters down there further.</td>
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<td>Cosgrove</td>
<td>Can you tell us—because presumably you asked them, what “have a look” means.</td>
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<td>Foss</td>
<td>Have a look will be to have a look at what’s going on in Christchurch in so far as the Act that they are charged to administer is effective.</td>
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<td>Cosgrove</td>
<td>Did you ask them what the nature of “have a look” was?</td>
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<td>Foss</td>
<td>No, we didn’t go down to “have a look” but if I said something along the lines of “Are there any items or issues under the Commerce Act that I should be interested in regarding Christchurch?”, and if they have come back and said no, it is a fair presumption that they have had a look, had a cursory glance, or discharged their responsibilities as they are charged to do under the Commerce Act.</td>
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<tr>
<td>Cosgrove</td>
<td>You as Minister didn’t feel it might be worth saying: “Well, look, so there are no issues. Could you just explain to me as Minister how you did come to this conclusion that there are no issues? Who did you engage with? What inquiries did you make?” You just sat there and said: “Are there any issues?”. They said: “No, we’ve had a look.”, and you’re confident. Do you think consumers will be confident that you’re confident?</td>
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<td>Foss</td>
<td>Well, consumers should take a lot of confidence from the Commerce Commission’s activities as I read out earlier in so far as your questions. If I have asked, as Minister, of the Commerce Commission whether there are any issues in and around Christchurch that may be of interest regarding the</td>
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Cosgrove But you won’t know, because you don’t delve past “Are there any issues?”, do you. You just accept what they say.

Lotu-Iiga He didn’t say that.

Cosgrove Well, he did say that.

Foss Well, I have some very competent people. I have regular meetings with the Commerce Commission, and we have a no-surprises policy, so if there were any issues that should be of interest or brought to the attention of the Minister, then I would fully have expected they would have been brought to my attention by now. They haven’t.

Cosgrove Simple question: what if they didn’t?

Foss Well, if they didn’t, they wouldn’t be carrying out their duties as servants of the Crown, and therefore something else would have to kick in because the Commerce Commission would not be administering the Act that they are legally charged to administer.

Cosgrove So the old “Yes, Minister” thing, knowing the right question to ask, doesn’t apply to you.

Foss I’ll ignore that question, if you like, Mr Chair.

Young Yes.

Foss That’s somewhat of a loaded question, and I’m not going to get into that.

Cosgrove I’ll rephrase it, then. So you don’t feel that your ministerial warrant gives you the right, duty, or ability to go beyond questioning an agency as to exactly what they are doing in practical terms. You feel that in all your agencies you should just ask: “Are there any matters that should be brought to my attention?”.

Foss No, that’s not correct.

Cosgrove I haven’t finished yet. “Are there any matters that should be brought to my attention? No? Thanks.”, and toddle off to morning tea?

Foss No, that’s not correct.

Bakshi Last year the Parliament passed a bill, which was the Commerce Commission (International Co-operation, and Fees) Amendment Bill. That is part of the single economic agenda. Can you update us on what’s happening with other objectives of the single economic—

Foss As part of the single economic agenda there is about 24 points that our Prime Minister has agreed with Australia. They’re enduring, those points. We’ve completed nine of them. Two are close. Of seven other key points, about five of them are subject to the legislation that’s before the House now, out of this committee, particularly the Patents Bill, actually, and the
FMC bill, from memory. Recent progress has been just further information sharing post the bill that went through this committee, the international sharing agreement with our Commerce Commission and the ACCC in Australia. So still making progress in all those fields. The goodwill on both sides is still apparent. There’s a fair bit of grunt work, if you like, to start to deal with some of the deeper and more technical issues, but the intent and the goodwill across both sides is still apparent.

Bakshi What are the advantages for the businesses in New Zealand?

Foss So many of our businesses cross or straddle the Tasman, so the more certainty for consumers, businesses that straddle regulators, so we have mutual interests in both our economic futures and our regulatory environments. So for a New Zealand company looking to extend, develop, or export into Australia, knowing that they are accredited in Australia because they are accredited here, or vice versa, is very helpful because it removes uncertainty and costs for our New Zealand businesses and Australian businesses looking to expand or operate here.

Yang Yes, about the Madrid Protocol, you mentioned the Madrid Protocol. We are implementing the protocol. Can you outline the benefits that business will get?

Foss Sure. New Zealand is actually one of the leaders in this space. Essentially, a New Zealand company can now make one trademark application, and brand application, to IPONZ, the Intellectual Property Office of New Zealand—one application—and that will be effective once approved across 80 other jurisdictions. So rather than 87 different applications, which used to be the case, now a single application, and that not only eliminates cost for that New Zealand entity doing that; it actually speeds up the entire process and creates certainty, particularly as, if you like, the globe gets smaller and smaller and a New Zealand company would struggle to know whether their brand had been used or trademarked somewhere else. So, again, it provides certainty, helps New Zealand companies on to the global stage, and protects their intellectual property.

Yang So it will be a major step towards a single economic market between New Zealand and Australia?

Foss Part of it, yes, part of it. Has Australia signed up?

Yang Yes, I think so.

Foss Australia has signed up. We are seen as, actually, innovators in the intellectual property space in New Zealand, and the IPONZ office here are actually doing a fantastic job. Once the Patents Bill is passed, that will also make life much, much easier for not only IPONZ—the patents office—but also New Zealand start-ups, New Zealand companies.

Genter Minister, you know well that New Zealand is a small market, and, you’ve said yourself, dominated potentially by just a few big players in some sectors. Coming back to the Commerce Commission, why are you confident that the Commerce Commission is able to ensure a competitive environment here in New Zealand? What gives you that confidence when
looking at research from 2009 to 2012 in other larger markets like the UK, the US, Australia, and the Competition Commission in the UK had 27 applications and 11 of the failed? In the US the Federal Trade Commission got 84 applications; 33 failed. The Australian Competition and Consumer Commission: 811 reviews, 113 fails. And New Zealand since 2009 we had 36 applications, only one declined. That’s a clearance rate of 97 percent.

Foss Applications for what?
Genter It’s clearance for whether or not—
Foss Companies can get together.
Genter Yes.
Foss Sure. There’ll be a number of factors. I can’t really comment on what’s happening in those other countries. But the clearance regime or economic activity in New Zealand has slowed down since the global financial crisis. New Zealand went through a recession, and all financial activity—you can see that on the NZX—slowed down. So therefore mergers, acquisitions have all slowed down. Interestingly, they’ve picked up recently.
Genter But arguably that would’ve been the same in those other jurisdictions, larger markets. Why do you have such confidence that our Commerce Commission has the ability to ensure a competitive environment in this small market when in fact its clearance rate is so much higher than similar jurisdictions?
Foss If you think a measure of success of the Commerce Commission is a pro rata on how many clearance regime they do here versus a larger economy, I could give you 245.7 million reasons why they are doing a very good job for New Zealand consumers and the New Zealand economy.
Genter Could you just give me one? Really, what is the reason for why our Commerce Commission looks more like a rubber-stamping organisation?
Foss If you think they’re a rubber-stamping organisation, you might find Telecom, Air New Zealand, the Credit Sales people, all sorts of other companies may argue with that fact, actually, and before the High Court at the moment, there’s the Merit Imports review, and we’re awaiting the findings and the conclusion of the court. There are many parties who are challenging the Commerce Commission in that court who may be arguing that actually they are—they may be saying they are too effective, or they’re arguing the commission’s findings in regard of those companies.
Genter Minister, you’ve made it clear in your presentation at the beginning that your Government wants to do what’s good for business and yet create a competitive environment. Isn’t it the case that what’s good for the big existing businesses, the big players in the market, the last thing they want is more competition? How are you ensuring there’s a competitive environment, competitive prices for consumers in New Zealand when you’re looking to protect the interests—
Foss If you read Part 4 of the Commerce Act, you might find a little bit about that in there. That’s exactly what that’s for. The cartels bill, which has come
out of this committee, actually is exactly about modernising that. Just because an organisation is small doesn’t mean it’s neither worthy nor profitable. In fact, some very large organisations took pretty serious profit haircuts recently. So there are no barriers to that in New Zealand. But you’re right—in a market of, I don’t know, 4.2 million - odd people, maybe half that could really be consumers. Therefore some organisations can dominate the space, or one or two—they can. That’s precisely why we have the Commerce Act, particularly Part 4, for dominant behaviour.

Also, though, challenging all of that is New Zealanders’ ability to price-compare across the net, more so than ever before to compare prices here, and, say, just across Australia, or in the States, or wherever around the globe. They can now price-compare so that power in the hands of the consumer to walk and march with their wallet or purse to organisations which they choose to trust more than some organisation they may feel is maybe exploiting the circumstances is enhanced dramatically.

Curran Thank you. Just on that, Mr Minister. With regard to the cartel bill, which is strengthening the pro-competitive environment for New Zealand, and the Commerce Act, which prohibits any arrangements that will lessen competition in a market, including arrangements between competitors that fix, control, or maintain prices—yes? You would have concerns if there was a group of companies in any industry that was getting together to separately discuss a pricing activity, would you?

Foss You mean under the cartels bill? Sorry, was that the first bit you said?

Curran Well, in general, you would have a concern as the commerce Minister around that?

Foss If organisations got together to collude like that and fix prices, yes, that would be outside the existing Act and outside the new improved Act.

Curran So have you and would you be investigating and taking a direct interest in the reported activities of the telecommunications companies that recently got together to try to come up with a new price on the wholesale rate of copper, and then present that price as a compromise price to Chorus, as a way of trying to circumvent the review process that’s been brought forward by the telecommunications Minister, which is also about trying to circumvent the Commerce Commission’s regulated role to set the wholesale price of copper?

Foss Yeah well, most of that has to fall under the Minister of ICT, Amy Adams.

Curran But Minister you have already said, as the Minister in charge of the Commerce Act, that it is ultimately your responsibility, is it not, to be on top of any potential activity, real or perceived, where there is the potential for collusion or cartel-like behaviour.

Foss Yeah, if activity is detrimental to the consumers of New Zealand under the Commerce Act, then yes, of course I’m interested.

Curran So are you paying attention to this? Have you paid attention to this? Have you been briefed on it?
Foss No, because most of that sits under the Minister for ICT, Amy Adams.
Curran Well, what is your role as the Minister of Commerce then, if you are not to pay attention? Does it matter what industry it’s in? If it was supermarkets or airports—
Lotu-Iiga He’s answered the question.
Curran No, he hasn’t.
Young Excuse me. Sorry, Minister.
Foss Paying attention, taking an interest, or at the other end of the spectrum, directing the Commerce Commission to do x-y-z, are all open to the Minister of Commerce at any time.
Curran So?
Cosgrove Supplementary.
Foss So I am interested in any behaviour which is—
Curran But you said you hadn’t been briefed?
Foss No, I haven’t been specifically briefed on that—
Curran Will you be seeking to be briefed on this issue?
Foss If the Commerce Commission may or may not have an investigation in there right now—
Curran We have a letter here from the Commerce Commission on this very issue.
Cosgrove Why don’t you just ask, Minister? There’s a point—ask. That’s innovation. Ask them.
Mitchell I’ve got a supp in relation to Jian Yang’s question—
Curran I’m sorry, I haven’t finished yet. I’ve got a letter here from the Commerce Commission on this very issue.
Young Order, please. Clare, you’ve got a question?
Curran I do.
Young All right, ask the question please.
Curran I’ve got a letter written to me yesterday from the commission on this very issue, as I wrote to them earlier this week expressing my concern, from the chair of the Commission—so not from the Telecommunications Commissioner—saying that they are conducting further investigations into this matter, and pointing out to me that the Commerce Act does prohibit arrangements that substantially lessen competition in a market, including arrangements between competitors that fix, control, or maintain prices. They are looking into this matter. I would have thought that you would have been, as the Minister, across this issue.
Foss I’m not aware of your letter. I think you said you got it yesterday, or today?
Curran No, no, of the issue itself. It has been reported in the newspaper, on several occasions in the last 2 weeks. It does potentially involve collaboration
between the telecommunications companies and a price being set on this issue. I would have thought that you as the Minister of Commerce would have been across this issue.

Foss If they are undertaking an ongoing investigation, or if they are examining some reports, or complaints, or an investigation they’ve taken of their own initiative, then it’s not right for me to comment in this committee about any details of the investigation. But I reiterate, and as Mr Berry said in your letter there, if an organisation is doing something—price fixing outside of the Commerce Act—that would be detrimental to the consumers of New Zealand, then the Commerce Commission is charged to examine such matters.

Mitchell Yes, Minister, I just want to come back to Julie Anne’s question and seek some clarification. As Minister, what’s your approach in terms of providing a fair market for our businesses, bearing in mind that, yes, 70 percent of our economy is made up of small to medium sized businesses? What’s your approach—and your responsibility is obviously to create a fair trading environment for all businesses, but not interfere with what they are doing too much; provide a platform for them to be able to get involved and hopefully grow a commercial enterprise. Can you just give us a bit of information on what your approach to that is?

Foss Sure, as I said in that opening speech, so much of it is about a certain regulatory environment, with the legislative changes we’ve got under way, to allow those organisations to sell whatever they’re doing, to expand, to grow, in as much of a level playing field as possible. So the protection for smaller entities is of course the Commerce Act.

In the financial regulatory side of what I do, of course all of those companies will have debt, often, or will need access to working capital, etc., etc. So, much of what we do in the financial-regulatory side is to provide certainty so the interest premium—the risk premium upon New Zealand—is as low as possible, from offshore lenders to us, at the most efficient and lowest rate possible for New Zealand. And that means a lower mortgage for New Zealanders and lower cost of working capital for business and capital expansion.

So the more uncertainty that those who have lent New Zealand—what is it, about $200 billion, which we do need to roll over to maintain the expectations that we have of our economy—the lower the price of that capital is, the better it is for New Zealand, in conjunction with prudential management of the Crown accounts and a growing economy.

Cosgrove Just going back to Ms Curran’s line of questioning to you. What confidence should taxpayers have in your abilities, given the major issue that’s before the Commerce Commission, in the newspaper, that everybody knows about but you don’t, because you say you don’t? You’ve told us you don’t know. You haven’t had a briefing from the Commerce Commission or your own department, because you just take what they say at face value, you’ve told us. What confidence should we or the taxpayer have in you, when
everybody else knows about this issue, but you don’t, and you don’t ask any questions?

Foss  I don’t take what they say to me at face value, but I take it that it’s given to me with integrity, and if I have questions to them—

Cosgrove  My question was: you said you knew nothing about it. Do you not read the newspaper? Do your officials not brief you?

Foss  I saw the newspaper this morning, but I haven’t spoken to the Commerce Commission today at all.

Cosgrove  And you haven’t received any briefings, you told us?

Foss  I have not received a briefing on this matter from the Commerce Commission today, but it’s an ongoing matter. Remember—

Cosgrove  Could we send you the news clippings to help you?

Foss  Mr Chair? Can I finish?

Young  Point of order, please. Thank you. Members of the Committee—sorry, excuse me, Minister—a barrage of questions while the Minister is attempting to answer is unacceptable. All right? Can we please give some courtesy to the answerer, thank you?

Foss  Can I just finish the response and just note that the Commerce Commission is an independent entity of the Government. Much of what the Commerce Commission does often ends up before the courts. If a Minister was to get involved in some way, shape, or form in the goings on of the Commerce Commission, that would probably play out in the courts, and not achieve the desired outcome of what the Commerce Act is there for.

Cosgrove  With respect Minister, I wasn’t asking you to do that. I simply said to you that it’s been in the newspaper. No one’s asking you to interfere. You might have read the newspaper. You might have made yourself aware of it. You might have asked for a briefing from your department on the issue, but you don’t know anything about it.

Foss  I didn’t say I don’t know anything about it.

Cosgrove  You did, in answer to Ms Curran.

Foss  No, I was referring to the context of your question.

Cosgrove  Can I suggest you might want to know more.

Yang  Minister, I’m very pleased to learn that over 300 delegates from various sectors attended the 2013 Financial Literacy Summit, which was held recently in Auckland. What are your views on how we could help individuals and families become more financially literate?

Foss  Sure. I’ve taken a strong interest in this ever since I got the portfolio, because the words “financial literacy” roll off everyone’s tongue as an issue that needs to be addressed, which is fair enough. But often, when you ask: “Well, what does that mean?”, you can get a multitude of different answers. So what I’ve tried to work through is, if I ask in this room: “What shall what we do about financial literacy in New Zealand?”, well, everyone would
agree probably that we’ve got to teach it in schools—absolutely. But for that to play out successfully, that is 10 or 15 years.

I’m very interested and concerned about what’s happening now in the space of financial literacy, and what group of people is most at risk. There’s investment literacy, which is different; financial literacy; those who are perhaps at risk from abusive loan-sharking behaviour or who do not understand some of the terms and conditions of perhaps the interest-free deals that they’ve been encouraged to do, and so that group is particularly at risk. So I’ve worked with the Retirement Commissioner to try and coordinate across Government all the little bits—because there are bits everywhere—of financial literacy, and start to focus that particularly at a lower socio-economic group who are particularly at risk of exploitation because of their lack of financial literacy. But I freely admit that that is a large mountain to climb across New Zealand. Even investor literacy, as we’ve seen play out in recent years, is somewhat wanting, in higher socio-economic demographics.

Lotu-Iiga Thank you Minister, and congratulations on the work in this area, because I think, certainly for me, in my electorate office, one of the biggest issues is around budgeting and around financial literacy. That’s one of the big issues, certainly in my electorate. You’ve talked about the work that you’re doing with the Minister for Social Development, Paula Bennett, around some of those low-interest type loans. Can you just elaborate on how that is going to go forward, as well as—I understand the budget for budget services went up to $10.4 million, from $8.9 million—so that’s another good benefit in terms of this area of your programme.

Foss Sure. I’ll talk about some of that in the next vote. Look, financial literacy and the discussion about low-interest loans, or assisted loans from whatever organisations, are to the fore, and we are looking at them right now. And, yes, there is a budget announcement for a pilot study to find out if—well it’s MSD actually —Minister Bennett goes into this space, what form would that look like. There are examples we’ve seen in Australia. There are some small examples in New Zealand, but they are all very small, and we are paying close attention to them to find out whether there is some way in which we can assist, to help people out of some of the dire situations they’re in, but linked up with other obligations they may have to the State or assistance they are receiving.

Lotu-Iiga You were at the financial literacy summit. In terms of the changing behaviour, there was a survey there, I understand, that talked about awareness around financial literacy. Behaviours haven’t changed. Is that a bit of concern?

Foss Yeah, they did a survey—ANZ or Colmar Brunton or something did the survey—and the awareness of financial behaviours that should change was very, very high. But the conversion to actions—I need to consolidate my debt, I need to put off that purchase, or I do not need to take that holiday—unfortunately the action didn’t quite reflect the awareness. But at least we are halfway there. In the macro sense, you can see across New
Zealand, the macro debt numbers are looking much better than they were but there are some of our families in extreme circumstances for a number of issues, and this is but one of the ways that we can perhaps assist them on a pathway out of a bit of a closed loop many are in at the moment.

Clark

As anyone who reads Saunders Unsworth’s $50,000 piece of advice will know that I’m one of the quieter, more thoughtful contributors on this select committee—

Cosgrove

Well, that’s not true! That’s not true. You’re not quiet.

Clark

—so I’m looking forward to the line of uninterrupted questioning.

Lotu-Iiga

Are you blowing your own trumpet again?

Clark

I mean, I thank the Minister for this helpful diagram—

Young

Can I just make a comment, Mr Clark, if you don’t mind. We do have an understanding here that different sides of the table can bring supps, all right?

Clark

Oh, yeah, yeah. No disrespect to all that.

Young

Thank you.

Clark

Yep. So I appreciate the Minister’s diagram here. It looks like the political version of Twister—kind of quite a helpful diagram. Thank you for that. I’m actually interested in asking a question around what Mr Banks’ portfolio responsibilities are, what kinds of things are delegated to him as Associate Minister.

Foss

Mr Banks, Associate Minister, also Minister for Small Business, he’s got—

Clark

With respect to this portfolio, which delegations has he got?

Foss

Sure. Sure. He has standards, he has administration—

Cosgrove

Standards?

Foss

Yes, he does.

Cosgrove

Really? John Banks has standards?

Young

All right. Thank you.

Cosgrove

Sorry. That was too good.

Young

Can I just caution members around issues of natural justice and making disparaging comments, thank you.

Cosgrove

Oh, I think John Banks does have standards—very low ones.

Foss

Administration of the trades and remedies, so the bottom left corner down there—trades and remedies is Mr Banks’. What else has Mr Banks got? I presume you know the standards model, so they’re much self-funded—

Clark

What new initiatives is Mr Banks leading in the portfolio? You know, what are his top five new contributions in terms of initiatives that he’s leading on?
Foss In his associate commerce portfolio, you mean? Well, he’s engaging with
myself. We’re doing, as I said earlier, the review of standards—[Interuption]
Well, we work as a team, so he’s the Associate Minister. Under standards,
that’s quite a significant initiative that’s happening under both him and
myself, and that would be taking a fair bit of his time alongside his other
responsibilities.

Clark OK. You don’t think he’s got a conflict of interests in terms of standards as
a delegation?

Young Look—

Foss Would you like to rephrase that question?

Young Excuse me—

Cosgrove No, that’s all right. That’s legitimate.

Young No, no, I don’t—

Cosgrove He didn’t make any—

Clark Presumably the Minister doesn’t think that’s a conflict, or he wouldn’t—

Young No, no. Look, I’m going to caution you again, Dr Clark, all right, in regard
of that line of questioning.

Cosgrove Point of order, Mr Chair. With respect, it was a straight question. It made
no presumptions at all.

Mitchell Political question.

Cosgrove Of course it’s a political question. It’s a Parliament, for God’s sake. There
were no presumptions at all. He could ask any Minister if they have a
conflict of interest.

Clark Well, if the Minister’s not clear on the answer, I’m happy to—

Mitchell Speaking to the point of order—

Foss If I can help, I asked if the gentleman could rephrase the question; I didn’t
say I wouldn’t answer it.

Cosgrove With respect, though—

Young No, no. Thank you.

Cosgrove Hang on. Anybody can ask a Minister if they have a conflict of interests.
That is not out of order. It is out of order then to make presumptions.

Clark Correct.

Mitchell Speaking to the point of order, though, Mr Chair, I think this is an estimates
hearing, and I just feel like the line of questioning is going towards actually
bringing someone’s character into question, and so, you know, we should
stay away from that.

Young Can I invite you, Dr Clark, to rephrase the question for the Minister.

Clark I don’t want to step on any toes. Let me leave that one. These guys
obviously are a bit sensitive about it. I will ask a question about the
restructuring in MBIE. What are the total costs of the restructuring process so far?

Foss You would have to direct those to Minister Joyce because I’m a recipient of the administration of Vote Commerce, not MBIE.

Clark With respect, though, you answered the question on this already in the supplied answers, so I assume that you’ve engaged with the issue. It was a question that you had on notice, and you’ve supplied answers in respect of that question—

Foss Yes. And those answers are, if I recall the correct question, of the total of MBIE.

Clark Yep.

Foss That’s right, not Vote Commerce. We’re here about Vote Commerce.

Clark And you’ve explained it here: “The Ministry of Business, Innovation and Employment was established in July 2012 and involved the integration of four former agencies … involved a due diligence phase and extensive work in consultation …”, and so on. It’s a question directed to you. You don’t say you’re not going to answer it. It asks what evaluations were carried out, what the costs were of restructuring staffing increases, and so on. It’s questions on notice—questions you could have got, presumably, if you didn’t have them at your disposal from the Minister. The Minister hasn’t answered the questions, to be fair. He’s the only Minister, I think, who hasn’t answered his supplementary questions. Minister Joyce doesn’t seem to be across it, but you’ve had yours in a bit longer. I’m assuming that you have access to this information. You’re part of the Cabinet, are you not?

Foss Just tell me what question particularly is the one you’re referring to.

Clark Question 3.

Foss Three.

Lotu-Iiga Can you read it out? Some of us don’t have it. What is it?

Cosgrove I’ll hand it to you, Sam.

Foss If you’re asking me a question of overall MBIE, I can’t answer that question. I don’t have that information.

Clark So you don’t have a responsibility as part of Cabinet collective responsibility to answer questions on the costs of restructuring? It’s not something you take an interest in?

Foss Well, they’re different questions. MBIE reports and is a responsibility of Minister Joyce. I am a recipient of part of MBIE—

Clark I understand that. You’ve answered the question here, and I would have thought that you, as a Cabinet Minister who’s been a part of this process, would have had at least a ballpark figure of what the costs involved were. Or is it something you don’t take an interest in? I mean, this is part of the department which you’re involved with.
Foss Under Vote Commerce, no, I don’t know the numbers that you’re requesting.

Cosgrove Your officials?

Clark So maybe an official could tell us?

Young So you need to—

Foss Would you like to contribute? If you rephrase the question, and if we can find out, we’ll share that with the committee.

Clark Well, if I can rephrase the question.

Foss Just repeat the question, sorry, not rephrase it.

Clark Yeah. Could we please have the costs involved in the restructuring of MBIE, including any costs of redundancy—pulling them out—and any costs involved in any restructurings over the past 5 years in departments associated with MBIE, essentially.

Foss Not the last 5, though—just the last 1, you mean.

Clark And also any—this is what it says: refer to question No. 3 in the question sheet.

Foss OK. So you’re seeking further information on No. 3 for Vote Commerce.

Cosgrove Any information. Any information.

Clark Well, no, they could answer the question. The information must be there, and we’d really like to know. I mean, our job here is obviously to ask the questions on behalf of the taxpayer, and I think there’s genuine public interest in the restructuring. And any kind of reports that have been produced, you know, due diligence beforehand, evaluations beforehand, evaluations afterwards.

Lotu-Iiga Point of order. [Interruption] You’re not the chairman. Point of order.

Clark Nor are you.

Lotu-Iiga Mr Chair, clearly he’s not the Minister of business, innovation and employment. [Interruption]

Clark Speaking to the point of order—

Lotu-Iiga No, let me finish—

Young No, no—

Lotu-Iiga Let me finish my point of order. So, clearly, Vote Commerce is part of that. He does not have responsibility for the wider ministry. I don’t see why this Minister should have to answer to a question of which he is only one of the many—[Interruption] Let me finish. He’s one of the many Ministers who are part of this ministry, so he’s not responsible for that.

Clark Speaking to the point of order, the Minister has kindly offered to get the information, and says that he can get the information, I think we should respect that. He’s trying to indicate to us he’s a competent Minister, across the portfolio, and I don’t have a problem with it.
Young: The Minister will get that information—

Foss: Mr Chair, I’ve asked—in relation to Vote Commerce, if we can access the information regarding Vote Commerce that you’ve asked for, we will, but I fully expect—

Clark: That’s all right. That’s a start. That would be a start.

Foss: All right. We’ll leave it there.

Young: Excuse me. That is his scope of responsibility, which is acceptable. Thank you.

Cosgrove: Point of order. Point of order. I’m rather disturbed by this because this is an estimates hearing, and a Minister with a vote responsibility should be able to come to this committee with the basic figures directly pertaining to Vote Commerce out of the overall ministry. And I’ve got to say that to a variety of questions this morning, but specifically this one, this Minister is ill prepared. He should be able to at least come up with the numbers that pertains to his vote. He’s got a dozen officials in the room, and no one knows. This is bizarre, and disrespectful to the committee. Do you know anything about what you’re doing?

Young: Excuse me. Thank you. That’s out of order. Can I go to a fresh line of questions? We do have some more time. I’ll ask this question. In terms of the SOP that you have put in regard to the Financial Markets Conduct Bill, can you give us some explanation around that, because obviously this is a bill that we have taken through the committee. It’s a sizable piece of work. Thank you.

Foss: Yeah, it is. The FMC bill and associate SOP is about 650 pages. The process to get to where it is now has been enormous. It’s a massive piece of legislation, and, again, I thank the committee for the work it’s done on it.

The recent SOP brought in one or two changes. One was change in the protection or the threshold for retail versus wholesale investor from $500,000 to $750,000. So under $750,000 for that one investment, a person is protected by all the retail protections, if you like, not being a wholesale investor. The other one is tidying up or tightening up on some of the rules and regulations around some of these smaller managed schemes, such as a requirement to have independent custodians and registry powers that the FMA would have post that SOP.

Young: Right. And I note today that regulations have come out regarding the Financial Markets Conduct Bill. In terms of the implementation of this, with the FMA in terms of resourcing around that, are you confident that everything’s going well?

Foss: Yeah. All of this legislation, including FMC and associated regulations, is a big, big job not only for those organisations but for the private sector as well. But two organisations, FMA and Commerce Commission, because they’ve got some of the retail stuff, are working very hard and are about to commence engagement with the various sectors as to how the rules and regs will play out and be implemented. The organisations themselves, FMA
and Commerce Commission, are fully ready and charged to start to prepare
themselves for the new obligations they have in administering those Acts.
There’s some big changes for both organisations, but they’ve been flagged
for quite some time, and they are ready for the changes when they kick in.

Mitchell Yeah. Minister, could you just give us a bit of information about what
you’re doing with the new KiwiSaver disclosure rules that are coming into
force on 1 July?

Foss Yes, they’re coming in this next Monday. So all KiwiSaver providers post 1
July will need to report quarterly, semi, and a larger annual report on some
standardised reporting requirements so New Zealanders, KiwiSavers or
otherwise, actually, will be able to compare funds—apples, apples, apples,
and apples—across funds and make decisions which are appropriate to
them. Again, there’s been a lot of consultation with the various KiwiSaver
providers, from your biggest to your smallest, and, by and large, they are all
on board with the need to have a fair comparison, and they’re confident in
the new system.

Also note that those reports will need to be in an electronic form so
organisations such as the Sorted website can put them up online and New
Zealanders can go and compare the net returns to the various asset classes,
etc., etc. So, it is basically transparent information to allow Kiwis to make
more informed decisions.

Curran Given that you, as the Minister of Commerce, are the guardian of our
competition laws—

Foss Yep.

Curran —can I ask that you investigate and are briefed and investigate and provide
some sort of report back to the committee on the potential collusion and
cartel-like behaviour by the telecommunication companies in their efforts to
try and find some compromise solution around what has been created by
your Government? That issue is really important. That’s an important
industry, and I would imagine that in a wider sense it does fall between your
brief to do so.

Foss I take that on board. I’ll ask the Commerce Commission to relay the interest
of this committee in that particular area, this issue, and ask them to give me
further information, which I’ll share with the committee.

Curran I’m happy to provide you with the information that I have on this matter to
date.

Foss I prefer you share that with the Commerce Commission, not with myself.

Curran I’ve already done that.

Foss OK. Well, that’s fine.

Lotu-Iiga Look, just a point of order. I’m going to table the corrected transcript for
the financial review of the Commerce Commission for the last year. And in
it, it says in questioning between Mr Cosgrove and the Commerce
Commission’s Kate Morrison, who’s the general manager, in response to

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Mr Cosgrove’s question surrounding the monopoly of Fletcher Challenge: “We’re not looking at them in the context of monopoly business, but we are, as I said, talking with sector participants about the prohibitions on anti-competitive behaviour and that includes in relation to construction sector activity … If, as a result of our advocacy, as a result of our conversations with the sector, including construction, we have a particular concern, we would … take that forward.” So that’s just to clarify—

Cosgrove: What about the stuff they gave after to clarify that they hadn’t actually talked to Fletcher’s?

Lotu-Iiga: They are being active, as the Minister said, in the sector.

Cosgrove: I’ll table the other documents that they gave to us afterwards. They’re not talking to Fletcher’s.

Clark: Had I more time, I’d ask you about some of the abnormalities in the Budget documents, but one in particular, there’s a number of areas where there are multi-class output appropriations, or at least one that I’ve seen that has only one in it.

But my question is around the delays in the new information disclosure requirement work in the grid upgrade proposals in the starting price adjustments project, in the input methodologies, starting price adjustments work, and in major external litigation work. There’s a huge amount of delay in the department, and you’ve got money transferring forward. When I worked at Treasury, there was a view that if you were moving things around in this kind of way, pushing projects out, delaying underspends, that the department was not performing properly. Minister, can we have your comments on that, and what impact will these underspends and project delays have on the delivery of services to consumers?

Foss: Sure. Starting at the end there, the delivery to services, most of that’s related to, in fact, the appeals of the input methodology, which is before the High Court right now. So we’re all awaiting that decision. So on those allocations, as you pointed out, there’s timing issues in those. Once the High Court releases its findings, then those allocations will start to come into play. There, I think, was an expectation that the finding would have been earlier than it is, but we just have to wait for courts.

Young: Thank you very much, Minister. [Interuption] All right. Thank you.

**Conclusion of evidence**
# 2013/14 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 2014 for Vote Communications, administered by the Ministry of Business, Innovation and Employment as set out in Parliamentary Paper B.5, be accepted.

Introduction
The appropriations sought for Vote Communications decrease by 24.8 percent to $134.268 million in 2013/14 from $178.477 million estimated actual expenditure in 2012/13.

Ultra-fast broadband roll-out
An appropriation of $10.29 million is sought for connections between schools and ultra-fast broadband or rural broadband initiative providers’ cables.

Uptake
The Minister told us that uptake of UFB remains at comparable levels with other countries that are rolling out UFB, considering three percent of internet users are able to connect. The Minister said that the project was in its very early stages, with only 13 percent of the network built; and more data would be available at the end of the financial year. She said that the rate of uptake reflected the overseas experience that new technologies are generally adopted slowly at first and then increase exponentially. We heard that Telecom is already offering UFB, and more retail service providers will do so later this year, which is expected to increase uptake.

Review of roll-out
Until about 2019 a mix of new fibre cabling and copper wiring will connect New Zealanders to the internet, with the existing copper wiring being phased out. The Minister told us that she is reviewing the roll-out of ultra-fast broadband at an early stage to determine pricing principles for this transitional period. The Minister agreed that the review is early, only two years into the roll-out, but said the review is needed to establish the pricing principles for the transitional period.

Copper wiring connection price
In a recent draft determination, the Commerce Commission recommended reducing the wholesale price of copper wiring connection. We asked the Minister why this recommendation was not followed. We were told that if the costs of the new technology were not borne by the proceeds of the old, consumers would potentially miss out on new technology, and have no incentive to upgrade.

New Zealand Labour Party minority view
The Minister denied that her government’s decision to undertake an independent review of the wholesale price of copper was intended “to prop up Chorus” or to keep the price of copper artificially high. She also denied that her Government Telecommunications review was over-ruling the Commerce Commission process. The Minister admitted that Chorus
was the only organisation opposed to the Commerce Commission copper pricing process and draft decision. The Minister denied that Chorus had gone over her head by approaching the Prime Minister directly on the matter, and acknowledged that legislation put in place by her predecessor two years ago may not be appropriate for her Government’s UFB programme.

**Speed of connection**

We asked the Minister about feedback on the speed of internet connections via ultra-fast broadband. She said that improvements had been most noticeable in rural communities, increasing in some instances from less than one megabit per second to as much as 20. The speed is not affected by multiple simultaneous use of a household connection, which also drew positive feedback.

**Cost of connection**

We asked the minister about the cost of connecting a household to ultra-fast broadband. The Government pays a set amount to Chorus to build the connection; we could not ascertain the cost to Chorus. Unless the household is very remote, the connection itself is free; 99.3 percent of connections are expected to be free.

**Comparison with Australia**

The Minister said that New Zealand is having more success in rolling out ultra-fast broadband than Australia, which has gone considerably over budget. The Minister believes that New Zealand was right to adopt a public-private partnership model, as this has meant that the Crown’s expenditure is capped. Australia is also expecting a longer total build time than New Zealand.

**New Zealand Post’s universal service obligation**

We asked the Minister when she expected to make a decision on the proposal to reduce the number of days per week that New Zealanders receive post. The Minister said she expects some initial decisions to be made in the next two to three months. She assured us that the needs of New Zealanders who are isolated, geographically or by a lack of technology or access to technology, would be taken into account.

The Minister assured us that she is considering options for New Zealanders to pay extra to either receive mail more frequently than the proposed three days a week, or to pay extra to send mail to arrive on other days.

**Submarine cabling**

We heard that the Government had given $90 million in funding to the Pacific Fibre project, and has allocated $15 million for a potential trans-Tasman and Trans Pacific cable in this year’s Budget, to be made available as initial capital should a proposal be accepted. This funding was transferred from 2011/12 and then 2012/13. We asked the Minister about the plans for this funding, and whether there had been discussions with Telecom and Vodafone about their proposal for a trans-Tasman cable. The Minister said that discussions have been held with Research and Education Advanced Network New Zealand Ltd, a Crown company that provides New Zealand educational institutions and Crown research institutes with data connections, and thus a major potential user; however their preference is for a trans-Pacific cable, and more work is required to determine whether the proposal would meet their needs. The Minister said that the Government is engaging with others who are interested in cable projects.
We asked the minister if, since Tasman Global Access has announced it is seeking to tender to build a trans-Tasman cable, the Government should increase its efforts to build a trans-Pacific cable. The Minister said that the Government has a role to play in building another cable, but not a large one.

The Minister acknowledged concern that Southern Cross is a monopoly cable provider, but said it has the necessary capacity and resilience, and suits New Zealand’s needs well. The Minister said she was not part of the discussions around the decision to put Southern Cross into Telecom retail and had not seen any need to revisit it.

**Telephone services**

**Telephone service for the deaf and hearing impaired**

We asked for an update on this project, for which $2.5 million is sought for provision of services and an additional $1.5 million for administrative support. We heard that a real-time translation service is now available, which is a great improvement on the quality of the previous delayed service. Uptake of the service and the feedback from the deaf and hearing-impaired community have been good.

This year’s Budget also funded a video sign language transcription service, where a user can contact a sign language translator by video, for real-time translation.

**Emergency services phone system**

We asked the Minister about a review of the 111 emergency phone line, which is looking into aligning it with new technologies. The review indicated some areas that need further consideration. New Zealanders are becoming increasingly reliant on mobile phones and “voice over internet protocol”\(^1\) calls via tablets or computers. This can cause problems for emergency services when devices run out of charge, for example. The Minister is nevertheless confident the system is working well, but expressed an intention to keep track of technology trends.

**Mobile telephones**

We asked the Minister if she considered the mobile phone market to be competitive, and whether there is a trend of falling charges. She told us that there has been a drop in prices, partly as a result of regulatory intervention and the threat of more, and also a new entrant into the market. The Government can intervene if necessary, but the market self-regulates well, and the Commerce Commission monitors competition issues.

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\(^1\) Voice over internet protocol is a technology that allows a user to make phone calls using their broadband connection.
Appendix A

Approach to this examination

We met on 13 June, 4 and 11 July 2013 to consider Vote Communications. Evidence was heard from the Minister of Communications and Information Technology, Hon Amy Adams, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members

Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Clayton Cosgrove
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell
Dr Jian Yang

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister of Communications and Information Technology, Response to standard Estimates questionnaire.

Minister of Communications and Information Technology, Response to written questions, received 10 and 12 June 2013.

Minister of Communications and Information Technology, Response to additional written questions, received 1 July 2013.

Office of the Auditor-General, Briefing on Vote Communications, received 13 June 2013.
Corrected transcript of hearing of evidence 13 June 2013

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

Witnesses
Hon Amy Adams
Chris Bishop
Andrew Crisp
Bruce Parkes

Young Welcome, Minister. If you could keep your introductory remarks to about 5 minutes, it'd be fantastic. We look forward to hearing from you, and then we will come to questions.

Adams Thank you, Mr Chair and committee members. Look, I will keep my introductory remarks quite quick. I know you want to limit it to 5 minutes, so I will do my best to do that. What I thought I’d do is just very quickly run over the major items of work we’ve got going on in the portfolio—a bit of an update of where they’re sitting—lightly across all of them, because I’m sure you’ll delve into the areas that are of interest to you in questions, so I’ll leave you to get into the detail when we get into that.

So I think that the starting point at the moment is, it goes without saying, we’re in a period of considerable change in the ICT sector and the way we use ICT. We’re now seeing data use and internet connections increasing across the board—80 percent of homes are now connected to the internet. That’s up 5 percent since 2009. Our broadband penetration levels are now well above the OECD average—more than 1.2 million fixed-line broadband connections, which is also up 9 percent. Forty percent of households are using more than once device, so it is really telling us that the ability to have several users using the internet at the same time is critical. Average monthly data use has gone up from 10 gigabytes a month in 2010 to now 19, so we’re certainly seeing people becoming much more data hungry, and that’s clearly being matched in movements in data caps by the industry. And we’ve now got 110 mobile connections per 100 people, so we’re obviously...
very keen users of ICT services.

In the sector more broadly—just very quickly—the value of ICT sector exports is now up to $23 billion a year. That’s basically a 10 percent year-on-year growth each year for the last 5 years. Nearly 15,000 ICT firms, and 62,000 ICT employees nearly, which again is going up considerably. So the New Zealand ICT sector is doing incredibly well. In the recent Deloitte’s Technology Fast 500 Asia-Pacific, New Zealand had the highest representation in that, per capita. So we really are doing very well.

Of course the biggest piece of work in the portfolio at the moment remains the roll-out of the UFB and RBI programmes. We are not even, of course, 2 years into the build programme yet, of an 8½-year build and, as I’m sure the committee knows, as at 31 March we had 171,000 end-users able to connect—just over 5,000 connected users, 1,500 schools are ready for service. We’re under way, in 28 of the 33 areas, and the estimates of getting this stuff rolled out and the reason it’s such a focus for us is we’re looking at about $5.5 billion estimated impact of GDP over 20 years. One of the really rewarding things has been to see high levels of international praise for how our roll-out is going, particularly compared to some of the other international roll-outs, and that’s certainly something to be very encouraged by.

In the RBI roll-out 145 towers are now upgraded and 36 new ones built, more than 100,000 homes and businesses have access to faster wireless broadband, and more than 42,000 homes and businesses have access to faster copper-based broadband on a fibre-to-the-node basis. So that’s also going incredibly well.

Outside the roll-out of the UFB, RBI programmes, the other big piece of work we have coming up this year will be the auction of the 700 spectrum, the digital dividend spectrum. You will be well aware that we’ve spent $157 million clearing this piece of spectrum, so when we put it up for auction it’s important that the Government gets that return rate right to reflect both the costs we’ve put into clearing the band but recognising, of course, the importance of getting the spectrum out into use—again, about $2.4 billion of estimated economic impact from getting that spectrum out, so that is a core focus for us this year.

Running through some of the other areas, you’ll be aware that we’ve announced the agreement with Australia to regulate trans-Tasman mobile roaming prices to ensure that that good movement we’ve seen continues to happen, and we’re looking to bring legislation into the House to give effect to that later this year. We have, of course, the TICS legislation—the interception capability security legislation—before the House to update our interception regime and provide, for the first time, a new formalised network security regime. I’ve asked for a piece of work to be done around product disclosure, which is particularly recognising that as we become a more and more technologically and digitally enabled community, we have to ensure that the product offerings are easily understood by all sorts of users. This is not just the tech-clever people now; you know, it’s my grandmother
and my mother, and all sort of people have to be able to understand what these offerings mean, what these speeds mean—are they relative, are they fair—so we’re doing work with the TCF, who’ve taken the lead on that and they’re progressing really well. We have, of course, launched the start of the telecommunications regulatory framework review, which we were required, under legislation, to do. We’ve brought forward the first phase of that, to begin this year, with the remaining work to be carried out over a longer period of time. In addition to that, of course, we have the TSO review, which was always scheduled for this year. And then—just very quickly, because I’m up to my 5 minutes—we also are continuing to look at how 111 services are delivered under this modern environment. And we have the New Zealand Post proposal that we’ve closed submissions on and will be having to make decisions around the New Zealand Post request to change their postal obligations.

So, Mr Chair, that’s, as I promised, a bit of a gallop through everything—

Young Yeah, it is—well done.
Adams —and now I’m in your hands.
Young Yeah, it sounds like you’ve had a very busy year. In September last year we had the Australian Broadband Committee, which is a joint committee from all sides of their Parliament, come over here to see what we were doing. We were interested to talk to them about what they were doing. I wonder if you can give us an update or comparison between New Zealand and Australia, and how we sit.

Adams Yeah, I think we can be really proud of what we are achieving, both in terms of the value for money for the taxpayer spend that’s gone into the programme, and also the way the bill is progressing. I think it really does vindicate the decision to do the build on a public-private partnership basis, for two reasons: one, that approach of course caps the Crown’s exposure. So we know what our input costs are—the $1.35 billion. The most recent information out of Australia suggests that their programme, which was scheduled to originally cost around $33 billion, some analysts are now projecting it will blow out to around $94 billion, which is a massive cost overrun, and because they hadn’t structured it in a way that the Crown’s input was capped, that’s a real cost that they’ll have to bear. The other thing is, of course, they have a longer build period, and even though they’re a year ahead of us in when they started their build, they’re significantly further behind. So we’ve rolled out 170,000-odd end-users now who are able to connect. Even with an extra year under their belt, they’re currently sitting at around 96,000 users. So our build is also progressing a lot more quickly.

Recently we had the Asia-Pacific Fibre to the Home conference in New Zealand. It was interesting to see the commentators at that event and at other events comparing both the Australian build, and actually a number of other builds, and in every case that I’ve seen our UFB project has come out on top in the comparison stakes. So, you know, there’s some really exciting and rewarding feedback as to how it’s going.
Look, it’s a big build. There will always be hitches along the way. But I think, compared to how it’s going in Australia, we’ve got a lot to be very proud of.

Young

Thanks for that update, Minister. We’ll come now to Clayton Cosgrove.

Cosgrove

Just a couple of questions around the universal service obligation—the submissions have closed. Could you tell us—

Adams

Sorry, for Post?

Cosgrove

For Post, yes. Could you tell us, when do you think you’ll be in a position to make a decision and announce it around a little bit?

Adams

Look, I haven’t got a set time frame. The submissions have closed. We’re working through that now. I’m mindful of the fact that New Zealand Post has indicated that they’re not looking to make any change in the next 2 or 3 years in any event, which I think gives me a little bit more leeway of time. They’re not looking for an urgent decision to make some quick changes. So I’m more concerned that we get it right. Look, my expectation at this stage is that I’d be taking something to Cabinet in the next perhaps 2 or 3 months, to make some initial decisions on, and go from there.

Cosgrove

If you could give us some assurance there will be—obviously, any change that’s made, you presumably will be seeking a justification for that change, and I would assume, but I could be wrong, that you’ll be safeguarding or looking at the impact on isolated and regional areas of New Zealand as opposed to the CBDs, because there’s different needs and wants in those areas?

Adams

Yeah, well, look, absolutely. So New Zealand Post obviously put up a whole lot of justification and rationale for the changes they sought initially, and I can tell you that we had quite a period of back and forward with them before we even took something out, in terms of where we didn’t think what they had put up was justified even to begin with to go out and consult on. But I think you’re right. The biggest potential impact of the change—and, particularly, the change, because there’s a number of them, from 6 days to potentially 3 days a week—the biggest impact of that, potentially, is around those rural, remote communities. Certainly, representing a rural community, I’m very conscious of that, and most of my effort in terms of looking at the impact of that change is very much around how people who are otherwise isolated—and it may not be a geographical isolation; it may be, you know, a technologically barrier isolation—will be affected and that we properly understand that impact—it only happens if it needs to happen, and that we fully understand any impact that comes through it.

Cosgrove

Just finally, at the moment you have standard post and you have FastPost. If there was an agreement to reduce the number of days for delivery, has any consideration been given to—obviously, for those who can afford it, depending on the price if they want it—a FastPost-type facility that gave them the current daily regime of post delivered to them—has any thought been given to that option? So if you wanted to pay, I don’t know, an extra buck to get your mail delivered or to send it, you could maintain that
current regime, as you can I suppose now with FastPost as opposed to ordinary post—as opposed to an ordinary letter, where that might only be 3 or 4 days a week, or something like that. Has any consideration been given to those sorts of ideas?

Adams So we are looking at some of those other options as to how we could look at some options around that. To be fair, it’s more around whether you would provide for an optional ability for the receiving household to pay more to get a 5 or 6-day-a-week service, rather than add it on to the price of the stamp. My understanding—

Cosgrove But you could have a choice, as you do now.

Adams Well, it’s one of the options there. My understanding is that New Zealand Post has indicated that they think that would be much more difficult to look at. These are the very issues we have to work through: what is the impact going to be? Is it going to be significant enough that we need to mitigate it? Can we provide an optionality where if people who want to pay more could provide it? They’re all the things we’ll be looking at.

Curran Thanks, Minister. Were any of your officials or ministry officials at the 2-day conference organised by the Commerce Commission this week?

Adams I think there are some of them there now, yeah.

Curran OK, that’s good to hear. Can you tell me how and why you believe that propping up Chorus and keeping the price of copper high and overruling the Commerce Commission’s decision on copper pricing will help competition and encourage investment?

Adams Well, first of all it’s not about propping up Chorus, and it’s not about keeping the copper price artificially high. The question we’re asking ourselves is we have a pricing regime and a regulatory regime and the pricing principles that has worked pretty well over the last 40-odd years, when we’ve effectively just had one legacy network and we had to monopoly price the access to it. What we’re going through now is a once-in-a-many-generational shift from one complete technology network to a replacement network, and the question that’s been asked—and I think it’s a fair one—is, is the pricing framework properly calibrated to deal with that transitional investment? So the analogy that I’ve often heard used is it’s like if, you know, the airport’s got one terminal and it needs to get the revenue off that terminal to build a completely new terminal, as opposed to just doing your normal R and Ms and upgrades. So we have to look at how that’s working.

Now, the Telecommunications Commissioner can only apply the pricing principles that Parliament sets under the regulatory framework that we’ve set. So it’s not about overruling him. He has worked through a process, given the framework that we have currently in place, and we have to ask ourselves whether, in fact, we have found that there is a weakness in the pricing principles as they relate to this transitional period.

Curran But who defines it as a weakness, Minister? Because, as I understand it, this is in the law. It was clearly signalled that the Commerce Commission was
undertaking this process and that the only organisation that is unhappy about it is Chorus.

Adams Well, I don’t think that’s entirely right, because if you look at the principles in the Telecommunications Act and the basis for the regulatory framework, it’s to say what is the best way to protect the long-term interests of end users. And if you don’t have a framework that allows an infrastructure provider to collect the funding from the existing network to pay for the upgrade, then the impact of that is actually on the consumers if it means that newer, better technologies are not made available, because the pricing principles don’t allow them to collect the funding from one to fund the replacement technology. So my interest is far more in, have we got the incentives right so that legacy infrastructure owners are able to—or are certainly not prevented by the framework from—taking the revenue from that legacy network to invest in replacement networks? And if we don’t get that right, it’s the consumers who miss out because they won’t get access to better technology.

Curran Minister, who else is arguing for this change?

Adams Well, look, it’s no surprise that Chorus have come out and said this will substantially affect their ability to roll out fibre networks, and, as I said to you, we have real concerns that officials have raised, and I share, that if we don’t get this right we will not have the right incentives to move to better technologies.

Curran Is there any other industry organisation group that has approached you with those concerns?

Adams Oh, not specifically, no.

Curran So is the case that Chorus, the day that the decision came out, essentially went over your head directly to the Prime Minister with—

Adams No, that’s not correct.

Curran Well, actually, Minister, it is. I have an answer from the Prime Minister’s office which confirms that’s what happened.

Adams No, it concludes that he spoke with them—that’s right—but, actually, they advised me first, and I in turn advised the Prime Minister.

Curran And aren’t you now compromised as a Minister making a decision about this, and you’re now having to flounder around and work out how you’re going to get around that decision?

Adams How am I compromised?

Curran Because Chorus went straight over your head to the Prime Minister.

Adams There’s nothing inappropriate about Chorus raising their concerns with the Prime Minister. They raised them with me in the first instance. I discussed it with my colleagues, as you normally would.

Curran So it’s now mid-June, Minister. You announced at the beginning of February that there was going to—that you were bringing forward this
review. There’s been no word on what the terms of reference are of that review and what changes you are proposing to make.

Adams And that’s reasonably deliberate because, as part of doing this—

Curran Reasonably deliberate?

Adams As part of doing this I wanted to work with both industry, and both the retail and wholesale parts of the industry, and the consumer groups to hear their views as to how it could be framed, what the options could look at, help them to understand the purpose of the review, the way we wanted to stage it. We could’ve come out with some proposals very early on, but I thought it was more useful if we took time to meet with all sectors of both the industry and the consumer groups and let them have input into how we frame the approach to the review, how we look at what those options could be, and how we best work through the process, and I think time invested now into getting that right makes more sense.

Mitchell Minister, what I’m hearing is that you’re taking responsibility for making sure that the product that consumers should have access to is able to be rolled out while at the same time softening the blow in terms of impact on consumers, in terms of the investment that’s needed to roll the new product out, rather than leave consumers hanging without the product that, actually, they need.

Adams Yeah, well, that’s right, because if you don’t have the regulatory settings right to enable infrastructure providers to invest in new replacement better technology, you run the real risk that our consumers won’t have access to it or won’t have access to it for some delayed period of time, and I don’t think that’s in their long-term best interests. So what you’re looking at here is how that relativity of cost sits between the wholesale and retail providers, and you know, whether there’s a windfall gain to one or the other is not something that I’m interested in. What I’m interested in is, do we have the settings right to ensure that the incentives are there to make new replacement better technology available to consumers as soon as possible?

Mitchell And so if you didn’t take responsibility for making sure that happens, then who would?

Adams Well, the legislation is my responsibility. I have to set the framework under which the Telecommunications Commissioner makes the determination.

Curran So the legislation was wrong that was put through 2 years ago by Steven Joyce, your predecessor?

Adams Well, what I’m saying is—

Curran Is that a yes or a no, Minister?

Adams Well, I will answer it if you give me a chance. What I’m saying is that we think that this has highlighted that the principles that have worked well for the legacy network when you had one network aren’t necessarily appropriate when you’re going through a transitional period. That’s the question we’re posing. We might pose the question and decide that that is the right fit, but actually now that we’re looking at it, you have to say: “Is
that pricing principles approach, with the cost-plus model based on international benchmarking with nothing else, the right approach through this period?”. The interesting thing is when you only have one network you have to use international benchmarking to ascribe what the most likely cost is of a replacement network. We are rolling out a replacement network. We know what the cost of a replacement network is, and so it only makes sense, you would think, that the cost of rolling out that replacement network should feature large in working out what a cost of replacement network is, which is the regulatory obligation.

Curran: Well, I think—cutting to the chase, Minister—isn’t it that there’s one company that’s affected by this, that the rest of the industry is saying to you: “Let the Commerce Commission do its job according to what is agreed as being the principles that were signalled.”—well signalled. Isn’t this all about the fact that the UFB uptake is very low—3 percent of uptake out of 171,000 households? Isn’t that the real issue—that your broadband scheme is in trouble?

Adams: No, it’s not. So a couple of things. First of all, the retail companies that are arguing against an intervention are the ones who are financially in the position to make a big windfall gain from it, so that has to be taken into account. The second point you raise is around the uptake levels of the network, and actually, as I’ve said repeatedly through this process, I think they are where you would expect them to be at this stage of the network. Now, let me tell you why I say that. We have built at the moment 13 percent of the UFB build, and we are sitting at about 3 percent uptake. That is entirely consistent with where you see this internationally. So I can tell you that in Singapore when they had built 20 percent of their network they were sitting on 2 percent uptake. In the UK when they had built 24 percent of their network they were sitting at 3 percent uptake. When you only have 13 percent built, you’re not going to get the big offerings coming into the market being pushed. They wait for there to be critical mass. That is entirely consistent with every network build we’ve seen around the world. It’s also entirely consistent with uptake rates of things like cellphones when they first came in. Initially it was very low and slow, and then it shot up exponentially. So this is how these builds work around the world. It is what we’ve always expected in terms of uptake rates. And when you see the build progressing to much higher levels of critical mass, I have no doubt that the retail competition will really kick off and it will pick up. So I’m very comfortable with where it’s sitting.

Hughes: Thank you very much, Minister. My question is around the review, because as you know, we’re only 2 years into the broadband roll-out. Isn’t it a bit premature for you to be reviewing such a large, multi-year project?

Adams: Well, look, you raise a good point, because there are some things you can review now; there are some things you can’t. And the reason the review in the legislation said that it had to be begun by 2016 and completed by 2019 is that one of the things the review has to look at is the pricing frameworks after 2020. Up to 2020 we have the legislated or the fixed wholesale rates for the fibre offerings. Post-2020, when we’re out of the build period, the
pricing of those products has to be looked at. So there are some parts of the
review that—I agree with you—need to be completed closer to the end of
the build. But the part that we want to look at now, actually, it’s the
opposite incentive. We have to look at it now because it’s around, how do
you fund the very build that we need to get in there? And the question is,
how do you set the copper returns at a level that is fair to enable investment
in the replacement technology? You need to know that before, preferably,
or as you’re building it, not at the end of it. So this bit we can do know, but
you’re quite right—some of those other issues need to wait, which is why
we want to stage it over quite a period of time.

Hughes So given you’ve pulled, you know, that aspect forward, doesn’t that
demonstrate that either the legislation was wrong by having the review set
so late, either the initial Government investment wasn’t big enough, or
Chorus’ numbers were out? Who got it wrong that’s required the review to
be pushed forward?

Adams Well, I think when the legislation was written there was a clause put in—
from memory, it’s clause 18(2)(a), but I could be wrong—that specifically
gives a specific direction that the pricing principles need to take this into
account. But it didn’t give any particularity around how that worked, and so
it’s created this uncertainty that I keep talking about that I think we now
need to be much clearer: how do pricing principles work in this transitional
period? So that’s what we now want to go and address.

Hughes But if the problem is Chorus doesn’t have enough money to complete the
roll-out or is in financial difficulties with doing it, why can’t there be a more
transparent process from the Government? Why do we have to go round
the back door and look at copper pricing to artificially keep those prices
high?

Adams I don’t think it’s round the back door, because what happens—and this is
very well-known—is Chorus is funding its share of the UFB build through
its copper revenues. They are very clear with that and they’ve made those
statements routinely. So their copper revenue is critical to how they finance
the build of the UFB, and that’s the basis it was negotiated on. One of the
things that I find really interesting is that the UBA price could have been
reviewed at any stage by the Telecommunications Commissioner or the
Commerce Commissioner, or on application by a provider if anyone felt it
was artificially high. No one has ever made an approach to review it when it
sat at its current level to say: “Look, this is way too high. It should come
down.”, and the only reason we’ve come up with this draft determination—
and this is what the Telecommunications Commissioner has said—is
because he felt that he had to walk down this very prescribed approach of
international benchmarking, which led him to the two Scandinavian
countries which took him to this price. If you go back to the comment
before, which is the underlying principle is the cost to build a replacement
network, well, we know that in New Zealand because we’re doing one. So
we have to look at whether we take the emphasis, I believe, off international
benchmarking and more towards the very real data that we have in front of
us.
Hughes: A quick last question is—
Young: Sorry, last question, is it?
Hughes: Yeah, yeah, on a different topic. The $15 million that’s sat there for internet—
Adams: Pac Fibre.
Hughes: —submarine cable capacity, could that possible be used, or have you had discussions with the Telecom-Vodafone proposal for a trans-Tasman cable?
Adams: So what we’ve said with that at the moment is that it’s available to fund the purchase of anchor capacity on an international cable project that meets our needs. It’s effectively targeted around the REANNZ use of bandwidth. Their interest predominantly is a trans-Pacific cable, rather than a trans-Tasman cable, so we would have to work with REANNZ to see whether the project on the table met their needs. But it is important that we’ve brought it back into this year’s Budget, because it’s a really clear signal to both the TGA cable—and there are a number of other conglomerates in the mix that are looking at cable projects. And if one of those can get something up, then we want to be part of that and help fund it, as we had offered to do with Pac Fibre.
Hughes: Are you talking to them?
Adams: To the TGA group? Well, we are, but, as I said, at the moment the interest for the REANNZ in terms of their bandwidth needs is more in the trans-Pacific route, so we’re talking more actively to others who are looking at potential trans-Pacific cable bids.
Bakshi: Minister, going back to the connection take-up, have you got any feedback from the partners—what sort of feedback are you getting on the rate of connections they are getting?
Adams: Yeah, well, I mean, as I said, the rate of connections at this stage is very much driven by the sort of the early adopters and the early uptake users who are the kind of the tech-hungry—you know, and there’ll be plenty of people in this room who, as soon as they could get it, rung up and couldn’t wait to get it in the house. And what I see in Halswell, in my area, where it’s completely rolled out now, is that the neighbours come along and see what they’re doing and word spreads. Where I think it gets really exciting is particularly in the rural communities, because I can tell you that until recently connectivity rates in rural communities were often less than 1 megabit a second, so when we now are able to offer them 5, 10, 20 megabits a second, it’s completely transformational. We had one chap who wrote to us just the other day, actually, talking about his connection rate, his connection experience, and saying that he’s gone from, you know, data sticks and Wi-Fi and 4.5-gig caps, paying 170 bucks a month, to now double the speeds, much greater reliability, and his price has come down considerably. So as people are getting on it and they’re seeing not only how much better the service is, how reliable the service is—it’s not thrown out by multiple users in the
house, which is increasingly an issue—and they’re paying a lot less, they’re just really excited. And that excitement and feedback will spread and will certainly help uptake.

Curran Minister, could we have those figures provided to the committee?

Young Sorry, Clare, through the chair, please, because there’s still a line of questions.

Curran Oh, sorry, through the chair, could we get those figures provided to the committee on the exact numbers of take-up? As I understand it, it’s 3 percent of the 171,000.

Lotu-Iiga You ask that at the end. It’s our line of question.

Curran It’s just it’s relevant to the question that we asked.

Cosgrove It’s etiquette to ask for written material. We’ve done it before.

Curran Apologies, Mr Chair, for not going through you.

Young Sure. All right.

Adams It is 3 percent uptake. The uptake number you’ve got has already been released in the quarterly broadband update. That is the correct number for UFB uptake, and there’ll be more data out. The year-end data will come out after 30 June.

Lotu-Iiga Minister, thank you. Look, I understand where you’re coming from on the uptakes, and you’ve made some comparisons with other overseas programmes. Just in terms of milestones for this coming year, are you confident? Because I agree with you. I think, you know, it’s one of those things that could just sort of take off exponentially if people are talking about it and we can roll it out quicker. How are the sort of upcoming numbers going to look?

Adams Are you talking about uptake or the build itself?

Lotu-Iiga Sorry, the uptake.

Adams Yeah, so in uptake we’ve seen a couple of exciting developments already and we’re expecting more. So we’ve had Telecom come into the market in a reasonably soft launch way and not yet offering a voice product, so it’s a reasonably soft sort of an entry. And they’ve said to us that they’ve been quite excited by the amount of interest and the number of orders they’ve had. I think—I’d have to check this number, but I’m pretty sure of some of the early indications I’ve had was that in April alone we had 1,400 new connections. So it’s certainly starting to pick up.

Lotu-Iiga So there’s some meat in there?

Adams Yeah, and certainly we’re looking to see some of the other bigger RSPs come in in the second half of this year. That’s the indication they’ve given us, and it’s to be expected, you know. If you’re a national player, you want to roll out big, nationwide marketing campaigns. You want to do it where there’s enough critical mass in the build that that makes sense.

Lotu-Iiga OK, and the build—sort of on target, milestones?
Adams: Look, the build is on target. There’s always up and downs along the way as you go, but I think the partners are all working really well. Crown Fibre Holdings is obviously our conduit with them and they are working to address those issues as they come up.

Mitchell: Thanks, Minister. From your earlier briefing, you’ve obviously got a lot on.

Adams: Yeah, a bit happening.

Mitchell: But one thing that sort of caught my ear—why we’re moving off the (inaudible) you’re saying they’re doing a review and looking at the 111 system, which is really interesting because, you know, it is so critically important. So I was just wondering, could you give us a little bit of information around that?

Adams: Yeah, so the 111 service is critically important, and let me just be really clear. I look after the bit from where they pick up their phone to the initial answering. I don’t do the response and “Who sends out the ambulance?” and “Did they get that right?”. We did a review over the last couple of years to work out whether it was still working well, and the review found that, actually, it was working still very well, but it did identify some emerging trends that we needed to be pretty cognisant of and, effectively, they are around a couple of things. They’re around the fact that as people move increasingly to mobile and VoIP calling, some of the functionality that we currently have is lost. So certainly there’s issues around battery back-up. I mean, you get this with cordless phones anyway, but if people are moving to VoIP devices that are reliant on batteries and there’s a power outage, they need to be aware that they’ll lose access to 111 calling. If they’re calling from mobile devices, they need to be aware that the emergency providers don’t know where they are. We’ve just had an incident recently where the coroner, just in the last month or so, has made recommendations around, you know, the lack of easily accessible caller location information from mobile phones, and we need to work through how that would work in practice, because you don’t want people’s lives to be lost because they can’t identify where they are or they can’t get it across.

So we’re pretty comfortable that it’s working robustly and well now, but given the trends to much more mobile calling to 111 and much greater use of VoIP, we need to make sure that that keeps pace with those technology trends.

Mitchell: Excellent. That’s great to know that you’re actually doing work around that.

Adams: It’s very important.

Cosgrove: There’s a lot of love in the room, isn’t there?


Cosgrove: I’m just so excited, it’s unbelievable.

Adams: Hallelujah!

Curran: Minister, just going back to the take-up of broadband, can I just ask you, the cost of connection—the cost of connection to the house. With Chorus
particularly, can you give me the cost per household connection approximate figure?

Adams Are you talking about what it costs Chorus to build it or what the household pays?

Curran Both.

Adams OK, so in terms of what it costs Chorus to roll out each individual house connection, I don’t know if I’ve got that handy. I can check with one of my officials if they know that.

Curran I mean, there is a figure being floated around that it’s between $7,000 and $8,000.

Adams Look, I’d have to check that. I couldn’t tell you that.

Curran Could I confirm that that’s in the ballpark, please?

Adams Well, if that’s Chorus’s number, you’ll have to check from them.

Bishop That’s Chorus information. We don’t have that.

Curran That’s Chorus, but is that in the ballpark? That has been floated in the public arena.

Bishop I haven’t heard that number.

Curran So do you not seek that information?

Adams No, because the way our contracts work, we have prescribed what we pay for each connection, and then it’s up to them to go and build it. So I talked earlier about the fact that you’re seeing these mass cost escalations in Australia, and that falls back on the Government because they have an open-ended. We know what we pay, and then it’s up to them to build it as they find best.

Curran But just on that, Chorus has come to you, I think earlier this year, and they mentioned the figure of $300 million it’s going to cost them more to build. And there has been speculation that the cost per household is in the vicinity of between $7,000 and $8,000, whereas the business case was predicated on $2,000. Are you aware of that?

Adams Oh, look, they’ve certainly raised—well, I’m certainly aware of them having raised issues around the cost per house and what they expect it to be and what they’re doing. And we’re working with them through Crown Fibre in terms of the ways they can make that build more efficient.

Curran Are you aware of those figures, Minister?

Adams I’m not. They’re Chorus’ figures. You’d have to raise them with them.

Curran So you haven’t heard those figures before?

Adams I haven’t heard that $7,000 to $8,000 figure.

Curran Have you heard the $1,000 per household connection international benchmark figure that has been also mentioned?

Adams Mentioned by whom? In what context?
Curran That $1,000 per household is being talked about as being the new standard that—
Adams Well, I don’t know who’s talking about it, but it’s certainly not consistent with what I’m hearing out of Australia, for example, in terms of—
Curran So what are you hearing out of Australia per household?
Adams Oh, you’re hearing costs in Australia of—between $2,000 and $3,000 a build cost is not unusual, but $1,000 sounds very low. I’m not aware of it. I don’t know where you’ve got it from.
Curran So you do not have any figures on the cost per household that Chorus is—
Parkes Chorus released a lot of information to the market.
Adams Yeah, that’s Chorus’ information. We know what we pay Chorus, and how they want to organise their business and what it costs and how much they pay their contractors and the way in which they do it is theirs.
Curran So are you concerned about that?
Adams Well, it’s up to Chorus to deliver what they contract to deliver, and my view is that they went in to the negotiations around the UFB as well-resourced, lawyered-up, experienced commercial operators. It’s for them to do the due diligence. They’re the ones who are network build specialists. They’re the ones who are best able to gauge what it’s going to cost. They’ve made market assumptions around what they can build it for, and they now have to deliver that.
Parkes They’re very focused on that and they’ve made that clear to their investors and it’s being tracked by all the analysts. That cost matrix is an important one, and they’ve made a number of changes, including changing out their project manager to get that cost down.
Curran So on the cost for the household, can you just quickly give me an indication of the average cost and who’s paying that?
Adams All right. So the commitment under the UFB roll-out package is that the installations to the homeowner were free—the standard installations—and we had this residual issue, you’ll probably remember from last year, around the non-standard installations. What we did was work with the partners to ensure that the non-standards were free except for the most remote people who had, you know, a kilometre-long driveway, and I don’t actually think people would expect the taxpayer the pay to roll it down a kilometre-long driveway. So we’ve come up with a solution for almost everyone. I think we said 99.3 percent of New Zealanders within the UFB areas will now have free installs. That’s guaranteed out to the end of 2015. It may well last beyond that. We have to get more data about how many times this is coming up and how we access it. We’re continuing to work with them so that—I mean, my expectation is that through the whole build period we should be able to offer that assurance for 99.3 percent, so only these most remote connections in the urban area will have a charge.
Cosgrove Minister, sorry, just on that. Forgive my ignorance. What is a non—I take it
a—I take it a non-standard is like a farm gate a kilometre down the road or whatever.

Adams Yeah.

Cosgrove So does that mean—because I’ve had differing views, and people may have misunderstood—it’s out of the gate, you ring your service provider, you say you want it, and unless you’ve got an extremely long driveway, if they need to drill a hole or whatever, that is all free to the average consumer?

Adams That’s right.

Cosgrove And then obviously there’s presumably a differential in the price now that you’ve got the ultra-fast—that’s basically—

Adams That’s right. So the monthly rental prices change depending on your product. But you’re absolutely right. You say: “Right, it’s rolled past my gate.” Let’s say you want to deal with Telecom. You ring up Telecom and say: “I want to order your ultra-fast broadband package.” Telecom contacts Chorus, who then come back and blow the fibre, effectively, from the contact point on the street, which is one for every two houses, up to your actual house—so they do that last bit from the road contact point to your house. They install the termination point in the house. They do an initial amount of wiring through to the main terminal within the house, get it up, get it working, get it operating—that’s all Chorus. That’s all free to the homeowner.

Cosgrove And just on that—because, again, there’s a bit of confusion—so if you have a back driveway and you’ve got to drill a hole or whatever, again, that’s all free to the—unless it’s a—

Adams This was one of the things we negotiated through last year, because I was concerned around this as well. I was concerned that there shouldn’t be a differential between someone who has a front section and someone who’s down a right of way and there are three properties. So what’ve done now is we’ve said that each property has an entitlement, effectively, of up to 200 metres. So if you have a driveway of a kilometre but there’s eight houses down there, it’s still free to them. If you have a driveway of a kilometre and it’s just you, then after 200 metres you are going to have to pay.

Cosgrove Because there’s a lot of people who assume that if it’s a front section, they can just clip the wires, and if it’s, say, just your average Kiwi back section or something like that, they’ve got to drill, or trench or whatever, so there’s going to be a cost to them.

Adams Yeah, and that’s what we wanted to get around, because to my way of thinking it’s perfectly appropriate to say: “If you have a kilometre-long driveway, the taxpayer or the system will pay for some of that.”, but that shouldn’t work against people who are down back sections, and there’s a number of them.

Curran Very fair, Minister.

Adams I beg your pardon?
Curran Very fair.

Adams Thank you.

Curran Can I turn to another subject, and the subject is the telecommunications intercept bill, which is an important piece of legislation before the Law and Order Committee. Can you tell me why you didn’t support an extension of the time for submissions on that bill, given the serious concerns expressed publicly by the industry, and, I am sure, in writing to yourself and the Prime Minister and the chair of that select committee, particularly amid the material that’s being revealed out of the United States around intercepting telecommunications information.

Adams So, I didn’t express a view one way or the other about the extension—

Curran So you have no view?

Adams Pardon me?

Curran You have no view?

Adams I haven’t expressed a view at all, so that’s a matter for the committee. I haven’t had any contact with the committee. They’ve made their own decision.

Curran Well, the committee has just revealed that they’re not extending the submissions on that piece of legislation. Minister, a major telecommunications company told me yesterday that they would have knowledge if the GCSB or another agency wanted to access New Zealanders’ phones, phone conversations, text messages, or other communications because they would need a warrant, and so they would know. But they wouldn’t know if an overseas intelligence agency, such as the NSA, NASA, or the FBI, for instance, was “hoovering up intelligence” on Kiwis’ phone calls, any other internet-related activities, and that they had to rely on the word of the Prime Minister. Have you been briefed on this issue?

Adams On the PRISM issue?

Curran Yes.

Adams Look, I’ve seen what I’ve read in the media, and I’ve been following the commentaries around it. The issue of intelligence gathering is not one that sits under my portfolio, and it’s obviously for the Prime Minister to comment on that. My legislation is around the interface between the security agency, including the police, once they have lawful authority to collect information, and the telcos. So there’s nothing in my legislation, my portfolio, or my responsibilities that in any way touches on who has what authority to look at what. That is a matter for the Minister in charge of those agencies. My responsibility is once they have lawful authority. And there is nothing in the TICS bill that in any way grants any authority to collect information; it simply says if you are lawfully authorised to collect this information, this is the obligations on the telco companies to work with you to provide it. It doesn’t grant any authorities, it doesn’t change any permissions, and one point that’s probably worth making in the context,
because there has been some confusing statements, there is nothing in TICSA that talks about access to any historical data. It only talks about the provision the telecommunications companies must make to enable real-time interception once there is lawful authority to do so.

Curran: Well, thank you, Minister. My question wasn’t about what’s in TICSA, actually. It was about what is the situation now and whether or not you had been briefed.

Adams: So my answer to that is I don’t have portfolio responsibility for how the agencies operate.

Curran: So, no, you haven’t been briefed.

Adams: Not on this specific issue, because it’s not my portfolio.

Curran: So, and—

Young: Last question, Clare, if you don’t mind. Then we’ll go to Jian.

Curran: All right. Well, then, I’ll go to the telecommunications industry, which is your portfolio area. In relation to this bill, Telecom has a relationship with Yahoo!, which it contracts out for the XTRA email, which has 450,000 customers on it. Is it of concern to you that 450,000 New Zealanders are using XTRA emails as part of a contract to Yahoo!, which has been caught up in the allegations surrounding this issue?

Adams: Well, look, all I can say is what the Prime Minister has said, which is that we don’t comment on the operational aspects of our agencies. We certainly don’t comment or have knowledge of what other international agencies do, and I couldn’t get into it.

Curran: So tell me. This is directly within your jurisdiction area.

Adams: No, no, it isn’t. It isn’t, Ms Curran, to be fair, because what you’re talking about is what intelligence agencies here and overseas are allowed to look at. That is not my control or authority.

Curran: And I understand that, but this is a major telecommunications company in New Zealand—that’s 450,000 New Zealanders who have XTRA email accounts. Surely it would be of interest to you as to whether New Zealanders were caught up in this and were at risk. Have you sought any information on this?

Adams: As a matter of portfolio responsibility, I don’t have any responsibility or authority over how any intelligence agency in New Zealand or overseas is working.

Curran: No, but have you sought—

Young: Sorry—

Curran: I’m sorry, I haven’t received an answer.

Adams: But I did. I said I haven’t had a briefing—

Curran: You haven’t sought any information on this yet—

Young: Excuse me. Excuse me, Clare, you have received an answer.
Adams: It wouldn’t be appropriate for me to seek a briefing on the operational aspects of our intelligence agencies.

Curran: So you haven’t?

Young: It’s actually not the Minister’s responsibility.

Curran: So you haven’t.

Adams: I said I haven’t. It wouldn’t be appropriate.

Yang: Talk about the mobile phone. It is so important to our lives these days. Now, you mentioned that we have 110 mobile phones out of 100 people. One key factor here is the fees. I understand we reached a good deal with the trans-Tasman deal. That was excellent. Now, my question is, how competitive the market is, and have we been seeing, like, a trend of dropping or decrease of charges?

Adams: Look, we have. It’s been quite encouraging, actually, to see that, and there’s no doubt that we have a competitive market in New Zealand, and we have access to international market concentration data that shows the increasing competitiveness. Certainly in the mobile space, you are seeing that. You’re seeing prices coming down partly through regulatory intervention. So whether there’s been either regulatory impact in terms of termination rates and off-net, on-net calling, whether it’s been the threat of regulation, we certainly saw big movement in the mobile roaming charges. And we’ve also, of course, seen the entry of a third player into the market, which has, you know, obviously been important in keeping that competition live. So we are seeing increasing competitiveness. We’re seeing a very innovative range of product offerings and how they price products. Look, there’s always room for more competitive pricing.

And, as New Zealanders, what’s been really interesting is the uptake of data. The biggest growth of data usage is in that mobile sector, and, actually, the PC market and the home computer market is falling away and it’s the handheld mobile data device which is really the big story. Even, actually, in the mobile sector, what’s been interesting is that mobile voice minutes are falling, and it’s all text and email. So even within the packages that are being offered, you know, the move away from your voice minutes and how much you pay for voice calling is becoming less and less important because the usage of those is certainly falling away, while we’re seeing data use, email use, text use continuing to explode.

Yang: This is a free market. I’m not sure how much the Government can do in terms of reducing the price.

Adams: Well, look, essentially, we have to make sure the regulatory settings are right to support the long-term interests of end-users, and beyond that we want the market to work efficiently and compete amongst themselves to drive prices down. Where we see that regulatory intervention is necessary, as it was with trans-Tasman mobile roaming—and, you know, we hope that that will be extended out beyond trans-Tasman in time, but that’s a good market to start with; it’s our biggest destination—then we can act. So, you know, we’ve done that, as I say, in a number of areas, but in the main, if the
market is working properly—if it’s a competitive market—then they will drive each other to a proper price.

**Cosgrove**

So, Minister, can I take it from that that at the moment you believe there’s, you know, competition and things are happening appropriately, but you believe that where a market intervention, even surgical, may be required if the market was to not act appropriately in terms of competition, you’d look at that and be in favour of it, depending on what the intervention was?

**Adams**

Oh, well, you know, it’s hypothetical, but, obviously, we have a competition watchdog to look at all of those issues as they come up, and we’ve seen a number of examples where exactly that’s happened. So, certainly, you know, if an issue is identified that is acting as a barrier to a fair, competitive market and new entrants, then we need to look at it.

**Cosgrove**

Could I suggest you have a word to Simon Bridges? He’d learn from your view, I think.

**Hughes**

Minister, I just see TGA’s announced they’re seeking a tender and want to build the cable, and you’ve tweeted that you welcome the market working. I mean, it’s good, but I guess the downside, of course, is that it makes the business case for a trans-Pacific cable less likely now, and if Southern Cross ever expired, we would likely just be dependent on a trans-Tasman cable. Is it time now for Government to step up and maybe take a cornerstone share to ensure we don’t miss this opportunity and actually get a trans-Pacific cable?

**Adams**

Look, I don’t think it’s time for the Government to come in in a large way and effectively build another trans-Pacific cable. There are a number of consortiums looking at a trans-Pacific cable that we are talking actively with. We certainly have a role to play, and I talked about that—that, you know, with the Pacific Fibre bid we had a package that was effectively around $90 million worth of value that we were able to bring to the table to help them with their funding. That $15 million of initial capital that we’re able to offer has been brought into this year’s Budget so that if a proposal comes, we can still play our part in that. The interesting point is that while this discussion has gone on over a period of years, while the, you know, historically—and technology, historically, is not that long ago—but all the data story was New Zealand to the mainland US. We’re seeing, actually, the big growth now is New Zealand into Australia and through Australia into Asia. So the trans-Pacific route will still be incredibly important, but, actually, the trans-Asia route or the trans-Tasman into Asia is where we’re seeing a lot of growth. So we have to be careful too that we make sure we’re well provisioned on both.

I mean, on Southern Cross, I know there’s concerns around them being, you know, one provider that has the main cable, but from a capacity point of view, it’s still very well positioned to deal with our needs. The numbers I have suggest that between us and Australia we’re using about 650 to 700 gigabytes a second of a total capacity of about 2,000 gigabytes a second. So there’s plenty of capacity even now, and upgrades are going to keep us well positioned on that. So from a capacity perspective we’re OK. Resilience
we’ve got, too. Monopoly pricing we have to keep watching, but, actually, the prices have been falling, as the Commerce Commission have noted.

Hughes Instead of the Government building a trans-Pacific cable, what about a cornerstone share, or increasing that $15 million, which, frankly, has sat in that pot for many, many years now, and it hasn’t been sufficient to stimulate that demand. What about increasing that, or a cornerstone share?

Adams Look, we could do, but I’m actually still reasonably positive that, as the market dynamics around the business case for building that cable improve, that will happen under the public sector doing it. Look, we could swing in with more money, but, as you know, every dollar we put into that is a dollar we’re not putting into another initiative, so while we don’t have an issue of capacity, I’d be very reluctant to swing in ahead of the market.

Curran Minister, you must be aware that there is a counter view to that, which is that the issue isn’t capacity; it’s about price and the lack of competition.

Adams Well, that’s what I just said, yeah.

Curran Why was Southern Cross cable put inside Telecom retail, because isn’t that making it more difficult for new retailers to provide next-generation services?

Adams Well, the only other option would have been to put it into Chorus. Look, I wasn’t a part of the discussions around when that happened. That was obviously done at the separation point.

Curran Do you think it was a mistake?

Adams To be honest, I haven’t looked into the issues and the arguments on both sides of that. I mean, the decision was made long before I took the portfolio.

Curran I acknowledge that.

Adams I haven’t seen the need to open it up and relook at it, so I really couldn’t comment.

Curran It has created issues of competition.

Mitchell I’m going to jump in and ask this question before Clayton does.

Young No, it’s the last question, so away you go.

Mitchell Oh, OK. What’s the uptake on the telephone service for the hearing impaired?

Adams Yeah, so that’s actually a sort of a—

Cosgrove What are you trying to say? I’m not that old—I’m only 43. I take offence!

Adams Ha, ha! Look, this doesn’t get enough air time, in my view. I think there’s some really exciting stuff happening in the deaf relay service. So what we’ve moved to, just in the early part of this year, is a service that was very time-lagged, so if you were hearing impaired and needed to talk to someone over the phone, you had to go through a remote operator, who then had to transcribe, and it came back through and it was a very stilted conversation.
And you want to talk about social isolation—if you can’t pick up the phone and, you know, interact, it’s pretty limiting. So we’ve launched now the Captel service, which is effectively a real-time, speech-to-text transcription service. I had the launch at Parliament, I think it was back in February, and in the first month we had, you know, 300 orders. The stories from the hearing-impaired community about how it’s changed their life and their confidence to interact have just been really heart-warming. And the other thing we’ve done in this year’s Budget, with Minister Turia, is announce new funding to also provide a video sign language transcription service. So if you’re in IRD or MSD or working with someone, you can video up a sign language translator, who can provide real-time sign language translation. So it really has meant huge progress in the way the hearing impaired can communicate.

Young Well, I want to thank you very much, Minister, for appearing before the Commerce Committee.

Adams You’re very welcome.

Young And thank you for the report. Sounds like you’ve got a very exciting portfolio.

Adams Lots on. Lots on. Thank you.

conclusion of evidence
The Intelligence and Security Committee has examined the 2013/14 Estimates for Vote Communications Security and Intelligence and Vote Security Intelligence. We heard from the Government Communications Security Bureau and the New Zealand Security Intelligence Service and received advice from the Office of the Auditor-General.

We recommend that the appropriations in respect of these Votes for the year ended 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

Rt Hon John Key
Chairperson
2013/14 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 2014 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 decrease to $444.013 million in 2013/14 from $446.139 million estimated actual expenditure in 2012/13 ($444.954 million was budgeted). The decrease reflects changes to both departmental and non-departmental outputs. For the 2013/14 year, Crown revenue in Vote Conservation is estimated at $17.697 million, excluding capital receipts.

In April 2013 it was announced that the Director-General, Al Morrison, would be taking up a position with the State Services Commission. Mr Morrison has worked with the department for 11 years, seven of them as Director-General. We wish him well in his new role.

Restructuring the department

On 7 May 2013 the department announced a new structure, to take effect in September, with 11 conservancy districts becoming six conservation delivery regions. Under the new structure the department as a whole will be divided into two teams—one focused on field work, with the other working to develop new conservation initiatives in partnership with other organisations. Although the department is expected to shed 72 jobs, the number of front-line staff is due to increase from 866 to 915.

This new structure is part of a larger review and restructure of the department that has spanned several years. In the light of the earlier restructuring, some of us queried the need for more. The Minister explained that the conservancy approach was inefficient, pointing out that each conservancy has its own accounts and legal services personnel.

We also heard that, in the view of the Minister, decisions on whether to contract out a piece of work or do it in-house should be done on a best value for money basis. The department noted that seeking to get more people involved in conservation does not mean that the department is handing conservation over to the private sector.

Donations

Some of us queried the wisdom of a government department receiving donations, in case conditions attached to donations might make the Department of Conservation vulnerable, in reality or perception, to influence or pressure. The Minister told us that while it would be in order for a donor to determine what project their money was to be used for, it would not be appropriate for a donor to require the department to take a particular approach to a policy or consent issue.

We agree with the Minister that more transparency about the way the department handles donations would be helpful.
Marine protection

We were pleased to hear that policy work on a new marine reserves bill is in train, and were interested to hear that the Minister intends it to focus more broadly on the issue of marine protection than previous iterations. We would like to see it introduced and referred to a select committee for consideration as soon as possible. We consider it important that work in this area come to fruition. Some expressed the view that it should not languish like the Marine Reserves Bill, which was originally referred to the Local Government and Environment Committee of the 47th Parliament, reinstated by the 48th, 49th, and 50th Parliaments, and discharged in February 2013.

The New Zealand Government is a state member of the International Union for Conservation of Nature (IUCN), and the Department of Conservation is the state party representative. We discussed marine targets with the Minister as questions have been raised about how much of New Zealand’s territorial waters and exclusive economic zone are under protection. The Minister said that protected territorial seas directly around the North and South Islands, including new reserves off the West Coast, amounted to only 0.3 percent of these waters; but he argued that this figure is misleading, because territorial seas around all of the islands under New Zealand’s control bring the figure to about 7.1 percent, and this would be still higher if the exclusive economic zone were included. He also pointed out that if benthic protection areas were to be included then New Zealand has already met the 10 percent quota.

He went on to say that he considered the biodiversity mix to be more important than raw percentages, and noted that we do not currently meet the IUCN requirement for a mix of the diverse biodiversity ocean environments in protection.

We are encouraged by the Minister’s stated intention to gazette more marine reserves during this financial year than in any previous year.

Kauri dieback

We asked about the department’s involvement in combating kauri dieback—a fungus-like disease present in the upper North Island which kills the native kauri. Although biosecurity falls under remit of the Ministry for Primary Industries, we were glad to hear that the department is working with the ministry on the issue of kauri dieback.
Appendix

Approach to this examination

We met on 27 June and 11 July 2013 to consider Vote Conservation. Evidence was heard from the Minister of Conservation, Hon Dr Nick Smith, 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
Claudette Hauiti
Hon Phil Heatley
Gareth Hughes
Raymond Huo
Moana Mackey
Eugenie Sage
Hon Maryan Street
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 25 June and 9 July 2013.

Office of the Auditor-General, Briefing on Vote Conservation, dated 27 June 2013.

Vote briefing paper, prepared by committee staff, dated 25 June 2013.
2013/14 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 2014 for Vote Consumer Affairs, administered by the Ministry of Business, Innovation and Employment, as set out in Parliamentary Paper B.5, be accepted.

Law reform

Consumer Law Reform Bill

We asked the Minister why the progress through the House of the Consumer Law Reform Bill, which the committee recommended be passed last year, appeared to have stalled. He expects the bill to move forward in the near future. We wondered if the current political situation in Australia might hinder attempts to harmonise consumer laws across the Tasman. The Minister told us that officials in both countries have built strong relationships and have developed very similar regulatory environments as they work towards the goal of a single economic market with Australia. Some details regarding contract terms are still being ironed out but the Minister believes all parties involved in developing consumer law are committed to ensuring fair terms for consumers.

We asked if there was capacity to implement this legislation as well as educate and inform consumers and businesses. The Minister told us that the law will provide a 15-month transition period for all organisations to remove inadvertent unfair terms from their standard contracts. The Commerce Commission will use this period to inform the public.

Consumer credit

The Minister said the Government remains committed to protecting consumers from unscrupulous lenders. The Credit Contracts and Financial Services Law Reform Bill will introduce responsible lending requirements for credit providers, so they can consider a borrower’s financial circumstances and only offer credit where the borrower can be reasonably expected to make the payments. We asked the Minister why progress on consumer credit law reform has been so slow, and what the impact of this has been on vulnerable consumers. Most of us are not convinced that interest rate controls should be imposed, as they have proved not to have worked in other jurisdictions. Labour members remain concerned about the issue of interest rate controls, which was not covered by recent legislation. The Minister is encouraging people to submit on this issue once the committee invites submissions. It was suggested that the Ministry of Business, Innovation and Employment could monitor the development of interest rate controls in other jurisdictions, and the Minister noted that Australia has brought in some such controls.

Online transactions and fraud

We asked what sort of protection the law offers for consumers conducting financial transactions online. The Minister acknowledged the growing incidence of online fraud, but said that consumers need to take care and increase their own awareness as the best protection. He is concerned by the high success rate of scams targeting New Zealanders, which is thought to be resulting in possibly tens of millions of dollars in losses. The recent
Fraud Awareness Week, run with the support of the Serious Fraud Office and the Police, focused on older people in particular, warning them about common scams.

**Product safety**

We asked the Minister if there is adequate funding for monitoring consumer safety. He considered that current funding levels are adequate for the day-to-day activities of the Measurement and Product Safety Service, but acknowledged that additional funding would be needed for major product safety incidents. However he pointed out that the service was not the sole agency working in this area, and that the Department of Labour and ACC were also involved.

**Dispute resolution**

We asked the Minister if he planned to improve access to effective consumer dispute resolution. The Minister is satisfied that the disputes resolution process is providing a good service to consumers. The Minister does not believe access to dispute resolution is an issue, as consumers’ awareness of their options is very high. He told us that enacting the Credit Contracts and Financial Services Law Reform Bill would allow for alternative schemes, giving consumers options beyond the current default scheme. He noted that education for community organisations will help those groups to advise consumers better.

**Output plan**

We asked the Minister when the ministry’s output plan is likely to be approved. He advised it would likely be the end of July, and will advise the committee.
Appendix A

Approach to this examination
We met on 27 June and 11 July 2013 to consider Vote Consumer Affairs. Evidence was heard from the Minister of Consumer Affairs, Hon Craig Foss, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Clayton Cosgrove
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell
Dr Jian Yang

Evidence and advice received
We considered the following evidence and advice during this examination:
Minister of Consumer Affairs, response to additional questions, received 9 July 2013.
Minister of Consumer Affairs, response to standard Estimates questionnaire.
Minister of Consumer Affairs, response to written questions, received 24 June 2013.
Office of the Auditor-General, Briefing on Vote Consumer Affairs, received 27 June 2013.
Vote briefing paper, prepared by committee staff, dated 20 May 2013.
Roger Palairet is joining me here from the Ministry of Business, Innovation and Employment. The consumer affairs portfolio plays an important part in the Government’s key goal of producing a more competitive and productive economy. To achieve this, we need a trading environment where consumers are well informed, protected, trading is fair, and that there is effective competition.

There are several key consumer affairs initiatives under way to address this as part of the Business Growth Agenda. Firstly, thanks again to this committee for your consideration of the Consumer Law Reform Bill. The bill strengthens consumers’ rights, simplifies business compliance, and makes consumer law more accessible and understandable for consumers and business. I’m confident that the bill will help promote confident and well-informed consumers. In this way it will assist drive competition, innovation, and growth in our economy.

The Government’s committed to protecting consumers from unscrupulous lenders. The Credit Contracts and Financial Services Law Reform Bill will introduce responsible lending requirements for credit providers, so they can consider a borrower’s financial circumstances and only offer credit where the borrower can be reasonably expected to make the payments. I would note that many lenders—in fact, probably most lenders—are responsible. The aim is to target those who aren’t committed to responsible lending and ensure they move to best practice. Under the bill, there will be a requirement for more timely disclosure of loan terms and an extension of the cooling-off period for borrowers to cancel their loan. The bill also provides more opportunity for borrowers to apply for relief in the event of
unforeseen hardship. I would like to thank my colleague Peseta Sam Lotu-Iiga for his work on this bill, much of which is incorporated in the bill. I also thank and acknowledge the Labour Party and the Green Party for their keen interest in this particular area, providing better credit protections for vulnerable consumers. I look forward to the committee’s work and support in progressing the bill.

The success of our law reform depends on ensuring people know best about and understand what the changes are. Six consumer rights days have been held in New Zealand across the last year, involving workshops, community agencies, and volunteers working with groups such as citizens advice bureaux and family budgeting centres.

Issues of geographical price discrimination by overseas online retailers are also of interest to myself. The Minister of Communications and Information Technology and I have let the Australian senator the Hon Stephen Conroy know that New Zealand has an interest in the outcomes of its current parliamentary inquiry into IT pricing.

Cosgrove He’s resigned, Minister. You mightn’t have caught up with it.

Foss This was written yesterday. Our respective officials are to work together to explore a potential trans-Tasman response. Firstly, I’d like to note the important work of the Measurement and Product Safety Service in MBIE. A system for ensuring goods are treated on the basis of safe and accurate measurement is vital to an effective economy. The service undertakes proactive monitoring of weights and measures and practices, fuel quality monitoring, and advises on product safety and general consumer goods. The preferred approach is to obtain voluntary agreement to remove unsafe products from sale. However, sometimes formal action is necessary.

One of the more recent cases relates to the small, powerful magnets. Liaison with overseas counterparts, particularly in the USA and Australia, along with evidence from key New Zealand stakeholders, such as Starship Children’s Hospital, revealed a significant and serious risk. Inadvertent ingestion of two or more of these small magnets by children has led to serious injury requiring major invasive surgery, with cases reported both overseas and in New Zealand. The harms occur when two or more magnets join up within the digestive tract, leading to tissue damage. These powerful magnets can come in many forms, but the main risk to children comes from those supplied in the form of novelties and playthings.

The unsafe goods notice issued in January banned the supply of small, powerful magnets in sets of two or more for personal, domestic, or household use. The measure was widely supported in child health and welfare organisations, and our market place surveillance indicates businesses have responded by ceasing supply. That’s great evidence of how well our product safety system is working. Mr Chair, I’ll abbreviate that so we can do some more questions, if you like.

Young Great. Thank you very much, indeed. We’ll come to Carol Beaumont.
Beaumont  Thank you very much, Minister. You’ve already covered some of the areas I’m interested in, so I’d like to dig into a little more. The first is the area of consumer credit. What I want to know is why progress in dealing with this area has been so slow. It’s been glacial, really. Promises were made prior to the last election around consumer credit laws. When the Government came in in 2008 there was already a review under way. Chris Tremain, the former Minister, said new legislation would be in effect by this time this year, yet we’ve only just had legislation introduced to the House in April, and, as you’ve alluded to, we’ve said we’ll cooperate with getting that to the select committee. But there has been no subsequent progress. What is the delay and what is the timetable around this?

Foss  Yes, you’re right. The gestation of this bill has taken a long time. I’m glad that we’ve made quite a bit of progress recently, to the point where the bill is ready for its first reading. It’s on the shelf. Some of the things that have contributed to it—I think you alluded to some of them there, the most recent one, though, being the waiting for the Law Commission’s report on repossession, and those findings were incorporated into the draft of the bill, which was released late last year for consultation from interested parties, leading to the final drafting, which we tabled, I don’t know, about a month or so ago.

Beaumont  End of April.

Foss  The end of April.

Beaumont  But the Law Commission report was available in May last year, and it’s a very good report. It’s certainly useful having it in there. So we still have it sitting there on the Order Paper. When is it scheduled for first reading? What do you see the legislative time frame on this legislation?

Foss  Well, at the end of the day, that’s a function of the House business and the Leader of the House. I am very keen to have it progressed as soon as possible. I do understand that there is a want across the sector for this bill to be processed pretty soon and pretty smartly. Again, I acknowledge the support generally of yourself on this.

Lotu-Iiga  Between 1999 and 2008, was there any progress in this area by the Government?

Foss  Not that I’m aware of.

Lotu-Iiga  Any legislative progress?

Foss  Not that I’m aware of. But much of the legislation that went through under Minister Power and myself is a response to what happened in the early 2000s. The CCCFA was, in fact—[Interruption] That’s right, actually—2003. That’s right. So there has been work in this space.

Lotu-Iiga  In the area of loan sharks was there any progress?

Foss  Loan sharking was alive and well.

Beaumont  OK, so CCCFA. Then that legislation—the review was commenced of that following a certain (inaudible). But we all know that background. What sort
of assessment has been undertaken by the ministry of the further damage that’s being caused to vulnerable families by this lengthy delay in reviewing the CCCFA and getting new legislation in place? Has there been any sort of sense of how many more thousands of families have been hurt by this?

Foss Well, there’s an acknowledgment of harm is probably being done, yes, and that’s unchanged. Actual analysis of X number of families times Y times something—no, I don’t so. Roger? No.

Beaumont A specific question around the legislation: despite interest rate controls not being included in the Credit Contracts and Financial Services Law Reform Bill, I’m just wanting to have some assurance around that issue being able to be considered by the select committee and not being ruled out of scope when the bill finally gets to the select committee. I know that you’ve been encouraging people to submit on that issue.

Foss Look, once the bill, of course, comes to the committee, it’s the property of the committee—and you’re right. I considered it, we considered it, and I think you’ve probably seen in the papers the reasons why—it was a bit of a balanced call—we went the way we did. I fully expect an active submission process and those issues being raised, as you’d expect in any bill. I’m not ruling that in or out of scope. But I guess you could see my preference, and on balance the decision we’ve made is the bill that is before the House, which has chosen not to include those caps.

Beaumont But this committee can include that and look thoroughly into it.

Foss Well, the committee will probably just respond to submissions and make its recommendations and judgments based upon that. So there’s nothing unusual about that.

Beaumont Is the ministry actually monitoring at the moment the increasing number of jurisdictions that are implementing or extending interest rate controls in various forms?

Foss I’m aware that Australia has brought them in—I think it’s 48 or 45 percent, I can’t remember which—and one or two others. That was part of that balanced decision.

Beaumont Minister, I’d also like to talk about the consumer law reform, because these two areas are the big ones for this ministry.

Foss Yes, very much so.

Beaumont In 2011 the then Minister, Simon Power, said that work on the consumer law reform had taken priority over the review of consumer credit. So I’m just wanting to know, really, why that work has also languished on the Order Paper and seems to be stalled at the select committee stage, and what the time frame is for progressing the Consumer Law Reform Bill.

Foss Sure. If I could make one comment, actually, having the consumer affairs under my portfolio with commerce has actually been very helpful to help facilitate progress, simply because so much of the legislative drafting is similar to some of the commerce bills. So hopefully you’ve seen a bit of progress there recently. I fully expect the committee stage of that bill—
maybe plus or minus, because there was an SOP a couple of weeks ago on
that one, with one or two refinements—to, again, progress as soon as
possible. And, again, there has been wide consultation. And, again, even
though there are some issues that some were somewhat opposed to even at
the principled level, there’s general expectation and buy-in of these two bills
from the largest financial players to your smallest financial players now.

Beaumont Will the consumer law reform take precedence on the Order Paper over the
consumer credit bill, the Credit Contracts and Financial Services Law
Reform Bill?

Foss Well, they’re at different stages. One could get its first reading and be here
and the other one could progress right through. I haven’t prioritised them
like that.

Beaumont But you don’t know the time frame yet? You haven’t got an agreement yet
from the Leader of the House on time frames?

Foss No, not particularly. No.

Mitchell Minister, just very quickly, I wanted to refer back. Mr Cosgrove made a very
good point in your briefing that Minister Conroy is no longer there. We see
that there’s a shambles going on with the Labor-led Government in
Australia at the moment. Do you see this having any sort of impact or effect
on what you’re currently doing around that space?

Foss No. I wouldn’t comment on what’s happening in Australia—that’s just their
process—but our officials have strong engagement and relationships from
the big SEM stuff down to some information sharing in this space. And
much of the legislation, which will come before the committee, and the
stuff you’ve already seen, actually, is very similar to what we see in Australia
now, if not the same, for the reasons, again, I outlined to the member—to
make New Zealand consumers and Australian consumers confident, and
the entities which sell to them, that the regulatory environment is very, very
similar in both countries. So no, I don’t see any change, in fact. So I’d wait
for any kind of communication, but at officials level, absolutely no change.
Some Ministers may change.

Young Just picking up a supp on that. You know, as we went through the
Consumer Law Reform Bill we looked at such things as unconscionability
and looking at the Australian model and what they were doing. Can you
give us any comment on perhaps where harmonisation of legislation is at?

Foss Well, generally—I mean, you allude to what we have here as the unfair
contract terms in the standard contracts and, you know, there has been a
fair bit of work in that space. You know, if you get some people in the
room, be they large organisations or consumers, everyone nods that “Hey,
no, that sounds fair.” But, of course, once we go down to in fact how that
plays out in a contract—I don’t know—be it a mobile phone or something
that consumers engage in, actually, once you get to the nitty-gritty of what it
means if there’s a change. So we’ve allowed a 15-month transition period
for all organisations, once it is enacted, to examine their contracts to make
sure there’s no inadvertent unfair terms in their standard contracts.
Look, by and large, all the organisations or the representative bodies I have spoken to are very confident that they don’t, but it’s kind of a good time for them to just have a quick look at their standard contracts to make sure there’s nothing inadvertent there. Kiwis have a great sense of fair play, and most of those organisations also have a great sense of fair play. So I think we’re probably finding a pretty good balance.

Beaumont Just going back to the legislative timetable and so on, both of those pieces of legislation are long in gestation, as you say, and are sitting there waiting for something to happen to them. My other concern, other than the lengthy delays, is just whether there is capacity to implement the legislation adequately, including things like provision of information and advice for businesses and consumers when they finally get out the other end, given the severe financial constraints in this portfolio area.

Foss It’s a very good question, and in fact the Commerce Commission, particularly in this bill, are very much charged with knowing how things would change for them to implement the bill. The biggest thing for them initially is, in fact, an education process. They don’t want to be at the bottom of the cliff prosecuting everyone. They want to be very much consulting up front, long before the 15 months are up in this unfair contracts part, to educate with consultative bodies, representative bodies, to enable exactly and help facilitate your concern. They are also confident that the budgets that they have are more than adequate to administer the new obligations that they will have.

Bakshi Minister, with the changing technology, there should be a protection for consumers’ online purchases. So is there anything being done for the protection of consumers who purchase online?

Foss Yes, well, the simple message is one we all have to remind ourselves of. If something seems too good to be true, it is too good to be true. Last week, or 2 weeks ago, we launched Scamscape this year in conjunction with TradeMe, who helped putting that together, and NetSafe are doing a great job, but that’s particularly targeted, and it’s interesting that about 10 percent of New Zealanders targeted by scammers actually respond. So it’s not 10 percent of the population, but 10 percent.

Now, that gets pretty scary and, unfortunately, a study from Australia—I think it was Queensland—showed some devastating outcomes of exploitation of some older Australians, in their case. And there’s a kind of a message there that by very nature they are very trusting online and do tend to respond to some of these. They sound like quite legit inquiries—if someone’s lost this overseas and can you help? The deliberate intent and process, from what we saw at this conference the other day—it’s pretty scary what can happen out there and the personal consequences on all people, but particularly our seniors, who have adopted this technology as opposed to many of us have grown up with it. They are vulnerable and we do need to keep an eye and just check on our older New Zealanders to make sure they’re aware and ask some of the appropriate questions.
Young: Do we have any idea—does anybody have any idea the quantum of money that scammers are taking out of New Zealand? I mean, it’s probably a hard figure to try and ascertain.

Foss: What was the Australian number, the Queensland number?

Young: I mean, I don’t know how you’d do it, but it’s—

Foss: They did a study and I’m sure it’s Queensland. I can get the slides to the committee, if you like. They were huge—tens of millions. Tens of millions. And the theory—and intuitively I think most of us would agree it’s probably right—is that’s only what’s reported.

Young: So for an awareness week that’s been launched, are you referring to, within the context of that, the scamming has been focused?

Foss: Very much. SeniorNet has been involved and there’s been some facilitation and work with organisations such as them to try and address this particular vulnerability. I mean, the Nigerian email scam, everyone’s known and has probably received it 10 times ourselves, but there are others out there who—contact from someone with a legit-sounding sob story, sadly, has led to some quite educated people losing huge amounts of money, and never to be found again.

Young: Financial literacy is also about that.

Foss: And just one point—excuse me, Carol—most of this is run by quite deliberate criminal organisations based in jurisdictions where, let’s say, the rule of law isn’t quite as high as we’d expect it here.

Beaumont: Another area you mentioned is product safety, and yet all of the documentation that comes out talks about there’s inadequate funding for work on product safety—quoting: “fiscal pressures have necessitated trade-offs …” and, basically, not able to do the “desirable level of proactive surveillance …” is actually referred to explicitly in the estimates questionnaire and, in fact, in the briefing to the incoming Minister when you went in in January. And it says that if there’s a major product safety incident, you’d actually have to go cap in hand to find some money to deal with it. That’s specifically what it says. So I’m just wanting to know, is there any improvement in that situation or a change of approach planned, or should consumers in New Zealand just accept that there is going to be limited or no proactive product safety work?

Foss: No, not at all. As you note, I think that’s page 2, which also continues “This strategy has been successful to date for day-to-day activities.”, but then it goes on to make the point that you’ve just made about if there was a major product safety incident. Well, you’ve got to remember there’s more than just MPSS in this space. We’ve got the Department of Labour, we’ve got ACC, you name it, in this space, and we’ve had some recent examples, actually, of the unsafe ladders—I don’t know if you’re aware of that—where that could have been a major issue. Essentially, ladders were labelled as being able to take 180 kg. In fact, they could only really take 120 kg, I think, but they were sold as 180, and they failed some other tests and there were many thousands of them sold. But after some engagement and
negotiation, the retailer, both online and online, have all participated and pretty much dealt with the issue. If a major incident was to arise, of course, we'd have to pay attention to it.

Beaumont You'd have to find some money. That's explicitly what you say, because there isn't any. Just on dispute resolution, it's another area that's been flagged up as somewhere you want to improve access to and practices of consumer dispute resolution. It was flagged up by the former Minister as well. It's also in the Statement of Intent 2013-2016. So I'm wanting to know what the actual plans are in that space, because there's no real detail on that at all.

Foss There's no plans. Have we formally announced? [Interuption] That's right, in fact. Yes. It's in the CLR or the credit bill? In the credit bill we pay attention to—so the default scheme is no longer necessary, simply because the other alternative schemes now cover all financial instruments for dispute. The reason the default scheme was set up is there was no kind of one-stop shop for all types of dispute. So that's now changed. So in the bill you will see the default scheme no longer required. So that will take that down from three to two, but then the existing DRSL will take the current default members of the default scheme.

Beaumont In terms of other types of consumer disputes, is there any work going on in improving access to and practices of consumer dispute resolution?

Foss Well, there's been a lot of engagement via the consumer affairs people and, in fact, I've met with most of the dispute resolution bodies, from Consumer Affairs right down to your Insurance and your Banking Ombudsmen and things. By and large they are confident that the awareness of New Zealanders to be able to go to them is actually very high. I think one of them surveyed it, actually, and it is very high. So the access to is not a concern of mine, but the ongoing education, particularly to organisations in the sector, be it citizens advice bureaux, etc., as to where to go or where to direct someone, is ongoing.

Beaumont Are you satisfied that the disputes tribunal process is sufficiently accessible and useful for consumers?

Foss Yes, yes, I am, and increasingly so—yes.

Beaumont Just wanting to know when the ministry's output plan is likely to be completed and approved and available.

Foss The ministry's or the vote's? The entire—

Beaumont For Consumer Affairs. In the standard question response it says it's not available at the moment; it will be available and approved at some point.

Foss Sure. Hold on. OK. I'm advised quite probably, possibly the end of July. I'll try and get that updated for you and get back to the committee on, if not a definitive date, an absolute intention.

Young Anybody else any further questions? Well, I'd like to thank you very much, Minister, and your team and officials. Thank you for appearing before the Commerce Committee.
Beaumont: There were some questions I didn’t get to, Minister. Are you happy for me to—

Foss: Yes, I'll answer other questions after.

Young: It’ll have to go through the committee. Yes.

Foss: Through the committee—yes, that’s fine. Thanks.

Beaumont: Thank you very much.

**conclusion of evidence**
2013/14 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 2014 for Vote Corrections, administered by the Department of Corrections, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The total appropriations sought this year for Vote Corrections amount to $1.545 billion, up from the estimated actual expenditure in 2012/13 of $1.351 billion. Significant allocations include $753.38 million for the provision of custodial services to offenders lawfully required to be detained in custody, $206.065 million for the management and delivery of sentences and orders served in the community, and $170.597 million for the provision of case management and interventions designed to address the underlying causes of criminal re-offending.

Spring Hill riots

We asked the Minister for an update on recent events at Spring Hill Corrections Facility. On 1 June 2013 at about 11 am, inmates at the Waikato prison began rioting. It took the authorities 10 hours to resolve the situation, and the facility suffered considerable fire and other damage. The Department of Corrections is investigating the incident to determine the extent of the damage and its cost implications, and to establish exactly what happened.

The department explained its understanding of the event at the time of the hearing. Initially, 27 prisoners became disorderly as the cells in a high-security pod were being locked. Arguments broke out between prisoners, and staff attempted to calm the situation but did not succeed. Physical violence started, and cleaning equipment was used to damage property. Four staff followed procedure by retreating to a designated safety area in the staff base, then had to retreat further as the rioters broke into the area. By this time, the rioters acquired more weapons, and a fire had started. An emergency operations centre was set up, with the New Zealand Fire Service, the New Zealand Police, and medical services providing advice. Four advanced control and restraint teams entered and controlled the incident, and other prisoners were evacuated. We heard that official response mechanisms worked very well. The staff involved showed considerable bravery and courage, and we thank and commend them for their efforts.

The incident is being investigated. We speculated as to how the situation could have been prevented, and what might have hampered its resolution. The investigations will examine the performance of the sprinkler system, whether the staff base withstood damage for long enough, and whether the prisoners’ access to cleaning products and sports equipment was appropriate. Also, we heard that no prior intelligence indicated a potential riot. We intend to examine the results of these investigations when they are completed.

Capital expenditure

Much of the increase in allocation for capital expenditure to $346.045 million in 2013/14 (compared with the 2012/13 estimated actual expenditure of approximately $170 million) is
to fund the Wiri Corrections Facility. We asked whether the opening of the facility in 2015 was going to bring the prison system close to over-capacity, and heard that such a situation would be welcomed. New Zealand’s older prisons are not ideal for delivering rehabilitation programmes, and the introduction of Wiri will also allow the department to reorganise prisoners so that other prisons can be upgraded. However, expenditure for this programme will have to be delayed while repairs are made to Spring Hill.

A seismic report was completed on the department’s building portfolio a year ago, and we asked how much is being spent on the required remediation work, and how it is progressing. The chief executive assured us that remediation is covered by the Vote’s capital expenditure stream, and does not affect other parts of the organisation. It is a five-year programme, with urgent work on track to be completed by the end of August 2013.

Reducing reoffending

The department is on track against its target of reducing reoffending by 25 per cent by 2017, and since 2011 reoffending has been reduced by 9 per cent. We asked about the methods for reducing reoffending, particularly the trades training scheme and alcohol ankle bracelets. Under the trades training scheme, prisoners participate in trade workshops for which they can gain qualifications upon completion of their sentence; early feedback on the scheme is positive. To help former prisoners find their feet upon release, $10 million has been allocated in 2013/14 for the “Out of Gate” programme, to link them with providers of social services such as housing assistance. We intend to monitor the performance of these programmes.

To monitor alleged offenders on bail or parolees on whom conditions of sobriety have been imposed, the Minister intends to require such people to wear ankle bracelets. The bracelets would be able to detect any alcohol consumed by monitoring the wearers’ sweat and body temperature. The proposal would give the department and the Police additional powers to monitor compliance with conditions set by the courts, but it would require legislative change.

Audio-visual links

The Minister and the Minister for Courts recently announced a $27.8-million programme for the upgrading of nine prisons and 14 District Courts to allow audio-visual links between the two. This would allow prisoners to attend court hearings while remaining in prison, reducing the requirement for transport between courts and prisons and police escorts, and improving public safety and security. This programme is to be implemented within 12 to 15 months.
Appendix A

Approach to this examination
We met on 12 June and 10 July 2013 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
Hon Todd McClay
Ian McKelvie
Mark Mitchell
Richard Prosser
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 questions, received 4 July 2013.
Office of the Auditor-General, Briefing on Vote Corrections, dated 12 June 2013.
Vote briefing paper, Vote Corrections, prepared by committee staff, dated 10 June 2013.
Chair  Minister, thank you for coming along today for the estimates examination into Vote Corrections. We members have got this sheet in front of us and I understand you will be speaking to it, so welcome to you and your colleagues. If you would like to give us a few opening remarks—I understand you are interested in giving us a briefing on some recent events—and then if you would be happy to take questions.

Tolley  Thank you. Good morning, everyone. I have with me the chief executive, Ray Smith, and—somewhere—acting deputy chief executive, Graeme Carruthers, and Acting National Commissioner of Corrections, Christine Stevenson. I’ve also brought down, for the briefing on Spring Hill, the regional commissioner (northern), Jeanette Burns, and we also have our deputy chief financial officer, Natasha Barnett, with us. So I understand you want to begin with a briefing on Spring Hill.

Burns  Thank you.

Tolley  And I need to say that—at the start—you’ll be aware that we are actually in the middle of investigations, both from corrections and also from police, so there might be the odd occasion when we say we don’t want to give any information that might prejudice that. We certainly don’t want to prejudice police investigations. But I thought that what I would do, having brought Jeanette here, was allow her to take you through what happened, and then ask the chief executive to take you through what’s happening now. I did release to the media, and I’ll give to the select committee people, a copy of a
briefing that was given to me that outlines the investigations that are happening. So there are copies there for the select committee members to give them a full picture of exactly where we’re going.

But my brief comments, really, to start it, are that on the Friday, the transTasman nominated corrections as the department of the year, and I think that was entirely deserved. One of the key criteria for that was delivering on Government’s policies, and I think, from all the commentary that I’ve had from people like the Ombudsman, from the visiting United Nations torture—right down to commentary from people in service organisations, this organisation of corrections has really taken the Government’s target of reducing reoffending by 25 percent and adopted that right throughout probation services and prison services. So the staff are absolutely committed and that comment has been made to me on numerous occasion.

A huge focus from the department on increasing the skill level of offenders, both in prison and our community offenders, lifting educational qualifications, and seeking employment outside on release from their sentences. There has been huge innovation come from within the service itself as to how we can accomplish that, and some very effective programmes, like our drug and alcohol and our sexual offenders programmes, have been ramped up. So, you know, a huge effort has gone in, and I believe they did deserve to be named as the department of the year. So that was Friday.

Come Saturday, we were all reminded of the very volatile nature of the people that we are dealing with, and that is the reality. So the comments that I can make to you as the Minister are, first of all, that I am absolutely confident that our officers responded to that riot situation in a very professional manner, justifying the emphasis that the chief executive and I have put on officer safety over the last 6 to 8 months, with a huge input into extra training, extra resources, and setting up the international committee to have a look at safety and make recommendations.

Secondly, we had a seamless corrections service. So one of the three specialist teams that Jeanette will talk about actually came from Serco, the private provider. These guys all trained together, and so when the call went out, it was a seamless service. And I think that’s really important, that we can rely on that—even if we have different types of providers, that, actually, we all work together for the service.

Thirdly, there was bravery, and heroism, from our officers. Our prison officers risked their lives to go in when the fire service said it was dangerous, and they needed to get out from locked cells prisoners who had either locked themselves away or who were still locked away and remove the rioters, as well. So, huge bravery on behalf of officers, and we owe them a huge debt.

And then, finally, I’ve had enormous accolades from the attending emergency services for the professionalism of our staff. In fact, the district commander of police, who was watching the recovery when the specialist
teams went in, said he’d never seen anything as clinical as that, and coming from the police, that was high praise indeed, and they clapped. So with that, I’d now like to ask our regional commissioner to take you through exactly what happened.

Burns Good morning, everybody. So on the Saturday of Queen’s Birthday weekend we had 27 prisoners in the high security pod system, Bravo, at Spring Hill prison start to create some disorder. This pod has 44 prisoners on one side and 44 on the other, so 88 in total.

Tolley Sorry, if I can interrupt—if you look at your map, we’re talking about that pod there at the bottom—high security.

Burns High security. That’s right. So one side of the pod was locked at the time—the prisoners were locked. The other side was in the process of being unlocked for recreation and cleaning and things that happen on a weekend normally, in a prison. So 27 prisoners out of those 44 on that side decided that they wanted to create a bit of disorder. They were starting to argue amongst themselves with some of the other prisoners that were unlocked. The four staff who were in that unit, who were staffed in that unit for that day, went out and tried to calm the situation down, as they do. They are trained to de-escalate these situations. They tried to do that, but these prisoners, actually, didn’t want to have their behaviour brought back into control. So they then started to use physical violence amongst themselves. They had access to cleaning equipment—you know, brooms and mops—and so they got those things and started to smash up windows. They started to set fire with some of the cleaning agents there, with blankets and plastic chairs and tables.

At that point, the four staff in the unit did absolutely the right thing. They retreated back into the secure staff base to keep themselves safe and to keep the incident contained, and that is absolutely essential in these types of incidences. That first containment is what actually dictates how the incident will unfold, generally.

The prisoners then were able to cause more damage with the equipment that they had at hand and started to break their way into the staff base, so the four—

Tolley Which is the centre of that—

Burns Which is the centre of that handcuff figure of eight.

Tolley Yes.

Burns So the staff, once again, did absolutely the right thing and egressed out the back of the secure staff base and were able to keep themselves safe and also to keep that incident contained. The prisoners then were able to break their way through the staff base, broke into the staff base using the tools that they had as weapons, and were able to gain access into the other side of the pod, where we had 44 prisoners locked.

The response to an incident like that is that an emergency operation centre is immediately set up inside the prison, with very senior staff coming on site
to assist the site staff to manage that incident. We had very senior members of the fire service and senior members of the police and ambulance with us the whole time throughout that incident, and they were giving us—in particular, the fire service—very up-to-date, relevant advice as to the timing of when we could or couldn’t go into that unit to contain that unit.

With critical incident management training, generally, and in this kind of an incident, if there is fire involved, fire will become the lead agency. But when it’s in a prison, the prison retains command of that prison and fire are an advisory service. We need to get containment of the area, of the prisoners, before fire can go in. So it’s a bit of a balancing act, but it worked beautifully on this particular day.

We assembled five advance, control, and restraint teams from around the North Island. We had them coming from Auckland prison, Auckland women’s prison, the Mt Eden—under Serco—Tongariro, Rangipō and Waikeria, and Spring Hill staff. Four of the teams actually went in and were the teams that contained the incident.

We went into the side where the prisoners were not locked initially. They were the ones that were still fighting the staff whilst they were being rescued. We got them contained and moved to another place in the prison. We then went into the other side where the prisoners were locked. So that was the 44 locked prisoners. We went in and unlocked them and did a mass evacuation from there. Whilst that was going on, the building was full of smoke. The roof of the internal staff base was collapsing down, so you’re quite right, Minister—the staff were exceptionally brave and went in and risked their lives to save the lives of these prisoners, some of whom were still fighting them as they got them out of the unit.

Once we had all of the prisoners fully evacuated, we then worked on a plan to move 117 prisoners off site to other prisons—Auckland prison, Waikeria Prison, and some to Mt Eden. Obviously, we moved the perpetrators to Auckland prison, to the most secure prison that we have, but some of the other prisoners who weren’t involved, who just got caught up in it, had to be moved because the cell blocks and the unit was damaged, so we needed to put them into more secure accommodation. The whole incident was contained within 10 hours. From the start at ten o’clock in the morning, it was all over by 8 o’clock at night.

Tolley The one thing that you didn’t talk about is the reason that it was short was because fire actually…?

Burns That we had to go in?

Tolley That you had to go in.

Burns That we had to go in early, because in a situation where there is just a riot, it can be a situation that we have some time. We have some time to sort of plan and get more teams available, and we go in when it’s the safest time to go in. With fire, we had to go in earlier than what we would have liked to have gone in, in terms of planning, just because we had to get people out of there to save their lives.
So, then, if the chief executive quickly talks about what’s happening now—

So, if I just pick up from there. Can I, first, just quickly acknowledge the fact that we did have a hugely serious incident, and I want to talk to you about the couple of inquiries that have commenced into that. But, first of all, I’d just like to compliment the staff, who did an amazing job on the day. It’s not easy when you’re chief executive of an organisation like this at any time, but when you’re sitting at the end of the phone, getting half-hour updates, as Jeanette did for me for 10 hours about how it’s going and what sort of risk is being managed, you know, that’s a difficult situation.

What I’m really proud of is the way in which we responded to that emergency. So on the ground we had Jeanette, who as incident commander led the event, straight down there from Auckland. We assembled people, and what’s really critical when you have an emergency is kind of having that leadership structure in place and making sure you can respond properly. Often these things go wrong in the response at the time. So we did that. We train for that. We train heavily for that. We have 300 people that receive specific training, and we train some of our leaders to a gold-standard level, which Jeanette has, to be able to manage an incident like this where lives are truly at risk. So we assembled, and we did everything according to the plan that we have. And I think, at the end of the day, that did save lives and it did mean that we resolved the situation well.

In terms of the tactical options, I just would also want to add weight to the fact that, you know, incidents happen in prisons, and, generally speaking, we’re able to wait them out. So you’ll see these from time to time. Where a prisoner gets on a roof or something like that, we don’t charge in and try to resolve the situation immediately, because, you know, that often puts lives at risk or people might get hurt. So if we can contain the situation and there’s no risk to public safety and there’s no risk to staff safety, then we will do that and we will negotiate with people until we de-escalate the incident. And you’ll see, most times, that’s exactly what happens, and it fizzes out.

This time we were left, because of the fire, with no choice but to actually act. There was never any risk to public safety or to staff safety at that point. What materialised was that the people that had started the incident were potentially going to burn to death in it, including people that were trapped in those cells. So we just had to send our people in. A big choice to make—a very big choice to make, and I think that’s where the training really paid off.

So acknowledging that it was a serious incident, two inquiries are currently under way. Of course, there’s always a police inquiry when there’s an event like this, so that has started. So going through the crime scene—that will take some time. There are a lot of people involved in this incident—a lot of staff and a lot of prisoners, including the emergency services. So there’s a number of people to work through. But that police inquiry will no doubt result in a range of charges and things, but that’ll take some time to put together.
The inquiry that we are leading is led by the chief custodial officer and two of his team. They are joined by the inspectorate that works independently for me and investigates all types of prisoner complaints and activities in the prison, and they are also accompanied by the Ombudsmen’s office. So the inspectorate and the Ombudsman work together on these things so we have a degree of impartiality that is brought in there.

In addition, we have health and safety consultant expertise that we will bring in to look at our own procedures and facilities that we’re running and how that’s going, and I’m also commissioning somebody from Australia to peer review the inquiry that we’re leading. So we’ll gather all the initial information, and get the inquiries under way. We’re very keen that someone external to the organisation—so a colleague in Australia—will also play a role in reviewing what we’re doing and asking those hard questions about what we can learn.

So the important thing for me now is the recovery. So an emergency happened. We responded well and did what people were trained to do. Now we must recover and we must learn from what happened, and the learnings are all important to inform the running of the whole prison system, as well as making sure that we get back running, in Spring Hill, as quickly as possible.

Dean Thank you. I’m going to take questions in a minute, but I also want to add this committee’s congratulations for the way, particularly, Jeanette on the ground, you handled this incident. I think it’s commendable that there was no loss of life in what, as we now know, was a very bad situation. So our congratulations. Can you pass on our appreciation to your staff?

Burns Thank you.

Dean Like, it’s important that they are acknowledged for their bravery, which they will be. And Ray, thank you to yourself. So now, members, I am in your hands, but I understand you will have some questions.

Goff Thanks, Madam Chair. Can I just add acknowledgment of the professionalism of the officers dealing with this that you’ve all reported on. Maybe if I just ask the question as a cluster, and you can answer what comes out of it. I presume this is probably the biggest event we’ve had in the prison system since “Pāre” in 1998 or Mt Eden, 1965, so it was big. The one thing that nobody’s addressed is the cause. So can you take us through what you think caused it. So that’s question No. 1.

Question No. 2—I read a report that the Howard League said that they’d had inklings of this several weeks earlier. And, usually—my knowledge of the way the prison system works—you have intelligence systems working. Why did those intelligence systems not work? Why did this come as a surprise?

The third, and the last area, is the weaknesses that this might have exposed. One, I’m concerned that people did have ready access to equipment and cleaning fluid that could be used as weapons and fire igniters. Two, I’m worried that the staff base—which I have always imagined, when I’ve gone
into a prison, would be secure, and it wasn’t. So why wasn’t the staff base secure? And the third thing is very alarming reports about the sprinkling system simply being totally inadequate. Is this the first that we’d heard of that, and is this a more widespread problem, really, across our prisons?

Tolley

So if I start by addressing, first of all, the causes. I’d have to say to the committee that, over the past 10 days, I’ve heard—and I think I said to the media yesterday—more causes of this than I have fingers on both hands. That’s what the investigation is about, and we shouldn’t be speculating. What we want to find out is what was really the cause. But I would also say to the committee that, in talking with officers, it could be something quite insignificant, and in the past that has been the case. So let’s not pre-judge it. That’s what the investigation is to find out—what was the cause of it. When it comes to intelligence—

Smith

Yep, I’m happy just to—they’re good questions. Just on the intelligence issue, we had no—you’re right—we have a lot of intelligence about what is happening around the prison system. We gather that in a range of ways, and we often act early when we receive some intelligence that something might be astray or something might be going to happen in a place, and there are a number of operations that we’ve conducted across the year that would have been in response to intelligence we received. We didn’t have any intelligence that there was any issue brewing in that particular unit or at Spring Hill. So that’s my understanding. So it would have been useful, if there was someone that knew something, that they actually picked the phone up—to me. It’s not that hard. But, you know, that’s my understanding.

There was a comment made by a Fire Service engineer about the sprinklers, because, I think, all of us were wondering about the sprinkler system. And, once again, the Fire Service will be part of the inquiry into, you know, how that all worked. I did get an apology email from the chief executive of the Fire Service. It was one person making a comment. I don’t think the person actually has inspected the scene or has been involved in the operation, but made a remark that perhaps they underperformed or weren’t inspected properly. If that’s the case, of course we’ll want to fix it, and we’ll want to understand what risk we’re running across the system. There’s no advantage in maintaining things that don’t work well. But I don’t think we actually know whether they failed or not, whether they were overwhelmed by the fire or not. They certainly appear to have worked well in the cell blocks. The cell block damage is superficial, so while it looks bad, it’ll be recovered quite quickly.

The staff base is an area—and I’ll come to that because you asked a question about that—which received the most damage, perhaps, in part, because the entirety of the staff base doesn’t have the same fire rating. It may have depended where this fire started from. So if the fire started—the staff base is a couple of levels—if it was high up in the staff base, it may not be an area that was “sprinklered”, if you get my drift. It may not have been well covered. I mean, that’s a fairly new facility; it’s only 6 years old. I’m aware that Fire Service standards have shifted in that time frame and that’s something that’s worth understanding. But certainly in the commissioning
of that building and all of the regulations that have to be met and the consents and requirements and the engagement with the Fire Service about the design of these things, you would hope that these things would work well. So if they haven’t, we have to learn that and we have to remedy whatever we’ve got around the place that isn’t meeting the standards. I just don’t think we know whether that’s the truth or not. It’s speculative comment. So—absolutely on to that.

The point about the staff base—I mean, as I said, this is a fairly modern design. I think it’s a good question and one that we have to understand in the review as to whether the staff base itself was able to withstand the damage that it took for long enough. So the way you want to think about designing prisons is that people will always try things from time to time in prison, to escape or whatever.

I note, just for the record, that this is the first year that we can find that we have not had someone escape from a prison. So well designed—

Tolley          Tempting fate!
Goff           Don’t tempt fate.
Smith          Notwithstanding that, it’s a huge achievement, and I think it’s a reflection of years. You know, this hasn’t happened just recently. It’s years of development of our prison system and making it stronger in New Zealand and lifting the standards—that this is the first year we haven’t had somebody break out in a 12-month period from a prison.

The question, I think, we’re turning to is: are some of the facilities inside of it strong enough to withstand damage? So if that attack on the staff base could have withstood a couple of hours of people trying to attack it, that would have given us much more time to respond. I think that’s a very legitimate question and one we have to understand in the review. I think probably it’s been a feature of more open, campus-style development of prisons in more recent years that some of the heavy security that is more familiar, perhaps, in a Pāremoremo or a Waikeria-type prison aren’t so much features of the more modern environments. There are heavy parts to them, but there has been an attempt, I think, to soften those environments and to reflect the fact that we really do want to turn these people’s lives around and rehabilitate them.

I think if there’s a rehabilitation prison in New Zealand that’s got almost everything you’d want, it’s Spring Hill. You know, a number of members here have been through the prison. So, you know, we’re incredibly disappointed that, given the opportunities available in that prison, that we ended up the position that we found ourselves in.

Dean           Can I just ask—
Goff           Sorry, can I just—
Dean           No, no, no—
Goff           There’s one piece out of that question—
Dean

Yes, I was just going to raise that—that there was just one other aspect to Mr Goff’s question, and that was access to weapons and how did they manage to ignite the fire.

Smith

Oh yes—good question. So a couple of things there. Jeanette initially pointed out brooms and that type of thing will be more readily available to prisoners that are kind of needing to do things in the unit. They did break into a storage area that contained sports equipment—volleyball poles and things like that. So, again, there’s a challenge there for—do you take everything away because you’re worried that somebody might do something? My view is that that will create more of a problem than if you kind of have things available. The test is how to get to get that balance right. So you always run a bit of a risk.

If you have a pool table in a unit, you give people access to a billiard cue. I mean, if they want to use it as a weapon, they can. But if you take everything away, I suspect we create a more hostile environment, than trying to manage those risks. There’s a real tension, though. How did they get access to the cleaning fluids? My understanding of how this happened is the cleaning fluids were contained within the staff base. So once they managed to get into the staff base, they managed to get access to a range of other things. So I’m pretty certain that that’s where the cleaning fluid was from.

Tolley

And they were cleaning at the time.

Burns

There were cleaning ________, to do the cleaning and the rec.

Smith

As for lighting the fires, I think, which is a question—it’s a really good question. You know, prisoners are very inventive, whether it is pulling wires out of the socket in a wall to create a spark or—you know, there are a range of ways from time to time. I’m glad to say that the incidence of fires is sort of 70 percent down on what it used to be since we banned smoking, but, from to time, they will still find a way.

Faafoi

Good morning. Can I also praise the officers for their work, too. We were pretty much told on the day that this incident was sparked by a gang-related incident. Can I ask about information of whether it was two gangs or more than two gangs that sparked the incident?

Tolley

No, I mean, I’m the one that talked about gangs, right from the beginning, but in the context that gang members were involved in this. So over 30 percent of our prisoners are gang members, and in this incident, my initial information was that there were gang members involved.

Faafoi

But not necessarily a tension between two or more gangs?

Tolley

No, no. Just gang members involved—just one gang.

Faafoi

The staff to prisoner ratio at Spring Hill is the second highest of, I hear, 3.3:1. Is that an issue? Do you have enough staff to control the muster, given that it has been increased in numbers with the double-bunking by about 350-odd?
Smith Yeah, let me talk about that, because if you look at that table you kind of go “Well, that looks out of kilter.” You’ll notice that each prison has a different ratio, which kind of tells you something. So how this is worked out is, first of all, it has the right number of staff, and it was staffed appropriately on the day. So those are things I know now. There are 404 staff at Spring Hill, and we’ve worked really hard to close down—sometimes prisons run large vacancy rates. We’ve worked really hard in this last year to close that up, so there were only 14 vacant positions. We’re down, sort of, about 3 percent, with a 7 percent turnover across the organisation. So that’s not what’s at issue here.

Your question about the staffing numbers there—they’re based on what each prison does. So Spring Hill is unique; it’s New Zealand’s largest prison, but it has no remand prisoners. So if you have a remand population, there’s a lot of movement of prisoners, as you can imagine, to and from courts, and so on, and they all have a high security rating. So the staffing ratios are worked out on the balance of prisoners you have. So they’re all sentenced prisoners and the larger proportion of prisoners in Spring Hill are in the lower security ratings because of the rehabilitative nature of the prison, and it also has a model that because there are a lot of prisoners going to trade training activities, where the officers are able to follow those prisoners in that activity. So it’s staffed appropriately for what that prison does, and you’ll notice that Rolleston Prison, which is a small prison in the South Island—also only for a sentenced population—also has a prison population of low and medium security prisoners, also has a higher ratio of prisoners to staff.

So if you go to prisons that tend to have lower ratios, they may carry a maximum security rating. They will have higher proportions of remand prisoners, which are all classified as higher security, and they may also, by design of the facility, require us to have more staff. Some of the older facilities are a bit harder to have a line of sight and a bit harder to move around in.

So when you look across that prison table, you’ll see that they’re all different. It’s a good question; they’re all different for that reason.

Tolley And, of course, the announcement that we’ve made today about AVL, and the increasing use of AVL, is going to make a big difference to the way that we are able to use and manage our staff.

Faafoi Just one more—Phil Goff talked about the Howard League having an inkling that some tension might be there. For the classification of inmates that we’re talking about in this case, is their unlock-up regime any different to the same classification in any other prison?

Smith Well, they’ll vary a bit. So high-security prisoners—obviously, the regime that we run is a little more careful, if you like. So it’s not as free as for some other groupings. Spring Hill’s regime will not be vastly different from anyone else’s. They all vary a bit, depending on who you’ve got, and the behaviour of the people that you’re managing, and the temperature of the unit, I think it’s fair to say. So it’s not a kind of flat rule around the regimes
that you run. You need to be careful—I mean, off the back of the incident, we had to adjust regimes, for example, just to make sure that we had good control across the system.

But it’s not my sense that the regime was unusual. It’s not my sense that the staffing was not appropriate or any of those things. I think what we will learn here is that we’ve got some tension that’s happened—it’s escalated beyond anyone’s expectation, possibly even the prisoners involved. I imagine those 27 people now are sitting in maximum-security cells, some of them wondering what they did, and their families will be wondering when they’ll ever see them again.

So, you know, I think the sad thing about this is that the people that really miss out are those prisoners’ families, who will probably not see these men for a lot longer, I suspect. The other thing is the 80 prisoners that we had to transfer to other prisons, who are now further away from their own families because of the actions of the small group of people.

Prosser Thank you ________for that briefing, also congratulations on your response and those of your staff. You’ve addressed some of the questions I had, particularly with regards to the security of the staff base. I’m wondering, though, about fire. Obviously, we know from your briefings to us on the corrections amendment bill the challenges that you have dealing with contraband in prisons. Can you confirm that since the smoking ban, lighters are actually prohibited?

Smith Yes. Yes, they are.

Prosser There was also a suggestion that the cleaning fluids—that it might possibly have been a combination of chemicals, which had caused the fire itself. Is that something that has been addressed, or is it part of your inquiry?

Smith Yeah, it would be part of the inquiry. So, you know, if we find that there are accelerants that are kind of unacceptable—that we can get fluids that kind of have lesser risk, then we will do that. I think the really important thing, from my perspective now, is that we learn from this. So you can’t have a large event like this and let it pass by without taking all of the learnings you can to make the system safer for everyone—for prisoners and for staff. So I really just want to assure everyone in this room that we don’t want to leave any stones unturned in this. We want to find out what we can find out, and see how we can, you know, reduce the risk of these things happening again.

The only thing I would say against that is, you know, we train very hard for the fact that we always run the risk that this might happen. I guess, for a long time we haven’t had to deploy people in this way, and sometimes people question the level of investment in all of the training and effort that sometimes does not ever get used. I think what this reminds everybody—whether it’s in corrections or any kind of emergency service—is that that investment in training and in leadership training and in those kinds of resources, you never know when you’re going to have to call on them, and not to diminish those. I was grateful that we were able to respond in the way that we did, because of the effort that goes in.
Tolley The other thing that’s worth mentioning, too—as much as we want to learn from this, we know that prisoners will also have learnt from this. And I think the point that we’re making, and everyone is well aware of, is that we’re always trying to stay one step ahead.

Dean OK. Thank you.

Clendon A couple of quick ones. This is probably the most serious incident, or the most dramatic incident, but it’s one of the serious incidents, isn’t it? In the last 6 or 8 months there have been blow-ups at Hawke’s Bay to Christchurch, Ngāwhā, Rangipō, Pāremoremo, of course—the stabbing a few weeks ago. That’s symptomatic of a high level of tension, of stress building up within the prisons. It just makes me wonder what is actually going—even anecdotally, we’re hearing about the crowding in prisons, that the smoking ban perhaps has influenced this. Surely there are some underlying causes. I appreciate, yes, it’s a short time. You might not have the cause of this incident pinned down yet. What’s going on in prisons? Is it a fair comment to say the tension levels generally are rising, particularly in the high-security areas?

Tolley No. I don’t think that’s fair at all. I think what is fair—

Clendon So explain then please the frequency of the incidents—

Tolley Well, what is fair to say is that there’s always tension in prisons. We are dealing with people who don’t like being locked up. You know, it is not a health camp, and there are some restrictions—in some cases, some quite severe restrictions—on what people can and can’t do. So there are always tensions. There are tensions between gangs. We’ve talked about that before. There are tensions between individuals. So the officers are dealing with that on a daily basis. That is life as normal.

We’ve had some silly things happen. Prisoners make silly decisions. They climb up on roofs, sometimes just because they can. I wouldn’t like to be locked up in a prison. People get bored, so they do things to relieve that boredom, and they make silly decisions. The important thing is the way we respond to that. So, first of all, we’ve got to make sure that public safety is never at risk. In the incidents, you know, with people climbing on roofs and things, as the officials have said, often you just wait them out—they get hungry, they get cold, or they get hot, and they come down.

Clendon But to come back to my point about the frequency, the repetition, the fact that we’re hearing also that prisoners are not satisfied that their complaints are being heard—sometimes unjustified, but often complaints are justified.

Tolley They don’t like being in prison, so they do complain—they don’t like their food, and they don’t like—

Clendon The lack of exercise, laundry facilities at Pāremoremo.

Tolley Yes, that’s right, and, in fact, I heard of one very serious incident that happened because there was cold water in the laundry, and not hot water. So that’s why you have to be very careful that small things in a very tight,
focused environment can set people off. Does anyone want to make comment?

Smith Yes, perhaps just to add to it. I know that three of the five incidents that you raised—just to give you a flavour of it—they were individuals who objected to something that was happening with them, and they weren’t all in high-security areas. So it wasn’t to do with the regime that was being applied. One prisoner assaulted another one, in one of those incidents you’re talking about. So we decided we needed to move that prisoner to a higher security classification, for the safety of all the other prisoners. He objected to that, and ended up on a roof.

So I wouldn’t want you to think that there’s some other, underlying issue. What I observe is that individual prisoners are challenged by officers over their behaviour, and from time to time they take actions that perhaps we don’t see coming, and it leads to something that’s bigger than any of us wanted to have to manage. That’s been my observation over 2½ years in the job. If I go back 2 years, we had five prisoners on a roof in the Hawke’s Bay. That was started by one prisoner—one prisoner—who had to be reclassified to maximum security because of his behaviour, and he managed to incite others to join him in doing something.

You have to learn from those things. It’s about how you manage those people when you do have to confront them over a situation. I think, on the whole, though, we do it well. But I don’t believe it’s because of the regime that’s being run. You know, the bed situation is good.

I think the other thing is that we are working harder than we ever have worked to give people rehabilitation opportunities. In fact, we’ve opened that up in a way that hasn’t been seen for quite a long time, I think, in New Zealand prisons. I think we had a real challenge to do this in our maximum security environment, where those people, too, need access to programmes and things that can keep them occupied, but trying to balance that against the safety of staff, I think, has been a real challenge. But we will achieve that.

Clendon Sorry, the other quick point—to return to this issue of sprinklers, I’m surprised at the lack of urgency. We’ve had a senior fire engineering manager suggest that the sprinkler systems are inadequate. We’re told that the inquiry will take a couple of months. I would have thought that would be something—I mean, this guy is not an Opposition MP. He’s a fire officer, he’s an engineering manager. It seems that we’re going to wait a couple of months. Can you tell us what—

Mitchell Can I just take a point of order on that? Sorry, can I just take a point of order, because I think that it’s already been explained that there are two reviews under way. I think to start pre-empting that, getting into the details, is probably not the right way for this committee to go.

Clendon I’m raising the issue, and I think Mr Smith’s willing to answer it.
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Dean We’ll ask Mr Smith to provide some covering comments in the context of the fact that there are a couple of reviews going. So to the extent to which you can answer the question—OK?

Smith I wouldn’t want you to think that the people in my organisation aren’t actively looking at what’s been done in terms of—we, and I have personally, approved upgrades to sprinkler systems in some of our older prisons in my time as chief executive. So we are constantly reviewing that. There are standards that we have to meet. So certainly the review, if there’s something to learn out of it, we will.

But, I would have to say, it won’t be unique to the New Zealand prison system, if there’s an issue with fire sprinklers, because the standards we have to meet are the standards everyone has to meet that builds a new building, and they are approved by the same bodies. So, you know, the Department of Corrections doesn’t decide what sort of sprinkler system it’s going to have. That’s actually largely determined through regulatory processes, through the consenting processes through local councils and the resource management requirements that we have to meet as an organisation that manages people in the way we do. It would be no different to other institutions.

Tolley Let’s get back to the fact that this was an individual officer who made a comment to the media. It wasn’t part of the investigation. The chief executive has had an apology, so that shouldn’t—it should form part of the investigation, all right?

Faafoi I’ve got two very quick supplementary questions off David’s questions. The first one—relatively, yes or no. Did the issue of the sprinklers functioning well during that Spring Hill riot—was it raised during the response to it? I think that’s a pretty simple question. And the second one is in relation to the half-dozen incidents that David mentioned. So you’re very confident that they were half a dozen isolated incidents, as opposed to symptomatic of something systematic that’s going on at the prisons?

Tolley Yes, there’s nothing to back that.

Smith Different prisons.

Tolley They were all different prisons, all different prisoners, all different reasons. This is business as usual.

Faafoi OK, and the fire sprinklers—was that raised at all in the response to the Spring Hill?

Tolley Do you have the sprinklers raised during the actual operation?

Burns No, the Fire were just advising us the whole time as to when we could go in, and they weren’t making any comments.

Tolley Certainly, damage from sprinklers. I mean, they certainly worked.

Smith Yes, my understanding is the sprinkler system worked in the cell block areas. If they worked in the staff base, the question is: did they become overwhelmed? Is there an issue at all, or is this what we could expect to see
from what was created in a fire? So I just don’t think we know the answer to that. What I can assure people of is, in the review that we’ll do with the Fire Service, who commission these things in the first place, if it needs to change, we’ll change it. There’s no question.

Tolley And the other thing to add in to that, in the letter of apology for the comments to the chief executive, there was also comment made on—because it wasn’t put in context of the emergency response—the way that officers reacted and everything that actually worked during the time of the incident.

Faafio Just for clarity, Madam Chair, the issue of fire sprinklers was not raised in the response to the riot at all?

Dean Do you reckon they were busy saving lives at the time?

Faafio I think it’s a fair enough question, because we’ve got some—

Tolley The fire didn’t raise it.

Faafio If it’s a “No”, that’s fine.

Tolley That’s right. Well, you’ve had that.

Faafio OK.

Dean I just want to talk about the incidence of fires in prison, because I think—was it Ray? Did you say that the incidence of fires has now lowered by something like, is it 70 percent, since the ban on smoking was introduced?

Smith Yeah.

Tolley Suddenly you don’t have to provide—if prisoners are smoking, then they have to be able to light their cigarettes, their pipes, or whatever it is that they’re smoking. So you’ve already got implements floating around in your prisons.

Mitchell They never had the system like on Wentworth?

Tolley I didn’t watch it.

Mitchell Oh, it was bloody good.

Dean OK. So that’s all immediately contraband?

Tolley Yes, that’s all banned now, which makes a big difference. But, as Ray said, prisoners are inventive. So they do do all sorts of strange things that can often put their lives at risk, and in this case they set fire to their exit.

Mitchell Ray, can I just commend you again on the great work that your staff did. It’s obvious that, because of the fire, your decision making was compressed a lot. Normally you would go into this cordon contained, and allow it to de-escalate. So you, obviously, made some really good, decisive decisions and resolved the situation, where you got 88 prisoners out safely with a fire going. So congratulations to you and your staff, first off.

The other thing that Ray highlighted, which is very important—during this whole incident, public safety was never an issue, which I think is really important. But around public safety, the Minister made a very good
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announcement in relation to AVL. You know, the public—that’s probably their greatest exposure, when prisoners are being moved to and from locations. Also, it comes back to the issue raised around staffing numbers. So I was just wondering, can you talk a little bit more about the announcement around the AVL and what it means?

Smith I guess, getting the audiovisual link between prisons and courts—it’s been running for a couple of years, it’s been going very well. If you think about—there are just over 2,000 people that are remanded in custody—if you’re on remand, you can appear in court every week, potentially. So that’s a lot of transports. That’s a lot of prisoners going in and out of the courts and prison cells, some of them having to be escorted with police in attendance. So if we can cut that down by having people go in front of an audiovisual link, where they never have to leave the prison, and they can appear in court and their counsel can appear for them in that way as well, then that increases public safety dramatically.

It’s actually a lot better for prisoners as well. A prisoner’s whole day gets disrupted by getting in and out of the court system. They often miss out on some of the other things they would get to do during a normal day. So for all involved and improved safety, it’s clearly much more efficient. So think of the kind of time savings and the clogging up in the court system of having these people kind of queued up in the court cells. It’s a very, very positive move. It’s using technology to the best effect, and I think it improves public safety at the same time.

Tolley And some of our most notorious prisoners, so someone like—is it Aaron Forden? That would require at least four officers to accompany him every time he goes to court, and Mr Faafoi’s friend Mr Taylor. You know, these are escapees. These are Houdinis.

Faafoi Thank you for that.

Tolley Well, you’re the one who goes and visits him. So if we’re able to keep them safe within the prison, and they have still their access to justice—actually the prisoners themselves that I’ve spoken to that have used it, prefer it, for the very reason that Ray has said, that they don’t miss out on all this. They hate hanging around a court all day, and often miss out on some of their programmes.

A very exciting development between corrections and the Ministry of Justice—almost $28 million to upgrade both the prisons and, in particular, the courts to allow that to happen. It’s working really, really well in Waikato, in Hamilton, and, I think, almost all the appearances there now are being done. So once it’s rolled out over the next 12 to 15 months, I think we’re going to see an enormous change.

Dean OK, thank you. I’ve got a couple more questions, and then we’re going to wind this portion up. Jami-Lee, then we’ll go back to Kris, and then Ian has got a quick question.

Ross Just back to Spring Hill, briefly. Ray, you talked about the need to balance, you know, keeping things away from people but also giving them access to
opportunities, and you made a comment about Spring Hill being a type of prison you’d want when it comes to rehabilitation. Can you talk to us a bit more about Spring Hill and for those of us who haven’t been there, give us a bit more context about Spring Hill, the type of programmes they have operating there, and how it’s all helping towards the whole rehabilitation of prisoners? Because, you know, we can dwell on the negative, but what are the positive things about the design of Spring Hill, about the prison’s nature that is actually benefiting corrections in general?

Smith

Sure. Well, if I start with the trade training facility there. I think it’s a leading one across the organisation. So you can go in and train to be a painter, a decorator, a plumber, drainlayer, in a range of engineering-type trades. If you see people participating in these environments where they’re trained by polytechnic tutors, they come out with trades qualifications and a real opportunity to get a job. People that participate in these trade training programmes also get to participate in a job club that we run there.

It’s run in combination with the Chamber of Commerce, so that people are getting CVs prepared and getting introduced to employers, so they can get a real job when they leave Spring Hill prison. If you are a Pacific prisoner, of which there are a large number at Spring Hill, there’s a specialised programme tailored there for you, where, again, there’s a large involvement of community members to help with that reintegration, which is so important for prisoners. So it is how you go when you leave prison, often, that’s the biggest challenge.

Tolley

And if can interrupt, on the Friday night before the riot, of course, they were on television, the Pacific group who have made a CD—the choir, so, you know, using their culture is part of the rehabilitation and they released that CD, which—the proceeds go to charity.

Smith

Child Cancer, I think.

Tolley

Yes, I think it’s child cancer. Sorry, I didn’t mean to interrupt.

Smith

No. So, I mean, I think that’s a very important programme. We rebuild Housing New Zealand houses there, which we are about to start in Rolleston to support the Christchurch recovery. So 30 houses a year go out of Spring Hill prison, so State house tenants get an upgraded house. So that works in a whole range of ways. People get to pay back. They get to earn a little more, and they leave with a skill that is hotly in demand in New Zealand now, and that is core labouring and building – type skills. There is a Whare Ōranga Ake programme there, which is a Māori reintegration programme. So, again, if you are a Māori prisoner—the opportunity to be just outside the wire, still be monitored by the prison, but engaged with local community organisations that, again, help you make that transition back with your family, with housing, with a job.

So if you’re in Spring Hill prison you’ve got access to a vast array—that’s not to mention the education programmes, the intense programmes we run for drug and alcohol rehabilitation and all those types of things. It’s really a prison which we tried to capitalise on the design of it. You know, a
thousand prisoners there—it’s a large prison—and at times will carry the most prisoners of any of New Zealand’s prisons, and that, I guess, brings the risk element with it. You’ve got a large amount of men in one location, and from time to time, you know, there’s a risk that something will go wrong.

What I’m really proud of is the fact that we are doing well to not restrain ourselves and be scared to actually try things with people. Those risks are always there, and the only way to minimise them entirely is to never try anything to rehabilitate anyone because you’re scared they might do something. I am really pleased that staff aren’t doing that, and I’m really pleased we’re being backed to go a bit further in trying to rehabilitate. A challenge we will have is always making sure that those people at the higher security end are managed in a way that does not expose the rest of the prison population to that sort of risk.

Ross Just on the trade training, that’s a really good scheme because you want them to come out the other end with some skills so they can go out and get a job, be more stable in their lives, and have less chance of reoffending. What’s the extent of the trade training programmes within corrections? How many prisoners are going through that? What are some of the benefits of that?

Clendon I raise a point of order, Madam Chairperson. I’m pleased about all the questions, but I think, in this context, we’re on limited time and we still have the review—

Dean Yes.

Clendon Jami-Lee has an opportunity to visit the prison, as many of us have done. It is a good example of a modern prison in many ways.

Dean Yes, thanks for that. This is the second question from the Government side of the committee. There have been something like eight questions coming from the Opposition side. I think it’s a good question. We’re in the corrections estimates examination, it is in scope, so I am going to allow it. Thank you.

Smith Thousands of prisoners are participating in programmes that lift their qualification standards.

Tolley And expanding.

Smith And expanding, every day. I think tomorrow the Minister will turn the sod in Rolleston Prison. Again, when the housing yard there opens, that means another 50 prisoners will get access to learning trade training skills that will be valuable in Christchurch. I think the trade training facility we have in Christchurch Men’s Prison is one that I’m really very proud of. Again, we’re training people in trades, where employers are able to go in and see these men working and understand who it is they might employ next. So organisations like Fletcher’s have been inside the prison to have a look at what we’re doing—amongst a number of other employers. There’s a real demand for people with decorating, you know, painting, paperhanging—we teach that inside the prison. In fact, some of the facilities are better than
anything you’ll see anywhere. So I think we’re giving thousands of people an opportunity to get out and live an offence-free life. Ultimately, they have to grab hold of it.

Tolley And you would have seen in the *Dominion Post* this week, of course, Visa Wellington on a Plate. One of the major trades that the prisons have always trained in is catering, and, of course, Martin Bosley. There is actually, as part of Wellington on a Plate, a dinner that is being held out at Rimutaka Prison that will be catered for by prisoners that are being trained by Martin Bosley. You can buy tickets—$70. I can organise a ticket for you, if you want. That is to show that these people do come out of prison with some good skills. The qualifications—we’re working with people like The Correspondence School, with local polytechs. So all the qualifications that they’re getting, they’re not prison qualifications, they are NZQA qualifications.

Ross _________helping towards the target of reducing reoffending by 25 percent, or _________?

Tolley Yes. The target is a 25 percent reduction in reoffending by 2017. Already they are just over 9 percent.

Dean OK, I’ve got a supplementary question from Katrina, and as members are probably observing, we have broadened the estimates examination. We’re going a bit further than Spring Hill now.

Shanks I think you raised a really good point about the good work you’re doing in terms of trades and giving them, really, the skills and getting jobs outside the walls. I suppose a big criticism of Governments has been that we have these great initiatives, we have these great programmes in place, but we don’t actually measure them for their success once they actually leave. Do you have any mechanisms in place to follow, or do you have the ability to be able to follow them once they leave to see actually, following through on the other side of them?

Tolley Yes, yes.

Smith And the recidivism index that we run, the measure that we run—so the 9 percent achievement level the Minister is talking about is directly from measuring the success rate of people that have been part of the system, whether it’s in community corrections or in prisons, and whether they are actually living offence free and not coming back before the courts. We don’t follow every individual to see whether they are still in work, but I think we can get a lot of knowledge now, and we can get that broken all the way down into local probation and prison sites. So that kind of information hasn’t traditionally, I think, been available. So it does give us a sense about whether the whole investment is working.

Something that’s hard to measure—but, I think, the Minister mentioned the Martin Bosley Wellington on a Plate initiative—is community leadership. Prisons and corrections staff can only do so much. But these people all live in our communities and for people like him to take a community leadership role, he would say himself he wasn’t sure about dealing with prisoners and what their entitlement should be. He has changed his mind about that, and
he will change the minds of a lot of people who we need to give these men and women a hand when they come out of prison, if they are to truly live offence free. So, you know, good on him.

Tolley And one of the other things that corrections has been doing—to pick up on that community leadership and the employment aspect—is having open days and inviting employers. You heard about the relationship with the Hamilton Chamber of Commerce. There have been a couple of very successful days in Auckland where employers actually come into the prison and see the skills that are being developed, and the comments that I’ve had is, one, they cannot believe the quality of both the facilities that we’re providing and the instruction. And, two, they’re impressed by the real attitudes of the prisoners, who really do want to turn their lives around.

Of course, one of the big problems we have is we provide with all that and then we let them out of prison, or they finish their community sentence, and off they go into the community. So the Budget has provided $10 million in funding over the next 2 years to fund a programme we’re calling Out of Gate, which then puts support in behind them to link them with a provider who will then help them with all of those things that confront them, particularly when they come out prison—housing; making sure that they do have transport; if we’ve arranged employment for them, that they are able to get to that employment; supporting them through those very difficult early months following their release; joining up all the dots for them.

Because very often their intentions are great, but it doesn’t quite come together when they get out, so it’s easy for them to fall back into the old ways. So we’ve put a big investment into them in prison. It is worthwhile then following that through and making sure that we’re supporting all of that investment by getting them settled and sorted in their after-prison life.

Dean Thank you very much. I’ve got a couple more quick questions on corrections, and then that will be it.

Clendon To the estimates—your capital budget for this year is effectively doubled, to be about $350 million. A lot of that will be Wiri, presumably. I’d just be interested—two questions. First is, when Wiri opens—I think 2016 is the target?

Tolley 2015

Clendon Thank you. To me I can’t get away from the fact that that’s going to create overcapacity in the prison system, for expending a lot of money at that site—about $900 million over its 25 years or something. So just a question about—are we not leading to a point of overcapacity when Wiri opens? Second question: is there anything in the capital expenditure reflecting—a year ago you had a seismic survey of prisons and associated buildings done, and I understand you got remediation work under way. How much are you spending on that remediation work, and at what point, as an aside, might we get a look at that report you receive from—
Tolley OK, so the first question is around over-capacity that Wiri might bring. Actually that would be a blessing, and we’ve talked about Spring Hill and the fact that the way it’s designed as a very modern prison has enabled us to deliver more rehabilitation services. If you look at some of our old prisons, and I’m sure you’ve been in and had a look at the two that we’ve closed, there’s no way in that environment that you could provide for good rehabilitation. We still have other prisons that aren’t that bad, but I think of some of our prisons—like, I feel sorry for Invercargill Prison. So the structure of those makes it very difficult to provide rehabilitation without some major work. So yes, Wiri will give us the flexibility then to have a look at and further develop, and there are plans to further develop our other prisons, so that they are more amenable to the modern requirements. But that’s not until 2015.

Of course, we’ve had a setback, and that report that I’ve made available to you shows that we have had a setback, because we are going to have to do some rebuilding now at Spring Hill, and that will mean we’ll have to put on the back burner some of the things that were planned, until we catch up with ourselves again.

There is a remediation plan, and I will ask Ray to address that, regarding seismic, and that’s under way now because that has to be done. But I think the report—we’ve released a précis of that—does contain some quite commercially sensitive information, so if we released it, it would be very heavily redacted. So I think the précis that we did release gave you the flavour of that. Do you want to address the—

Smith Well, just to add to the seismic—yeah, I think we’ve done a good job of it. It’s a big plan. It covers a 5-year remediation period. Those things that we were most worried about, we gave ourselves a 12-month time frame, which runs out this August. We’re running faster than any requirements anyone has set anywhere, legislatively, and we will have fixed the things that we were most worried about within a 12-month time frame—fixed or closed—and throughout that programme, depending on the degree of risk, it depends on how quickly we invest in the solution.

When we talk about the cost of it, I mean, it’s in the millions. I can’t actually remember what the total cost will be, but it’s manageable. The important thing is it’s manageable within our capital expenditure line. It doesn’t give me any concern that it’s going to restrict any other activity in the department. In fact, it’s been a useful review, and I’d commend all organisations to do it, where they have large building portfolios, to get in and understand what they’ve got and how they can remedy it.

Some of the remedies that are available mean you don’t have to spend that much money and you can keep facilities open, but you can significantly lift the earthquake risk rating of buildings. I know people worry about it. You know, councils worry a lot about the cost of it, but we have been commended for the work that we’ve done in this, because we got in early and we worked out a plan and it’s now part of our capital stream. It’s important to the safety of our own people.
2013/14 ESTIMATES FOR VOTE CORRECTIONS

Clendon  Sorry, so you say you are on target for those R1 buildings, those high-risk buildings?

Smith    Yes we are—absolutely, we are.

Clendon  You’ll get—

Smith    Yes.

Dean     The final question comes from Ian.

McKelvie Thank you, Madam Chair. I just want to go back to the reintegration and reoffending sort of issue. You talked quite a lot about that this morning, really, but I was interested in—and you talked also, earlier, in respect of Spring Hill about your relationship with the Fire Service I was interested in—your relationship with the police, and how you partner with police in lessening the reoffending.

Smith    Perhaps I could start. I mean, I think the relationship with the police is probably the best it would have ever been, and it’s been good for a number of years. So we’re in this together, really. I mean, between the police and ourselves there’s nearly 20,000 employees, and what I see on the ground—when the police and corrections staff get together to manage risk, they significantly reduce risk in the community by keeping an eye on those people that are on probation. So we do that work together. We share the information we have, to make sure that communities are as safe as we can possibly make them. But, likewise, we receive incredible back-up and support from the police. So I think that with what happened at Spring Hill, the police were on the scene, they had 30 staff there, I think, almost immediately. We had access to all that they could provide, and that’s a reflection of the very positive relationship and regard that we hold each other in.

Smith    There are some more emblematic examples. We will open the new police station—

Tolley   We’ve already opened it, at Christchurch.

Smith    New Plymouth?

Tolley   So the Christchurch temporary station has both corrections and police in it, and they’re finding—if they were redesigning that again, as they are for the new justice sector in Christchurch, they would be much more integrated. They’ve found that working together has benefits both ways. The new New Plymouth station—

Smith    That’s opening in July, I think.

Tolley   It’s due to open in August, I think.

Smith    That’s a very good model because, you know, in a community that has remand prisoners, where the prison is a long way away from where people live, it means that police and corrections are using a common work base. Rather than creating two facilities, we’ve got one. That’s common sense.
Tolley  So we’ve got shared cells in that new station, and, again, those guys are working together and have designed it so that they can not only share facilities but share intelligence, and that’s working.

And then there’s a number of joint projects. So from public safety of course, there’s the sex offenders register—all the work that’s happening on that has been done by police and corrections. The e-bail, and there was money in the Budget for the transition of the management of e-bail from police to corrections, because that’s what they’re good at, but the two still working together. So, you know, public safety is at the top of the requirements for both police and corrections, and so there’s just a whole range of areas now where they’re working together and finding that they can make an enormous difference by sharing knowledge and sharing the management of some of the activities.

Mallard  Just on not exactly that question, but you had an approach, I think, yourselves and the courts from the police to do with Lower Hutt to do a similar joint project there. What’s your reaction been to that? Any time scale?

Tolley  Yes, so that’s part of what’s called joining forces, and there’s a big piece of work happening around that.

Mallard  No, but there’s a physical reconfiguration or not?

Tolley  I think they’re looking at that. I’m not 100 percent sure of where they are. We can find out and get back to you.

Mallard  Can you give us a note. The police have asked.

Tolley  Sure.

Dean  Just one final from Jami-Lee and then we will wrap it up there, unless anybody has—right, Jami-Lee.

Ross  Can I just ask about something that’s been in the media recently—the announcement you made around the alcohol bracelets. Can you talk to us about what the extent of that programme is going to be, how far it’s going to go, and how much of an impact you’re expecting that will have?

Tolley  So this is another joint project between police and corrections. This is an attempt to make sure that where the court says you’re out on bail, or you’re out on parole, and you’re not allowed to drink alcohol—at the moment we rely on corrections and police to keep an eye on people, to make sure that that doesn’t happen. Technology enables us, by the use of ankle bracelets, to monitor, and we’re going to start by monitoring—well, first of all, we’ve got to change the legislation—about 200 to 300 of our most high-risk offenders. These bracelets can detect through the skin whether alcohol has been consumed. I understand it’s through sweat and through body temperature. That enables us then to manage these people better, especially where they’re at risk. Often these high-risk guys are quite violent when they’re under the influence of drink, which is why the court imposes that.

The agreement with police is that they will do some random testing, some normal breathalyser testing, when they’re doing a blitz in an area, working
with corrections, but we’re going to look to roll out the use of ankle bracelets and make sure that people are abiding by the requirements of the court. That, again, is to protect the public from these people.

Ross  Are you expecting a lot of efficiency gains to free up staff time? Will it mean you can do other things with the time available?

Tolley  It’s not really being driven by staff efficiency. It’s really being driven by making sure that people are abiding by the conditions that the courts set, and technology is evolving so rapidly in this area that we’re taking advantage of that. I mean, at the moment the technology means that it’s not real time, but we think by the time we go out next year, by the time we get the legislation through, and I’m sure that the Opposition will be supporting us with this, that technology will have evolved so that it will be real time. The ultimate would be GPS and alcohol, so that we could track them and know when they’re on the way to the pub, I suppose. But it’s just making use of technology to get better accountability and better management of these really high-risk offenders out in our communities.

Ross  And reducing reoffending.

Tolley  And reducing reoffending. Because it is a deterrent—if you know you’re going to get pinged, you’re less likely to go and get yourself into a position where you are drinking.

Dean  Thank you, Minister, and thank you, Ray also, and particularly, Jeanette, for coming down to brief us on what happened at Spring Hill. Once again, thank you for what you do.

**conclusion of evidence**
# 2013/14 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 2014 for Vote Courts, administered by the Ministry of Justice, as set out in Parliamentary Paper B.5, 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 2013/14 amount to $719.139 million, an increase of $13.984 million on the estimated actual expenditure in 2012/13.

Electronic Operating Model
From 1 July 2013, implementation of the justice sector’s Electronic Operating Model will begin with the electronic filing of Police charges. We asked why the implementation of the electronic filing of judicial decisions has been delayed until 2014. We heard that an audit of the Ministry of Justice project found the programming to be more complicated than expected. Some processes have already been tested, but real-time live trials of the system will also be conducted before the progressive implementation at courts next year. The technology will reduce the time involved in handling documents and make them more easily accessible. We will follow the implementation of the Electronic Operating Model closely.

Audio-visual links in courts
We asked how judges and offenders have reacted to the use of audio-visual links (AVL) in courts, and what savings have been made. The Minister told us that risks are significantly reduced when prisoners need not be moved around the country, and savings are made in transportation costs.

We understand that there are various opinions on AVL; prisoners like it because it is less disruptive, while lawyers regret they cannot meet their clients personally at court before hearings. However, AVL allows support people to see family and friends in prison, and victims can choose to sit somewhere in the courtroom where they cannot be seen on camera. The system is being used for administrative matters rather than defended hearings at present, and will be expanded to a further 14 district courts and nine prisons over the next two years. Prison visits by family members can also take place using AVL, when they might not to be possible otherwise. These contacts are important for rehabilitation.

We heard that web-based Family Court hearings conducted between courts and lawyers’ offices are currently being trialled. Conducting hearings this way speeds up the process while reducing costs such as driving time. We look forward to following developments in this area.
Auckland District Courts centralisation project

During the hearings for the Family Court Proceedings Reform Bill there was some criticism of the Auckland District Courts’ Centralisation Project. We wanted to know what lessons had been learnt from the process and whether the court system in Auckland is now functioning well. We heard that the project had been divided into discrete pieces of work, resulting in oversight of the whole process being lost. A key lesson learned was the importance of timely, frequent communication and engagement with stakeholders, particularly during the transition to implementation. Practical trials of systems before implementation are also critical.

We understand that additional staff were initially brought in to cope with work volumes, which had been underestimated. We were pleased to hear that collaborative working groups have since been set up on a range of matters, including Family Court reform issues, and the department now has a more open and responsive culture where staff take responsibility for problems, and propose solutions and new ideas.
Appendix

Approach to this examination
We met on 13 June and 4 July 2013 to consider Vote Courts. Evidence was heard from the Minister for Courts, Hon Chester Borrows, and the Ministry of Justice, and advice received from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Hon Lianne Dalziel
Paul Foster-Bell
Julie Anne Genter
Andrew Little
Alfred Ngaro
Denis O’Rourke
Katrina Shanks
Hon Kate Wilkinson

David Clendon replaced Julie Anne Genter for this item of business.

Evidence and advice received
We considered the following evidence and advice during this examination:
Minister for Courts, Response to standard Estimates questionnaire.
Minister for Courts, Response to committee questions, received 12 June 2013.
Office of the Auditor-General, Briefing on Vote Courts, dated 30 May 2013.
Vote briefing paper, prepared by committee staff, dated 13 June 2013.
2013/14 Estimates for Vote Customs

Report of the Foreign Affairs, Defence and Trade Committee

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2013/14 ESTIMATES FOR VOTE CUSTOMS

Vote Customs

Recommendation

The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Customs as set out in Parliamentary Paper B.5, administered by the New Zealand Customs Service, be accepted.

Introduction

The total appropriations sought this year for Vote Customs amount to $173.03 million, down from the estimated actual expenditure in 2012/13 of $208.967 million. Significant allocations include over $72 million for clearance and enforcement services relating to goods, nearly $54 million on clearance and enforcement services relating to passengers and crew, and nearly $14 million on information and intelligence services.

Joint Border Management System

The first tranche of the Joint Border Management System, which will provide the New Zealand Customs Service and the Ministry for Primary Industries with a single customs and biosecurity system, is due to “go live” in August 2013. There have been delays and modifications to the project, some of which we discussed during our consideration of the 2012/13 Estimates for Vote Customs. The Minister said that such issues are to be expected when rolling out a multi-faceted information technology system, and noted that some modules had proved unexpectedly problematic. We heard that some of the changes to the system were driven by other agencies such as Medsafe, and the merger of the New Zealand Food Safety Authority into what became the Ministry for Primary Industries.

The original budget of $75 million for the first tranche is due to increase to around $89 million. We were told that the overrun is mostly due to a reclassification of some operational spending as capital expenditure and it has been split between the Customs Service and the ministry. New information technology systems are invariably expensive. In the light of the projected overrun, we asked whether an off-the-shelf system could have been an option. The Minister explained that New Zealand’s customs arrangements have some unique elements, such as regulatory requirements relating to food safety and medicines, which necessitated a bespoke IT system.

All the stages of tranche I have been tested and trialled. We learned that the current Customs Service IT system (CusMod) would run in parallel with the Joint Border Management System for the next 18 months as a backup in case the new system encountered any serious issues. While we recognise that running the two systems at once incurs costs, we agree that implementing a new IT system only to have it fail would have a catastrophic effect on our import and export markets.

We noted that the risk of a 48-hour failure of the current CusMod system has been assessed at 15 percent, but were told that in practice over the last two years the total outage time has been only about two hours and 40 minutes.
Online purchasing

In his opening remarks the Minister told us Customs was looking at options for collecting revenue from the ever-expanding volumes of low-value online purchases coming across the border.

Customs does not collect import duty and GST on imports when the amount due is under $60. If GST only is payable, the $60 de minimis charge applies when the consignment’s landed value is $399 or less. Customs and IRD are investigating ways of collecting revenue for purchases below the de minimis. One option under investigation is whether electronically tracking overseas credit card purchases could be a means of efficiently collecting GST revenue. The Minister stressed that this was only an option, and acknowledged the many difficulties and viewpoints involved.

Cooperation with other countries

We asked how Customs was working with China to combat the importing of substances that are precursors to drugs such as methamphetamine. The Minister told us Customs received “fantastic” co-operation from China; the Minister had recently met with his Chinese counterpart, there are personnel exchanges between the services of the two countries and regular meetings with Chinese narcotic authorities, and customs intelligence is shared.

In the South Pacific, Customs is working with its counterparts in the Cook Islands to improve their border management and systems to ensure it is not a back door into New Zealand. It has also been working with Tonga and Vanuatu.

Psychoactive substances

We asked what measures Customs would be taking to combat the importation of psychoactive substances once they become illegal under new legislation. Customs told us that border assessment in this respect would be easier, as the onus would be on importers to prove their product is legal. Customs is briefing its border security staff on what to look for, and IT systems allow Customs to profile likely channels and shipments. It is also working with Environmental Science and Research to establish a scientific database of the chemical signatures of the substances to aid identification at the border. About four interceptions of psychoactive substances are made daily.
Approach to this examination

We met on 10 and 11 July 2013 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 2 July 2013.

Minister of Customs, Response to standard Estimates questionnaire.

Response to additional questions, received 1 July 2013.
# 2013/14 Estimates for Vote Defence, Vote Defence Force, and Vote Veterans’ Affairs—Social Development

Report of the Foreign Affairs, Defence and Trade Committee

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Vote Defence, Vote 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 2014 as set out in Parliamentary Paper B.5 for Vote Defence, Vote Defence Force, and Vote Veterans’ Affairs—Social Development administered by the Ministry of Defence, the New Zealand Defence Force and the Ministry of Social Development, be accepted.

Introduction

The total appropriations sought for Vote Defence in 2013/14 amount to $240.635 million, representing a 47 per cent increase on the previous year’s actual expenditure. The increase is mainly due to an increase in non-departmental capital expenditure on defence equipment, which the ministry purchases for and on behalf of the New Zealand Defence Force.

Vote Defence Force seeks an appropriation of $3.018 billion. This amount includes for the first time appropriations amounting to $156.269 million that were previously allocated under a separate vote, Vote Veterans’ Affairs—Defence Force.

Vote Veterans’ Affairs—Social Development seeks a total of $167.448 million. This is a decrease of $4.3 million from the previous year’s estimated actual expenditure.

Vote Defence

Performance review

Last year’s Performance Improvement Framework review of the Ministry of Defence rated the ministry’s capacity as weak in almost every category it examined. We asked what the ministry was doing to remedy the shortcomings identified in the review when there was no plan to provide the additional resources needed for senior staff. The Minister noted the ministry’s requirement was consistent with the Government’s expectation of the public service raising its performance within budget baselines. The Secretary of Defence has also undertaken a reform programme to make the ministry more resilient and sustainable. This will involve reducing corporate services costs to fund improvement in areas where there is a need, such as policy, evaluation, or acquisition services.

Aircraft upgrades and replacements

The Minister told us that four of the Air Force’s Orion aircraft had been updated to the new P3-K2 standard, with two more to come. The complex upgrade of the aircraft’s data management, radar, communications and navigation systems greatly improved their surveillance capability.

Three upgraded C-130 Hercules aircraft have been delivered and are operating under an Interim Supplemental Type Certificate. The upgrade replaced mechanical, avionic, and structural components, and improved flight deck communications and navigation.
equipment to meet evolving air traffic management regulations. Two aircraft are still being upgraded by Safe Air Ltd, which is expected to take the rest of this year.

Four of the eight new NH-90 helicopters have been introduced into Air Force service. The rest are arriving next year. The initial operational programme is going well and the helicopters have already been used in co-operation with army training.

**Vote Defence Force**

**Attrition and capability**

In his opening remarks the Minister provided figures indicating that previously high levels of personnel attrition and low levels of staff engagement and morale had begun to improve. The attrition rate is now just above 15 percent, which is below the public service average of 17 percent.

We noted that appropriations for the navy and the army were reduced by $62 and $35 million respectively from last year, and that overall numbers of Regular Force personnel are down approximately 15 percent from five years ago. We asked what impact this had on Defence Force capabilities.

The Minister said the current Regular Force of 8,500 personnel were able to meet the Government’s expectations set out in the 2010 defence white paper. He suggested that the force might have had too many personnel previously, and that a force of between 8,500 and 9,000 was sustainable for the future. The Chief of Defence noted the lower appropriations reflected the winding up of major deployments to Afghanistan, Timor–Leste, and the Solomon Islands, reducing the need for training and support activity. Last year’s appropriation to the personnel budget included a one-off remuneration increase and a buy-back of allowances. Also, expenditure on salaries is less than in previous years as the Defence Force now has relatively more junior personnel.

We asked how high attrition rates, especially in critically skilled leadership ranks, such as Sergeant and Warrant Officer equivalent ranks in each service, could be sustained without diminishing capability. The Minister acknowledged this as a valid concern, and said that the military was focused on rebuilding skills it had lost, but he maintained the military could still perform all the tasks the Government has asked of it. Retaining personnel in crucial leadership areas has always been a problem for the military, as their loss degrades capability, but it can be replaced by those rising through the ranks.

**Death of Private Ross**

We noted the death of Private Michael Ross, who was drowned during an army boat training exercise near Waiouru in September 2012. Six major factors were identified as collectively causing his death, and we asked if the event reflected the low morale and high attrition in the military at the time.

The Minister agreed that he was very concerned about the incident, and said Private Ross’s family had every right to be completely appalled. He disagreed, however, that the incident was linked with attrition and morale. In the wake of the incident, the Minister had asked for a wide-ranging inquiry into the military’s safety procedures and culture. It would use both military and independent experts to assure the New Zealand public and serving personnel that the military’s culture was thoroughly assessed.

The Minister undertook to be transparent about the content of the inquiry report when it became available.
Adequacy of deployment training

We cited a coroner’s report into the death of a serviceman in Afghanistan which raised concerns about the training and preparation of the CRIB 19 deployment of which he was a member from September 2011 to April 2012. The Officer who commanded the deployment told us that reduced training put pressure on the deployment to achieve competencies in situ that would normally have been acquired before it left New Zealand. However, he was satisfied the CRIB 19’s level of training was sufficient to be deployed, and then to conduct the further necessary training in theatre.

The Minister pointed out that the Coroner’s report was suppressed and that it was inappropriate to be referring to it.

Joint officer training

Deployments conducted over the last decade have involved more joint operations by the three services, and one of the lessons learnt is that officers need to feel comfortable working in a joint environment. An officer’s training and career path will now incorporate more interactions with the other two services and opportunities to increase inter-service knowledge. The Chief of Defence Force told us he wants to increase the potential for postings between the three services in order to cover gaps, although training in specialist skills for the Army, Navy, and Air Force will also continue separately.

Relationship with United States

The Minister told us that, in his view, the relationship with the US continues to progress well, with increasing political and military interaction during the last year. The 10-year deployment in Afghanistan had provided New Zealand with new skills and many opportunities to work with the US, which the Minister was keen to maintain. The ability to conduct exercises with and learn from US expertise in marine amphibious deployment would be valuable to New Zealand as we develop our own capability in this area.

Last year’s attendance at the naval RIMPAC exercise in Hawaii was the first for New Zealand in 28 years, and was a milestone for the warming relationship following the Wellington declaration. We heard that the exercises had provided huge operational benefits for New Zealand. Following the signing of the Washington declaration in June 2012, the US has waived the restriction on our access to US military ports, and recently a New Zealand frigate had berthed at the US naval base in Guam.

We were told that the US had highly regarded New Zealand’s contribution in Afghanistan, and found our personnel highly trained and professional. New Zealand’s Provincial Reconstruction Team and our special forces’ contributions were highly regarded and served to illustrate that New Zealand was willing to carry out its international security obligations.

Networked enabled army

With regard to the plans for a Network Enabled Army as outlined by the Minister, the committee requested the Ministry of Defence, the Defence Force, the Ministry of Foreign Affairs and Trade and other New Zealand agencies as appropriate, to provide a written briefing to the committee on the implications under international law for New Zealand of the use of unmanned aerial vehicles and other robotic devices of potential use in military operations.

The report would have particular regard to the enquiry being undertaken by the UN Special Rapporteur.
Middle East deployments

We asked about New Zealand’s continuing presence in long-established peacekeeping operations in the Middle East, such as the United Nations Truce Supervision Organisation (UNTSO) and the Multinational Force and Observers missions. The Minister told us that while they provided an opportunity for New Zealand to contribute on the world stage, New Zealand’s peace-keeping deployments were being reviewed to clarify the reasons for our presence, and to ensure that existing such deployments were aligned with New Zealand’s political and military interests.

Syria

New Zealand currently has eight personnel with the UNTSO mission on the border of Israel, Lebanon and Syria. The deteriorating security situation in Syria has disrupted peace monitoring operations. On one occasion a New Zealander serving as a UN observer was briefly detained by the Syrian military, before being released unharmed. While neither side in the Syrian conflict is targeting the United Nations presence, their observation points on the high ground are valuable as weapons staging areas, leading to UN observers getting caught in the crossfire between the factions.

The UN had restricted its patrolling and abandoned some of its most dangerous observation posts. The Chief of Defence Force said New Zealand personnel now only operate in demilitarised areas on the Israeli side of the border, so are relatively safe.

Veterans’ Affairs appropriations

War Pensions Act 1954

In October 2012 the Government announced it was preparing legislation to update the War Pensions Act 1954, and that it intended to introduce it in early 2013 with changes to come into effect from 1 July 2014. As yet, no legislation has been introduced into the House and we queried the delay. The Minister remains hopeful that legislation will be in place before 1 July 2014 but noted that updating a 60-year old Act was throwing up a number of technical drafting challenges. He went on to say that there would be no financial implications because of the delay.

Law Commission Review

The War Pensions Act has been updated following the Law Commission’s review of the Act, in which it made 170 recommendations. The Government accepted 132 of them in full or in part. Many of the recommendations it did not accept relate to the War Pensions Appeal Board, which the commission recommended be replaced by a tribunal, to be supported by the Ministry of Justice; a cost analysis found that it would cost twice as much as the existing arrangement.

Information technology systems

During our consideration of the 2012/13 Estimates for Vote Veterans’ Affairs we discussed a planned upgrade of VANZ’s information technology system. We are aware of subsequent contract delivery performance issues resulting in VANZ terminating a contract. We heard that a new contractor was being sought, and that the project was due for delivery in 2014/15. The Minister assured us that terminating the contract had not imposed any financial costs, but he noted that there would be extra costs to reconfigure the IT system to meet any new legislative requirements from an updated War Pensions Act.
We were pleased to learn that the current IT system would be retained during the initial phase of the upgrade, and would act as a backup for the introduction of the upgraded system.

**Managing commemorations**

In 2013 there will be a number of events commemorating World War II and the Korean War, and 2015 is the 100th anniversary of the Gallipoli landings. Veterans’ Affairs New Zealand and the Ministry for Culture and Heritage continue to plan for events to mark this anniversary. We were told that attendance at the Gallipoli commemorations will be determined by ballot.

The number of World War II veterans has declined markedly. Most World War II veterans are in their 90s, which raises health and safety concerns when they travel overseas to participate in commemorations. We were pleased to hear that all possible care of our veterans is taken during commemorate events, and were interested to learn that in the preliminary screening process the health threshold has been raised.
Appendix

Approach to this examination
We met on 25, 27 and 4 July 2013 to consider Vote Defence, Vote Defence Force, and Vote Veterans’ Affairs—Social Development. Evidence was heard from the Ministers of Defence and Veterans’ Affairs, and the Ministry of Defence, the New Zealand Defence Force, and Veterans’ Affairs New Zealand. 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:
Office of the Auditor-General, Briefing on Vote Veterans’ Affairs (Defence Force) and Veterans’ Affairs—Social Development, received 24 June 2013.
Minister of Veterans’ Affairs, Response to standard Estimates questionnaire.
Minister of Defence, Response to standard Estimates questionnaires.
Minister of Veterans’ Affairs, response to additional questions for Vote Veterans’ Affairs—Social Development, received 24 June 2013.
Minister of Defence, Response to additional questions for Votes Defence and Defence Force
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Vote Economic Development

**Recommendation**

The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Economic Development as set out in Parliamentary Paper B.5, administered by the Ministry of Business, Innovation and Employment, be accepted.

**Introduction**

The appropriations sought for Vote Economic Development in 2013/14 total $357.978 million, a 14 percent reduction from estimated actual spending in 2012/13, but an increase of 15 percent compared with the original Budget 2012 appropriations. The difference largely arises from transfers between years, including adjustments for the establishment of the Ministry of Business, Innovation and Employment (MBIE).

Vote Economic Development funds advice and services designed to improve economic performance: of the economy as a whole, and of individual businesses, sectors, and regions. Three particular areas of focus are improving New Zealand’s competitiveness by strengthening international links, securing benefits from major events, and achieving savings in Government procurement.

About 80 percent of the Vote’s output expenses—just under $144 million—funds the work of New Zealand Trade and Enterprise (NZTE), the main Crown entity responsible for supporting businesses’ efforts to grow internationally and increase their exports. NZTE would also administer about $36 million of cash grant schemes in 2013/14.

**Cost of departmental restructuring**

We sought information about any evaluations over the past five years, before MBIE’s restructuring, and the total cost of restructuring in the various departments now under MBIE’s umbrella. The Minister said he did not know the total cost, but the ministry undertook to provide the information. Some of us are concerned that a written request for this information had already been submitted, and the response, when it was eventually received, still did not provide the information requested.

**Business growth agenda**

A large part of the Vote funds the Government’s business growth agenda, which aims to improve longer-term growth by strengthening areas considered important for New Zealand’s international competitiveness. At our hearing, the Minister of Economic Development told us that substantial funding is being allocated in 2013/14 to improve New Zealand companies’ access to international markets, and to strengthen international links by encouraging people to visit New Zealand for tourism, business, education, or research. NZTE will play a major role in this area, and will also work closely with Callaghan Innovation, which is funded separately through Vote Science and Innovation.
Growth targets

The Government’s business growth agenda includes a specific goal of lifting exports to 40 percent of GDP by 2025. MBIE has also set a target of achieving a 40 percent increase in real average household income by 2025.

Some of us questioned whether these targets were achievable, in the light of recent economic performance and the Treasury’s projections, which forecast an increasing current account deficit, and only a 20 percent increase in real household income by 2025.

The Minister said the Government remains committed to its targets, and is implementing several hundred specific measures to achieve them. He noted that New Zealand’s GDP growth of 3.1 percent in 2012 compared very favourably with other countries, including the US, the UK, Canada, Japan, and the Eurozone. He emphasised that the purpose of funding under Vote Economic Development for the work of MBIE and NZTE is precisely to lift New Zealand’s economic performance above current trends. Some of us are concerned that according to the IMF, New Zealand has the highest current account deficit in the developed world. The Minister did not accept the suggestion that the size of New Zealand’s current account deficit is the most important measure of the growth strategy’s success; rather, he considers the best measure to be the wealth of its citizens and their opportunities for good jobs. New Zealand’s balance of payments deficit has been considerably higher in the past, he noted. More important than the size of our overseas liabilities, he said, was whether they are used for consumption, or for productive investment that will lift growth in the tradable sector, which funding under this Vote aims to achieve.

As to whether the economy is in fact being rebalanced, the Minister said it could only be judged in the medium term. He observed that more progress would have been made if the Canterbury earthquakes and global financial crisis had not occurred.

The Minister also said he believes progress is being made towards closing the wage gap with Australia. He does not consider it has been affected by the recent increase in Australia’s minimum wage; if anything, he believes the gap has narrowed with recent movement in the exchange rate between New Zealand and Australia.

International education

The Minister said that Budget 2013 allocates a significant investment to developing New Zealand’s role as an international provider of training. While the funding will be provided through Education New Zealand, which will lead this work, NZTE will work closely with it and the Ministry of Foreign Affairs and Trade in markets overseas to promote the educational opportunities New Zealand offers. The Minister observed that such funding is a long-term investment, but he believes experience has shown it to be well worthwhile, as it forges lasting relationships.

We asked about interest shown in New Zealand as an education destination. The Minister said results in ASEAN countries have been mixed, with strong interest from some; but others such as Indonesia and Malaysia have tended to send relatively more students to Australia than New Zealand, so they are a particular focus for Education New Zealand’s efforts. There are good opportunities in South America; for example, secondary school students have been coming from Chile under a programme called Penguins Without Borders. India and China are already New Zealand’s largest student markets, while other growth opportunities include the Gulf States, and Central and Eastern Europe. As well as...
in universities, the Minister said, there are important growth opportunities in secondary education, and in vocational training.

**International marketing of New Zealand**

Additional funding of $38 million in 2013/14 is budgeted for tourism marketing, particularly focused on attracting high-net-worth visitors, and visitors from emerging markets.

The Minister said that $2 million in new funding would be provided for the development of a “New Zealand Story” for businesses to use in their overseas marketing. While the “100% Pure” brand had proved very effective, this “story” would be applicable to a broader range of organisations, such as the education sector and high-tech manufacturing. He noted that several agencies have been financing the project, and this funding would help with its completion and launching. He mentioned the recent launch by Air New Zealand and Tourism New Zealand of the fern logo on aircraft, and said he expects to see more such co-operative arrangements.

**Export promotion and major events**

We asked about the work of NZTE to help New Zealand’s wine industry increase exports, and whether it is undertaking any export-promotion activities in conjunction with the America’s Cup. The Minister cited initiatives in the US and China, under which NZTE is working with high-value winemakers to gain wider exposure for their products in these markets, for example in upmarket restaurants. NZTE’s approach is generally to gather a “coalition of the willing”; it works with groups of companies keen to promote their industry, and helps them to achieve more than each could on their own.

NZTE is working on a series of promotional activities in San Francisco connected with the America’s Cup programme. While the limited number of entrants has made it more challenging than expected when the commitment was made several years ago, this investment has already produced good exposure for New Zealand. Industries involved include wine, food and beverages, ICT, and high-tech manufacturing.

**Support for emerging businesses**

We asked about the role of the New Zealand Venture Investment Fund, for which $12.8 million is budgeted in 2013/14. The Minister said the fund has now been in existence for 10 years, and some of its earlier investments are now maturing. He believes several of the companies are now at a stage where they can attract finance from the markets, while others may continue to seek the fund’s help. He observed that a new generation of entrepreneurs seems to be emerging that is comfortable operating from New Zealand in an international environment, particularly in the high-tech manufacturing and IT areas, and noted that several featured at the recent Hi-Tech Awards.

**Manufacturing**

We sought the Minister’s comment on the fact that exports of some manufactured goods have decreased by 16 percent or more in recent years, despite the continued strength of our largest trading partners, Australia and China. The Minister acknowledged that some companies in the manufacturing sector are clearly struggling, particularly with the high dollar, but he does not believe this amounts to a manufacturing crisis; numerous companies have also been doing well. Such conditions force companies to innovate and change in ways that can be uncomfortable. He observed that recent change in the New
Zealand dollar’s value relative to Australia’s will mean some companies will find trading conditions easier, while others may struggle. The answer, he believes, is to keep working to lower barriers to New Zealand’s competitiveness.

**Ministry of Business, Innovation and Employment**

The new Ministry of Business, Innovation and Employment, which consolidates the functions of four government agencies, has been in operation for nearly a year. The Minister told us the component parts have come together well, and the new arrangement offers good opportunities for leveraging activities to promote economic development.

We heard that the ministry’s activities include analysis of economic activity and development opportunities around New Zealand. For example, studies of oil and gas potential have suggested there are opportunities worth exploring in several regions, such as the East Coast and Northland, which have geological features similar to Taranaki. The Minister noted that Taranaki’s oil and gas production has led to the growth of numerous downstream industries and services, and it made sense to explore the extent of the resources in other regions where employment opportunities are otherwise largely limited to agriculture and tourism. Another important focus for MBIE is the Māori economic development strategy and action plan, which is being led jointly by the Ministers of Economic Development and Māori Affairs.

**Government procurement reform**

The main area of new funding under Vote Economic Development is an additional $7.6 million to continue work being led by MBIE on making Government procurement more efficient and effective. We heard that work on the programme over the past two or three years recently culminated in the release of a new streamlined set of procurement rules. The Minister confirmed that the procurement policy does not favour New Zealand suppliers, but said the new rules should make it easier for smaller New Zealand companies to tender for Government contracts. He said New Zealand’s dependence on other countries as export markets would make it difficult to favour certain companies simply because they are locally owned.

**Skycity convention centre**

The Minister noted that a heads of agreement was recently signed between Skycity and the Government for the construction of an international convention centre in Auckland. He said that once negotiations are completed, Parliament will be asked to ratify the final agreement. MBIE continues to coordinate work from the Government side on the project, which the Minister believes will be of huge value not only in direct business from those who come for conventions, but in building links with their home countries.

Some of us expressed concern to the Minister in the light of a recent report by the Controller and Auditor-General which criticised aspects of the process under which Skycity was awarded the contract for the convention centre. The Minister was also asked about the refusal to release under the Official Information Act 1982 advice provided by the Treasury, the former Ministry of Economic Development, and the Department of the Prime Minister and Cabinet about the contract decision. The Minister said the withheld advice related to whether a public-private partnership was being conducted. He said he has made it clear

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1 MBIE was formed in July 2012 from the former Ministry of Economic Development, the Ministry of Science and Innovation, the Department of Building and Housing, and the Department of Labour.
that any information not yet released would be made public once final negotiations have been completed.
Appendix A

Approach to this examination
We met on 12 June and 10 July 2013 to consider Vote Economic Development. We heard evidence from the Minister of Economic Development, Hon Steven Joyce, and the Ministry of Business, Innovation and Employment, and received advice from the Office of the Auditor-General.

Committee members
Paul Goldsmith (Chairperson from 26 June 2013)
Maggie Barry
David Bennett
Hon Clayton Cosgrove
Hon David Cunliffe
John Hayes
Hon Todd McClay (Chairperson until 25 June 2013)
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Jami-Lee Ross (from 26 June 2013)
Hon Kate Wilkinson

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

Estimates briefing paper for Vote Economic Development, prepared by committee staff, dated 10 June 2013.

Office of the Auditor-General, Briefing on Vote Economic Development, received 12 June 2013.

Minister for Economic Development, Response to standard Estimates questionnaire.

Minister for Economic Development, Response to additional questions, received 17 June 2013.

Business Growth Agenda Progress Reports:

Building export markets, August 2012
Building innovation, August 2012
Building skilled & safe workplaces, October 2012
Building infrastructure, November 2012
Building natural resources, December 2012
Building capital markets, February 2013
Appendix B

Corrected transcript of hearing of evidence 12 June 2013

Members
Paul Goldsmith (Deputy Chairperson)
David Bennett
Dr David Clark
Hon Clayton Cosgrove
John Hayes
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Hon Kate Wilkinson
Hon Michael Woodhouse
Jonathan Young

Witnesses
Hon Steven Joyce
David Smol, Chief Executive, Ministry of Business, Innovation and Employment

Goldsmith Thank you, Minister, and welcome to the committee.
Joyce Thank you. It's a wonderful opportunity to be here.
Clark Can I start with a point of order, Mr Chair. I have a concern that I want to share with the committee. The Minister has responded to a letter from the previous chairman. I missed the first session. I'm not sure whether you're the current chairman, or the deputy chairman—the acting chairman. So I think it falls in your patch. Mr Joyce has replied, saying that he will not be able to give replies to the committee to the supplementary questions within the time frame given, which is 10 working days, and he asks the committee to allow further time to provide a response to questions.

The normal procedure, as I understand it, is that the questions are back by this Friday. The other Ministers have managed to deliver on it. It seems to me that if the Minister is not across the issues—they're a pretty standard set of questions, to be honest; we all have them, no matter who's in Government. The questions are very similar. If the Minister is not across his portfolio sufficiently to be able to get those questions delivered back by Friday—

Goldsmith What is the question?
Clark I'm asking whether we can hold this hearing over to a later date, because it seems that we can't get to the heart of a number of matters—it's a serious point of order—we cannot get to the heart of a number of matters if the
Minister is not across the kinds of questions that we’re asking, which are pretty standard questions, in our supplementary questions list.

Bennett The Minister has made a very genuine and reasonable request, and most committees take that into account. The Minister certainly will be across—I don’t think anyone would have any doubts on that. So we’ve got the hearing here. These questions aren’t determinative for this hearing.

Clark Point of order. These are significant questions, Mr Chair. If I can just add, for example, question No. 3 is about proposed restructurings and what evaluations were taken out. There’s been a huge change within this space, in the building of MoBIE, which has a reputation for being a department that’s struggling to come to terms with that change. Significant taxpayer money has gone into it—questions around redundancy, and so on, and layers of middle management, which the public will be concerned about. We’ve got dropping performance, and if the Minister is not across these questions—

Joyce I’m sorry, Mr Chair. You can’t just keep taking points of order—

Clark This is about the committee, with respect.

Goldsmith Points of order are meant to be short and to the point.

Clark I’ll come to the point. Can we please hold over this question until the Minister is across these questions in his portfolio?

Cosgrove Point of order. It may be helpful, given we’ve been told that the other Ministers have managed to get these questions back prior—

Clark Every other Minister.

Cosgrove —every other Minister—to the Ministers themselves turning up, and given that of course the Minister will be a busy Minister, could he indicate whether, if we could schedule it with his schedule, he would be willing to depart now, and if we could gee it up with up his diary, come back once those questions have been delivered so that we could have a proper session with him—

Member Point of order, Mr Chair—

Cosgrove —excuse me, I’ve got a point of order here—so that we could—[Interruption] Well our problem is, Minister, that we can’t examine you or your department appropriately if we do not have the answers, which all your colleagues have provided to the committee. So would you be prepared to reschedule?

Goldsmith Does the Minister want to comment briefly?

Cosgrove Just a yes or no.

Joyce I’m happy to be here today, which is obviously what the committee and I have arranged, and my people have provided 120-odd questions and answers. There are some additional questions that are to be provided, and of course the committee often comes up with questions after the hearing
anyway. So may I suggest that—it’s up to you guys how you want to spend
your time, but—

Cosgrove  So you’re not prepared to reschedule?

Clark  Not prepared to reschedule? We’ve got a statutory obligation on behalf of
the taxpayer to ask you the questions about the portfolio. We are asking you
a simple question about whether we can reschedule until you’re across
them.

Joyce  I appreciate that Mr Clark doesn’t get a question in the House given to him
by his party—

Clark  The Minister is all mouth and no trousers.

Goldsmith  We’ll move on, thank you. We’ve got this idea. We’re happy to get going.

Clark  I move the resolution, That we postpone this meeting until such time as the Minister
is across his portfolio.

Goldsmith  All those in favour of that, say Aye. Those against, No. Right, we’re carrying
on with the hearing.

Clark  We will have the vote recorded, please.

Goldsmith  The vote recorded please, Mr Clerk. Now, Mr Joyce, just given the time, I
would be grateful if you could just have a short presentation, so we’ve got
plenty of time for questions.

Joyce  Very good. Perhaps if I made a few comments to start with, it might be
helpful to members of the committee, and then we’ll go on and take
questions, of course.

Firstly, I think a little bit of an economic overview. Mr English told me that
he was the curtain-raiser today.

Goldsmith  Yes he’s given us a full overview.

Joyce  So I’ll just give you a microeconomic perspective, in that I think overall the
New Zealand economy, compared to the rest of the Western World, is
doing reasonably well. We’ve had a pretty good growth rate in the last year
of about 3 percent, year on year, and if you compare it with some parts of
the world it’s actually a pretty positive story.

The challenge for us all is to take that platform and grow more aggressively
into the future, and short term of course there’s a number of influences, but
longer term it’s building a longer-term trend growth rate in the New
Zealand economy, and that’s what we seek to do with the Business Growth
Agenda, which is the significant focus of this vote, and we have initiatives
that we both action from within this vote but also coordinate with other
portfolios and other Ministers. There’s a series of six areas that we’re
working within, in terms of the range of areas, and I’ve brought along
copies of the progress reports today for those who haven’t had a chance yet
to read them, but they are across a range of areas which are fundamentally
the key areas, the key ingredients, that businesses need to be successful in
the New Zealand economy today.
As part of Budget 2013 we’ve made a number of additional initiatives in terms of the Business Growth Agenda. In particular, in the access to markets part of the agenda we’ve made some significant investments. My personal view is that for New Zealand to lift its longer-term trend growth rate we have to keep building stronger international linkages, and we’re very dependent on our international relationships in terms of how prosperous we are, and so the initiatives that we’ve taken, the funding initiatives, in this Budget underline the importance of that.

Those linkages extend across a range of areas, and fundamentally it’s about having more people from the rest of the world coming here, for all sorts of reasons, whether to participate with their companies, whether to just travel here and see the country, whether it is to have some education here or work with our scientific researchers, and so on.

So as part of the internationally focused growth package we’ve invested a significant amount in additional tourism marketing, particularly focused around emerging markets and focused around high-value visitors, or high net worth visitors, which is very important. We’ve also signalled a significant investment in international education, which is a long-term investment. So there’s not just the short-term economic benefits, but the longer-term investment in that, that actually really achieves those links. You only have to spend some time, as I did recently, in Malaysia with people who travelled and studied in New Zealand 40 years ago, who are still talking about it and still using it to forge relationships with New Zealanders and New Zealand businesses today, as you can see the benefit of that.

The other reasonably small investment in that space, but a very significant one, is the development of a wider New Zealand Story for our companies to use internationally. We have a very strong brand around Tourism New Zealand, the “100% Pure” brand, which is very effective in that space, but we do need to broaden that a bit to make it more useful for other organisations, such as the education sector and high-tech manufacturing, and so on. So the New Zealand Story project is ongoing. It’s actually being primarily funded from within three or four agencies, but there’s some additional money being allocated, just $2 million, this year to bring that to a conclusion and to help with the launch of that. I actually think that will have a very significant positive impact, and it was good to see yesterday Air New Zealand and Tourism New Zealand confirm the use of the New Zealand fern on the Air New Zealand aircraft. I think we will see more arrangements like that in the years ahead.

One of the other key initiatives in the area is the analysis and promotion of regional economic activity, and we have recently released a very in-depth look at New Zealand’s economic regions and the challenges and opportunities that they have. I think the idea there is to really work closely with each region and to identify their opportunities, and then to have the discussions about what improves employment opportunities within that region, because there’s a danger that a lot of the political debate about what you should do and what you shouldn’t do is detached from the opportunities to grow jobs and investment in a particular part of the
country. So although there’s no particular funding associated with that, it’s a very significant initiative.

There is some new funding associated with the procurement work that we’re doing, and we’ve announced in April the new procurement rules for the New Zealand Government. The New Zealand Government is a very big investor, via procurement, in the private sector and so we have, after 2 or 3 years of quite hard work, brought all the procurement rules into a single space, and that’s been well received by industry. It’s something that has been overdue, frankly, for 20 years, and I think it will land well into encouraging innovation in particularly small and medium sized New Zealand businesses to participate in some of these bigger contracts.

Two or three other areas that I particularly wanted to focus on are, one, obviously, the *Hobbit* movies, which have already created significant tourism industry benefits for us. Tourism New Zealand released a brief the other day in that space, which indicated that roughly 10 percent of the international tourists that they surveyed had come to New Zealand at least in part because of the visibility of the *Hobbit* movies in their home market. Again, that sort of activity is very important when you’re talking about a small country at the bottom of the world, and we’ve got to constantly retain top-of-mind awareness. So our investment in those movies and the efforts the Government went to to have them produced in this country, I think, are hugely important for New Zealand’s future.

We are, of course, continuing work on an international convention centre for Auckland, and have signed a heads of agreement with SkyCity in relation to that and are in the process of finalising an agreement, which of course we’ll ask the Parliament to ratify in due course. I think the development of that international convention centre is hugely important for New Zealand. Again, it’s not just about the conventioneers who come to New Zealand; it’s about the fact that, in many cases, they will have very significant influence within their own organisations, and that boosts the relationship between our country and the countries that they come from.

It’s also worth particularly focusing on the Māori economic development strategy, and that’s being developed by a group set up by Minister Sharples, and that is an important part of the business for the new Ministry of Business, Innovation and Employment.

The Ministry of Business, Innovation and Employment is progressing very well. It’s been in place for nearly a year, and Mr Smol is charged with bringing it together. From my observations it’s come together very well in terms of all the different parts performing as they should in that process. I think the really exciting opportunity with MBIE is the opportunity to particularly bring a whole range of economic development areas together and leverage them off each other. So we’re having that—

We’re keen to move to questions soon.

—yes, absolutely—in particular, in the skills area and the innovation area, which is very important.
Two things, if I could briefly, to finish, I just wanted to mention. The Better Public Services results 9 is a very important part of the Government’s programme. We have been developing a common business number for New Zealand businesses, which is very important.

Finally, it is important to note New Zealand Trade and Enterprise, which comes under this vote, and I have to say I think that the board and management of that organisation are doing a very good job. There’s been quite a change in the last 3 or 4 years, and everywhere I go—and I’ve spoken at 19 different regional forums around the country since I’ve had this particular role—they speak very highly of New Zealand Trade and Enterprise and the work that it’s doing, and it’s not always been that way, so I think it’s worth acknowledging that at the committee this morning.

Goldsmith Very good, thank you.

Clark Minister, can you please explain why you couldn’t complete the questions in the time frame provided?

Joyce It’s just a matter of practicality, because of the timing of this hearing relative to the provision of the questions. I’ve sought the committee’s permission to extend for some of the questions. I think we’ve provided about 120, and if the committee is happy with that, I’m relaxed with it.

Clark Every other Minister in Parliament, as far as I am aware, has met that deadline. Why were you unable to complete them, when they’re standard questions?

Joyce I don’t think it’s as unusual as you allow. But if you want to spend your time talking about this, I’m more than happy—

Clark I’m just interested in an answer, Minister. I’m not asking it just because it’s—

Joyce I’ve just told you. It’s a practical issue, but—

Clark You weren’t able to deliver; you simply weren’t able to get across the questions.

Goldsmith Mr Clark, ask your question and then we’ll get a reply—

Clark I’m just waiting for a reply. He said: “If you want to spend your time asking these questions…”; he didn’t actually address the question.

Joyce I’ve given you my reply. It was just in terms of the practicality of getting them in time. We sought permission from the Chair to do so, and that’s what we’ve done.

Goldsmith OK. Any subsequent question?

Clark Of course I do. What evaluations have been carried out prior to proposed restructurings in the department, and what were the costs of these over the past 5 years? What have the costs of restructurings been in the departments that now come under the MoBIE umbrella?

Joyce When you say “What evaluations have taken place prior to the restructurings?”, you mean the most recent one?
Clark Well, over the past 5 years what evaluations have taken place and what have been the total costs of restructuring?

Joyce In terms of the decision to bring MBIE together, there’s a very significant series of evaluations done, which I think from memory have all been publicly released subsequently, so they’re all available for you to have a look at.

Clark I’m just asking the question, Minister: what is the total cost of all the restructurings in the past 5 years?

Joyce I don’t have that to hand.

Smol Do you mean the last 5 years for the four organisations that are now—

Clark Coming together.

Smol We don’t have that information. We can go back and find what that was.

Clark That was in the questions that we provided, so you see where that leaves the committee when these questions are not answered prior. We can’t, obviously, pursue the questions of public concern that we’re charged to ask.

On a different tack then, in the growth space, Minister, your Government has arguably the worst economic record in the last 50 years for growth.

Joyce I disagree. Are you asking a question or making a statement?

Clark With respect, Mr Chair, I was halfway through the first sentence when the Minister—

Joyce He never gets any time in the House, so I suppose he’s got to have some time in the committee. [Interruption]

Goldsmith A small amount of comment is able—[Interruption]—and it comes from both sides of the House, and I’ve noticed quite a bit—[Interruption] Mr Cosgrove has interjected a number of points.

Peters Point of order—I am raising a point of order here.

Goldsmith Point of order, Mr Peters.

Peters The moment you hear the words “point of order”, you stop everything.

Goldsmith Thank you, Mr Peters.

Peters That’s how it’s done here. You don’t let them ramble on and everybody having a little row. My point is this here. There’s a legitimate question being asked here, particularly in a climate of not having the answers being given. That being the circumstances, surely there’s some leniency being offered to the questioner here to put his questions, because he’s not going on what he should have—prepared answers already by the Minister.

Goldsmith I’ve got the gist of it.

Peters In that circumstance, why are you tolerating all these interjections from that side, which are not helping the process?

Goldsmith I encourage all members on both sides to reduce the number of—

Young Speaking to the point of order—
Goldsmith: I’m not sure that we need it at the moment. Let’s get on to David Clark’s questions and then we will move on.

Joyce: In terms of the growth—

Clark: Sorry, I haven’t asked the question yet.

Goldsmith: There was a previous question, but—

Clark: Well, no, no—in respect of that economic growth record, we’ve had the regions gutted. I know in my own town of Dunedin 1,000 people left last year for Australia. What are you proposing to do about this, Minister?

Joyce: Well, firstly you make a statement about the New Zealand economy’s performance, and I think it’s important that that be answered, because it is a very positive performance compared to the rest of the world, and for you to sit there and say that it isn’t, I think, I’m sorry, I have to challenge that.

If you look at the growth rate for New Zealand in 2012, our economy finished the year 3.1 percent bigger than it did the previous year. If you compare that with the UK, it was 0.3 percent. The eurozone was negative 0.9 percent, Japan was 0.4 percent, Canada was 1.1 percent, the US was 1.6 percent—

Clark: Our major trading partners were up.

Joyce: —and Australia was slightly larger than us. My point being—those major trading partners, by the way, are the same major trading partners of all these other countries—if you want to ignore the GFC, as most of your colleagues have over the last couple of years, that’s fine, but compared to other countries, New Zealand’s economy has performed very well.

Clark: Minister, do you support your ministry’s target of a 40 percent increase in real average household incomes by 2025?

Joyce: Yes.

Clark: And do you then no longer believe in your previous target of closing the wage gap with Australia by 2025?

Joyce: No, we’re very much targeting closing the wage gap with Australia.

Clark: It’s a change.

Joyce: Just because the ministry has come up with its own set of targets, it doesn’t mean to say that the Government’s target has changed, and it hasn’t.

Clark: What measures will you announce to achieve this target of a 40 percent increase in real average household incomes by 2025?

Joyce: Well, I’ve announced 370 so far, and again for the member’s benefit—

Clark: No, no, we’re talking about real changes.

Goldsmith: I’m really not sure you need to list them all. [Interruption]

Clark: With respect, Minister, Treasury is forecasting only a 20 percent increase in real household income by 2025. They clearly don’t believe the rhetoric that you’re saying.
Joyce: No, Mr Clark, I’m sorry. What you’re basically saying is that Treasury’s current trend rate is 20 percent. I opened by saying we’ve got to get above trend rate, and that’s why we’re doing the work we’re doing. But it hasn’t been done yet. It’s being—

Clark: So 5 years and the work hasn’t been done?

Joyce: Oh, for goodness’ sake! The reality is we inherited a country—

Clark: It’s a serious question, Minister.

Joyce: —where the tradable sector was going backwards for years, and, Mr Clark, you sit here and try to suggest that it’s our responsibility to turn the whole economy round, and we already have, and actually to close that gap in a space of a few years, with the greatest respect, you’re obviously in cloud cuckoo-land.

Clark: With respect, Mr Chair, this is unhelpful. The Minister has changed his targets. He’s not willing to defend his targets, and we are left here, without the questions that we’ve supplied being answered, asking questions—

Goldsmith: Is this a point of order or are you asking a question of the Minister?

Clark: It’s a point of order. We’re asking questions of the Minister about his changed targets, which he’s publicly announced, and he is not giving them the decency of a decent response.

Bennett: Point of order. Inappropriate comments made by Mr Clark. You can’t say that.

Goldsmith: David Bennett—can we just leave it, please, David Bennett. Have you got another question, or not?

Clark: Yes, I’ve got lots more questions.

Goldsmith: Right, last question for David Clark, and then we’ll move on.

Clark: I mean, Minister, this is a question—can you understand, in the context of this lack of a credible plan, why New Zealanders are frustrated with the Government and the lack of growth and the fact that the median income has dropped?

Joyce: Mr Chair, I seek leave to table these reports to Mr Clark, so he can take them away and have a read. I really think he should. Then he can come back and actually have a—basically, all he’s saying is that he hasn’t done the work, he hasn’t actually had a look at—

Clark: Point of order, Mr Chair. I’ve got the same set of glossy pictures here. That doesn’t do anything for us.

Joyce: You haven’t done the work, David.

Goldsmith: It’s not helpful, we should wind things up. Right, have you got a point of order, Mr Cosgrove?

Cosgrove: I would invite you to, instead of sitting there, stunned—the Minister is not allowed to make comments like that. He’s charged with answering questions. That is all he is here to do, and that is all he has the power to do.

2013/14 ESTIMATES FOR VOTE ECONOMIC DEVELOPMENT
You’ve sat here and let this meeting deteriorate. I would invite you to do your job. At least read the Standing Orders.

Goldsmith Thank you. I don’t need to hear any further on this.

Bennett The point of order is that Mr Clark—

Goldsmith David Bennett, I’m not answering your point of order. The rules of debate are the same as for in the House, in that if you ask a political question you sometimes get a political answer. Now, can we move on to the next line of questioning. The next line of questioning is from David Bennett on this side, and then we’ll come to Mr Peters after David Bennett. Thank you.

Bennett Tertiary education is a big part of our economy, and you mentioned New Zealand Trade and Enterprise and Education New Zealand working together. How does that actually work and what do you see as some of the opportunities in international markets for our education sector?

Joyce Firstly, the lead on international education is being taken by Education New Zealand, but they work very closely with both NZTE and MFAT, actually, in that. I think the opportunities, particularly at this point—the ASEAN markets, where some of them we’re doing well in, but in others, you look relative to Australia and say, actually, we’re not achieving the sort of proportion of international students that you would hope, and that’s why Ed NZ has made a particular priority in markets like Indonesia and Malaysia, and so on. There’s an emerging opportunity, particularly in South America, where we have a very good relationship with a number of countries there, and the Chileans have set up this thing called Penguins Without Borders, where they’re having school-age students coming to study in New Zealand, and I think that’s very good for New Zealand’s future relationship with that market. So there’s good opportunities there.

There is, of course, the ongoing opportunities in India and China, which are our two largest markets currently. But there are other areas as well—the Gulf area, which is a market that is very significant for New Zealand export education. North Asia, Japan, and Korea have been less so in the last little while, but they are doing some work there, and, of course, in particular, Central and Eastern Europe. I’m actually going on a visit there next week to market, alongside Education New Zealand, the opportunities in that market.

Bennett Do you see specific ages—like where we’ve got a very strong tertiary sector, where it’s in there—do you think at the secondary level that’s an important part of that as well when you’re going to wider countries?

Joyce I think secondary is important in its own right and also as a feeder into the tertiary space, so quite a few young people who come and study at the senior levels of secondary school then may stay on, or come back at some part of their tertiary education, so I think that’s pretty important.

In the tertiary space, obviously the universities are important and they are growing their share, which is good, but the other area is vocational space, and there’s a lot of interest in our vocational system and particularly the
ability to have qualifications across the work-based training and also the provider-based training. So there’s some real opportunities there as well.

Young

This is a new line of questions. The East Coast oil and gas potential study that MBIE have done—what did it show?

Joyce

Sorry, what was the question?

Young

It was about the East Coast oil and gas potential study.

Joyce

I think what it shows is there is an opportunity there—and it is hard to define exactly what will happen, because we literally do not know yet the size of the prize, if you like, from the region’s perspective—but it outlines four or five scenarios as to how development could be undertaken there, depending on what the exploration phase uncovers. It’s interesting because we have a number of sedimentary basins around New Zealand that are very similar to that of Taranaki, which, of course, is our only producing field at the moment.

If you compare, for example, the Taranaki economy versus the eastern region of the North Island, it’s a significantly more robust economy, with significantly more opportunities for people and lower unemployment, and that’s consistent. Apart from the oil and gas, they’re both agriculturally based economies, with some tourism. But when you add the oil and gas, that brings you a whole bunch of downstream industries in Taranaki, and engineering services, and so on, so actually it is not just about that industry.

It’s not the answer everywhere, because not everywhere has got that opportunity, and we still yet don’t know, until the exploration is done, whether there is a production opportunity on the East Coast of the North Island. I think it certainly makes sense to—to use a phrase—turn over the stones and look at the opportunities in those areas, because if you actually want to have the economic activity occurring in regions that are perhaps struggling a bit, such as the Northland area and the eastern region of the North Island, then it is important that you look at those opportunities to encourage investment, so I am very much in favour of it.

Norman

The key measure of the success or otherwise of the Government’s strategy, and that you have a particular responsibility for, would be the current account deficit. Under Treasury’s projections of the current account deficit it’s $10 billion a year this year, and growing to 6.5 percent or about $17 billion a year by 2017. In terms of Bill English’s objective to rebalance the economy, you bear some of the responsibility for implementing the policies to achieve that, because it needs New Zealand business to compete. Based on the current account deficit figures, that strategy isn’t working and is getting worse, according to Treasury. What responsibility do you have for that?

Joyce

Firstly, I disagree with you in saying that that is the single most important measure of success. Actually, the single most important measure of success is the wealth of New Zealanders and the opportunities for good jobs and incomes they have in this country. That’s by far the most important, to me, measure of success in terms of delivery of the Business Growth Agenda and
the strategy for economic growth over a period of time. Within that, there’s
any number of indicators that we can fix on in a short to medium term
basis. The current account deficit on its own actually doesn’t tell us a
mammoth amount, because, for example, if it’s a current account deficit
cause by a level of incoming investment into New Zealand, which is going
to create higher GDP in the future, then that’s an entirely appropriate way
for a country to attract investment and grow jobs in the country.

So just saying that you’ve got a figure is, I think, not actually helpful, but if
you compare it with other figures, it can be helpful. So if you take the
period 2005-08, for argument’s sake, that had a balance of payments deficit
deficit of around 8 percent—it was running at through that period—which was
very high, but it also had a tradable sector that was in recession through that
period. That would suggest that whatever that money was being spent on, it
wasn’t actually lifting growth in the tradable sector. What has happened
since then is, firstly, that fell sharply. No doubt about it, part of the short
term was the GFC, and part of it also was the repatriation of insurance
moneys as a result of the Canterbury earthquake. Part of it is increased
growth in the tradable sector, and part of it’s investment.

So it’s coming back out off a reasonably low base for New Zealand, but, in
terms of the challenge, the challenge is actually to build investment in this
country. So for $100 million invested in an industry or a company in New
Zealand, that’s what I would argue is a good thing from a current account
perspective. But $100 million for consumer activity is probably not as
sustainable, and that’s probably the point.

Based on that logic, one would expect that if we’re running a very large
current account deficit at the moment—5 percent of GDP, 10 billion
bucks—

Well, as I say, historically not as large as some years.

Not as large as they were in the mid-2000s, I agree with you—they were
very high. Then one would expect, if that was investment, to see an
improvement in the balance of payments.

Over time, yes, but these things don’t take 5 minutes.

Mr Joyce, actually, I’m asking a question at the moment, if you could just
refrain. I let you finish your answer; I didn’t interrupt you. So one would
expect an improvement over time. In fact, if you look at the projections that
the IMF has done for New Zealand, or that Treasury has done for New
Zealand, they only show a deteriorating current account deficit—it gets
worse.

The second thing I’d point you to is the tradable versus non-tradable graph
that Treasury produced as part of its chart pack. What they show is the
continued decline in the tradable sector, and the continued increase in the
non-tradable sector, which is the exact opposite of what we need if we are
to rebalance the economy.

Don’t both of these facts together suggest that rebalancing isn’t working
and the strategy, so far at least, doesn’t appear to be working?
No, I don’t think that’s right, because you are looking at a much—firstly, you’ve got to look over a medium-term time frame. Secondly, in effect, to achieve that rebalancing, you have to do some things, which do take a period of time.

So, for example, one of the issues is you have to keep your own spending under control as a Government. We have worked to do that, but through the GFC period we’ve been prepared to run deficits, and also for the Canterbury earthquakes. Now, we’ve made a conscious decision to do that, but you would argue, if you really were completely and solely focused on the level of international liabilities, that the Crown should have cut the guts out of the economy from the moment of the start of the GFC. I think that would have been more problematic, as we’ve seen in some countries that took that approach—that actually they end up chasing their tail downwards, and that’s not successful.

So everything has to be taken in the context in which it’s provided, and I think in the short term probably the reality is that, in terms of seeing the rebalancing, you probably haven’t seen it as much as you would if there hadn’t been a GFC or if there hadn’t been a Christchurch earthquake.

Could you give us a time frame? When would you expect, looking at the current account numbers or looking at the tradable versus non-tradable activity, when we would see positive indications? Because so far they’re only negative.

Well, I’m not sure that they are only negative. I know that’s your view, but I would expect to be tested on that in roughly 3-year cycles.

You reaffirmed your support for the 2025 target of parity with Australia. Would you accept that just last week the target you’re talking about, or the gap you’re seeking to close, just got a whole lot larger?

How did you decide that?

Well, they increased their minimum wage.

It doesn’t make any impact on that, I’m sorry. The minimum wage by itself has no impact on the relative incomes of most New Zealanders and Australians, because it’s actually only a small proportion of the population on either side of the Tasman has any impact. So I saw all the press releases last week, but it actually has nothing to do with it.

That’s an extraordinary statement to make.

No, it’s true.

I’ll ignore it, because it’s absolutely insane for you to think—

You can’t say that. You can’t say those things.

No, no, no.

I’ll back my criticism of you against your criticism of me.

An economics Minister says the base minimum wage has no effect—

I said it has a small—you just paraphrased—
Goldsmith: Members, can we just—
Joyce: It certainly doesn’t determine it.
Goldsmith: Can we extend courtesy to each other and to the Minister and—
Peters: He said—
Goldsmith: Yes, indeed. Well, both sides of the committee, if we can maintain dignity.
Peters: He said per capita incomes is the greatest measure of success—
Joyce: But it’s not determined by the minimum wage on its own, because the minimum wage—
Peters: I didn’t say that. I didn’t say that.
Joyce: Well, that’s what you just told me.
Peters: I didn’t say that. I said to you would you not accept that the gap got a whole lot larger last week—
Joyce: No.
Peters: OK, fair enough, you—
Joyce: In fact, if you look at the last couple of weeks, Mr Peters—
Peters: That’s your view.
Joyce: —you would have to say, with the relative exchange rates between the two countries, the gap has closed. [ Interruption]
Goldsmith: David Bennett, could you please resist commenting, please. We’ll have a clear question from Mr Peters, and then a reply.
Peters: So you support in every respect, as the Minister for Economic Development, the Reserve Bank operating in exactly the way it’s operating now?
Joyce: Yes, I do. I mean, just in terms of the relative incomes—
Peters: No, I don’t need a lecture on that.
Joyce: Well, no, I think it’s important, because you’ve made me a lecture, so I think it’s important that I respond. My response, Mr Peters, is actually that the income gap would have closed last week, rather than widened, because of the relative exchange rates between New Zealand and Australia.
Peters: Mr Joyce, I didn’t ask you why; I asked you “Did you?” The answer’s yes—good enough for me. Righto. Go to this question: why is it that, for example, the Auditor-General in their commentary finds that your sort of procurement policy has no “Buy New Zealand” componentry at all?
Joyce: It doesn’t have a “Buy New Zealand” componentry as such, but what it does have is the ability for New Zealand companies, and, particularly, smaller companies, which New Zealand companies tend to be in the context of the world stage, to participate much more easily in the procurement process. But it would be very difficult for New Zealand to
adopt a preference for local companies just because they are locally owned and when we’re very highly dependent on world trade from other countries.

Peters One last question. It’s really this: why would the *Hobbit* figures measured in the past, when they had greater profile internationally than now, have gone from bringing in 1 percent of all tourists to, claimed by you and others, 10 percent now?

Joyce Well, it’s not a claim; it’s apparently in response to research that was published by Tourism New Zealand, which we had nothing to do with.

Peters Exactly, but have you looked at that research, and have you analysed whether it’s valid or not?

Joyce Well, no, not particularly. Haven’t been through and rung the research organisation and asked them how they asked the question.

Peters Well, that’s somewhat convenient, isn’t it? I mean, are you concerned whether or not that’s just puffery and a boast, or factual?

Joyce Well, it’s not puffery and a boast, because it was not designed at all with a political point to made in mind; it was just a monitor to international tourists and asked them what were their influences, and they asked according to that way.

Peters All right. I’m asking you, then, how do you explain the massive jump from 1 percent to 10 percent in such a short time?

Joyce Well, I’d say probably it was the proximity of the film being released; that would just be my guess.

Peters Well, no, no, no, no. Excuse me. I said at the start at the launch of the first Jackson movies, which had a far greater profile, far greater earnings—why would the figures have been so low with the proximity of those first showings to what is now lesser worldwide audience, and yet a massive differential in the so-called planned tourism because of the *Hobbit* figures?

Joyce Maybe it’s just a better movie.

Goldsmith We’ll wait and see on that. We’ve got a question from John Hayes.

Peters Very scientific, that is!

Hayes As well as the East Coast having a lot of gas potential—

Peters Just bulldust—that’s the point.

Bennett You can’t say that.

Hayes —one of the things it does very well is grow wine. One of the things I wonder about is—*[Interruption]*

Goldsmith Both of you, just stop making comments, please.

Hayes Shall I start again?

Goldsmith No, no, you’re all right; we’ll continue on.
Hayes So one of the big earners in the East Coast of New Zealand, particularly the southern part, is wine exports. What is the Government doing to help the wine industry grow its exports to other overseas markets?

Joyce They are doing a range of things. The most important one is probably through NZTE, where they have a couple of what they call coalitions of the willing, which are basically exporters in a particular industry holding hands into a particular market.

So if you take the wine industry, then there is two initiatives that come to mind. One is the Complexity initiative in the US, where a bunch of high-value winemakers are working alongside NZTE to introduce their products more widely in the American market, working primarily through up-market restaurants and so on. And then the second one is the China initiative, with a different set of wine companies. Some of them cross over between the two.

NZTE’s approach in this generally is to work with industries, particularly where there is a group of companies where they can assist with leveraging what those companies could achieve that they couldn’t achieve on their own. And that’s why they call them the coalition of the willing, because they need a number of companies with an industry to step up and say: “Hey, we’re really keen on this.” And then they can work with them, and that’s what they do.

Hayes One small follow-up. You probably won’t have noticed it, but the New Zealand America’s Cup team and the Swedes are at each other’s throats. What I’m wondering about is could you give us a quick update on support for the America’s Cup and any promotional activity around it?

Joyce Yeah. There’s a series of promotional activity that’s ongoing in San Francisco right through to the cup. The cup isn’t without its challenges, for all the reasons that we’re all aware of through the media, but, of course, we made a commitment some time ago, in 2007, to support, I think very substantially, the America’s Cup programme. And so what we are looking to do is, given that that investment has been made, that we leverage that the best that we can, notwithstanding the fact that there’s four entrants, so it’s probably a bit more challenging than was anticipated at the time.

But we have a very significant programme for the wine industry, the food and beverage industry, the ICT industry, the high-tech industry, and that’s a programme of activity that continues not just through the preliminary rounds but also through the cup itself. And interesting to note, there are some real benefits occurring out of that. Probably the most pictorial one was the front-page photo in the New York Times last week of the New Zealand yacht going across the San Francisco Bay with New Zealand and the logo proudly displayed on the side, which—haven’t done the exercise yet, but I imagine that was worth a bit to us.

Parker I’ve got two lines of questioning. My first, I hope, won’t take long. The Auditor-General in respect of the Skycity convention centre criticised the process, saying that only Skycity were made aware that regulatory holidays
might be available. I think that was the essence of her criticism. Do you agree that that was her criticism?

Joyce  No, I don’t say that’s correct.

Parker  You don’t agree that was her—

Joyce  Well, firstly, there’s two things about it. One is that they were criticised—

Parker  So no, Mr—

Joyce  Well, you asked me to explain what I thought.

Parker  He doesn’t agree that that’s her criticism. Well, I think that’s a matter of record, so let’s move on.

Joyce  Well, no, I need to explain why I don’t agree.

Bennett  Get the facts right.

Parker  No, no, if you want to ask supplementary questions, you can ask it. I’ve asked my question; he’s answered it. I’ll just move on. Mr Chairman, my next question is: in the report of the Auditor-General, it says that Treasury gave advice to MED, MED gave advice to DPMC, and DPMC gave advice to the Prime Minister about problems in this process. Neither the media nor the Opposition have been able to get copies of any of those documents, because they are being suppressed under the Official Information Act, and we’ve had to go to the Ombudsman. Can you please tell us why it is that there is a public interest that does not allow us to see what warnings, if any, were given in respect of these issues?

Joyce  Let me answer two or three points. Firstly, my belief is the characterisation that you provide of what the Office of the Auditor-General said is incorrect.

Parker  Well, I asked the question about provision of the documents.

Joyce  I need to place it on the record.

Member  Do your job, Mr Chairperson.

Member  Let him answer the question, David.

Joyce  I need to place that on the record.

Goldsmith  Members, can we just listen to the Minister.

Parker  Look, you prattled on for 10 minutes at the start of this.

Joyce  It’s not appropriate for me to be questioned and for somebody to—

Parker  Could you just answer the question. Why can’t you provide us copies of those documents? [Interrupt]  

Bennett  Point of order.

Joyce  Well, do you want to hear, or—

Bennett  Point of order.

Goldsmith  Sorry—
Parker Yeah, I do want to hear you. I just want to answer the question.
Bennett Point of order.
Goldsmith Mr Parker, we’ve got a point of order.
Bennett Point of order, Mr Chair. I think that the approach taken by Mr Parker and some of the Opposition members—
Goldsmith What’s the point of order?
Bennett —have not shown respect to the Minister.
Cosgrove This is not a point of order.
Bennett They have made comments there that are simply incorrect, and the Minister needs to be able—
Goldsmith OK. Thank you. Thank you. I’ve got enough. I’ve got enough on that.
Bennett —to have the chance to protect himself—
Goldsmith I’ve had enough, David.
Cosgrove I have a short point of order. You ruled initially that you were aligning your conduct with that of the Speaker and the House. The Speaker of the House has quite clearly on many occasions, when a questioner has said “Thank you. I’ve got the answer I needed.”, ruled that the Minister should sit down and desist from his presentation. If you’re going to be consistent, Mr Parker asked a question, he got a direct answer; it’s in his purview to move on.
Goldsmith Thank you. OK, look—
Joyce No, actually, I’m sorry. Can I make a comment on that?
Cosgrove You’re here to speak—
Joyce Point of order, Mr Chairman.
Cosgrove You can’t take a point of order.
Goldsmith You can’t raise a point of order. [Interuption] No, no, thank you. I can respond—thank you. I can respond briefly to Mr Cosgrove. It’s a general pattern, but it’s not exclusively so, and if a question is raised, Ministers sometimes have the explanation—
Parker Well, can we have an answer?
Goldsmith So we have a quick answer—[Interuption]
Joyce I think the difficulty with it, Mr Chair, if I may, is that you get a long supposition about how things are and then you get asked something at the end, and you’re supposed to endorse that whole supposition, and I can’t do that, because as far as I’m concerned—
Goldsmith Just very quickly.
Joyce Well, two or three things. Firstly, they did not criticise the process in the way that the member describes. They criticised one part of the process and then, from memory, the Office of the Auditor-General said that it could have been made clearer to the other applicants, but they also concluded—
Point of order, Mr Chairman. I asked him why he cannot release that advice, which has been suppressed. He has not even addressed that yet. That’s the only question I asked—

He’s moving on to—

I haven’t used the amount of time to answer the question that he was asking.

Point of order, Mr Chair. The Minister is quite within his rights to make expressly clear a statement made by the questioner before the actual question—

OK. I’ve got the gist of that. We’ll just move on to the Minister responding to that issue and answering the question. Thank you.

So my point was that the report examined all three stages of the process, and it concluded that it raised some procedural issues with the second stage, which is in relation to officials seeking a clear understanding from Skycity in regards to the parameters of the possible arrangement. But the points that Mr Parker raises in relation to the advice provided by MBIE and Treasury officials to DPMC was in relation to whether a public-private partnership was being conducted, as I understand, and on the basis that that wasn’t being conducted, then that information was not required to be passed on. Now, in terms of any information that hasn’t been provided yet, I’ve been quite clear on the public record that what we haven’t been able to be provided so far will be provided at the conclusion of the negotiation phases and will be made public at that time.

What public interest is there that stops you disclosing the advice that was given by Treasury to MED, or MED to DPMC, warning of concerns about the fairness of the process?

In terms of any information that’s not been provided at this point—and I think some of that information has been provided, but in terms of any information that hasn’t been provided at this point—the judgment was in terms of the negotiations that are currently ongoing.

Can I turn to your statement in response to Dr Norman’s question, where he said didn’t the deterioration caused by the current account increase in net international liabilities was the most important measure of whether the economy was rebalancing. And you said no, you thought the most important criteria was the wealth of New Zealanders.

No, what I think he said was that the most important—correct me if I’m wrong—he said it was the assertion about the success of the strategy.

Is it the best way to measure the success of the strategy.

And I said no, that it’s one indicator of a number, but the most important success is this one.

I wrote your answer down. I accept your characterisation of the question. You wrote: “No, the most important thing is the wealth of New Zealanders.”
Joyce Yes.

Parker Well, isn’t the increase in net international liabilities caused by the decreasing or the current account balance deficit showing that except to the extent of capital expenditure, the wealth of New Zealanders is decreasing?

Joyce Except—sorry, what did you say?

Parker Except to the extent that there’s additional capital expenditure, the wealth of New Zealand is decreasing by the amount of the current account deficit.

Joyce I think you’ll find that’s an important distinction, in that, actually, the level of debt internationally as a proportion of the total wealth of New Zealanders is one measure of the indication, because, you know, it’s effectively the debt you carry as well as the assets that you hold, but I think to say that one of them is wrong and therefore without respect to the other one, then actually that’s not correct.

Parker I’m not disagreeing that increases in capital expenditure have to be measured. I’m agreeing with that proposition. But the problem is that the current account balance is not explained by increases in capital investment and a lot of it’s been consumed. Is that correct?

Joyce I think the current account balance is explained by a number of things, and I mentioned some of them to Mr Norman in terms of, yes, there’s some consumption elements to that. There is also some capital elements to that, and there is also, on a sort of unusual one-off basis, the repatriation of insurance moneys in relation to the Christchurch earthquake.

Parker In terms of the balance or the mix of our exports, you’ll be aware that Opposition parties have concerns about manufactured exports and I think it would be fair to say that you’ve poured derision upon—

Joyce Oh, this is the crisis—yes, I think that’s still the case. You can take it that continues.

Parker Is it correct that since you took office elaborately transformed manufactured goods have decreased by 16 percent in real terms and simply transformed manufactured exports have decreased by 18 percent, notwithstanding the fact that our two largest trading partners, Australia and China, have been some of the strongest economies in the world?

Joyce Well, I don’t have those figures to hand, Mr Parker, but in terms of manufacturing generally, that is not the case. You’re really getting down now to if your—in quotes—“crisis” is in that particular category, well, then we could have a discussion about it. But actually you have to take the wider manufacturing sector, which includes food and beverage, it includes oil and gas, for example, it includes minerals, it includes construction, it includes those two that you have just raised, it includes a bunch of other things. And to say “Oh, well, it was a general manufacturing crisis, but now we’re down to this little bit here”—now, obviously there’s challenges for individual firms. Nobody’s arguing that that’s not the case. There has been challenges and I’ve talked to any number of them, but others are doing very well.
You could talk to, just to give you some examples, the people at Fisher and Paykel Healthcare—frankly, the people at Fisher and Paykel more generally, going on the front page of the business section of the New Zealand Herald this morning. You could talk to Buckley Systems. You could talk to a number of businesses in Dunedin that Mr Clark’s concerned about: SLI Systems, for a kick-off. You could talk to any number of businesses around the country that are doing very well, but, yes, there are some that are undoubtedly struggling, and, yes, the high dollar has had an impact on some.

What it is, unfortunately, doing is forcing a level of innovation and change on firms that perhaps is uncomfortable for some—there’s no doubt about that. What is going to happen now in all likelihood is that with the change in relatively with the US dollar and the Australian dollar, you are going to find some firms that were doing it more difficult are going to find it a little bit easier, and others that were perhaps more Australian-focused are going to find it a bit more difficult. But the solution is not to try and control the exchange rates. The solution is to keep working to lower the barriers to competitiveness in the New Zealand economy.

Bennett The New Zealand Venture Investment Fund has got an important role to play as well in that. How’s that going and will you be able to give us an update on some of the successes there that you may have had?

Joyce The NZVIF’s actually doing reasonably well at this point. We’ve just given an extra $60 million underwrite. In terms of some of the detailed companies, there’s a number that have in fact been up for awards at the recent Hi-Tech Awards. A number of the funds are now maturing, so I think we’re entering an interesting stage. It’s been in place now for about 10 years. So we’re going to find NZVIF and its fund managers exiting from certain companies at this point. So I think it will be an interesting period because some of these companies will want to get out and get on to the market. Others will be continuing to work their way through things.

Bennett That must be very satisfying—to see the maturity of those companies.

Joyce I think what is perhaps more satisfying from my perspective is actually the development of the high-tech industry in New Zealand. I attended the Hi-Tech Awards a couple of weeks ago. I think it’s my fourth or fifth time there. The positive stories and the successes of so many New Zealand companies, particularly from high-tech, manufacturing, and IT background, is really quite exciting, and I think we have a whole new generation of entrepreneurs who are much more comfortable operating an international business from a New Zealand base.

Parker So coming back to your answer to Dr Norman, you say “Judge our performance in 3 years’ time, not now, please.”

Joyce No, what I said was “every 3 years”. We did all right last time; I’ll see how we go next time.

Parker Oh, that’s actually not what you said, but you might now want that you did say that. Minister, at the moment, until the end of the projection period, by
which time if New Zealand was unlucky enough to have you still in Government, you would have been in power for 9 years—[Interruption]—9 years—the trend is for the current account balance to be getting worse and New Zealand’s net international liabilities to be growing as a percentage of GDP.

Joyce Well, Mr Parker, New Zealand’s net international liabilities have decreased. Our current account deficit is way lower than when you guys were—

Parker How is that a measure of success?

Joyce Although it’s an appalling suggestion from you—

Goldsmith Just complete the question and—[Interruption]

Parker How can that be said to be a measure of success?

Joyce Well, as I pointed out to the member, when you compare it with the record of the previous Government, which I think the public does every 3 years in an election, the reality is the previous Government had a much, much higher current account deficit of 8 percent over the last 3 years, so no political advice to you, but I would get off that one. And the reality is that New Zealanders will test us next year and my view is that they will see an economy which is growing and is obviously growing better than the rest of the world currently. But the test is every 3 years they get the opportunity to compare our performance with everybody else’s.

Goldsmith Thank you very much, Minister, for coming in. We appreciate your time.

conclusion of evidence
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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 2014 for Vote Education and Vote Education Review Office, administered by the Ministry of Education and the Education Review Office as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Education increase to $9.734 billion in 2013/14 from an estimated actual expenditure for 2012/13 of $9.633 billion. Those sought for Vote Education Review Office decrease to $29.313 million in 2013/14 from an estimated actual of $29.334 million for 2012/13. Hon Hekia Parata, the Minister of Education, is the Minister responsible for the appropriations within both Votes. We heard from the Minister of Education, from the Ministry of Education, and from the Education Review Office.

Partnership schools kura hourua

We are aware of the Government’s intention to introduce partnership schools kura hourua, and asked for an update on their establishment. The Minister explained she has established a working group to work with the Ministry of Education on policy for the proposed schools, and an authorisation board to review proposals from applicants seeking to open partnership schools. The board has received 35 such applications, and will advise the Minister of its recommendations in late July or early August; she will announce the results shortly thereafter. The set-up costs of the new partnership schools are expected to amount to $2.269 million.

Partnership schools were introduced to target the students who are not being served well by the education system. We asked how partnership schools would ensure they enrolled the students the policy was designed to target. The Minister explained that the schools are required to detail in their proposals how they will identify target students and encourage their enrolment. The details of each school’s set-up will be made publicly available, including the skills required of the teaching staff, the review methodology adopted, and the specific educational results they will be required to achieve. We asked if the Minister would rule out opening partnership schools in areas where state schools have recently been closed or merged, or where state schools have surplus enrolment places; we heard that it would “lack common sense” to rule out scenarios before proposals have been put to her. She said the final decision on where the new schools will open will be made in the interests of achieving the Better Public Services targets.

Participation in early childhood education

In the 12 months ending March 2013, the early childhood education participation rate increased from 94.7 percent to 95.5 percent. We note that one of the Government’s Better Public Services targets is to ensure that in 2016, 98 percent of children start school having participated in quality early childhood education. The Minister told us she is confident the
target will be met, but recognises that it means the ministry needs to secure the participation of the children who so far have proven hardest to reach, including Māori and Pasifika children. The Minister told us of a number of initiatives to help reach these communities, including engagement with the Ministry of Pacific Island Affairs, Pasifika churches, and the New Zealand Rugby League. There are also funding initiatives to maintain participation in early childhood education, including equity funding of $41 million targeted at communities that have previously had the lowest participation, $39 million provided as a universal cost adjustment to keep fees low, and a $12-million service fund to assist centres in areas of low participation which therefore have the most difficulty operating. We heard that the ministry reviews its funding constantly to ensure that the initiatives that work best receive more.

The Minister told us a recently published report from the OECD entitled *Education at a Glance 2013* found that New Zealand makes the largest investment of funding for early childhood education, has the most diverse provision of early childhood education, and some of the highest-qualified providers of early childhood education in the OECD.¹

**Early childhood education taskforce**

The Minister established an independent early childhood education taskforce in October 2010, to review the effectiveness of early childhood spending, and to propose ideas for innovative, cost effective, evidence-based ways to support children’s learning in early childhood. The report of the taskforce, *An Agenda for Amazing Children*, was released on 1 June 2011.² The Government is consulting with three sector groups on the recommendations in the report. One section of the recommendations, devoted to the quality of information and data, has led to the establishment of the Early Learning Information System. The second sector group looked into funding options, and is due to report to the Minister soon. The third group was tasked with looking into the quality of provision; we heard that the Minister is considering this report, and has not set a timeframe for when it will be published.

**Novopay and other computer systems**

In August 2012 the Ministry of Education introduced Novopay, a new payroll system for teachers. A number of issues immediately emerged with the accuracy of payments. The decision to proceed with the rollout of the system has been criticised, because there was no trial period and surveys indicated mistrust among users. The Minister explained that she, along with the Minister of Finance and the Associate Minister of Education, decided the system should go live on the basis of the information they were given at the time. A Ministerial inquiry has since found that the ministers were given incorrect, inaccurate, and overly optimistic advice. The Minister acknowledged that it is now clear that there were too many problems with the system; the ministry is now trying to address them, and the resulting backlog of cases.

The ministry has four work streams addressing problems arising from the change in payroll system. One is seeking to ensure teachers get paid correctly every pay cycle. The second is fixing bugs in the system, which involves changes to the user interface among others. The third work stream involves 110 staff dedicated to clearing the backlog of payment errors.

¹ OECD, *Education at a Glance 2013*, June 2013
² Early Childhood Education Taskforce, *An Agenda for Amazing Children*, June 2011
And finally, work is being done on the service model. The ministry is recruiting account management staff around the country, to deal personally with school administrators.

An additional $16.9 million has been provided to cover remediation and other expenditure associated with Novopay, mostly from reprioritisation within the Vote, and new funding for Financial Assistance for Schools. This is in addition to $8 million of funding in Budget 2013 to cover the costs of bringing Novopay to a stable operating state. We heard that there are sufficient funds to fix the system, but progress is constrained by the number of suitably skilled workers available.

**Provision for closing Christchurch schools**

As a result of the closure of seven schools and the merging of eight others in Christchurch from the end of this year, about 50 teachers will cease to be employed by the ministry. These teachers are worried that the complexities of their final pay, which will include redundancy, leave balances, and other remedial payments, will exceed the capacity of Novopay to make an accurate final payment. The Minister assured us that the Ministry of Education will be adequately prepared for the final payment, and a special project team will ensure the pay run is processed smoothly. A residual agent will be appointed for the closed schools to deal with teachers about any issues; a change manager and an establishment board have been appointed for schools that are merging, and will help staff who need adjustments to their pay.

**Te Aho o Te Kura Pounamu—the Correspondence School**

We asked if the Minister was concerned about reports of significant problems with the new student management system at Te Aho o Te Kura Pounamu—the Correspondence School, which has been compared to Novopay, and what was being done about them. The Minister explained that the board is responsible for resolving any errors, and she has confidence it will do so. We heard that the school CEO and management are working with the board to resolve the issue, and the ministry is monitoring their progress.

**Christchurch**

There are 215 schools in the greater Christchurch area. In the wake of the earthquakes the Minister has confirmed that seven will close, and eight will be merged. Decisions on schools in Aranui and New Brighton are still outstanding. In Aranui, the proposal is to merge four schools on one site and create a community hub. The ministry has invited submissions on this proposal, which were due to close after we heard from the Minister. If the proposal is adopted, the new school would not begin operating until 2017. Three schools are affected by the New Brighton proposals, where the options are merger or closure. The ministry is also in discussions with the Christchurch City Council and the Canterbury Earthquake Recovery Authority about co-locating facilities in the rebuilt schools, but has not yet made a final decision. We heard that all information used to inform the decisions would be made available on the ministry’s website. Any schools scheduled for closure would have their land disposed of under the process detailed in the Public Works Act 1981.

We wanted to know what criteria the Minister used to decide which schools would close, and whether they were consistent across the country. For example, Phillipstown School in Christchurch is scheduled to be closed, and was told that contributing reasons were surplus spaces available at other schools and a shrinking roll; while the Government has agreed to integrate Wanganui Collegiate into the state system, despite surplus spaces at other schools.
in the area and a declining roll. The Minister disputed the comparison, saying that the schools are in completely different situations; decisions about which schools remain open, and whether schools receive more Government funding, are made taking into account their circumstances, and those of these schools differ.

**Truancy**

We asked the Minister for an update on the rate of truancy in schools, and the effect of the initiatives she has introduced in this area. We heard that over the last 12 months, the rate of truancy has decreased by 1 percent, which the Minister attributed to proactive efforts involving parents, the ministry, and school boards to identify the most vulnerable students, and organise individual education plans to keep them engaged. She also pointed to options the Government has introduced to encourage students to stay at school longer, such as trade and services academies, vocational pathways, and the Gateway scheme.

We learnt that the Government has reconfigured the contracts for attendance services, on which it is now spending $9.426 million this financial year. The ministry is continuing to monitor these changes, and has seen some improvements in truancy, but not in the areas where they are most needed.

**Positive Behaviour for Learning**

Positive Behaviour for Learning is a joint initiative between several education-sector organisations, led by the ministry. It provides programmes and initiatives for schools, teachers, and parents to help promote positive behaviour in children and young people. The programmes are delivered by the ministry in partnership with non-governmental organisations, early childhood sector organisations, and Resource Teachers: Learning and Behaviour. We heard that it has been very effective in schools, and that the ministry has made provision to expand it to more schools, with the intention that it be available to all secondary schools and some primary and intermediate schools by 2016.

**Reallocation of funding**

Budget 2012 announced a policy intended to focus on quality in teaching and leadership, to be funded from savings made by increasing class sizes. The policy was subsequently reversed because of parents’ objections. We were told at the time that the Government would still focus on improving teaching, with funding sourced elsewhere. We heard that Budget 2013/14 included $164 million over four years for teacher training, to be funded from new money, contingency funding, and savings found in a line-by-line review.

We note the new policy initiative, Independent Advice on Government Priority Areas, with funding of $500,000 per year over the next four years. We asked whether there would be a tendering process for this independent advice, and whether the appropriation included outsourcing the drafting of Cabinet papers or documents for Cabinet committees. We learnt that no decisions have been made on the outputs that will be purchased using this funding, but that it will be used in accordance with procurement policies.

**Education Review Office**

We are aware that the Education Review Office (ERO) reviews schools regularly, and determines whether a school needs to be reviewed every one or two years, three-yearly, or four-to-five-yearly. We asked what ERO was doing to help the schools on a one-to-two year cycle improve, in addition to increasing the frequency of their reviews. We heard that ERO encourages schools to self-review and self-evaluate, and to share best practice. It
works with schools to help them understand their achievement data, and to determine where they can make further improvement.

The Minister explained that the teaching profession is enthusiastic about sharing best practice; and sharing has been promoted by the appointment of student achievement facilitators, who identify students requiring help and work with teachers to improve their practice to help these students. The Minister also told us that 43 learning community clusters have been established in Christchurch, where educators from early childhood through to senior secondary are collaborating to find ways to ensure that achievement targets are met.

After ERO has reviewed a school, it makes recommendations for improvement. The regional offices of the Ministry of Education contact the school to ensure it understands ERO’s recommendations and implements them. The offices are responsible for determining what professional development or extra resources are needed by schools. ERO follows up its recommendations when it next reviews the school.

ERO reports on how well the school’s charter is being upheld and its targets are being met for the students that Government is focusing on: Māori, Pasifika, children from poorer homes, and those with learning difficulties. The reports also detail how well the school is developing an inclusive approach for these students. ERO also produces reports on specific issues, such as improving schools’ response to underperforming students, and the teaching of mathematics and science to Year 5 and Year 8 students.

**Home schooling**

Since 2009/10 home schooling reviews have been conducted only “as required”, at the discretion of the Chief Review Officer, outside the regular review process. Each year, about 6,000 children are home schooled, but only about 15 to 30 of them have their education reviewed by ERO. Most home schooling reviews are carried out on the request from the ministry in response to complaints about the quality of the education or care being provided. We heard that ERO has received few such requests since a change in process in 2009/10. Before then ERO completed a regular review programme for about 600 home-schooled children per year; but it found that, with few exceptions, parents who had chosen to home school their children did so in accordance with the terms of their exemption.
Appendix

Approach to this examination

We met on 26 June and 10 July 2013 to consider Vote Education and Vote Education Review Office. Evidence was heard from the Minister of Education, Hon Hekia Parata, and from the Ministry of Education and the Education Review Office, and advice received from the Office of the Auditor-General.

Committee members

Dr Cam Calder (Chairperson)
Carol Beaumont
Catherine Delahunty
Hon Jo Goodhew
Chris Hipkins
Colin King
Tim Macindoe
Tracey Martin
Simon O’Connor
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 24 June 2013.

Office of the Auditor-General, Briefing on Vote Education Review Office, received 24 June 2013.

Vote briefing paper, prepared by committee staff, received 24 June 2013.

Minister of Education, Response to standard Estimates questionnaire for Vote Education.

Minister of Education, Response to standard Estimates questionnaire for Vote Education Review Office.

Minister of Education, Response to Vote Education additional questions 1 to 185, received 25 June 2013.

Minister of Education, Response to Vote Education additional questions 186 to 245, received 3 July 2013.

Minister of Education, Response to Vote Education Review Office additional questions 1 to 126, received 25 June 2013.

Minister of Education, Response to Vote Education Review Office additional questions 127 to 130, received 25 June 2013.

Minister of Education, presentation on Vote Education, received 26 June 2013.

Minister of Education, presentation on Vote Education Review Office, received 26 June 2013.
The Transport and Industrial Relations Committee has examined the 2013/14 Estimates for Vote Employment and recommends that the appropriations in respect of Vote Employment for the year ending 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

David Bennett
Chairperson
2013/14 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 2014 for Vote Energy, as set out in Parliamentary Paper B.5, administered by the Ministry of Business, Innovation and Employment, be accepted.

Introduction
The annual and permanent appropriations sought under Vote Energy for 2013/14 total $146.461 million, a 1.18 percent increase from the estimated actual expenditure of $144.754 million in 2012/13.

Electricity supply and pricing
Electricity supply infrastructure needs investment to remain secure, and we asked the Minister what investment is going into transmission, as a large component in the supply of electricity. The Minister said that Transpower was spending “some $5 billion” on capital investment, referring to a 10-year capital expenditure project that began in 2012, which he said will ensure the stability of the transmission network.

Supply infrastructure is an area to which consumers do not give much consideration until it becomes problematic, and so it remains largely invisible to them. We asked the Minister what work is going into securing future electricity supply. The Minister said that there has been a focus on supplying energy by renewable means, primarily hydro-generation, but increasingly geothermal and wind-powered generation.

Other jurisdictions keep electricity prices down, but to the detriment of security of supply, resulting in blackouts, infrastructure failures and rationing. The Minister said that New Zealand was fortunate with its available resources that security of supply was not currently problematic. He gave the example of the first half of 2012, which was the driest on record and yet did not disrupt electricity supply from hydro-lakes.

Electricity prices
The Minister explained that although prices are rising they have been doing so more slowly since 2008, which is partly to do with the establishment of the Electricity Authority, and its role of ensuring the market is competitive.

The Minister agreed with us that the demand for electricity is currently flat, and that on average over the last fifteen years electricity price rises have exceeded the rate of inflation. We asked why the decreased demand has not resulted in a corresponding decrease in prices, and what market conditions would result in a drop in price. He told us that money is being put towards security of supply and transmission. Projections by the Ministry indicate that there is sufficient supply to meet demand, and the increasingly competitive market will become more so. Projections are modelled up to 2040, but do not predict a flat demand for that entire period.
New Zealand National Party view – electricity prices:

National members note the Prime Minister’s remarks in the House, that electricity prices are slightly less than the current OECD average. He has stated that some of the cost increases that occurred in the last four and a half years have been in relation to transmission increases as Transpower has engaged in a $5-billion upgrade of the national grid. National members have noted that the emissions trading scheme as originally enacted by the previous Government has also contributed to the increase in electricity prices and would put on the average consumer approximately $500 per household a year.

When asked if the Minister stood by his statement that he does not think New Zealanders pay too much for electricity, in our view he acknowledged he stood by that comment, but added that further work needed to be done to further improve the competitive market which would reflect in more competitive pricing for consumers. He said that the electricity authority have a series of new initiatives to further improve the market. He mentioned about improving transparency of consumer electricity charges, enhancing retail switching, review of barriers to group switching and mass market abrogation, review of retail competition and embedding customer networks, and using model usage system agreements as some of the measures. He reported that on average a consumer can save $175 through switching and this was a saving that is available to consumers now. He said his view is we can see that get even bigger.

The committee heard that the ministry has a team that does the statistical collection and modelling of energy markets, and have done this consistently on an annual basis, looking for projections of demand and when asked what the projections showed, reported that the demand supply balances strongly in favour of consumers.

New Zealand Labour Party minority view

Labour members noted that the Minister and the Prime Minister have said that they do not think New Zealanders pay too much for electricity. We asked the Minister if he stands by that statement, he confirmed he does, and gave examples of why he believes this to be the case. We asked him also at what point he believes New Zealanders will be paying too much for power, and he could not “give you a dollar figure” as to the point at which New Zealanders would be paying too much for electricity. He also confirmed that he thought the Bradford reforms needed more time to bed in and that “none of this keeps people warm in their old age at home when they are struggling to pay their power bill”.

Energy saving and efficiency projects

Home Insulation Project

The Home Insulation Project, which makes “grants towards insulation targeting low income households”, commences this financial year and runs for three years. The project is budgeted at $93 million for the upcoming financial year; 60 percent of the funding will be provided by the Government through the Energy Efficiency and Conservation Authority, and 40 percent by third-party groups such as iwi and trusts, who will determine who receives funding. The Minister said that he will endeavour to ensure the funding allocation is geographically even. A tendering process is in process for the work.

1 The Estimates of Appropriations 2013/14 B.5 p. 98
Warm up New Zealand: Heat Smart programme

The final $11 million for this programme is sought in the Budget; funding expires at the end of the 2013/14 financial year. The Minister considers the Heat Smart programme, which provides grants towards insulation and clean heating devices to make New Zealand homes healthier and more energy efficient, to have been a success. The programme has insulated 230,000 homes, targeting people with low incomes or high health needs.

Customer switching

A multi-year appropriation to facilitate and promote switching of electricity suppliers began in November 2010 and the final remaining $2 million is sought in 2013/14. We asked the Minister whether he thought the market offered consumers choice, and whether there is competition in the market. He said that several large players are fighting for business. We asked the Minister how successful the campaign has been, and heard that 700,000 customers switched providers as a result, and that the rate of switching is increasing.

Mining tendering

An appropriation of $18.1 million is sought for the Management of the Crown Mineral Estate, which is for allocation and management of Crown-owned petroleum, coal, and mineral resources under the Crown Minerals Act 1991 and mineral programmes issued under the Act. The Minister told us that three companies have been awarded mining permits for metallic minerals exploration in Northland. The companies involved have to meet health and safety and financial capability requirements. The most likely minerals to be found in Northland are silver and gold, and in the Reinga Northland Basin the oil and gas block offer has created some interest from oil and gas companies.

We asked the Minister what consultation was undertaken before the issuing of these permits. We heard the New Zealand Petroleum and Minerals consulted iwi, local authorities, and communities before issuing the permits, as it is required to do. There will be further consultation when the results of the exploration start to come through. The Minister gave an example of how consultation affected the 2013 onshore oil and gas block offer; permits were granted for smaller areas in Taranaki than previously offered, because of local iwi's concern about wāhi tapu.

We asked how the awarding of exploration permits would affect Northland financially. The Minister said that mining benefits the community because it creates high-paying jobs, but it takes 5–10 years after exploration before any benefits are seen.
Appendix A

Approach to this examination
We met on 13 June, 4 and 11 July 2013 to consider Vote Energy. Evidence was heard from the Minister of Energy and Resources, Hon Simon Bridges, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Clayton Cosgrove
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell
Dr Jian Yang

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

Minister of Energy and Resources, Response to standard Estimates questionnaire.

Minister of Energy and Resources, Response to additional questions, received 12 June and 1 July 2013.

Office of the Auditor-General, Briefing on Vote Energy, received 13 June 2013.
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Appendix B

Corrected Transcript of hearing 13 June 2013

Members
Jonathan Young (Chair)
Kanwaljit Singh Bakshi
David Clark
Hon Clayton Cosgrove
Clare Curran
Gareth Hughes
Peseta Sam Lotu-Iiga
Mark Mitchell
Jian Young

Witnesses
Hon Simon Bridges
Bruce Parkes
Carl Hansen
Dave Binnie

Young Hey, it’s great to have you and your team here. We’re actually starting a little bit early. Thank you very much for your willingness to do that.

Cosgrove I’ll second that.

Young We are a very efficient committee.

Cosgrove Are we?

Young So what we’d like do is give you 5 minutes to be able to give an introduction and then we’ll come to questions. We have an hour with you, sir.

Bridges So you’re ready?

Young We’re ready to go, sir.

Bridges Well, look, good morning and it’s great, Mr Chair, to be in front of this august committee, and I know you want a dialogue, not a monologue, so we’ll be very brief. Look, let me just give you a flavour, I suppose, of our strategic priorities in this portfolio. In a nutshell, we’re trying to grow the economy, provide for our energy needs, and certainly exploit all of our opportunities. I say that because, of course, we’re blessed in New Zealand to have very rich, renewable resources—wind, geothermal, lakes—but also, undoubtedly, minerals and petroleum, and, you know, that is a real strength, that diversity of energy, for our country.

Just very briefly on the downstream, the energy side, we have a target as a Government of 90 percent renewables in electricity by 2025. That’s
ambitious, I think, but is achievable, and you’ll be aware of the figures: 77 percent 2011; it was about 72 percent 2012; driest first half of a year on record, 85 years—not a whimper, really, from the markets on that. So good security of supply there. We’re the third in the world in terms of our renewables for electricity, behind Iceland and Norway. I think that’s something to be proud of.

Our new consented renewable energy, if you like, in the kitty going forward—nearly all of it wind, actually, some 3,500 megawatts of energy supplied to last us for 30 years going forward of new supply. And what’s so brilliant about all of this is it’s good environmentally, but it also works in the sense that it’s cost competitive and businesses do this. They do the wind, the geothermal, and so on, because, as I say, financially it makes sense. And our system—I think we should be proud of this—delivers a high share of renewables as well as security of supply, and I think we show the world that these two things can be compatible. And, look, I appreciate there will absolutely be opposing views, but I think our market reforms for 2009-10, the so-called Brownlee reforms, are working exceptionally well. They’re improving competition and security of supply.

Let me just very quickly touch on the other side of the portfolio, the resources upstream side. Look, again, the aim is very clear. It’s about sensible exploration and development of our resources with world best practice, environmentally and in terms of health and safety. It is about getting an uplift there, because we think that does grow the economy and jobs. While we’ve got a mature petroleum and minerals industry, I think we are as a country relatively underexplored—the fourth-largest exclusive economic zone, 18 petroleum basins, really no considerable—well, no production, certainly—from any of those basins other than yours, Mr Chair, in Taranaki. And we’ve reformed, over the last wee while, our regulatory regime. We really overhauled it, effectively, and lifted the profile of this area with the Crown Minerals Act reform and programmes under that; health and safety regulations, and significant work there in relation to petroleum and minerals; and, right at the moment, new mining regulations being consulted on with industry to really lift that industry following on from Pike River and the tragedy there.

In petroleum we’ve instituted annual block offers, and in regard to minerals we’re doing a similar thing strategically, trying to manage our resources there. By way of example, this morning I’ve announced the outcome of the Northland minerals tender—five exploration permits to three businesses—and this is the first minerals competitive tender with permits awarded and the first certainly of any kind of competitive tender process under the new Crown Minerals Act regime with its heightened health and safety standards. So I think it’s an exciting set of opportunities. That Northland tender process is just one example.

Of course, there’s other good work going on in the portfolio. Through EECA—$100 million for the Healthy Homes programme insulation over 3 years. I’m happy to talk about that. Of course, there are other energy
efficiency programmes, where they’re doing good work as well. So, Mr Chair and members, I look forward to the dialogue.

Young Great. Thank you very much, Minister. We will hand over to Mr Cosgrove for some questions.

Bridges Oh, fantastic.

Cosgrove Minister, great to see you again here.

Bridges Good to be here.

Cosgrove We’ve missed you. Do you still stand by your statement that you believe Kiwis are not paying too much for their electricity?

Bridges Yes, I do. I think we have a system that delivers what New Zealanders want, when they want it, at a competitive price. I think we have a workably competitive market. Now, that’s not to say there’s not a lot that can be done to improve it, and we’re working on that. But, I mean, look—I can give you long answers—

Cosgrove No, I believe you. It’s all right. No, it’s OK. I believe you. Your Prime Minister’s reiterated you don’t believe that Kiwis are paying too much for their power. No, that’s fine, thanks. At what level do you think Kiwis will be paying too much for their power?

Bridges I think, with respect, Clayton, that’s the wrong question, because—

Cosgrove No, no. With respect, Minister—excuse me, Minister—it may be the wrong question to you, but this process is we ask the questions. If you think they’re wrong, bad luck. You’ve got to answer them. So my question is this—my question is this, with respect—

Mitchell Can I just make one point, sorry—

Young Is it a point of order?

Cosgrove No problem. Is it a point of order?

Mitchell I agree with you, but if you do ask the Minister a question, then he should be given the ability to put some context around his answer, and I think if we’re going to start this estimates right off the bat with only letting him be allowed to say what you want and then cutting him off, we’re not going to get any context around that.

Cosgrove With respect, and thank you for your intervention. I’m sure the Minister appreciates it. I asked the Minister did he stand by his statement. He said he did. Thank you. Forgive my inappropriate question, Minister, but I am going to ask it again, and I’d be grateful for an answer.

Bridges That’s all right.

Cosgrove At what point do you think Kiwis will be paying too much for their power, given you say they’re not paying too much now?

Bridges Well, the issue is the competitive price and, you know, I can’t say, and actually, with respect, you can’t say “Well, that is X dollars.” But let me give you the factual situation. From 1997 to 2001 power prices increased but
below the rate of inflation. That was in the immediate aftermath of the wholesale market first being established. In 2001-08 they rose significantly above inflation—we all know that. There were a range of reasons: increased gas prices, coal and petrol prices, transmission investment, and so on. Since then they have continued to increase but at a lessened rate. Now, the electricity authorities had less than 3 years in action, if you like. I think, as I say, they have improved things. We have seen those increases come down, but I wouldn’t want, Clayton, for there to be any sense that we’re complacent about this, actually. They know that it is their job in the long run to have a very competitive market. They’re working hard on that. I mean, I could give you a series of things that they are doing to keep sharpening that.

Cosgrove: Well, my question is if you can’t tell us at what point you believe Kiwis will be paying too much for power, how can you make the statement that you believe—and what is your statement based on—that Kiwis are not paying too much for power now?

Bridges: Well, many things. For example, at the moment, on average in New Zealand, there is a $175 difference between the cheapest and the most expensive retailer in any region. That means that consumers, if they’ve got the right information, are empowered to get significant savings. We look at the system—Labour-Greens have already talked about $300-odd. Now that’s significant. If it worked, it would be $300. Well, this is over half that, actually, as we try and become more competitive. Now, I think, actually, we can do better than that with more reform and more pro-competitive initiatives.

Cosgrove: So, just for the record, could you give us, because you’ve said—I’m sorry to press you on this, but I would actually like some specificity. So can you give us a number that you believe is in now, where you believe it substantiates your point that Kiwis are not paying too much for power. Because you’ve said you cannot, and, quite rightly, you’ve said to me I can’t either, but I’m asking the questions. You said you can’t say at what point they’ll be paying too much. So I’d just like some evidence to back up you and your Prime Minister’s point, where you say they’re not paying too much now. Can you give us a dollar figure at that point—

Bridges: No, I can’t give you a dollar figure.

Cosgrove: OK, thank you. See, would it interest you to know—

Bridges: No one can.

Cosgrove: Sorry?

Bridges: No one can.

Cosgrove: OK. So what’s your point validated on, then, please?

Bridges: Well, it’s validated on this. Actually—

Cosgrove: Thin air? Crystal ball?
—every electricity market has its intricacies. In New Zealand we are very blessed that we run a lot of hydro—actually, increasingly, wind, geothermal. We’re a long, stringy country. We have fantastic security of supply, because, I think, of the imperatives and pressures we’ve put into the system. We have a competitive market delivering an increasingly competitive price. But whether that is $1 a unit or $20 a unit, you know, depends on the variables that go into making that the increased gas prices—what petrol is going for, the opportunity costs involved with water and what other uses it might be put to etc., etc.

Cosgrove I take your point. But I suppose the difficulty Kiwis will have, Minister, is you and your Prime Minister have said that you don’t believe Kiwis are paying too much, but you can’t produce a figure. I’ve asked you at what point will Kiwis be paying too much for power. You can’t give us a figure. So, really, it’s hyperbole and thin air.

Young Well, can I do a supp, thanks, on that. For example, if—like we’ve heard recently, there’s been some blackouts in California—electricity is at a certain price but with that comes blackouts or infrastructure failure, could you say that people are paying not enough to ensure security—

Cosgrove That’ll keep people warm in their old age.

Young No, in order to ensure security of supply? Because we know that when, for example, the Māui gas line had that breakdown in their infrastructure, it cost industry hundreds of millions of dollars in a matter of 4 days.

Bridges Yes, I mean, look, let me give you a few thoughts on security of supply. Of course, it’s the sort of thing that people and consumers undervalue until they have really serious problems, and we don’t have in New Zealand. As I said, the first half of last year was the driest on record for the hydrolakes. There wasn’t a whimper. The first half of this year has been exceptionally dry. We haven’t seen any problems.

Now, if your system becomes too centralised, and you basically say “We’re setting a fair price.”, you have real problems because no one is going to invest another bean in generation, certainly not privately, and then you run into serious things. I think your example is a good one, in America, where either Government is forced to build future generation, and the taxpayer pays, or you have rationing and blackouts. We’ve seen that in the past. We don’t see it now. Under different systems, we could see it again.

Cosgrove Minister, you’ve claimed that—I think the claim Mr Brownlee; no, it may have been you, actually, sir—with the switching campaign in Christchurch you can save some $600-odd a year. Would you be interested to know that—or are you aware that the cost of the lowest cost provider in most regions has gone up significantly since the What’s My Number campaign? For example, in my home town of Christchurch, the lowest price available has gone up by $407 per year for the average household, compared with an average saving for consumers using the site of $175. How do substantiate it? Because I addressed a Grey Power meeting of about 300 people and asked them could anybody put their hand up—because they’re all big
electricity users—if anybody had used the switching facility. A number of hands went up. I also then asked them: “Well, who’s saved $600, $500, $400, $300.” No hands went up. Three hundred people is not a bad sample. So could you—or is this just another sort of unsubstantiated bit of spin? Where’s the evidence?

Bridges Well, the average in New Zealand is we’re talking about a 4.5 percent increase since we’ve been in Government—almost half of what it was under the Labour Government. In the Canterbury region, yes, I think you’re right, my figure was around a $600 difference, give or take a few dollars, between the cheapest and the most expensive provider that could be saved per annum. Now, from memory—and I’ll check this when I get back to the office—the most expensive—

Cosgrove Well, you’ve got officials here. Could they tell us?

Bridges The most expensive was TrustPower, and I can’t remember what the least expensive—

Cosgrove Can your officials help?

Bridges We’ll see if any of them know—they can slip it to me. But I think the point of the matter is, as I’ve already said, we have a more competitive system, I would argue, than we’ve ever had in New Zealand, but it is still only workably competitive. There are many things that the Electricity Authority, which has been empowered to deal with this, is doing. I mean, let me give you just one example of something they’re going to start rolling out.

Cosgrove Well, with respect, could we get to the initiatives in a minute, because you will be asked about those. Minister, your Government has made a number of claims, and I would just like some specificity and evidence around those claims. Do you stand by your statement that “The Bradford reforms still need more time to bed in.”? Bear in mind that they have been in place—and then we have the other “B”, the Brownlee reforms—for 15 years.

Bridges I absolutely do.

Cosgrove So you do, thank you.

Bridges Let me—

Cosgrove That would then—

Bridges I would like to answer that.

Cosgrove No, you’ve answered the question. Thank you.

Bridges I’d like a full answer.

Cosgrove You answered the question.

Bridges I’ll like a fuller answer.

Young Let the Minister answer, please.

Bridges As I said to you—and people can mock, and, with respect, Clayton, the Labour Party can try to rewrite history—

Cosgrove Answer the question, Minister.
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Bridges  —but the facts are these—well, I’m going to. On the Bradford reforms, from 1997 to 2001, when he implemented his reforms, residential prices rose slower than inflation. Your Government never managed that.

Cosgrove  So if, after 15 years—

Bridges  You stuffed it up, with respect.

Cosgrove  You can do the politics. I’d just like some evidence for your statements. If the Bradford reforms, by definition, having been in place for 15 years, still need “more time to bed in”, that would suggest they haven’t worked as they should, and now you say that the Electricity Authority has had only 3 years. I mean, none of this keeps people warm in their old age at home when they are struggling to pay their power bill.

Bridges  I agree.

Cosgrove  And you say they’re not paying too much for electricity.

Bridges  I agree, but look at New Zealand right now. Actually, we have five large players. We’ve got TrustPower, Mighty River Power, Meridian Energy, Contact Energy, and Genesis. Actually, that’s more big players than we have in banking, in petrol, in telecoms, in supermarkets. We’ve got some 70 generators. We’ve got 15 independent retailers. I think if you are talking about brands, some 25. It is a competitive market delivering workable competition.

Cosgrove  So if it’s a competitive market, explain my fifth form economics to me, because, as demand is flat—flat—with the potential for overcapacity if the Tīwai thing goes west, but demand being flat or reducing, normally the price goes down. You agree with that basic characterisation of supply and demand economics?

Bridges  Yeah, but—

Cosgrove  So why is it that we’re going against the odds internationally? If there is so much competition when demand is flat, why is price going up, if this is a really good, competitive market? That’s simple fifth form economics.

Bridges  Well, we are going against the odds internationally in the sense that the model that the Labour-Greens are advocating, that we see in other countries—

Cosgrove  No, no, we’re not here to discuss—

Bridges  No, no, you asked me a question. It’s my turn to answer.

Cosgrove  No, I asked you a question about your policy; I didn’t ask about the Labour-Greens policy. I’ll restate it for you. Supply and demand economics dictate—and you’ve agreed with me—that where demand is flat or reducing, price generally goes down. You’ve agreed with me on that. So tell me this. Why, if the electricity market is so competitive, when demand is flat, with a possibility of overcapacity, price is going up? Just answer that question. Not about my policy. I know your view on my policy.

Bridges  No, I don’t agree with all of that. The fact of the matter is—
Cosgrove: But you did before.

Bridges: Let me answer now. The fact of the matter is there are many things that go into determining power price. At the moment, TransPower is spending $5 billion on transmission improvements. We are seeing significant capital upgrades. We’ve got some 3,500 megawatts of consented power generation, most of it renewable. These things cost money, and, actually, they dry up under the Labour-Greens policy. They go into determining the power price. I come back to it. That’s why I can’t say to you—and no one can. If they tell you they can, then they’re selling fairy dust, all right. The fact of the matter is it is a competitive market. There are many big players—more than in most big industries that we like to compare it with, actually. There are lots of little players. For example, we see iwi in the central North Island getting involved in this, and a new generation.

Cosgrove: And the fact remains, demand is flat and the price is going up.

Bakshi: Minister, transmission is a major component in the power supply. I would like to know what’s happening on that front. What sort of investment is going in, and does it affect the price of electricity?

Bridges: Yes, absolutely, Kanwaljit. So it’s a good question. As I’ve just actually said, TransPower is spending some $5 billion on capital investment, so there’s the Pole 3 Cook Strait cable joining the North and South Islands. That’s a $672 million project. We’ve got North Auckland and the Northland grid upgrade, which reinforces transmission across Auckland and into Northland. There’s the Waiairiki to Whakamaru replacement line project. So there’s a significant amount in that that goes, I suppose, to some of Clayton’s pertinent questions around price and what goes to make it up.

Bakshi: Will it ensure that we will have a regular supply of electricity to households?

Bridges: Yes, absolutely, but I think what’s also worth noting when we talk security of supply is that point I’ve already made. Look, actually, no one misses it until you’ve got problems. We’ve had them in the past. We don’t now. So, you know, that is that.

Some other things that came out of the Brownlee reforms, simple but very effective, like forcing, actually, the generators to manage themselves well, and where they don’t, they compensate consumers, where there’s dry and there’s rationing, and so on. So, look, I think on that front it’s working exceptionally well.

Hughes: Hey, thanks, Minister. I’m intrigued by your comments around competition. I mean, if there’s so much competition in the market, why on earth does the taxpayer have to spend millions of dollars telling people to switch electricity companies, and this happens in no other sector or product in the economy?

Bridges: Well, it’s a small number of millions. But I suppose the premise to your question—are you arguing for more millions, because I could make that case to the Minister of Finance. I suppose, in relation to your question and Clayton’s questions, with respect, they are based on, let’s just sort of get it out there, this Professor Wolak view—
Cosgrove No, basic economics.

Bridges No, of super-profits, actually, and that there’s these billions of dollars floating around that make money. Well, you know, if that was the case, then why did TrustPower through the 2000s, when it had the capital and could have invested actually, and was a net retailer, not jump into generation and do more of it? Why didn’t Todd Energy, when they had the capital and they did a little bit of generation, do more and grab some of those super-profits? Because, actually, they weren’t there. That’s the fact of the matter. I come back to it. When you’ve got five big players—

Clark They were the smallest player. They were—

Bridges Really?

Clark —vulnerable to market power by the others. Of course they were—of course they were.

Bridges They’ve got big parent companies.

Hughes The Minister’s job is to be answering questions, not to be posing them to the committee. If it’s competitive—

Bridges I answered the question with a rhetorical question.

Hughes Well, how come, given if you go to the MBIE website there’s around 110 major reforms, you know, asset swaps, major legislation over the last 20 years, tinkering with the system, yet what we’ve seen is prior to your reforms under your Government the average increase was 2.3 percent, but under your reforms and the Electricity Authority we’ve seen an even larger increase, on average? So why are your reforms seeing a larger increase than previous reforms?

Bridges Because, going back to Clayton’s fourth form economics example—

Cosgrove Fifth form.

Bridges —fifth form economics example, perfect competition is hard, if not impossible, to get.

Cosgrove No, we don’t want perfect competition, just ordinary competition would be good.

Bridges We have increasing workable competition, but I think we can get more pro-competitive outcomes. So some of the things we’ll look at doing in electricity are improving transparency of consumer electricity charges, looking at their bills, and making sure those bills provide good information to further empower consumers. There are several things along those lines that actually mean consumers empowered in Clayton’s electorate and in Jonathan’s electorate. You know, they have meaningful choices and they understand how to take those up, because they’re getting the information.

Mitchell Thanks, Minister. I just want to ask you—you raised a couple of really interesting points. I think one of the comments you made is really relevant—that is, that consumers don’t really think too much about security of supply until they go to switch on the light switch and there’s no power
there. So I just want you to go into a little more detail in terms of what our power sector or energy sector’s doing in terms of futureproofing and securing our future supply, and whether or not you see any policy change that could actually threaten supply.

Bridges Now there’s a question. I think one of things is they’ve talked quite a bit about this security of supply, the transmission cost, the new generation coming online, how so much of it is renewable. Let’s just understand, though, that when we are talking about renewable generation, I mean we are primarily hydro, we’ve got a large amount of geothermal, there’s been something of a renaissance there with more geothermal coming on, wind power first started in 1993—a prototype wind project, now at 4.5 percent and growing. The system, if you want to call it that, and the reforms that we’ve instituted are working, and we are seeing those numbers going up because they are cost competitive.

Now, the issue is you don’t want to disincentivise and, frankly, send a chilling message to the markets about investment in new generation. We do have—Clayton’s right—flat demand at the moment, but that won’t last. Actually, historically in New Zealand, we have every year, year on year, needed more and more power generation, and so you’ve got to have those consented projects coming through. At the moment, I’d say we have some 3,500 megawatts of that. Look, that would not come to fruition under a system where a “fair price” is centrally set.

Cosgrove Minister, given that you don’t accept fifth form economics that when demand is flat or reducing—

Bridges Well, I do as far as it goes.

Cosgrove Well, you do conceptually but when it comes to electricity or markets you seem to not accept it. So can you tell me this? You haven’t been able to give us a dollar figure that substantiates your claim as to why you believe people are not paying too much for electricity. You haven’t been able to give us a dollar figure to give us an indication when you believe they will be paying too much. So could you give us a dollar figure, given all these exciting initiatives which as people put the blanket on instead of the heater—the elderly folk in my area will be warmed up by these wonderful comments. When will electricity prices become stable and maybe even reduced? Does your department do any work projections—whatever, crystal ball? When will that happen, please, and how much?

Bridges Well, you and I both know that there will never be and there has never been—

Cosgrove I never know as much as you, Minister.

Bridges That’s probably true.

Cosgrove I’m self-deprecating.

Bridges There will never be, and there has never been, a Minister of Energy and Resources who can answer that question, because the fact of the matter is, to quote Donald Rumsfeld: “There are unknown unknowns.” So I can’t say
to you: “Look, this is going to be what happens in relation to transmission.” Well, as Jonathan said, actually, equipment breaks, things fail. That can be costly.

Cosgrove No, no. I accept that, but so all these wonderful initiatives and spending and what have you, there’s no work being done by any of your officials to project, given all these wonderful things—acts of God we accept are acts of God—as to what is the likely trend in respect of power prices, when they’ll flatten, when they’ll stabilise, when they may even reduce, God willing. There’s no work being done. You don’t know.

Bridges Well, they have reduced significantly since Labour was in power. So they’ve gone from some 8 percent increase to 4.5 percent. And I think that where the primary focus of the work is is through the Electricity Authority and their mandate and their purposes section on increased efficiency, increasing pro-competitive outcomes over the long term, and security of supply.

Cosgrove Could you just confirm—sorry, forgive me, OK. My question was have your department or your officials done any work on projections of the price going forward—

Bridges I haven’t asked them.

Cosgrove You haven’t asked them to. So all these grand initiatives—how are you going to measure the effectiveness of these great initiatives, then, if you haven’t asked? And how do you justify spending—

Bridges Well, that’s quite easy to do.

Cosgrove Hang on—how do you justify the spending for them if you haven’t actually alongside the business case said “Well, if we do X, the likelihood and the projection is Y.” How do you know they’re going to work?

Bridges Well, we do that—

Cosgrove You said you haven’t done that.

Bridges We do that on proven track record and what is happening.

Cosgrove Oh, so you do it retrospectively. So you project backwards.

Bridges And as I’ve already made clear to you, there was a decline in growth late 1990s, early 2000. It went up sharply under Labour and is back down to decline.

Cosgrove Yeah, I know the history. So no projections. So it’s going to be impossible to measure outcomes against the spending for these initiatives, because you haven’t even projected out “as a best guess”, to quote your finance Minister as to price.

Bridges I’ll get Bruce Parkes to give you a complete answer.

Cosgrove Fabulous.

Parkes We do have a team within the ministry that does the statistical collection and modelling of energy markets, and we have done some work, and we’ve done this consistently on an annual basis, the board looking for projections of demand.
Cosgrove: But your Minister said you hadn’t.
Bridges: I said I hadn’t asked. You need to listen.
Cosgrove: Oh, OK. Hear no evil; see no evil.
Parkes: This is regular work that has been done every year—
Cosgrove: So what do the projections say?
Parkes: I’d categorise them as the demand supply balances strongly in favour of consumers.
Cosgrove: Sorry, in English what does that mean?
Parkes: We’ve got plenty of capacity at the moment to meet demand.
Cosgrove: So demand supply is in favour of consumers. Could you put a number around that? Because no one knows what that means, mate. What’s the number?
Parkes: It means we have plenty of capacity to meet demand at the moment.
Cosgrove: So you don’t have a number or you just won’t tell me?
Mitchell: Can I have a supp on that, because that sort of data and that sort of information would be—I was just going to say that in terms of capturing that sort of data I would assume that you’re updating that constantly—
Parkes: Yeah, it’s a regular exercise.
Mitchell: —and so the goalposts are moving constantly—
Cosgrove: So can we have it? Could you provide it to the committee in writing, Minister? Could you provide those numbers updated monthly to the committee in writing?
Bridges: If we have them, I’ll provide them. I’m not going to do it monthly. As I’ve made it very clear to you, Clayton, in terms of my political priorities, it is not on navel-gazing on things that might be in the future; it’s about pro-competitive outcomes today and what we can do to enhance that.
Cosgrove: So will you provide us with the figures, Minister?
Bridges: When you said—monthly?
Cosgrove: And provide the figures as well. It’s a fair point. Would you provide us with the figures?
Bridges: Yeah. I’m happy to do that, to give you what there is.
Yang: Minister, now we come to the new Warm Up New Zealand insulation scheme that you announced in the Budget, as part of the Budget. Could you elaborate on that and the budget for that. More broadly, would you or the officials give us an update about the Government’s policy towards promoting energy efficiency, energy conservation—these particular schemes or measures.
Bridges: I think, first, just starting by recording what—and I know you’ve in previous reports you’ve done noted what a spectacular success the Warm
Up New Zealand: Heat Smart programme has been: 230,000 homes insulated and with all the, in terms of health and so on, outcomes that come from that. The fact of the matter is that it was always going to come to an end this year, and then we, obviously, look around with competing priorities of what we could do. The research—and there’s a Motu report that makes this very clear—shows that in terms of spend and where the real disproportionate benefit is, it is on low-income people. And so it is a much more targeted approach. Obviously, with high health needs, and we see that as a proxy with children in the household, elderly, or respiratory problems and other certifiable health conditions.

So going forward and the Healthy Homes initiative—it’s $100 million over 3 years—effectively, the way that will work is you will have up to 60 percent of that home insulation funded by the Crown, by the Government, through EECA. The next 40 percent—so all of the cost coming, so the household won’t pay anything; very targeted, as I say—40 percent from third parties, iwi, trusts, and the like. My advice is there will be an overcapacity for that, so it takes the figure much beyond $100 million, actually. And it will be targeted to where those needs are. I think’s right, but I don’t think, actually, New Zealanders want taxpayer money going to Simon Bridges’ or Clayton Cosgrove’s, for that matter, house being insulated.

Clark Obviously, the money’s dropped in the Budget from $350 million to $100 million on these home insulation schemes, so it’s a significant drop. In the area you’re going for a targeted approach, as you say, estimating 46,000 homes will be done. In the need area that you are targeting, there are 300,000 homes that need doing and you’re just doing 46,000 in that category of needs, so it’s kind of targeted to a very limited extent, isn’t it? You’ve acknowledged there’s 300,000 that need doing, but you’re just doing 46,000 and you’ve dropped the funding to less than a third of what it was originally. I mean, that is pretty slow progress.

Bridges Well, if I take your point straight—300,000 rather than 46,000—well, there’s a billion dollars of spending or the best part of it. The truth of the matter is—

Clark But if it’s really true what you’re saying about the priority being those who are most vulnerable, then those are the people you want to target and get on with spending to look after.

Bridges The truth of the matter is we want to be very careful with how we spend money. That is new money—$100 million. I accept, actually, we could spend the best of a billion dollars on this, but I think, actually, by doing this we will target those most in need—and that’s not to say there aren’t other more needs. But we have a targeted response in a fiscal situation of limited resource.

Lotu-Iiga So you’re focusing on low-income families. Just give us a feel for how we’re going to target those families, given that we’ve also got some spend from, as you say, NGOs and other providers that will boost that figure to well above $100 million.
Bridges  It’s a good question. The reality is the third-party funders will, in a sense, determine where the funding goes, because we get to maximise our Crown taxpayer spend by allowing the third parties control over that. Having said that, I’ve been very clear and we’ve very clear in our priorities that we want to make sure we get a good spread over New Zealand—from the top of the North Island to the bottom of the South Island. So, within those parameters, they will do it. As I say, my sense is we’ve some $80 million under the old scheme by third-party providers—as I say, the trusts, iwi, etc.—we will continue to see that kind of spending going forward, and I think all over New Zealand. There will be some parts that will miss out. That’s the reality, and I suppose it goes to Dr David Clark’s point.

Lotu-Iiga  And you expect the take-up to be quite—

Bridges  Oh, absolutely, and we’re going through the tender process at the moment, the tripartite, with those third parties. There’s obviously EECA involved, but also, of course, the home insulation businesses, who will be putting themselves forward to do that work.

Bakshi  Minister, my question is on the natural resources. You just mentioned in your briefing that you have awarded three companies permits in the tender process. I would like to know what sort of consultation was undertaken during that process, and what impact will it have on Northland.

Bridges  That’s a very good question, Kanwaljit. For the Chair’s reference, I say that was definitely not a patsy.

Cosgrove  Oh, really?

Bridges  And it was very good. That is the truth of the matter, for the record. The truth of the matter is our consultation, and our iwi consultation, is much better now, and that is required by the new regime, than it ever has been. So we are required, or industry players are required, now to do annual reports on their iwi consultation going forward, under the Crown Minerals Act regime. In relation to, if we use the Northland tender as an example, New Zealand Petroleum and Minerals are required to go and to consult and to listen to the feedback. Of course, that’s only the start of the process, because what we’ve had here are permits for exploration awarded. They will then refine that down as they go out and search, and there will be further expectations of consultation.

To give you an example of where it’s been more than meaningful, it’s had results in relation to the oil and gas block offer onshore. The East Coast permits were made considerably smaller to deal with wāhi tapu concerns of the local iwi in that area, and so while those are worked through, those larger areas, despite I think strong prospectivity and geological potential, were made smaller. So it is a meaningful consultation process we go through with iwi, and actually also with local authorities, and then also with communities.

Bakshi  And what sort of impact will it have on Northland financially?

Bridges  I think the important thing to say is it is early days. This is exploration, and you can’t say that it is going to lead to a goldmine or a silvermine, which are
the most likely prospective precious metals that they would find up in the Northland. But, of course, without exploration you will never have mining, which is very high in jobs and high-paying jobs, frankly. To get to that stage you are talking about 5 to 10 years before they make a decision, so nothing about this is short term, but there are significant possibilities for the Northland area.

The wider picture is, actually, in terms of the oil and gas block offer, also offerings in the Reinga Northland Basin, which I understand industry players are very interested in. It’s seen as a very prospective area. But, again, that’s early days. They will go through the process. They will put in their tender bids, or make decisions on that, through New Zealand Petroleum and Minerals, by the end of this year, December 2013, and then those permits are awarded and they can explore. And then, of course, they have to go through all of the regulatory processes—health and safety, environmental—before they can get to the next phase, which is putting in their mining permits.

Clark Minister, I want to ask a few more questions around price. You’ve accepted, on average, over the 15 years since the Bradford reforms, that, on average, the power prices have exceeded inflation.

Bridges Yes, that’s right, absolutely.

Clark And accepting that in times of recession under National Governments, say, and in times of prosperity under Labour Governments, they might have gone up faster at one time than at another, but in the more recent period where you’ve been responsible and your Government has been responsible, they have continued to exceed the price of inflation. This is a time, as my colleague has outlined, where there’s been flat demand and you’ve had a discussion about the economics of that, a threat of surplus generation. Mr Parkes has referred to things being really in line for the consumer to get a good deal, and in a time of relatively poor growth there’s a collapsed carbon price. Now, the Contact Energy chief executive has signalled more price increases. If prices are not going to come down now, what on earth would it take for them to come down?

Bridges Well, actually, one—

Cosgrove A change of Government?

Bridges —well, you know, that sees them skyrocket, Clayton. That sees them skyrocket, and we would be having blackouts, and all sorts of trouble.

Clark What would it take, Minister, under your watch, for them to come down?

Bridges Let me answer the question. I think it’s a fair question, so let me answer it as comprehensively as I can. Firstly, one player does not the market make, so I couldn’t care less what Contact is saying. I think you’ve got to look across the whole range and see what’s happening. Actually, I am aware, and it’s a delayed response, I suppose, to Clayton Cosgrove’s question, but, you know, it is right to say that the projection is for flat prices, and we see that actually through the futures markets that we’ve created.
Clark  With respect, we would expect them to drop, surely, and they’re just not dropping.

Bridges I think if you look at those you see flattened demand. But I come back to the fundamental point. Workable competition right now—I think we need to keep on focusing—I say “we”; the Electricity Authority, which is well resourced to do this—on the retail market. They will have a series of new initiatives to deal with that. I’ve already talked about improving transparency of consumer electricity charges, enhancing retail switching, review of barriers to group switching and mass market abrogation, review of retail competition and embedding customer networks, using model usage system agreements.

Clark  So you don’t see it happening, is what you’re saying, in the short term?

Bridges No, no, we do, because, actually, if you think about it, your plan—I’m not trying to be clever—you say, on your best estimate, will be a 300 bucks saving a year. Well, today, under, I think, better competition than there was in 2008, before the Electricity Authority was set up, $175 average difference. That’s effectively a saving if someone switches. My view is we can see that get even bigger. That is real savings, price savings, for consumers.

Clark  We would hope so, because prices have gone up. The $175 saving that you referred to—and my colleague Clayton Cosgrove has already referred to the fact that the lowest price available in that time has gone up by over $400—so $175 is a small portion of that. It doesn’t look like the market is working, with respect, and you’re not able to tell me what conditions it would take for it actually to go down, when everything points to the fact that if it was ever going to go down, it would go down now.

Bridges Well, no. I can tell you the conditions, and, actually, as I say, if you look at the futures market, with their projection—that retailers can buy into—of flat prices, actually, I think, as Bruce, in his words, put it, that is a situation where the balance moves from suppliers, retailers, to the consumers.

Clark  So you’re saying that power prices are going to go down?

Bridges We are seeing more and more empowered consumers. It was $175, it was $165 the year before—

Clark  Let me ask a different question, because you’re not willing to answer that one.

Bridges No, David, because here is the fact of the matter—here is the fact of the matter. You’ve asked now several times, Clayton Cosgrove has asked several times, this magic question that, with respect, you, in a long time, when you get back into Government, won’t answer either. You know, what is the price going to be on 24 August 2013? Look, no one can do that.

Clark  My main question is what conditions would it take? Can I cast it a different way, perhaps. How far out—

Bridges We have the preconditions right now of an increasingly competitive market that is getting more competitive.
Clark | How far out do flat demand projections go?
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Young | Members, on that last line of questioning we’ve actually got a couple of supplementaries we want to go through first.
Hughes | I will just ask the question a different way. Do you ever see a scenario where, on average terms, we will see no net increases in prices?
Bridges | Of course we could see that.
Hughes | Do you think we will ever see declining average prices, like they’ve seen across the OECD?
Bridges | Well, I’m not going to make a prediction, because that’s not what I’m going to do. But if you look at the fact that we have some 3,205 megawatts of consented renewable generation projects—incidentally, if I can be political for 2 seconds here, Gareth, your plan would put in jeopardy moving to renewable and would slow it right down, and we’d keep the dirty coal and so on for longer. But that’s another point. With that kind of new generation coming through, if flat demand remained, you do have to go back to the fourth or fifth form economics. You do have the conditions for flat prices, and maybe even decreasing prices. I’m not going to predict that, because I can’t tell you, day to day, what is going to happen, but I am certain that we have a more competitive market than we did have, and I also am firm in my belief that with the programme the Electricity Authority has, it will become even more competitive.
Mitchell | Just very quickly, Minister. I’m just interested to know do you feel that currently we have consumer choice in our market, that the companies are investing in future supply—
Bridges | Absolutely.
Mitchell | —and whether or not there’s actually tension in the market through the way the market is actually set up?
Bridges | Absolutely, and I come back to the point that if you look at this we have five large players, not to mention some 70 generating entities, some 15 independent retailers, and actually 25 brands. Now, that is more players fighting it out than you would get in banking, when you get less than five big players, petrol, telecoms, supermarkets. So my question, again a rhetorical question—I appreciate the committee asks me questions—to Labour and the Greens is why aren’t they rolling out their plan to those industries as well? The fact of the matter is that this is a very competitive market, with several big players who do fight it out. I tell you what, when Contact Energy, when the switching campaign—we’ve had questions about the switching campaign—came out and Contact Energy did not respond to it in a timely fashion and sharpen their pricing and the way they did things, they were hammered, and they lost millions and millions of dollars in days.
Yang | I may be an example to demonstrate how competitive the market is. I switched companies last month, after using the company for 15 years. So this is the first time I did this. I was very loyal to my company, but I decided
to change, switch, because of the competitive price. So I’m just wondering, is this trend continuing, and do you have the figures of how much money—

Cosgrove  Bearing in mind that you’re on 150 grand a year, mate, not a pensioner.

Bridges  Well, that’s all the more reason, though, Clayton, why actually switching matters, because, you’re right, if you’re on a lower income, it matters all the more. The fact of the matter is there has been some 700,000 switches, from memory, and the pace and rate at which switching is occurring is increasing. I mean, I’m happy to get the CE of the Electricity Authority to give you some advice, figures, if you’d like.

Clark  OK, I’ve got a couple of different lines of questioning. One is just on those projections that you mentioned earlier. I hadn’t quite finished that line of questioning. You said you’ve got projections of flat demand going out. How far out do those projections go?

Parkes  We do modelling up to 2040.

Clark  And they’re flat out to 2040?

Parkes  No.

Clark  How far out do the flat projections go?

Parkes  Well, we’re still working on some information on that, so we’re not ready to—

Clark  So is the Minister not quite accurate when he says there’s a flat projection?

Bridges  No, no, let me repeat what I said. I said that the projection on the futures market over the next small number—

Clark  Oh!

Bridges  Well, did you not listen to me, David, when I said that?

Clark  You’re going to supply those projections anyway, right?

Bridges  Because you’re right. You ask the questions, I give the answers, but listening is good as well.

Clark  Let me get on to a different angle. The effect on the pensioners and so on, you said it makes it all the more important. What do you plan to do to help the poorest customers? So the What’s My Number campaign is actually hopeless for some of the constituents—quite a few of the constituents who come through my door—who cannot get one company to take them on. The early payment discounts are risible for large users—you know, the low user tariffs and so on. Those with big families living down in Dunedin, where it is cold, where there’s a lot of damp houses because the insulation scheme’s not getting to them, those with big families who cannot pay the power bills—what are you doing for those poorest consumers?

Bridges  Well, actually, in extreme circumstances, of course, through WINZ and a variety of other Government agencies, there is help. So if, actually, they have problems, there are emergency grants and benefits that they can access. But the fact of the matter is—
Clark One-off. And those families are struggling.

Bridges —under your system, they would, over time, see blackouts. That is not scaremongering; that’s the reality of the situation.

Clark That’s scaremongering and untrue.

Bridges And I promise you this: they will like that much less than they like the system we’ve got at the moment.

Cosgrove Point of order. I’m very reluctant to take a point of order, because, Chair, I think you’re doing a very good job. But I would just say, Chair, that the Minister is here to talk about what he is responsible for. I know it transgresses from time into the politics; that’s acceptable. But to repeatedly start making claims and talking about other people’s policy, he is not— unless I’m wrong—responsible for that. So I just make that point.

Young Well, he is responsible. He is responsible to ensure that there aren’t blackouts and there’s security of supply. So—

Cosgrove But he’s not responsible for our policy.

Young —it’s in scope.

Clark Minister, with respect, you’re saying on the one hand there’s a competitive market operating, and on the other hand that you think the reforms need more time to bed in. With respect, you can’t have that both ways.

Bridges I absolutely can.

Cosgrove Can you levitate, Minister?

Bridges You obviously haven’t been answering carefully enough to my answers, David.

Cosgrove Answering his answers?

Bridges So you want me to go through it again?

Clark No, I don’t, because I’m not convinced by that answer that you’ve got all these magic things that are going to happen—that you’ve got flat demand but it’s a futures market with flat demand—

Bridges No, you’re the ones with the magic, my friend.

Clark OK. Can I shift to the petroleum—

Hughes Can I just ask one more supp on the prices, before you get to that?

Clark Yeah, sure.

Hughes Just on your comment before about Contact, you couldn’t care less about their prices and price rises. Isn’t it your job to care?

Bridges No, I didn’t say I didn’t care less. I said what they say and so on—they’re not for me to determine. The fact of the matter is what I want to see as the Minister of Energy in this market is people getting what they want when they want it, and that speaks to security of supply at a competitive price. The competitive pricing issue comes down to having effective competition and market. It’s not about what one player, whether it be Contact, whether
it be Ōpunake Power, whether it be any one of the 70-odd—well, in the retail space, 15 independent retailers do. That was my point.

Clark The Electricity Authority is seeking to update the SOSPA contract with Transpower, and it’s, as I read the Budget, providing over $3 million to do that to inject normal commercial disciplines. What are these normal commercial disciplines that are being introduced, and how is the competitive market working without them?

Bridges So I’ll get Carl Hansen, the chief executive, to answer that question.

Hansen Sure, happy to. The new funding there is really—

Cosgrove Sorry, mate, you might need to come to the table, because we’re transcribing this.

Hansen OK. The new funding there is to pay for additional capital spend that a system operator has on its books, and, unfortunately, the Electricity Authority did under-forecast their capital spend going forward. So the contractual arrangements we have with the system operator under that SOSPA, we have to actually show in our numbers that we are going to meet that, so we had to take the reduction in terms of our work programme going forward in the forward estimates. But this year we’ve been able to correct that forecast mistake around their—

Clark So what measurements—I mean, this is supposed to inject normal commercial disciplines. How will you measure the improvement?

Hansen That capital spend and that SOSPA development are two separate things. So the SOSPA renegotiation is to introduce better commercial disciplines around the capital and projects that the system operators—

Clark And what does that part of it cost? Is there a cost attached to that part of it?

Hansen To the capital spend?

Clark No, to the other side of it—to the renegotiation. Or was there no cost to that?

Hansen We’ve got some internal costs. We actually haven’t separately budgeted for that. It is just ongoing work by our market services team.

Clark Yep, that’s fine. It was a point of clarification. Thank you. Can I ask a separate question about—thank you very much—the Crown Minerals capability review, in that area the $850,000 spent to assist hosting the 2013 New Zealand Petroleum Conference. Does it normally nearly cost $1 million to host a conference?

Bridges Look, I couldn’t tell you what it normally costs. In all seriousness, I’m happy to drill down into that and give you, if you want, an overriding sort of a sense of—

Clark Pun not intended, I’m sure.

Bridges —yeah, that’s right—some of those, to give you a sense of that. But I think what is true—and I’ll let David Binnie have a crack in a second, who’s head of New Zealand Petroleum and Minerals—is actually we believe that this
provides good growth opportunities for New Zealand. We now have a very good regime that both promotes it but also, I think, lifts the standards. The next part of that, I think, is, to some extent, wanting to ensure that, you know, we do promote what we think is an underexplored country. So some of that goes on these sorts of things.

Clark  OK, I guess—if I could have some commentary just on the cost of that conference, because to the ordinary taxpayer that seems like a lot of money to be spending.

Bridges  I’ll get David Binnie, because I think there’s a—

Binnie  Somewhere under $850,000. We’re still rolling the books on that. The key point from me is it’s cost neutral. The attendees who attended paid, so it’s not public money.

Clark  OK, so it’s simply in the estimates for the purpose of accounting for it.

Bridges  Right.

Young  Minister, can I raise a question now. You mentioned about being an unexplored country. This morning you mentioned in your introductory remarks about a Northland announcement. Can you just expand that and tell us what that is about.

Bridges  Yeah. That is quite a good example. So there you see some $1 million - odd spent on aerial surveying by the Crown to see what is there—as I say, five permits to three businesses. Actually, there were many more applications. They do go through a rigorous process, where there’s health and safety, financial capability requirements, and so on and so forth. Just as I did to Kanwaljit, I think it was, I emphasise that it is early days, but this is the first minerals competitive tender. This is the first tender under the new regime. As I said, you are never going to have a significant mining operation, with all the jobs that entails, without exploring first. So we’re in a 5 to 10-year process here, where these businesses will go off and they will explore. But the potential for jobs and growth in, let’s face it, one of the poorer regions in our country, you know, is exciting.

Young  So you’ve announced that permits have been granted.

Bridges  That’s right—for offer.

Bakshi  Similarly, you have got a Petroleum Action Plan. Can you please update on that also.

Bridges  Yeah, I mean, I think, in a nutshell, as I said, we want to sensibly explore and develop our opportunities in this area. So we have, I think, comprehensively looked at it. We have overhauled and lifted to best practice our Crown Minerals regime. We are promoting it. We think that, you know, we are an attractive place for new exploration. The indications are there is significant interest. So while the world, I think, is, you know, in a contractionary stage, in relation to mining, actually, New Zealand last year, if we just talk about mining, there was $50 million of exploration. That is the most ever, I think that is right to say, in New Zealand. So there is an
incremental increase here, which, you know, is good, over time—over the long time—for jobs and growth and high-paying jobs.

Clark Minister, after the Budget there was some urgent legislation put through by you in respect of the continental shelf. I wanted to ask why you withheld the regulatory impact statement for that legislation, given that it did not have the opportunity to go before a select committee to have a full process, despite ministries advising you directly that you should release that information so good decisions could be made in Parliament.

Bridges No, look, it’s a fair question. Mea culpa here is quite clear in the sense that that should have gone on the website and been publicly available as soon as that was brought to my office’s—

Clark You were advised to do that.

Bridges And I can assure you that as soon as that was brought to my office’s attention, it was on the website. So I accept it should have gone up sooner, but that was, you know, if you take—is it a cock-up or conspiracy, you go for cock-up every time. That was a cock-up, plain and simple.

Hughes My question is about the Petroleum Action Plan. You know, this is one of the most profitable industries in the entire planet. Why do you have to subsidise them by giving away free information—you know, there is $46 million in tax breaks this financial year. That Petroleum Conference, the 600 people who went to that, that was a $1,400 cost-neutral subsidy to participants. Why do you have to support them financially so much when there are more important things we could potentially be spending that money on?

Bridges I mean, there’s so many points to make. Let me just try and briefly encapsulate this. I think the reality is this industry, over the life of their projects, pays well above the odds. So, as I said in the House to you, $800 million per annum at the moment in tax and royalty, 42c in every dollar in profit. They are paying more than any other industry I can think of. I think the subsidy you raised—

Hughes The fourth-lowest rate in the world, though, isn’t it?

Bridges What’s that?

Hughes The fourth-lowest rate in the world, isn’t it?

Bridges Well, that comes down to the proven geologic prospectivity, and the reality of the matter is if you are Mozambique or Nigeria or Saudi Arabia, where every hole brings forth crude oil, you can be 90 percent. That is not the position here.

The other thing I’d just say to you to complete this is the truth of the matter is that when I met with the head economist of the IEA, the premier energy association, he was exceptionally complimentary about us being a world leader in this space. In terms of our subsidy, if you want to call it that, it is, frankly, as low, if not the lowest, of anyone in the OECD. So I wouldn’t overstate it.
Mitchell Just very quickly on that, Minister, and you bring up some really good points, talking about Saudi Arabia and Nigeria, where the crude is readily available. So are we in a position as a small country down the bottom of the world where we have to find ways to attract companies down here to invest, or do we have the luxury where they are knocking on our doors, so we want to get a—

Bridges I think the truth of the matter is we are uncompromising in our standards, and we’re not going to, you know, lower those to get players to come in. We see a very high threshold in health and safety and environmental practice. But the truth of the matter is big businesses assess their opportunities globally. You know, we do very well. OMV, I was just reading in the newspaper in this morning, an Austrian business, they put in $100 million in royalties last year to our economy—that’s roads, schools, etc. Since they’ve been here in the 2000s, they’ve paid the best part of nearly a billion dollars in royalties. So the dividend to communities from that shouldn’t be overlooked.

Young Right. I want to thank you very much, Minister, and your team for appearing before us. Thank you, and have a good day. Thank you.

Bridges My pleasure.

**conclusion of evidence**
2013/14 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 2014 for Vote Environment, administered by the Ministry for the Environment as set out in Parliamentary Paper B.5, be accepted.

**Introduction**

The appropriations sought for Vote Environment decrease to $326.404 million in 2013/14 from $498.831 million estimated actual expenditure in 2012/13. The environmental appropriations total $130.712 million, 40 percent of the vote, while the remainder, for climate change, total $195.692 million or 60 percent of the vote.

The Environmental Protection Authority is funded mainly from Vote Environment.

The Minister for Climate Change Issues and the Minister for the Environment are the Ministers responsible for the appropriations within Vote Environment.

**Resource Management Act**

We recently reported to the House on the Resource Management Reform Bill. The bill is part of a suite of changes to the Resource Management Act 1991 that we and the previous Local Government and Environment Committee, have considered. We are aware that another resource management bill is likely to be introduced and referred to select committee for consideration later in the year. In the light of the recent amendments to the Act, we asked if further legislation was necessary. The Minister for the Environment said that she considered that the resource management consenting process is still too slow, and this issue would be addressed in forthcoming legislation. In response to suggestions that the bulk of consents are processed within the statutory timeframe, the Minister argued that not all consents have a statutory timeframe to meet, and that the prescribed timeframes are just for the local authority portion of the process, so do not include delays related to appeals, for example.

**Environmental reporting**

During our consideration of the 2011/12 financial review of the Ministry for the Environment we discussed the decision not to produce the intended 2012 state of the environment report. We canvassed with the Minister for the Environment the issue of consolidated state of the environment reporting versus discrete indicative reporting. We heard that the Minister was not moving away from consolidated reports, like those issued in 1997 and 2007, but that she preferred to use indicative reporting while new legislation was being developed. She went on to say that it was important to have independent reporting enshrined in law, so that governments could not manipulate reports. We note that the quality of the data that feeds into state of the environment reports, of whatever kind, remains variable.

An environmental reporting bill was signalled in 2011 but has yet to be introduced into the House. We have previously discussed the issue of environmental reporting with the Ministry for the Environment and the Parliamentary Commissioner for the Environment,
and consider environmental reporting legislation to be important and necessary. We would encourage the Government to progress it as speedily as possible.

**Evaluation reports**

Section 32 of the Resource Management Act requires local authorities, among others, to evaluate “the extent to which each objective is the most appropriate way to achieve the purpose of the Act; and whether … the policies, rules, or other methods are the most appropriate for achieving the objectives”. We are aware that these “section 32 reports” can vary in quality between local authorities, and agree with the Minister that preparing a section 32 report before an authority makes a decision, rather than afterwards, would be beneficial for the decision-making process.

**Hazardous substances compliance**

During our consideration of the 2011/12 financial review of the Environmental Protection Authority we discussed its finding that only 25 percent of businesses were fully compliant with hazardous substance controls. We asked what was being done to improve compliance. We heard that there would be a three-year campaign to improve compliance and that a hazardous substances toolbox has been launched. We agree that those using hazardous substances need to be fully aware of how to manage them properly and how to best protect themselves.

The Minister for the Environment acknowledged that the statutory hazardous substances regime is complex and that work was being done to make the legislation easier to understand. The Hazardous Substances and New Organisms Act 1996 is nearly 20 years old so it may be for due review.

**Climate change obligations**

We discussed the Government’s stated intention to pledge a commitment under the United Nations Framework Convention on Climate Change rather than sign up to the second Kyoto Protocol commitment period (2013–2020). The Minister for Climate Change Issues told us that, while he supported the principle of common but different responsibilities (which is used by both the convention and the protocol), he believed it is important to move beyond the Kyoto Protocol as it does not include the countries that are responsible for almost all of the growth in greenhouse gas emissions. He also noted that the convention is, in parts, a direct reflection of the protocol.

Under the convention Annex One countries, including New Zealand, have to reduce their emissions by 25 to 40 percent below 1990 levels by 2020. We asked whether one country would have to “make up the shortfall” if another did not meet its particular reduction target. The Minister for Climate Change Issues argued that it was unrealistic to have a “straight line extrapolation” with subsets for ranges of countries, and that it was more important to shift investment towards renewable and clean energy technologies. He said that, once such energy operations came online, they could bring about a marked decline in emissions.
Appendix

Approach to this examination

We met on 27 June and 11 July 2013 to consider Vote Environment. Evidence was heard from the Minister for the Environment, Hon Amy Adams, 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
Claudette Hauiti
Hon Phil Heatley
Gareth Hughes
Raymond Huo
Moana Mackey
Eugenie Sage
Hon Maryan Street
Andrew Williams

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister for the Environment, Response to standard Estimates questionnaire.
Response to additional questions, received 25 June and 9 July 2013.
Office of the Auditor-General, Briefing on Vote Environment, dated 27 June 2013.
Vote briefing paper, prepared by committee staff, dated 25 June 2013.

Report of the Finance and Expenditure Committee

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Recommendations

1. The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Finance as set out in Parliamentary Paper B.5, administered by the Treasury, 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 2013 and the Budget Economic and Fiscal Update 2013.

Introduction

As well as examining the appropriations sought for Vote Finance in 2013/14, we discussed with the Minister of Finance the strategies behind the Budget, as outlined in his Fiscal Strategy Report 2013. We also met with the Secretary to the Treasury to discuss the Treasury’s Budget Economic and Fiscal Update 2013, on which the Budget forecasts are based.

Overview of Vote Finance

Appropriations sought for Vote Finance total $4.51 billion in 2013/14, a decrease of 1.2 percent from the previous year’s estimated actual spending. Total spending would be $4.56 billion including three multi-year appropriations already authorised related to implementing the mixed ownership model, under which $49 million is expected to be spent in 2013/14. A separate appropriation of $40 million for the Mighty River Power loyalty bonus share issue was funded in the 2012/13 financial year.

The bulk of Vote Finance, about 97 percent, is funded under a permanent legislative authority. The main components are debt servicing expenses, totalling $3.49 billion in 2013/14, decreasing by 3.4 percent from the previous year, and the Crown’s liability to the Government Superannuation Fund of $636 million, about the same as in 2012/13.

Appropriations of about $78 million are sought for the provision of advice and services by the Treasury, 1.2 percent less than the previous year. Representing about 1.7 percent of the Vote, these departmental output expenses cover many activities: management of the Crown’s borrowings; monitoring of departments and the Crown’s ownership interests in other entities; policy and operational advice; various financial services; and providing corporate services for the Department of the Prime Minister and Cabinet (DPMC) and the State Services Commission (SSC) through the shared services unit, CASS.

Non-departmental output expenditure includes funding of about $5 million for the Productivity Commission. Non-departmental capital expenditure of $216 million mainly covers payments to international financial institutions; the 69 percent increase from the previous year arises from the timing of payments. Most other changes in appropriations are relatively minor.
Economic context

The Treasury’s forecasts cover the five-year period to March 2017. They envisage GDP growth increasing to 3 percent for the year to March 2015, and averaging 2.5 percent over the five years. This compares with average actual growth over the previous five years of 0.8 percent, and is a little above the Treasury’s previous estimate in the Half-year Economic and Fiscal Update, December 2012.

Unemployment is expected to decline steadily to 5.2 percent by March 2017, and CPI inflation to increase to the middle of the 1–3 percent target band over the period.

Rebuilding activity in Canterbury is expected to underpin domestic demand as one of the main drivers of growth. Treasury’s estimate of the investment needed for rebuilding has been increased to $40 billion, from $30 billion in the half-year update. However, the timing of this activity is still a key uncertainty. The Government’s share of the rebuilding costs is now assessed to be $15.2 billion, compared with $13.1 billion in the December update. We were told that about $900 million of this will be funded from the proceeds of the Mighty River Power sale through the Future Investment Fund.

The current account deficit is forecast to increase as rebuilding progresses, to 6.5 percent of GDP by March 2017. The exchange rate is assumed to remain high for much of the forecast period.

Fiscal update

Tax revenue has been higher than projected in the current year as the economy recovers, and the Treasury forecasts that it will increase slightly as a share of GDP over the next four years. Combined with restraint in future spending, this will strengthen the Crown’s balance sheet. As a result, fiscal policy is expected to exert a mildly contractionary effect on the economy over the forecast period, having been stimulatory during the recession.

The Crown’s operating balance before gains and losses is forecast to improve from a deficit of $6.3 billion in 2013/14 (less than the $7.3 billion forecast in the December update) to a surplus of $75 million in 2014/15, in line with the Government’s key short-term target.

While net core Crown debt will continue to rise in dollar terms, as a share of GDP it is forecast to peak at 28.7 percent in 2014/15, and to fall to 17.6 percent in 2020/21, in line with the Government’s long-term objective of reducing debt to less than 20 percent of GDP.

There are still several risks that could alter outcomes relative to the Treasury’s forecasts. They include the size and pace of the Canterbury reconstruction, exchange rate movements, housing market pressures, and the saving behaviour of households, along with international developments. Overall, however, the global risks have moderated and domestic risks have become more evenly balanced.

Fiscal strategy underlying Budget 2013

The Minister of Finance told us that Budget 2013 continues a programme of “considered and consistent change”, designed to support economic and fiscal recovery from the recession, and build the economy’s capacity to grow. He said the Treasury’s forecasts confirm that progress is on track, with a surplus of $75 million expected in 2014/15 and GDP expected to grow at an annual rate of 2–3 percent over the next few years.
The Minister said that Budget 2013 maintains the Government’s focus on its four top priorities: managing public finances responsibly, making the economy more productive and competitive, delivering better public services within tight fiscal constraints, and rebuilding Christchurch. We discussed each of these with the Minister in the course of our hearing.

We note that Budget 2013 makes three main changes to the fiscal settings set out in December in the Minister’s budget policy statement (BPS).¹

- Operating allowances for new spending have been adjusted, with a slight increase in 2013/14—$900 million rather than $800 million in new spending—but tighter allowances thereafter than those indicated in the BPS. For next year, 2014/15, operating allowances will be $1 billion rather than the $1.2 billion previously signalled, increasing by 2 percent a year thereafter.

- Contributions to the New Zealand Superannuation Fund will remain suspended until net core Crown debt is reduced to the target of less than 20 percent of GDP. This is projected to occur in 2020/21, two years later than envisaged in the BPS.

- The Government judges that revenue forecasts leave scope for reducing Accident Compensation Corporation (ACC) levies, so it has budgeted for a reduction which will lower Crown revenue by about $300 million in 2014/15.

Fiscal management

Elaborating on the first of the Government’s priorities, managing public finances responsibly, the Minister told us that the slight improvement in tax revenue this year is expected to continue. Combined with continued restraint and reprioritisation in spending, it allows the Government to plan $5.1 billion of new initiatives over the next four years while still returning the operating balance to surplus by 2014/15, and then reducing debt.

Some of us question the robustness of the projected surplus, and expressed doubt that it would have been achieved if the Government had taken the Treasury’s advice and refunded the $1 billion collected in excess ACC levies, rather than just $300 million, or if it had not scaled back operating allowances for new spending in 2014/15 by $200 million. The Minister said that achieving the budgeted surplus is not dependent on any single decision, but will result from a package of decisions designed to change the track the economy had been on when the Government took office.

Some of us are also concerned by the Government’s reluctance to address the escalating cost of national superannuation, noting that spending on superannuation, at $10 billion, is already as much as that on unemployment and domestic purposes benefits, and will soon equal the amount spent on education. The Minister said it was not a question of a trade-off between education and superannuation. The Government had given an undertaking to keep the age of eligibility for national superannuation at 65, considering this important for anchoring people’s expectations, and it has made clear it will honour the undertaking.

Reducing debt

At present, the Minister said, net core Crown debt is still rising by about $130 million a week; it is expected to peak at about $70 billion in 2016. The decisions reflected in Budget 2013 to adjust future operating allowances and to delay resuming contributions to the New Zealand Superannuation Fund were intended to ensure that debt is reduced.

¹ We reported in March 2013 on the Budget Policy Statement 2013 and the Treasury’s associated Half-year Economic and Fiscal Update, December 2012.
Zealand Superannuation Fund indicate the priority given to debt reduction. He explained that while an increase in Government debt was an appropriate response to the recession and the Canterbury earthquakes, it was now important to pare it back. Lower debt would improve New Zealand’s resilience in another recession and leave the Government better placed to meet future liabilities such as welfare and superannuation payments. New Zealand’s overseas lenders also point out the desirability of reducing Government debt because the other component of national indebtedness, private-sector debt, is high.

**Rebalancing the economy**

We explored with the Minister whether New Zealand is making progress with rebalancing the economy. The Minister acknowledged that efforts to rebalance the economy toward exports, investment, and savings have faced strong headwinds from the high exchange rate and the need to divert investment and resources into rebuilding Christchurch. While noting that the current account balance needed a great deal of improvement, he said he is reasonably optimistic about the prospects for the tradable sector over five to seven years. After rebuilding pressures diminish, he believes there will be more opportunities for investment to flow into the export sector of the economy.

Some of us consider the current account deficit to be the best indicator of whether or not the economy is being rebalanced. With the deficit forecast to deteriorate from $10 billion to $17 billion by 2017, about 6.5 percent of GDP, this appears a clear indication that the economy is becoming less balanced. The Minister said the current account deficit is only one indicator of rebalancing, albeit an important one. He observed that rating agencies have for many years highlighted it as an area of vulnerability for New Zealand, and he agrees it carries some risk. In theory, he noted, a steady deterioration in the current account would weaken the exchange rate and require higher interest rates to be paid on borrowing; the fact that this has not happened indicates that the markets do not see New Zealand as a high risk.

Some of us remain concerned, noting that even when the impact of rebuilding Canterbury is excluded, the current account deficit is projected to remain above the long-term trend of about 5 percent of GDP. This appears to suggest that the good news in the Budget story comes simply from borrowing overseas.

The Minister said he believes the fundamental questions regarding rebalancing involve some deep-seated issues with New Zealanders’ saving and investment behaviour. Rather than simply saying the problem is that New Zealanders do not save enough, or repeating the interventions which have been tried over the past 20 to 30 years, he believes it is important to try to understand the underlying reasons for New Zealanders’ savings behaviour, which he and his department are working to do.

**Treasury perspective on rebalancing**

We also sought the Treasury’s view: whether it believes the economy is rebalancing or becoming more unbalanced, and what new tools it could suggest. The secretary said New Zealand finds itself in quite a good position relative to the rest of the world, without some of the fundamental challenges facing Europe, or the fiscal issues of the US. He does not believe the size of the current account deficit represents a threat to New Zealand’s economic stability, or that the economy is on an unsustainable trajectory. Because the Canterbury rebuilding is a one-off, and its financing is unique, it would be inappropriate simply to extrapolate the next few years’ current account projections into the more distant
future. He believes the range of policies being pursued should enable New Zealand to seize the opportunities that growth in the Asia-Pacific region will offer.

As for the tools the Government can use, the secretary said they are mostly the familiar ones: keeping its own spending under control, reducing debt, and doing what it can to help businesses to grow. Beyond this, he said, the Treasury takes a long-term perspective on rebalancing, and believes that focus on key areas such as improving education outcomes, the planning system, and how water is used will put the economy in a strong position in the long term.

**Business growth agenda**

The Minister said that the policies in the Government’s business growth agenda are directed at its second priority, of lifting New Zealand’s competitiveness. They aim to encourage businesses to invest an extra dollar and take on an extra employee so they can take advantage of export opportunities as they arise.

We asked the Minister and the Treasury if they could quantify the improvement in GDP expected to result from the policies in the business growth agenda. The Treasury told us it has not tried to determine the specific impact of these policies, as it sees them having a cumulative effect, which will continue to build beyond the period covered by its forecasts. However, it commented that achieving the target of lifting exports to 40 percent of GDP would make a significant difference to growth.

Some of us find it a matter for concern that neither the Minister nor the Treasury can provide a measurement of the outcome sought from these policies, which seems to fall short of the Treasury’s own best-practice guidelines. Some of us also note with concern that if the effect of the Canterbury rebuilding is excluded, Treasury’s forecasts are for growth of only about 2 percent, which is below the long-term trend; this raises questions as to what the growth agenda is achieving.

**Housing pressures and capital gains tax**

We are concerned that after reducing consumption briefly, New Zealanders appear to be reverting to old patterns of over-investing in housing, which is driving up prices and hindering progress with rebalancing.

Some of us challenged the Minister about his rejection of a capital gains tax, noting that such a tax has been advocated by both the OECD and the IMF. The OECD’s recent country survey commented that the lack of a capital gains tax in New Zealand exacerbates inequality, and reinforces a bias toward speculative housing investment. Some of us consider that such a tax would be the single most important step New Zealand could take to ease the current pressure on house prices and improve the economy.

The Minister said that if the advice offered by the OECD, the IMF, and the Reserve Bank was for a comprehensive capital gains tax, he was not accepting that advice. The problem was that such a tax might be theoretical perfection, but it was not politically viable in New Zealand, where all parties appear to agree that the family home should not be taxed. As to whether a capital gains tax that exempted the family home might at least come closer to perfection, the Minister said a tax was unlikely to have much impact on the housing market if it exempted such a large proportion of the housing stock; a conclusion, he noted, that nearly every review of New Zealand’s tax system had reached.
Labour members believe the Minister’s refusal to address the need for a capital gains tax excluding the family home, on the basis that this is less effective than a more comprehensive capital gains tax including the family home, is a spurious excuse not to adopt a capital gains tax, excluding the family home. Labour members believe such a change would improve both the New Zealand economy and the fairness of the tax system.

As for what measures might be more effective than a capital gains tax in addressing inequality and rebalancing the economy, the Minister cited the comprehensive tax reforms undertaken in 2010, which reduced the deductibility of losses on property investment, and the direct measures currently being taken to increase housing supply. More fundamentally, he said, the hundreds of microeconomic reforms being made under the business growth agenda were important for New Zealand’s competitiveness and prosperity.

We sought the Treasury’s view, and were told it does not believe a capital gains tax would automatically fix New Zealand’s housing issues. Speaking in general terms, the secretary said the Treasury’s position has consistently been that any capital gains tax should be comprehensive, as it would be much more effective than one that excluded whole classes of assets, including private homes. The secretary added that a long-term focus on improving education outcomes—which the OECD report highlighted as an area of weakness in New Zealand—is likely to be more effective than a capital gains tax in boosting economic growth and living standards.

The Treasury also commented that the present situation differs from the housing boom of the mid-2000s in two significant ways. There is now more awareness of the risks for financial stability, so the Reserve Bank is developing macro-prudential tools to use as needed. There is also wider recognition that there is a problem with housing supply, and better consensus about the need to address it.

**Better Public Services**

Improving performance in the state sector is one of the key outcomes sought from expenditure under Vote Finance, and one of the Treasury’s core functions on which it works with the other two central agencies, the DPMC and the SSC. Under the Better Public Services programme, the Government has set ten results, in five broad areas, which it expects the public service to achieve over the five years from 2012 to 2017.

We asked how progress is tracking against the targets. The Minister said he did not have details, but believes that work is on track to achieve about half the targeted results at this stage. He believes it is too soon to gauge progress against some of the goals for 2017. The Secretary to the Treasury added that some of the targets are particularly challenging, but he is confident from discussions with public service chief executives that they are firmly focused on delivering the results they are individually responsible for. We were told that an interim report is due to be released in July. We place great importance on the Treasury’s work as a central agency to encourage departments to work co-operatively and focus on results, and we look forward to receiving details of progress.

**Solid Energy**

A key part of the Treasury’s role in managing the Crown’s balance sheet is to monitor the performance of state-sector agencies, including SOEs and the Crown’s remaining shares in Mixed Ownership Model companies.
We asked the Minister whether he felt he had been adequately advised about Solid Energy, in the light of the company’s serious financial difficulties which have left it about $390 million in debt. We understand it is currently discussing restructuring options with banks and the Treasury. The Minister told us the Government had been advised appropriately, and had acted on the advice. We note that a recent review of the Treasury’s monitoring of Solid Energy by accounting firm Deloitte did not point to any material failure in the monitoring processes, but said the Treasury could have responded sooner and more forcefully to warning signs that the company was in difficulty. We were told that significant changes have been made to monitoring processes and capability in the Treasury’s Crown Ownership Monitoring Unit (COMU) over the past three years, and it is committed to continually improving these processes where possible.

Some of us expressed strong concern that the Government did not act sooner, particularly on the outside advice it received from the financial services company UBS recommending that it replace board members to bring in more mining expertise. It could also have sought changes to the company’s business plan when coal prices started to fall. Instead, some of us note, the Government required the company to pay higher dividends, take on more debt, and expand its operations.

The Minister said the Government had had a series of increasingly intense discussions with the Solid Energy board, membership of which did change considerably in this period. He agreed it could be argued with hindsight that all parties should have acted three or four months sooner when coal prices started to fall, but no-one could have predicted the extent of the drop. He did not think it would have made a difference; in fact, he believed earlier action would probably have resulted in more job losses. He said the Government had been keen to maintain a relationship with the board and had worked with it in good faith to preserve jobs and develop a realistic view of the company’s future.

The Minister emphasised that the SOE model makes such companies inherently difficult for governments to monitor and manage, and limits the ability to get maximum value from them for taxpayers. For these reasons, the Government prefers the Mixed Ownership Model. He noted that the Deloitte report concluded that the Treasury does a reasonable job; it has also been tightening up what it requires boards to disclose, and how it deals with them.

**Management of Crown debt**

The Debt Management Office (DMO) within the Treasury is responsible for managing the Crown’s debt, cash flows, and interest-bearing deposits. Some of us consider that better information could be provided about the management of the Crown’s portfolio. The Minister said full information about the DMO’s operations is reported to Parliament and made public; however, adjustments could be made to the form of reporting for the sake of clarity.

**Impact of drought**

The Treasury estimates that the drought will reduce GDP growth by 0.7 percent in the current year. We asked how confident it is in its ability to forecast developments in New Zealand’s regions, and were told that the secretary and his officials make a point of getting out of Wellington to speak with business leaders and others in smaller centres to ensure they understand regional issues.
Appendix A

Approach to this examination

We met on 12 June and 10 July 2013 to consider Vote Finance, the Fiscal Strategy Report 2013, and the Budget Economic and Fiscal Update 2013. 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

Paul Goldsmith (Chairperson from 26 June 2013)
Maggie Barry
David Bennett
Hon Clayton Cosgrove
Hon David Cunliffe
John Hayes
Todd McClay (Chairperson until 25 June 2013)
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Jami-Lee Ross (from 26 June 2013)
Hon Kate Wilkinson

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 10 June 2013.

Office of the Auditor-General, Briefing on Vote Finance, received 12 June 2013.

Minister of Finance, Response to standard Estimates questionnaire.

Minister of Finance, Response to additional questions, received 28 June 2013.
Corrected transcript of hearing of evidence 12 June 2013

Members
Paul Goldsmith (Deputy Chairperson)
Maggie Barry
David Bennett
Hon Clayton Cosgrove
Hon David Cunliffe
John Hayes
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Hon Kate Wilkinson
Hon Michael Woodhouse

Witnesses
Hon Bill English, Minister of Finance
Gabriel Makhlouf, Chief Executive and Secretary of the Treasury

Goldsmith Welcome, Minister and secretary. We’re here to hear you. I just wanted to let you know that we’ve agreed to record and transcribe the hearing of this evidence, just so you’re aware of that. Members, we’ve got another 50 minutes with the Minister so if you could make a presentation to us quickly, then we can have plenty of time for questions. We’ll divide it up, time wise, so everybody will get plenty of time to ask questions. So Minister, over to you.

English I’ll just make a few remarks about the Budget and the Fiscal Strategy Report, and then, of course, we can have questions. Budget 2013 has been part of a programme of considered and consistent change by the Government, designed to achieve a couple of things: to work our way out of the recession and its impact on the Government’s books as well as the wider economy. At the same time, to invest in our long-term capacity to grow, to the extent that the Government can influence that either by its own actions or by supporting the rest of the economy. In that context, the Budget confirms that we’re roughly on track with forecasts of moderate economic growth, more jobs, rising wages, and a return to surplus. So last calendar year, the New Zealand economy grew 3 percent. We’d expect to grow 2 to 3 percent over the next 2 or 3 years. Wages have, on average, been increasing. Cost of living increases have been modest, and interest rates are at 50-year lows, which means that disposable income for households has moderately increased each year and we would expect that to continue. There are around 50,000 more jobs in the economy now than 2
years ago, although clearly, there was a flat patch in job creation through 2012, so the number of new jobs didn’t meet expectations. Looking ahead, it’s our expectation that job growth will continue, particularly as the factors that might drive it look more likely, and that is the pick-up and the rebuild of Christchurch, ongoing reasonable export returns, and a general lift in consumer and business confidence. And, of course, we’re on track to surplus.

So the Government’s main priorities have been, as outlined in this committee before, responsibly managing Government’s finances, a more competitive economy, better public services, and supporting Christchurch, and I’ll just move through those briefly, in turn.

In respect of managing the Government’s finances, we look to be on track for surplus next year, and also to bring core Crown net debt back to no higher than 20 percent of GDP by 2020. We are achieving this at the same time as $5.1 billion of new initiatives in the current year and over the next 4 years. That’s funded partly by the new allowances, but also by reprioritising existing spending. The surplus track is underpinned by tax revenue being a bit better than expected, but also successful management of spending pressures, and I’ll come back to that when we talk about public services. But that has been critical to reaching the objective of surplus. Longer-term projections show net debt dropping to 17.6 percent of GDP by 2020. Expressed in dollar terms, net core Crown debt is still rising by around $130 million a week, and is expected to peak at around $70 billion in 2016. I think in 2006–07, net core Crown debt was about $10 billion, in dollar terms. So we’re keen to see that debt stop rising, obviously, as we get to surplus, and then beyond surplus, interested in bringing that debt down to increase our resilience to another recession and also to reflect the ongoing need in New Zealand for Government to have relatively low debt because our household and private sector debt is relatively high. There were a couple of decisions in Budget 2013 to help achieve that. The operating allowance in Budget 2013 was $900 million instead of the $800 million previously signalled, but next year will be $1 billion instead of $1.2 billion, as previously signalled. We intend to delay contributions to the Superannuation Fund until core Crown debt is no higher than 20 percent of GDP. So that’s indicating a preference for using cash to repay debt, rather than contribute to the Superannuation Fund, and that’s really for liquidity reasons and resilience, so if there was another recession, we can’t sell down super assets to finance Government’s needs, but we can incur debt again.

So just turning to the second priority around building a more competitive economy, we’ve been focused on rebalancing the economy towards exports, investment, and savings, and there’s been a considerable headwind that—having that in mind, the difficulty of the high exchange rate, for instance, the tradable and the non-tradable sector have grown about the same rate since 2010. Prior to that, the non-tradable sector was growing more rapidly, so there’s still quite a long way to go there.

And, of course, another headwind is the rebuild of Christchurch, which is going to require the allocation of a lot of resource, simply to repair the
capital that’s been damaged there. So in the longer-term picture, New Zealand needs to do that bit, which is a domestic focus for investment. Then beyond the Christchurch rebuild, there’s more opportunity for that investment to flow to the export part of the economy.

We’re seeing what’s been a high dollar drift lower. We can’t influence that. It’s probably a positive development for the economy. Because it’s tied to perceptions in the market about the unwinding of the US quantitative easing and the prospects for the US economy, you wouldn’t want to bet with too much certainty on where you think the dollar’s going to go. But inevitably as the US economy picks up and quantitative easing is somehow unwound, in the longer term that’s going to re-rate the US dollar against the New Zealand dollar, because what we’re looking for here is a sweet spot where exporters who have worked so hard to become more competitive—and I think they deserve a lot of credit for that—also need to be profitable, and a lower dollar would assist them with that. Of course, the position with the Australian dollar is different and exporters may have to shift their focus if the current trends locked in.

Most of the Government’s policy focus on competitiveness is set out in the Business Growth Agenda, which has got a strong focus on the simple decision of businesses to invest another dollar and employ another person, because that is what’s going to help them to grow. The Business Growth Agenda is an acknowledgment of the fact that there isn’t one big thing that is going to transform businesses’ investment prospects. There are several hundred small things, and they’re all laid out. In this Budget, there were a couple of extra measures there. The internationally focused growth package across R&D additional and New Zealand’s outward connectedness, and also laying out a path for considerable reduction in ACC levies.

An important part of the Budget in this respect was also the housing package, which had two parts to it. One was the focus on housing affordability and legislation, which provides the tool kit that’s necessary to expand supply more quickly than it otherwise would, and, of course, the social housing package.

Also as part of this, the Budget indicated the memorandum of understanding that’s been signed with the Reserve Bank around the macro-prudential measures, which are designed to protect the economy from periods of excessive growth, and credit and asset prices. Just how those tools will be used is largely in the hands of the governor and, of course, their effectiveness will be open to debate, but we have formalised that understanding so that those tools are now available.

The third priority is delivering Better Public Services within the tight financial constraints. I think what’s succeeding here is a focus on the long-term drivers of costs and a focus on getting better results. So, rather than saying to public servants that they must save a lot of money, we’ve told them to focus on getting better results, because what works for the Public Service works for the Government’s books. When they do a good job of whatever it is they’re involved with, getting kids through NCEA level 2,
preventing a prisoner reoffending, that’s what actually saves us considerable amounts of money. And often when Government departments or lobby groups are looking for more money, it’s an indication of failure of the last scheme or the last decision, not necessarily success.

And part of that focus on long-term cost drivers included around $189 million over 4 years for the next stage of welfare reforms. That comes on top of a couple of hundred million over the last couple of Budgets focused on welfare reforms. We simply believe it’s worth investing in a more active approach in dealing with the 330,000 people on welfare, in a tight framework of measuring success and accountability. So we’re making an investment, despite the fact that money is relatively tight.

And there’s a range of other measures. Probably the other biggest single measure in there is around the further changes in Housing New Zealand Corporation, in State housing, with the broad support of the housing sector. I think we all believe we can do a better job of housing our most vulnerable with the very large resource we have—$15 billion invested in Housing New Zealand Corporation.

The final priority is around supporting the rebuild of Christchurch. The total estimated cost of rebuild has increased to $40 billion from the previous $30 billion estimate, and the Government share has gone up from $13 billion to $15 billion, and that difference is reflected in this Budget. About $900 million of the funding will come from the Future Investment Fund, which is the proceeds so far of the Mighty River Power sale. We believe that’s a legitimate way, a successful way, of using the Government balance sheet better. We sell shares to New Zealanders; they get to invest in a big New Zealand company.

We’ve got $1.7 billion in the bank, and we have the opportunity now to use that to buy other public assets, or develop other public assets. I know the topic of Solid Energy has been around—

Point of order, Mr Speaker. It’s now after 10 to. We’ve only got the Minister till half past. I would appreciate it if the Minister could draw his comments to a close.

I’m just about to finish.

I will ask, are you able to draw to a close, Minister? They’re very enthusiastic to ask lots of questions. So if you could—

It’s never happened before that this Minister would drone on for hours to minimise questions!

With Solid Energy—

Just give him a couple more minutes and then—

This may help answer—[Interruption] Well, I’d be finished by now. I’d be finished by now.

Did you leave it out of the Budget, or did you leave it out of your speech?
English: With the Solid Energy—well, just wanted to make sure you were listening. With Solid Energy, the Government’s keen to resolve the company’s future based on a viable business. We’re currently in negotiation with the banks. It’s not clear what the outcome of that process will be. It’s intended to support the company in the short term so a resolution can be fully implemented and minimise the fiscal cost. So, all the options remain on the table at the moment. Thank you, Mr Chairman. Happy to take questions.

Parker: Thank you, Minister. When you came to office, you said that your objective was to rebalance the economy towards export growth and to overcome our prolonged current account deficit, and it’s true that the current account deficit did shrink following the recession, when people put their chequebooks away. But we now seem to be back into the old patterns where we’re overinvesting in housing, we’re driving up house prices. And I just want to give you a couple of quotes from the OECD survey that’s come out this month: “Houses prices remain at historically high levels in real terms and relative to incomes …”, and they’re on the rise again.

They say, and I suggest these things are linked, that New Zealand’s got high rates of disposable income inequality—amongst the highest in the OECD now and rising. They say that we grapple with the combination of large net foreign liabilities, an overvalued exchange rate, and low national savings. And they say that in order to avoid the progression of those trends, we need to do something about our tax system. And they say we need efficiency-boosting tax reforms, and, like the IMF, they recommend—in fact, I’ll quote them: “New Zealand belongs to a group of five OECD countries with particularly high pre-tax capital-income inequality. As much of this income, especially at the top levels, takes the form of capital gains, the lack of a capital gains tax in New Zealand exacerbates inequality (by reducing the redistributive power of taxation). It also reinforces a bias towards speculative housing investments”—

Barry: Is this a question? Is this a question? A speech.

Parker:—and undermines housing affordability,”. Actually, my 2-minute question is a tenth of the Minister’s time so far.

Goldsmith: Carry on. Carry on.

Parker: Minister, it seems that it’s absolutely obvious that the most important step for the New Zealand economy, to grow our exports, to take pressure off house prices, and to get investment going into the jobs that we need to employ our young people, is to address that gaping hole in our tax system. And I want you to explain more than: “Well, we can’t get perfection, because no one wants to tax the family home.” Why can’t we get closer to perfection than we are now by introducing a CGT?

English: Well, in the first place, it’s not perfection. Just look at the Australian economy. They’ve got a CGT, they’ve got a major industry that runs that CGT, and all of the problems you’ve talked about are building up there: overvalued exchange rate, rising unemployment, falling growth, asset
inflation. So it’s not a cure-all, so let’s not pretend it’s perfection. Secondly—

Parker I didn’t. I said “closer to perfection”.

English Oh, OK. Righto.

Parker Do you agree that capital gains tax would get us closer to perfection?

English No, I don’t. And we’ve had this discussion in the House where there’s a plausible argument for a comprehensive capital gains tax. By that, we simply mean an income tax that taxes all gains at the marginal rate of income. And no one’s proposing that, and I don’t think anyone believes that’s politically viable in New Zealand, so that’s not going to happen. So a capital gains tax that exempts—

Parker It doesn’t happen overseas.

English And that may be why they don’t have much impact. Capital gains tax that exempts most housing is unlikely to have a big impact on the housing market, and that’s the conclusion that every tax review—apart from the one run by Don Brash in the late 1980s—in New Zealand has come to.

With respect to the OECD’s work about inequality, a big driver of the kind of inequality they’re describing are planning systems that favour heavily incumbent owners of houses and, in fact, drive up their house prices, and in some cases deliberately so. So we believe that attacking the problem at the source of it, and that is housing supply, will have a bigger impact on rebalancing the economy—

Parker So you’re saying the OECD’s wrong in their advice that the capital-income inequality is—

Goldsmith He just hadn’t quite finished his answer, that’s all.

English Well, I can answer that question. Yes, I think they are wrong in their advice.

Parker And do you think the IMF’s wrong?

English Eh?

Parker Do you think the IMF’s similarly wrong?

English Well, if their advice is to put in place a comprehensive capital gains tax, we are not taking that advice.

Parker And you think the Reserve Bank’s wrong when they say that a capital gains tax would help take the pressure off the exchange rate?

English Yeah, I do, because they are also—

Parker But they’re all wrong and we’re expected to believe you’re right?

English But they’re all advocating a capital gains tax that cannot be implemented in New Zealand. They are advocating perfection and we can’t deliver perfection, but we believe the other measures we’ve taken, which is reform of the tax system, which reduced the value of housing losses among other things, losses on investment in housing—
Parker So you’re content to sit there and having failed in your ambition to increase exports as a percentage of GDP to get the current account deficit going in the right direction, because it’s going in the wrong direction again, and to get our net international liabilities down?

English I just think it’s a misjudgment to believe that a partial capital gains tax that somehow fits between the current capital gains tax that covers all trading of houses and the domestic stock that are going to be exempt, is somehow going to transform the economy. I just think that’s a bizarre notion, because even quantitatively it just can’t, because it covers such a small portion of the housing stock. And in addition to that—

Parker Well, would it cover just about 50 percent of the housing stock in Auckland now?

English And in addition to that—

Parker Would it cover just about 50 percent of the housing stock in Auckland?

Goldsmith We’ll just have concise questions and then concise answers, and then we’ll go through and keep it in good order.

Parker Would it now, given that homeownership rates are getting close to 50 percent than 100 percent in Auckland, would it now cover just about half of the housing stock in Auckland?

English No, it wouldn’t, because a proportion of that will already be covered by the current taxation of trading income on housing.

Parker Could you provide us statistics on that, please?

English No, I can’t.

Parker It’s just not true, is it.

Bennett You can’t say that.

Parker Well, he can’t provide statistics and he says that our trading rules around income apply to most of the houses—

English No, I didn’t say “most of it”. I said a proportion of it will be covered by the trading—

Peters Point of order. You’re the new chair, right?

Goldsmith Yes.

Peters Can we start off where the rules are there, you are the new chair, and not everybody on your side filling in as quasi-chairmen when they feel like it.

Goldsmith What’s the point of order?

Peters Because if there’s a decision that something is wrong on this committee, it’s for you to make a decision.

Goldsmith Right. We don’t want to spend—

Peters No, it’s a proper point of order, Paul, otherwise we get a shambles.
Goldsmith: Quite right. We’ll carry on. I’ll just remind you that I’m the deputy chair at the moment, filling in for the chairman.

Woodhouse: Minister, I think you were interrupted when you were about to list the alternatives to a capital gains tax that the Government is implementing. Can you just remind the committee what those alternative policies are?

English: There are a number of other things that affect the measures that Mr Parker’s concerned with—and they are legitimate concerns. Fundamentally, on the current account deficit, it’s fundamentally about competitiveness and that is why the whole range of policy laid out in the Business Growth Agenda is so important. It’s about a consistent pattern of microeconomic reform designed to increase the competitiveness of our businesses and reduce the real exchange rate.

In respect of the property factors itself, the Government’s tax reform package in 2010 was by any definition comprehensive. No one else in the developed world has done it—that is, increase consumption taxes and reduce income taxes, which has an effect on housing investment. The abolition of depreciation on commercial building investment—commercial buildings—has an impact and there is an argument at the margin about whether capital gains tax, further capital gains taxes of a partial nature, might make a difference. Our view is consistent with every tax review New Zealand’s had in the last 30 years—that it won’t make enough difference to make it worth it, and there’s a difference of opinion over that.

Norman: In terms of the rebalancing, which you said was the objective of your ministry and your Government, would you agree that current account deficit is the best indicator of whether your rebalancing is happening or not?

English: It’s an indicator; I wouldn’t say it’s the only indicator. It’s one you pay attention to and in that respect it’s been embedded for quite a while and I wouldn’t expect to make rapid progress, but I think we’re making some.

Parker: I want to turn to another area where the OECD agrees with the likes of the Labour Party position, and that is that the costs of superannuation are rising in a way that needs to be addressed. Superannuation costs, according to your Budget document, were $7 billion in 2008, $10 billion now—already equal to the total of the unemployment benefit and DPB, everything combined, and within a couple of years as much as we’re spending as a Government on education. I just can’t see how you can justify sitting there as Minister of Finance saying we’re just going to carry on regardless and spend more on superannuation than we will on education.

English: Well, given the policy settings, you spend what is determined by the eligibility of the New Zealanders at 65.

Parker: I know that’s the policy setting—how do you justify it?

English: It’s not a trade-off between education and superannuation. Well, I think we’ve been over this ground before as well. The National Party made an undertaking in Opposition that it wouldn’t change the system. We felt that was necessary to stabilise the expectations, particularly of the baby boomers.
boomers—people aged 55 and over. I think it achieved that. You can argue the case for or against raising the age, for or against income testing or asset testing national superannuation, but the Government’s position is clear and the Prime Minister made undertakings and intends to stick to those undertakings.

Parker

You said earlier that you thought that tax revenues were doing a bit better than projected. Am I to take it that you think we are sort of heading towards the upside scenario in the Budget rather than the mid one?

English

I think it would be a bit early to say that. We’re not even in the next financial year yet. There’s been a bit of an uptick in those monthly accounts of company tax, but you know that’s a pretty volatile—

Parker

Because it concerns me that the upside scenario “is based on higher prices for existing and new houses, along with an associated increase in complementary household spending … In this scenario, households resume housing equity withdrawal to finance consumption.”. Is that good news?

English

Well, it’s not driven off—the economy can grow faster than Treasury expects, for all sorts of reasons. Even since the Budget the outlook for the exchange rate might have shifted a bit. It depends how what the trade weighted index looks like. The housing market has been rising fast, so they’ve clearly built that in. We would hope that actions that Government and councils are taking, for instance, are going to reduce the probability of that occurring.

Parker

But you won’t look at a capital gains tax?

English

No.

Goldsmith

We’ve covered that ground. Clayton Cosgrove, you have a question?

Cosgrove

I have a few. What’s budgeted for advice—what’s the dollar figure that’s budgeted for advice to you, as Minister, from your department?

English

I can’t tell you off the top of—

Cosgrove

Can your secretary tell you?

English

Well, there’s a Treasury budget. We don’t just get advice from Treasury.

Cosgrove

That’s true, actually. That leads to my second question. Given that you have touched on the Solid Energy issue, do you believe, given that you get advice not just from Treasury, but of course you got advice from UBS 3 weeks before the election that there needed to be substantial change, that the company wasn’t fit for sale, and that there needed to be more mining experience on the board. You got advice from Forsyth Barr about the dispute in valuation. You got advice from Treasury after the election in February 2012, taking up the UBS advice. You got advice from COMU, who sought discussions with you to see if you were prepared to make changes on the board. Nothing appeared to happen. Why not? Why didn’t you act earlier, given you’d got all that advice? And do you believe you were advised appropriately?

English

Yeah, we were advised appropriately and acted on that advice.
Cosgrove: How did you act on that advice?

English: Well, there was ongoing discussion with the board—in fact, I can remember your own role in this—where Solid Energy closed Spring Creek, and, as I can recall it, the Labour Party opposed that and joined the protest outside Parliament. That was a measure necessary to help correct the problems in Solid Energy.

Cosgrove: Did your Government sack any board members as the UBS advice and as Treasury recommended, to put more mining experience on it?

English: The board ended up being considerably changed.

Cosgrove: No, my question is: did your Government sack any board members?

English: All I can say is the board ended up being considerably changed.

Cosgrove: With respect, Minister, you would know if your Government sacked any board members. Well, I will answer it for you, because the chairman’s given us that answer. You sacked no one. The question is: why didn’t you take that advice?

English: There were ongoing discussions with the board about how to rectify the problems and those discussions ended up in some cases with the board changing considerably. It’s quite a different board now than it was then. I think we need to bear in mind here—

Cosgrove: No, no, you’ve answered the question. Isn’t it true on the board membership that, despite the UBS advice to replace board members and put more mining experience on that board—Treasury’s recommendations—you were given that UBS advice 3 weeks before the election in 2011, the only reason board members changed is because Mr Ford, on taking up the position, demanded that there be change, and those board members resigned. No one got sacked by you or your Government, because you did nothing.

English: No, I don’t agree with that.

Cosgrove: But what did you do?

English: Well, as I said, there was ongoing—fundamentally it is about a relationship between the share—

Cosgrove: So you jawboned them. You had a lot of talks.

Goldsmith: No, no. Mr Cosgrove, you’ve asked him a question. Just give him the courtesy of an answer.

English: Well, the irony here is that I’ve seen the claims that if the Government had acted sooner, jobs would have been preserved. If the Government had acted sooner, more people would have got sacked sooner in their hundreds. That’s what would have happened. And when the company did move to start making changes, there was political protest actually led by you against the reduction in jobs. So we have maintained—it has been important to maintain an operating relationship with the board. The discussion about what should be happening got, I think, I’d describe, as increasingly intense,
based on advice and also between Treasury and the company itself. You can argue in hindsight that when prices started dropping, everyone should have acted, maybe, possibly 3 to 4 months sooner. I don’t believe—that is possible to answer that. Would it have made any difference to the outcome for Solid Energy? In my view, no it wouldn’t, because their way of doing business was deeply embedded. It had worked very well actually for 10 years delivering profits and credibility, and then they got caught out by a sharp drop in the coal price but also on the export volume.

Cosgrove
So all you’ve really described for us is that there were a lot of discussions. There were a lot of discussions. You had advice for UBS, who were charged and paid for by the taxpayer to scope whether this company should be sold. And you received that advice. You had a warning as far back as 3 weeks before the last election. You could have done two things. You could have changed the statement of corporate intent and directed, or you could have removed the board. Instead, you simply did a lot of talking and it appears that Mr Ford, who’s now cleaning up the mess, was the person who propelled change. So you’re saying that there is nothing practically you could have done, and the second question is to do with companies like Rio Tinto and other minerals companies who reacted very swiftly—very swiftly—within weeks to changes in commodity prices. Why didn’t you just pick up the phone and say to the board: “Commodity prices have moved. I’ve read it in the paper. What’s plan B to consolidate the taxpayers’ asset like Rio Tinto and other companies did?”.

English
Well, a couple of responses. In the first place, how do you think Mr Ford ended up running a company? It wasn’t because he just turned up, right? It was because the Government was looking—

Cosgrove
After they were broke. That was after—

English
The Government was looking for solutions.

Cosgrove
Did you get a lump of coal with a report thrown through the Beehive window?

Goldsmith
Mr Cosgrove, we’ll just let him answer the question.

English
Secondly, as I think you will recognise, the business of tidying up Solid Energy inevitably meant large-scale job losses, which have occurred. As I recall it, there was protest at the time—for instance, Spring Creek was closed because it wasn’t economic. That was one pretty significant decision, part of a string of decisions that led to job losses. As I said, you can argue that that process should have started sooner, we should have sacked more people sooner. The Government, I think in good faith, worked with the board to try to get a more realistic view about the future path on the one hand, and on the other hand actually preserve jobs where that’s possible. Rio Tinto is a different sort of owner than the Government. We do try to preserve jobs and communities if that’s possible. Unfortunately that’s turned out not to be possible, and I’m absolutely sure that if we had moved to sack hundreds of people as soon as the commodity prices drop, you guys would be the first at our throat.
So do you think in hindsight you were naïve to require an increase in debt, to demand an increase in pay-out in dividends, and to demand at the same time an expansion like the briquette plant that you’re photographed opening—do you think that was rather naïve in an environment when the commodity price was heading south or was that good advice?

No, I don’t think it was naïve.

So you stand by your judgments on those things, do you? More debt, more dividend, and an expansion—do you stand by that?

We’ve got the gist of the question.

Yeah, look, we stand by the judgments, some of which in hindsight should have been done differently. Bear in mind in the model, which you’re familiar with, the boards run the companies, right? We do not run Solid Energy. We do not have the technical capacity.

You appoint the board. You can sack the board.

That’s right.

And you did nothing.

I disagree because the actions we did put you in front of a protest on Parliament steps. That’s how you know something was happening.

No, no, it’s related to that last question—not a new one, but that one there. It is pretty simple, yeah, but it’s questionable. Are you saying that you make commercial decisions as Ministers based on what the Opposition is doing?

The reason he knows we didn’t do nothing was that he was leading a protest against what was being done.

You didn’t sack the board. You didn’t change the statement of corporate intent. You jawboned them for 2 years.

It seems that most of the questions or the criticisms seem to be based on the premise that the Government should have the benefit of hindsight, even though the Opposition can’t. And, obviously, how can you predict, for example, that the coal price was going to go from $300 to $100? And is there any way that you can have the benefit of hindsight? Why don’t we regulate for the benefit of hindsight! But actually, the Deloitte report actually, I think, basically said that it could not identify any failings in the monitoring. What lessons or what steps from that Deloitte report are you putting in place, and how do you try to counter the criticism that we should always have the benefit of hindsight?

I think we should just pull back a bit here, because we’ve got a model that is a difficult model to manage—the SOE model. It is one of the reasons we’ve moved to the mixed-owned model. Most of the businesses that the Government now has, apart from the electricity companies, are pretty difficult businesses. And we have to make choices about how aggressively
to manage value in those businesses. And it’s real value. This is real money from real taxpayers who paid for postage stamps, paid their electricity bills, and paid their PAYE. So it’s real money; it’s not just play money. And the policy, the framework in which we work, limits Government’s ability to manage that value aggressively. We are self-limiting, partly because of the nature of Government—we are not a corporate owner; we are an owner on behalf of the community—and partly because of community views about the Government owning these assets, so it doesn’t have the option of realising the maximum value from them or the incentives on boards about contest for control. Those don’t exist. So you’ve got this unusual process where politicians are meant to make commercial decisions with entities that don’t face normal incentives. So that gives Treasury a difficult job monitoring.

As the Deloitte report outlined, they do a reasonable job at that. Prior to trouble with Solid Energy, we felt that the system needed to be sharpened up a lot, both because a taxpayer deserves a better return, particularly out of these risky businesses, and partly because with some of these companies we were heading towards a float where we know that market scrutiny would apply a much higher standard of transparency and management than is possible in the SOE model, and that’s turning out to be the case. So Treasury’s been, both under the previous Minister and the current Minister, ramping up the requirements around disclosure, around board capacity, around getting a grumpy head office relationship rather than a media clipping service, which is what it has been in the past, and that, we think, is bearing fruit. But it is going to throw up issues that are very difficult to manage around some of these businesses, because they are just inherently hard to work with.

Bennett Thank you, Minister. In your introduction, you talked about the need to get into surplus, and then during this phase you incurred some debt at Government level, and then there’s the need to manage that and to reduce that over time. Do you just want to expand on why that is such a big need? You talked about private debt, as well, being large and how you would actually look at managing that Government debt over time.

English Well, there are a couple of reasons why getting it down matters. One is one that we’ve referred to, and that is our lenders tell us that because household debt is so high, then Government debt needs to be relatively low, and that’s been the New Zealand position now for about 15 years since Government debt started coming down from 60 percent of GDP, 55 percent of GDP, back in the early nineties. The other reason we need to get it down is because of the future liability, some of which we’ve discussed today like national superannuation. And we also think managing other future liabilities like welfare is just as important, and we’ve had the opportunity in the last few years to focus on restructuring how we think about the future cost of welfare changing the incentives. Because that is actually more difficult than the national superannuation argument, where there are pretty straightforward ways of adjusting who—you just have fewer people getting paid or you pay them less. That’s pretty simple. So that’s a couple of reasons
we need to get debt down and to get Government into a strong position. And that’s been, largely, the position of New Zealand Governments for the last 20 years.

Bennett Also at the moment we’re seeing, for New Zealand and Australia, our dollar is dropping against the US and you touched on that as well with the potential for that to even drop further, especially in Australia. How will that impact our tradable sector and our exporters? Do you think that that will be an encouragement and therefore be good for our trade balance?

English Well, if the dollar drifts down and we can maintain our relative competitiveness—I mean, if the dollar drifts down and that all just flows back through to the domestic cost structure, then we’re no further ahead, even at a 75-cent dollar. But if the dollar drifts down and we remain competitive, then you’ll have profitable exporters and they’ll be able to re-invest, because most of our exporters, being SMEs and co-operatives, invest largely out of debt or retained earnings. And so higher retained earnings are going to lead to more investment and that would be a good thing, because capital formation is pretty important to our future success. Governments invest an awful lot of capital in a year, but it’s all domestically focused, and we want to see stronger export businesses who can invest more. But they have to make profits to do that. And you have to have reasonable tax rates on those profits. Well, we’ve got a lower company tax rate than Australia, and they have to have a domestic environment where they believe they can get returns on that reinvestment, and we think the rising business confidence reflects the fact that they’re starting to see that might be possible.

Norman Mr English, the current account deficit I would argue is the number one metric of whether rebalancing has happened or not. And according to Treasury’s estimates, the current account deficit deteriorates in the year ahead from $10 billion a year this year to $17 billion a year in 2017, or about 6.5 percent of GDP. Is there any way to spin a deteriorating current account deficit as anything but the economy getting less balanced?

English Well, I mean, that’s a bit of a leading question, isn’t it?

Norman Yep. I’m here to help!

English I mean, the question is what can you do about it, right?

Norman No, no, no. That’s not my question. My question is: is the economy becoming more unbalanced or not? You’ve said you wanted it to become more balanced. Do the current account deficit numbers show an economy getting more balanced or not?

English Well, I’d like to see the current account shrinking, not growing.

Norman But what do Treasury’s projections indicate to you?

English Well, Treasury’s projections indicate that over the next few years the impact of the rebuild of Canterbury is going to put pressure on the current account, and that the revival of consumer confidence could create further imbalance. So that’s their view. They’ve generally been a bit more negative
about it than has actually been the case. You know, at the core of this issue is some pretty deep-seated stuff like the debate we’re having. Instead of saying New Zealanders don’t save enough, we should be trying to find out why they save and what they save, because in my experience they’re not stupid people, right? The economists might think they’re not saving enough; clearly, Kiwis think they are saving enough, otherwise they’d save more. So we’ve got to have a fresh look at some old problems. But I’m reasonably optimistic about where the current account deficit will get to over a 5 to 7-year period, because I think New Zealand is making the right decisions about competitiveness. The prospects for growing our export base are improving on the back of very significant resilience they’ve shown in the last few years.

Norman

So, if it continues down the path projected by Treasury of an ever-increasing current account deficit, because it doesn’t decrease in any of the out-years, and likewise the IMF, which projects this is having the second-worst current account deficit in the OECD—Turkey is worse than us, but only Turkey—or the NZIER, which projects the current account deficit will grow to 10 percent of GDP, so much more pessimistic than Treasury, where does this all end up for a country that continues to borrow more than it earns of the order of 5 to 10 percent of GDP per year? Where does this end up?

English

Well, your theory tells you if that current account gets to a level that the market in general regards as excessive, then you will pay a price through higher interest rates or deteriorating purchasing power of your households, because the dollar will go down. As I’ve had this discussion with rating agencies, they’ve been saying that for 20 years and there’s not much evidence of it. And again, in discussion with Treasury they keep arguing—Standard and Poor’s, for instance, and the other rating agencies keep arguing this is a vulnerability. OK, we accept it’s a vulnerability. We set off down the path of trying to rebalance, and that’s a long, hard process against 30 years of current account deficits. You know, I really hope it doesn’t get as bad as the one we inherited—8.4 percent for 3 years, up to 2008. I really hope it doesn’t get that bad. They keep arguing about the vulnerability, but the market keeps pushing up our exchange rate and dropping our Government stock rate, which doesn’t tell me that the market thinks it’s a high risk. So we know it’s some risk.

Remember, what we’re talking about here is sources of finances. So New Zealanders carry out their economic activity. They source some of that finance from here, and they source some of it from offshore, mainly through Australian banks, and that is, of course, another complexity in our story, because it’s coming through Australian banks that are essentially underwritten by the Australian economy, and up until recently, that has been not a bad position to be in. So I think there’s a lot of nuances in the story that we need to explore in a bit more depth, because there’s a sort of hackneyed arguments that New Zealanders don’t save enough, so you’ve got to buy savings for them. It doesn’t feel that satisfying.

Goldsmith

One more quick one, and then it’s Mr Peters.
So the story you’ve been telling around the Budget is a very positive story, right? And you’ve been focusing on the Government surplus and GDP activity, as the kind of positive dimension. Isn’t another way to look at the GDP activity story essentially that we’re borrowing $10 billion a year from the rest of the world this year, and increasing to $17 billion a year in a few years’ time? And it is the massive level of external borrowings that is actually supporting GDP activity, and so it is a fake economic positive story, because it’s just based on borrowing? Anyone can borrow to make things look good for the short term.

I think the question is what are the prospects for that altering, in a way, that reduces our vulnerability, and I think those prospects are reasonably good, simply because the core driver of improving that situation, where essentially New Zealanders can source more of that investment here, is competitiveness that allows exporters to earn more from the rest of the world, be profitable, and reinvest. We think that, in the context of a 30-year picture of current account deficits, consistent application of policy that focuses on those issues is going to help. I think another thing that would help would be a more in-depth understanding of why New Zealanders behave the way they do with their savings patterns, because that saving is relatively low, but it’s not illogical. We need to understand the logic of that better, because clearly the interventions so far by Government over 20 or 30 years haven’t had much impact.

Do you still think that New Zealand’s got the highest growth rate in the OECD?

No, and I didn’t say that yesterday. I said among the highest growth rates in the OECD.

Yes, so, who’s beating us?

There’s quite a few people beating us. I just can’t give them to you off the top of my head—generally, they’re Nordic.

You’re talking about a consistent pattern of microeconomic reform as though it was something very laudable. Why don’t you look at the Reserve Bank of New Zealand Act and its effect upon our exports and what you might call a distortion from a productive economy to a consumptive economy?

I think that’s an issue well worth looking at, and it’s been looked at pretty extensively in New Zealand, going right back to 1996, when, I think I can recall, there were coalition discussions in which that featured, and subsequently changes were made.

And ignored. Can I just ask this question—

Actually, you did change the Reserve Bank of New Zealand Act.

We did change the Act, but the governor decided to ignore it. [Interruption] No, excuse me. The fact is that, prior to that, of the 36 months, he’d been outside the old rate 27 times. He gets a new band, and now he’s inside the old rate permanently. It’s all there if you want to look at the facts. But, to
come back to my point again, mixed-ownership models are better than SOEs—was that our 1980s experience with Air New Zealand and BNZ?

Peters Can I ask just a few more questions, and one is this. Economic theory should have some exactitude. If I were a company director and I signed off borrowings as being income, or sold it as being that, I would be guilty of fraud, wouldn’t I?

English Well—

Peters Well, take Fortex as a pretty good example.

English In that example people were found guilty of fraud, yes.

Peters Well, why have we got your department, and you, running around the country selling to New Zealanders that you’re actually running the economy soundly, that we’re going into a surplus in 2014-15?

English Well, the Government’s books are going into a surplus, but, I think, as we’ve discussed here in the current account discussion, you know, New Zealand as a whole in any given year is sourcing finance offshore because it can’t source it all here, and it comes up as a current account deficit.

Peters I have just one question on your Government loan or debt financing portfolio—two things on that. First, do you think the law is adequate on that in terms of disclosure, and, (b) do you think you tell Parliament nearly enough as to what’s going on with that portfolio?

English Which portfolio? The debt portfolio?

Peters Yes.

English Well, everything that goes on with it should be available to Parliament. So the answer is, yes, they can know as much as they like about what goes on with it. It has to be a fully transparent operation.

Peters But it’s not. You cannot show me one clear document setting out exactly what the activities of that portfolio are on renewals, new loans, or whatever.

English The DMO? I mean, I’m sure if there’s a need for better reporting, then the current reports can be adjusted to make it clearer.

Peters All right. Last thing—

Goldsmith Well, it’s your third last question.

Peters On the question of house prices, the thing that concerns a lot of us is that there is no explanation as to the effect on New Zealanders after the jungle that the sharemarket was, and also the jungle that the financial services market was and probably still is—in fact, they both are. Is there no understanding from the Government as to why there is a preoccupation with something tangible and real, with so many people having been burnt off? Then the second question is: what is the level of your research and data
on, for example, the upper end or the middle end of housing escalated prices in Auckland? Because if you pick up the Barfoot and Thompson top 25 agents right now, 20 are Asian. My question is: are they selling to New Zealanders, or European New Zealanders, or the general New Zealanders, or are they selling to a speculative market here and abroad? That’s a phenomenon that you cannot take your eyes off.

English
I think there’s been some work done on that; I just can’t recall the details of it. I suppose our response to it has been that who’s buying is one issue—and you can have an argument over who should be allowed to buy—but the supply of houses is much more important. So if there’s demand in Auckland from whatever source—and by far the majority of it will be Kiwis trying to trade up or buy their first home—that demand is pretty obviously pushing up prices, and we need the supply to be more flexible in response to that demand.

Cunliffe
I have a nice, easy quantitative question on your Better Public Services targets: how many of them you’re currently tracking to meet, and how many are currently not tracking to meet?

English
We’ll be publishing that pretty soon. I think we’re—I don’t know. Probably half of them would be pretty clearly on track. And the others, it’s a bit soon to tell.

Cunliffe
The ones that are not currently tracking for success—can you name some of those, please?

English
Look, I don’t have the material here, and I wouldn’t want to get ahead of the—

Cunliffe
You’ve just told the committee that one of your three top priorities is the Better Public Services programme, but you can’t recall which ones aren’t tracking to meet the targets you’ve set them?

English
Well, bear in mind, you’ve just got to look at these targets. That information will soon be available. It’s quite transparent.

Cunliffe
Can you send that in writing to the committee, a report of tracking on the 10 targets?

English
Yes, we probably can.

Cunliffe
If you had taken Treasury’s advice and refunded to New Zealanders the billion dollars in excess ACC levies in 2014-15, rather than just $300 million, would you have still been able to make your putative fiscal surplus in 2014-15?

English
Possibly, yes.

Cunliffe
How?

English
Well, because, as I think I’ve explained before, with a Budget there isn’t one decision that gets you over the line or not over the line. It’s always a package. Part of the process of the Budget is making sure you understand how that kind of package of decisions might fit together.
Cunliffe  So if you hadn’t done that, concurrently with raising petrol excise by $900 million in that year and by reducing operating expenditure by $200 million in that year and by taking advantage of certain irregular tax flows in that year, would you have been able to reach the so-called fiscal surplus?

English  Well, you know, if we’d sat there and made no decision since 2008—which is just as speculative—we might have had a $15 billion deficit. We’ve made a lot of decisions that changed the track that we were presented with as an incoming Government. So no particular decision gets you there. Even the ability to make any decisions around ACC, the accumulation of previous decisions that take charge of the organisation in a way that was going to improve its performance, get the rehabilitation rate up—which is the main driver of its progress, because the rehabilitation rate was dropping when, apparently, they used to care more, but clearly not enough to rehabilitate people—that’s why we can make that decision.

Cunliffe  My final question is a really easy and is, again, quantitative. If you take the effects of the Christchurch rebuild out of GDP growth forecasts, what is the net non-Christchurch GDP growth forecast for 2015?

English  I simply can’t tell you. I don’t think that forecasting has been done.

Cunliffe  The answer is 2 percent, and it’s well below the long-term average. Can you tell us what contribution to growth the Business Growth Agenda has made, given that, excluding the insurance-funded Christchurch rebuild, you are tracking well below the long-run average? So what difference has the Business Growth Agenda made that you are not doing even the random average?

English  Well, I don’t share your assumption. The fact is that if you weren’t rebuilding Christchurch, some of that resource wouldn’t be here, because it’s come from reinsurers, but some of it would be redirected into exports or whatever, it wouldn’t be repairing capital. So it’s not—you can’t just take it out—

Cunliffe  The specific question was what contribution you’re assuming the BGA is going to be making to GDP growth rates, since you don’t know what difference Christchurch makes. What difference does the BGA make?

English  Treasury could explain to you, I think it’s done some work to try to quantify GDP impact, but, as you know, that’s—

Cunliffe  Perhaps the secretary could elucidate.

Goldsmith  We’re proceeding into Steven Joyce’s time, so—

English  Maybe you’ll get to talk to him about that. I mean the BGA is, to a large extent, driven by what businesses and other organisations tell us will help them with the decision to invest another dollar.

Cunliffe  Mr Chairman, perhaps officials could provide in writing their estimates of the GDP impact of the BGA?
I think what is pretty clear out of the Business Growth Agenda is that claims that any one thing, such as more R&D, is going to transform the economy don’t make sense.

We’re talking about the whole programme, Minister, not any one thing. We’re talking about whether you have the foggiest idea about whether your much-heralded BGA is making an iota of difference, and you’re telling the committee that you simply don’t know, that you don’t know what your forecasts are, that you have no idea of the impact of the Christchurch rebuild, and you have no idea which of your Better Public Services targets have been met. That was a really useful exercise, Minister, thank you very much.

Well, I think it highlights an issue, though. We could spend all our time measuring—and there’s a whole class of measurer specialists around the place. We actually spend a fair bit of our time doing things that people tell us make a difference to their willingness to invest another dollar and employ another person.

Thank you very much, Minister, for your time. We appreciate your coming into the committee. Would we like the staff to prepare a draft report? Any specific—

Can we follow up with Treasury please on the GDP forecasts ex Christchurch and the BPS tracking targets and the BGA growth contribution? That would be very helpful, thank you.

The member is fairly entitled to ask for information, isn’t he?

The Minister said he didn’t have it and officials were happy to provide it.

Yes, that is fine. OK. Thank you.

Welcome, Mr Secretary, and I’m just conscious of the time. It’s gone over. So I just wonder if you could just keep your comment as succinct as possible so we could have plenty of time for some questions.

Thank you very much, Mr Chair. I have got a prepared statement, and I’ll try and sort of run through it very quickly. Just to introduce Vicky Robertson, the Treasury’s Deputy Chief Executive, to my right here.

Welcome to the committee.

Let me just kick off with the economic update. Real GDP growth reached 2.5 percent last year, which is the strongest annual average rate since March 2008 and faster than many other developed countries. However, nominal GDP growth continued to be low, reflecting the moderation in the terms of trade we saw last year. Employment growth was also weak, although the latest household labour force survey saw employment up and unemployment down. Business indicators suggest solid growth in the first quarter of 2013. The drought might cause some turbulence in the final figures, as farmers sending their stock to the works will serve to boost growth in the March quarter but at the expense of production later in the year. This overall pattern is one of the main reasons the exchange rate remains high, notwithstanding recent falls. There is a lot of cash in the
global economy, and New Zealand is in good shape relative to many other countries.

Looking ahead, we forecast economic growth to average 2.5 percent per year over the 5 years to March 2017, with growth accelerating to 3 percent in the year to March 2015. Domestic demand is the main driver, with private spending growth speeding up to over 6 percent in the year ahead, mainly as a result of higher investment. There are a couple of substantial factors offsetting this growth: firstly, a strong rise in imports, associated with higher investment; and, second, the drought, which is expected to lower export growth in the year ended March 2014. Growth outlook sees the unemployment rate drop to around 5 percent and annual CPI inflation move back to the middle of the 1 to 3 percent target band.

Earlier on, committee members raised the question of the current account deficit, and I’d like to comment briefly on this. As at the half-year update in December, the deficit is forecast to increase as the Canterbury rebuild gets into full swing. Investment is forecast to increase by more than the increase that we expected in national saving, and this marks it out as different to the period from 2005 to 2008, when national saving was falling. And our forecast for the deficit, excluding Canterbury-related investment, shows the underlying current account deficit tracking at similar levels relative to GDP to that of the recent past. On the basis of what we know now, we do not believe that the size of the current account deficit represents a threat to New Zealand’s economic stability or that the economy is on an unsustainable economic trajectory. The unique one-off nature of the rebuild, including how it is being financed, means it is inappropriate to simply extrapolate current account prospects over the next few years into the longer term.

Our view is that the overall direction of policy should be to move back into surplus, reduce exposure to debt, make structural changes to promote economic growth, and maintain a prudent macroeconomic framework. We assume the exchange rate will stay high for much of the forecast period, which will hold back activity in exporting and import-competing firms, especially those that do not experience the relatively strong export commodity prices that we are expecting.

On the fiscal update, core Crown tax revenue is forecast to increase by $14.6 billion over the next 4 years. These increases are expected to outpace the growth in the economy, and it’s worth noting that tax revenue is higher than expected in the half-year update, which gave the Government more choices, such as the signalled ACC levy reductions.

There are, of course, risks to our forecasts. From a global point of view, Europe is not out of the woods yet, and the turn-round in the US has some way to go. There’s also a risk that growth for our major trading partners, including Australia and China, will slow. On the other hand, there are upside risks. For example, China is seeking to rebalance its economy away from exports and investment-led growth towards consumption, and faster progress towards this goal would benefit New Zealand as a major supplier.
of commodities, including dairy products. Overall, global risks have become more balanced as policymakers have moved to reduce the likelihood of economic crises or to boost growth. Domestically, there is a mix of upside and downside risks, including the pace and size of the Canterbury rebuild, the exchange rate, the impact of the drought.

We, this morning, talked about the IMF and OECD reports, which both, essentially, see New Zealand’s current policy stance to be appropriate, with the economy gaining momentum. I think if I can focus on one thing that came out in the OECD report, which is around the challenges in terms of shifting growth over the long term, the OECD report supports the Treasury’s view that education is a key area we need to focus on if we’re to achieve a sustainable step change in economic growth and higher living standards for all New Zealanders. The report notes that standardised tests point to a long tail that the system is failing, despite high average scores, and we can’t achieve higher levels of more inclusive growth without addressing this.

The Treasury’s long-term fiscal statement is due for release in July—in other words, next month—where we will lay out the long-term challenges as we see them for New Zealand. We have deliberately engaged diverse experts from a range of economic and social disciplines in the development of the statement, given that many of the challenges we need to address as a country are complex and intergenerational. The issues affect all New Zealanders and will need to be tackled by successive Governments, and we hope it’ll stimulate broad, evidence-based public discussion and debate.

Two things, if I may, which I know the committee’s been interested in, I just want to comment on. The first is our work to embed our living standards framework, which informs our advice and analysis. In the long-term fiscal statement, we’re working with Statistics New Zealand on measuring progress against the five dimensions of the framework.

Cunliffe  Point of order, chairman. Apologies to the secretary. We only have 30 minutes for this item, and the secretary’s taken approximately—

Goldsmith  If you could just complete your comments—

Makhlouf  I will finish very quickly, but I specifically—

Cunliffe  It’s all good stuff, secretary, but we’d love to ask you some questions.

Makhlouf  I know you’re interested in this stuff, and I know Mr Norman is in particular. All I wanted to stay is that the work we’re doing with Statistics New Zealand is progressing well, and we hope to share results before the end of the year on that.

Goldsmith  Good. Thank you.

Makhlouf  The last thing I want to talk about is Solid Energy. I hope you saw the statement we made yesterday, the publication of the report, but in particular the work programme that we have put in place to improve our monitoring function. I’m very, very happy to talk about that if that’s what you’d like to talk about.
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Parker Yeah, I’m really surprised, Mr Secretary, to hear you so sanguine about New Zealand’s net international liabilities. OECD makes the point here, when talking about New Zealand’s Government debt, that it should be seen in light of the high private sector external liabilities. And our trend is, to the end of the trend period, their increasing on the back of the current account deficit, but even when you take out the Christchurch rebuild, it is over 5 percent.

Makhlouf I hope I didn’t sound too sanguine, because the Treasury certainly focused on the net international position. As I said a few minutes ago, we do think there is a difference between the nature of the current account deficit going forward compared with what it was in the past. This is a historical position for New Zealand. We think—

Parker By which you mean it’s a long-term problem?

Makhlouf It’s a long-term—yeah, that’s right. It’s a long-term—

Parker Well, I think we all agreed on that—

Makhlouf Yep. That’s right—

Parker —but it ain’t fixed.

Makhlouf In our perspective, however, just to be very clear, our perspective is that we don’t think we are on an unsustainable path. We do think that there’s a range of policies that are being followed that do put us in the position to actually—well, the phrase I’ve used in the past is to seize the opportunities, I think, that growth in the Asia-Pacific region is going to offer us. So I don’t want to underplay the significance of it. I do think the solution is a whole scale, a wide range, of reforms that we’ve talked about, that Treasury’s talked about. All I wanted to say is that I think what we’re forecasting over the next 4 years does not mean that the longer-term path is unsustainable. That’s my position. And the markets and bond prices—

Parker So what you’re effectively saying is we’re not about to drop off a precipice, and I agree with that, but the long-term problem, and I think we both agree it’s a long-term problem, shows no signs to the end of the projection period of being fixed—anyone’s projections.

Makhlouf As I said, I don’t think we should extrapolate our forecasts into the projection period. I don’t think that’s—

Parker Well, OK. They go forward to 2017, and presumably that’s the best projection you can make.

Makhlouf Yeah.

Parker By then, we’ll have had 8 years since the recession started, when I thought the Government and Treasury agreed we needed to rebalance towards exports, and we won’t have achieved it.

Makhlouf I think we’re on a track that—I mean, if you strip out the Canterbury rebuild, the track—
Parker
I did in those figures. Your own figures show it’s still over 5 percent of GDP.

Makhlouf
Yeah, but it’s a better picture than including the Canterbury rebuild.

Parker
It’s still not good.

Makhlouf
The point I’m making is that I think we’ve got to put in place a whole series of reforms, which are going to take a long time because we’re dealing with a long-term issue, that are starting to address the problem.

Parker
And I’m not deriding some of those solutions. I’m not saying that everything that’s been done is wrong. But the OECD, their glaring advice is that we have an investment imbalance caused by a tax system, and the Reserve Bank says the same thing. You guys have hinted at the same thing, although you’re somewhat constrained. I mean, if there was one step that is not currently being taken that would try to direct investment into the productive tradable sector of the economy, wouldn’t it be to address that capital income tax bias?

Makhlouf
I think our views on capital gains tax—I mean, you know what the Government’s views on capital gains tax are. I mean, Treasury’s views were set out in our submission to the 2009 Tax Working Group. Treasury’s view has always been that if you’re going to do something, then it has to be pretty comprehensive in this space, and every time it’s discussed in public fora, political economy challenges of doing that are raised, and we’re very sceptical of the potential cost in terms of administering a system that is full of reliefs and exclusions, and we’re also sceptical of the benefits you may get by just doing something like that.

Parker
The big exclusion is the primary residents. Well, isn’t it true that just about every OECD country, in way or another, has an exclusion in respect of the primary residents?

Makhlouf
Yeah, but I’m not sure whether—your question was: would this be the single thing to improve our tradable—

Parker
Of the things that aren’t on your agenda, what would be a bigger step than trying to redress that tax bias in respect of capital income?

Makhlouf
Well, we take a long-term view, and I actually think that looking really, really hard at the effectiveness of our education system will, in the long term, provide sustainable long-term—

Parker
But aren’t you already doing that?

Makhlouf
I think we’re doing something, actually. I think the Government is doing something. But what I’m saying is I think there’s a range of things that we need to continue to focus on.

Norman
Auckland house prices—13 percent up in 12 months, right? That seems to me exactly like the mid-2000s problem, where we also had this huge exponential growth in house prices, which was totally unsustainable and was funded all from offshore. We’re heading down the same path. The Reserve Bank, when it gave its financial stability report, was waving red flags, in the
kind of subtle way that a Reserve Bank Governor does, to say we’ve got a major problem here, and yet we’re going very little about it. The policy tools are pretty limited. How is it radically different to that problem we had in the mid-2000s?

Makhlouf I think there are probably a couple of differences. One is we’re a lot more aware, I think, today than perhaps we were in the mid-2000s of the risks that we’re carrying, so I think the Reserve Bank is a lot more focused on the risks of the stability of the financial system. I think the Reserve Bank now has a set of tools, as the Minister said earlier this morning, which it can use if it wants to, which it didn’t have in the mid-2000s. I think there’s a much greater recognition that we’ve got a supply-side problem that we need to absolutely address. You can argue whether or not enough has been done on that, but certainly there is general consensus that it needs to be addressed. I don’t want to underplay at all the risks that the current house price rise situation in Auckland poses, but I do think there are a number of both tools but also just much greater awareness as to how to deal with it. I mean, I absolutely agree with you. But I don’t think, if this was the inference that you were trying to get to in your question, that introducing a capital gains tax would automatically fix that.

Bennett I think that was the inference that both parties were getting to. The question is really, though, they’re not advocating a comprehensive capital gains tax; they are advocating a very specific one. In your opinion, if it’s not comprehensive, will it be as effective as they believe?

Makhlouf Well, I think there’s a whole bunch of factors that come into play in the effectiveness of any tax, but certainly from Treasury’s position a comprehensive capital gains tax would have much greater impact than one that excludes a whole series of class of assets, including the private home.

Bennett Just going back to earlier in the year when you came in front of us, the drought was an issue that we had raised with you, and I think you were sort of a bit wondering whether that was really going to be a problem at that point in time. Does that reflect on your ability to understand the economy out of Wellington, for example, and to pick what’s going on in other regions?

Makhlouf The question is this—

Bennett Are you comfortable with your ability to do that?

Makhlouf When you asked me, because it was you who asked me the question the last time I appeared, I think your question was what number had we assumed, what the impact had been. At the time we hadn’t actually done the work, so in spite of the complexity of the issue, now we have done, and 0.7 percent is the impact on GDP that we think the drought will have this year.

I’ve made it a policy of mine personally, and of Treasury, that we spend quite a lot of time outside of Wellington, to make sure we understand the issues on the ground. So last week I spent 2 days in Gisborne. Last month I spent time in Invercargill and in Dunedin. It is important for Treasury to actually talk to business people and other leaders out in the regions, to
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understand, to get a much richer understanding, of the issues they face. So we are doing that.

Cunliffe

Better Public Services is a pretty important strategic objective of Treasury to help draw together and focus different Public Service departments, encourage more cooperation, and better use of quantitative reporting data. Is your interim report on track for release in July, as earlier foreshadowed?

Makhlouf

Yep, as far as I am aware. It’s our report to Ministers, and as far as I am aware it is on track to be released.

Cunliffe

Is that targeted for public release in July?

Makhlouf

That’s my understanding, but that would be a choice for Ministers to make.

Cunliffe

Sure.

Makhlouf

It’s their report. It’s their results.

Cunliffe

Without pre-empting too much the content of the report, of the five key objectives, how comfortable are you that all five are going to deliver on the targets that have been set?

Makhlouf

You mean the 10 key results?

Cunliffe

Sorry, the 10 key results. I was thinking about—

Makhlouf

Well, I’m going to resist temptation to tell you what the results actually are, because I think that’s up to the Ministers to decide when they’re going to publish the report. But, what I will tell you is that the targets are looking to deliver results by 2017, and some of them we see as particularly challenging. On the other hand, we’re pretty sure that the Public Service as a whole is quite focused on delivery. So I’m heartened by what I’ve seen from my discussions with chief executives who are accountable and responsible for the individual results, in terms of what they’re doing.

Cunliffe

There’s always been a great importance attached by Governments on both sides to Treasury playing a role as the central agency in bringing across departmental cooperation together, so we wish you well on that and look forward to the report.

Makhlouf

We are working—

Cunliffe

Another key objective of Government policy has been rebalancing, particularly the restoration of growth in the tradable sector of the economy. Superficially we seem to be going backwards: widening current account deficit, growing international debt, sluggish growth rate, high unemployment, reducing fiscal deficit, but that’s a very small part of the picture. How comfortable are you with the progress on rebalancing, and what are the next steps? I mean, also household savings has gone negative again. Where to from here? It’s a generally open question there. What’s next?

Makhlouf

I welcome the opportunity to talk sort of quite openly and broadly about this stuff. I mean, as I said a few minutes ago, we take a long-term perspective on this. I have spent a couple of weeks over in the US—sorry, a
little bit of time over in the US a couple of weeks ago—and talked to people in April when I was at the IMF and World Bank meeting, just talking to a whole bunch of people. New Zealand finds itself actually, relative to the rest of the world, in quite a good position. Europe has got some pretty fundamental challenges, which is going to take it a long time to get out of. The United States has got some big fiscal challenges, but is seeing its economy slowly come out of the woods.

Cunliffe Are you saying we should take comfort in the fact that although we seem to be going backwards, we are not going forwards as fast as some of the others?

Makhlouf What I’m saying is to let us recognise that actually, relative to the rest of the world, we are in a good position, but we absolutely need to seize the opportunities that are coming in front of us. Right?

Cunliffe So the forward-looking question: what’s new in the tool box? You’re hesitant on a capital gains tax, although I think you can see the intellectual case for it; you’re concerned about the long-term savings position, as we are, but the Government is not going to do anything about it. In fact, they are putting away the prefunding of superannuation for another couple of years, which I’m sure you oppose. It’s very hard to see what the new tools in the tool box are that are going to turn it round. Ex Christchurch the GDP growth forecasts are pretty dismal. They’re below long-term trends.

Makhlouf I don’t think that’s fair. I think the tools—sadly some of the tools are familiar ones, so the Government needs to keep on top of its own spending. It needs to move its books back to surplus, it needs to keep control of its debt, and it does need to look really hard at where it can make a difference to support businesses to grow. So it does need—I’m afraid I wasn’t here, listening to your conversation with Steven Joyce. The Business Growth Agenda has got a whole bunch of things in it. Some of them are significant and some of them are much smaller, so we would—

Cunliffe Can I follow then with a question that I asked the Minister earlier, on this particular point, the Business Growth Agenda—

Goldsmith The final question.

Cunliffe I am happy for this to be the final one. Given that there are hundreds of initiatives across the six working areas, many of them, of course, are not new, but added up one would have thought that there would be a measureable impact on GDP growth. Are you forecasting any change to GDP as a result of the cumulative impact of the BGA activities, and, if so, roughly how much?

Makhlouf We don’t have specific numbers, because we see the cumulative impact as building up over time and outside our forecast period.

Cunliffe So could you falsify the hypothesis that it’s going to make no difference at all?

Makhlouf If we achieve exports, 40 percent of GDP, I think that will be quite a—it will make a difference.
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<tr>
<td>Cunliffe</td>
<td>Therefore, why can’t you quantify some of that?</td>
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<tr>
<td>Makhlouf</td>
<td>Sorry?</td>
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<tr>
<td>Cunliffe</td>
<td>You’re assuming a zero—you’ve just told us you’re not assuming any change to the GDP numbers.</td>
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<tr>
<td>Makhlouf</td>
<td>No, I didn’t say that. I said that in terms of specifically around the BGA and our forecast period, which is up to 2017, I can’t tell you that particular bit of growth is coming from the BGA. It’s obviously contributing, but we haven’t done an analysis to break it down.</td>
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<tr>
<td>Cunliffe</td>
<td>Cumulative impact?</td>
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<tr>
<td>Makhlouf</td>
<td>I don’t think we—we haven’t done that.</td>
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<tr>
<td>Cunliffe</td>
<td>So therefore you’re assuming no cumulative impact?</td>
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<tr>
<td>Makhlouf</td>
<td>No, no. We’re just not identifying what the separate impact is. If I could just sort of—I want to finish—</td>
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<tr>
<td>Cunliffe</td>
<td>So you’ve got an output measure across these work areas, but you haven’t got an outcome measurement?</td>
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<tr>
<td>Makhlouf</td>
<td>Yes.</td>
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<tr>
<td>Cunliffe</td>
<td>That doesn’t seem to be Treasury best practice.</td>
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<tr>
<td>Goldsmith</td>
<td>You’re asking more and more questions. Sorry, you wanted to conclude?</td>
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<tr>
<td>Makhlouf</td>
<td>Yes, I just wanted to finish. You asked me where we started on this, and it was my fault for leading you into the BGA. The broader thing that we absolutely need to do as a country is, as I mentioned earlier, look at the way our education system is working and how we can improve outcomes out of that, look at the way our planning system is working, look at the way our use of water is working. There is a whole series of reforms that we need to focus on really hard, which we believe will, over the long term, put us in a strong position as an economy.</td>
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<tr>
<td>Goldsmith</td>
<td>Thank you very much for coming in, Mr Secretary, and we appreciate your comments. Thank you.</td>
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</tbody>
</table>

**Conclusion of Evidence**
2013/14 Estimates for Vote Food Safety
Report of the Primary Production Committee

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Food labelling 3
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Vote Food Safety

Recommendation

The Primary Production Committee recommends that the appropriations for the year ending 30 June 2014 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 $87.045 million, slightly less than the estimated actual expenditure in 2012/13 of $87.11 million. Appropriations totalling $54 million (62 per cent of the vote) are for delivering assurances on compliance with legislation and to meet overseas market access requirements. Appropriations totalling $19 million (22 per cent of the vote) are allocated to setting standards for the development, implementation, monitoring, and review of food safety measures; assessing related scientific evidence; and developing compliance tools.

Food Bill

The Minister told us that the Government intends to progress legislation this year, to ensure a more flexible, risk-based approach to the production of safe food. The legislation would considerably strengthen the Government’s enforcement powers by introducing infringement offences, and would ensure that the rules governing the safety of food are consistent and appropriately focused.

We asked how small businesses would benefit from the Food Bill. The Minister said that the bill is intended to make it easier and less costly to run a food business, while maintaining an adequate system of checks. The changes would especially benefit small businesses by cutting their compliance costs and making the consent system more streamlined. For example, small producers would no longer need to use industrial kitchens to produce food, but could produce it at home under certain conditions.

Market access and food assurance

With the overall vote for food safety declining, we asked whether there could be any assurance that recent administrative and food certification issues with apple exports to Russia and meat exports to China would not recur. The Minister replied that the reduction in the vote since last year was not large, and pointed out that the Ministry for Primary Industries was not the only source of government funding for food safety innovation. The Minister explained that while some of New Zealand’s trading relationships were longstanding and easily managed, the expansion of New Zealand food exports into new countries with widely differing regulations and cultures meant that there could be no guarantee that technical or administrative issues would never arise. The Minister recognised the importance of examining each incident carefully to learn from it, and said that a review of events leading to the incident in China would be completed in July.
Monitoring food safety in New Zealand

As much of the food safety and food assurance focus is on exports, we asked how food safety within New Zealand was monitored. The Minister said the public could call the ministry to investigate issues such as labelling. There is already an extensive testing regime, including some random testing undertaken by the ministry. Importantly, the new food bill will introduce infringement fines for non-compliance, which will be a key addition to the government’s armoury, especially against lower-level offending.

Food labelling

Under the Australia New Zealand Food Standards Code, developed by Food Standards Australia New Zealand, the ministry is responsible for implementing its provisions in New Zealand, including compliance. The code is a common set of food composition and labelling rules agreed between New Zealand and Australia. We asked whether the Government intends to follow Australia’s example in requiring mandatory country-of-origin labelling. The Minister said that country-of-origin labelling is not a food safety issue but one of truthfulness, and pointed out that the Australian model does not provide consumers with the facts necessary 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 precisely. New Zealand has only a voluntary country-of-origin labelling system.

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 Minister said that she is willing to provide the committee with a separate briefing on this subject. Some of us also raised concerns about inadequate compliance with labelling requirements for some consumer products that may contain genetically modified components or products that had been irradiated. The Minister assured the committee that New Zealand had some of the best evaluation systems in the world and used evidence-based science when evaluating food safety.
Appendix

Approach to this examination
We met on 27 June and 11 July to consider Vote Food Safety. Evidence was heard from the Minister for Food Safety, the Hon Nikki Kaye, 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 Primary Industries, Response to additional written questions, received 5 July 2013.

Minister for Food Safety, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Food Safety, received 25 June 2013.

Vote briefing paper, Vote Food Safety, prepared by committee staff, dated 25 June 2013.
2013/14 Estimates for Vote Foreign Affairs and Trade, and Vote 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 2014 as set out in Parliamentary Paper B.5 for Vote Foreign Affairs and Trade and Vote Official Development Assistance, administered by the Ministry of Foreign Affairs and Trade, be accepted.

Introduction

The total appropriations sought this year for Vote Foreign Affairs and Trade amount to $505.416 million, up from the estimated actual expenditure in 2012/13 of $382.409 million. Significant allocations include over $367 million for purchasing services from the Ministry of Foreign Affairs and Trade, over $62 million for departmental capital expenditure, and nearly $54 million for subscriptions to international organisations.

The total appropriations sought this year for Vote Official Development Assistance amount to $566.732 million, up from the estimated actual expenditure in 2012/13 of $557.619 million. Significant allocations include $410 million for international development assistance, and $99 million for contributions to international agencies.

Bid for Security Council seat

Securing a seat on the United Nations Security Council for 2015–16 will be a focus for the ministry in the 2013/14 financial year; the vote on the seat is planned for October 2014. We asked the Minister about New Zealand’s approach to gaining a seat, and heard that it involves the Minister, special envoys, and parliamentarians travelling extensively to meet dignitaries formally in person and cover places where New Zealand has few overseas posts, such as Africa. International organisations and conferences are opportunities for bilateral meetings where representatives can advocate for a seat; highlighting New Zealand’s point of difference at the Small Islands Developing States conference, for example, will be important.

We noted that many states will assess a Government’s policies before voting, and ratifying the Kampala amendment on the crime of aggression through the International Criminal Court could be a step towards securing votes. We heard that the ministry is developing New Zealand’s position, but the Minister could not say when it will be finalised. A particular consideration is the perception of African countries that the International Criminal Court has focused unduly on Africa, and New Zealand needs to be aware of such concerns. But ratifying aggression as a leadership crime (committing soldiers to conflict), which may affect Western States in particular, is likely to be welcomed by African countries whose nationals are before the court on crimes against humanity (committed by soldiers in conflict).

Staffing

The ministry’s attrition rate for the year to 31 May 2013 was 19.1 percent, and we are aware that this number represents many experienced former employees. We asked how such
attrition affects the ministry’s ability to perform, and heard that it has delivered the outcomes required by the Government. There was a need to refresh personnel, and 117 new employees have joined the ministry in the same time period. Also, we heard that the ministry still has a good experience base, with the average length of service at 9.47 years. The Minister acknowledged the loss of experience, but added that former employees could be considered for future positions.

The percentage of heads of mission who are female has decreased to 24.6 in 2013, from 39.2 in 2008. The Minister said that in the last 12 to 18 months a substantial number of women have been appointed heads of mission, on merit without taking gender into account.

**Economic growth**

The ministry plays a key role in addressing the Government’s priority of lifting New Zealand’s exports to 40 percent of gross domestic product by 2025. New Zealand’s relationships with Iran, the Gulf Cooperation Council, and Myanmar, for example, can benefit the economy, and we asked how these relationships are progressing. We heard that there is room for optimism following Iran’s election of a new president. While their supreme leader will still have significant influence, the new president is more moderate than his predecessor, and has expressed increasingly positive sentiments.

The relationship with the Gulf Cooperation Council is an important one, with New Zealand’s trade activity with the Gulf states increasing by approximately 10 percent per year. We heard that there is room for growth in the relationship, as New Zealand can offer expertise of interest to the council, for example in delivering public sector services and in agricultural technology. We discussed the prospects for connecting New Zealand’s intellectual property with the council’s investment capital.

The Minister commented that Myanmar once was the food basket of its region, and has significant potential for economic growth. New Zealand has been asked to support Myanmar’s development, particularly in agriculture. Steps have been taken to formalise the relationship, with visits by both countries political leaders and foreign ministers. Myanmar’s Speaker of the Lower House, an influential figure in the country’s politics, has also visited New Zealand.

A safe and secure environment is conducive to economic growth. However, religious conflict threatens to derail Myanmar’s development. New Zealand is providing humanitarian assistance in the conflict, and mediating between the Government of Myanmar and the Organization of the Islamic Conference and its member states. We intend to monitor the progress of these relationships in the coming financial year.

**Official Development Assistance**

New Zealand is shifting its approach from security to development in countries such as Timor Leste and the Solomon Islands where it has previously had military deployments. In Timor Leste, for example, New Zealand is participating in a bilateral community policing programme to replace the United Nations policing initiative that finished earlier this year. In the Solomon Islands, New Zealand is undertaking infrastructure projects worth $24 million. Investment has also been made in developing the fisheries sector and increasing the revenue of the Solomon Islands Government, to improve service delivery to Solomon Islanders.
New Zealand’s overseas development programme is directed to three purposes: about 40 percent to sustainable economic development; 40 percent for human development, such as education and health programmes and scholarships; and 20 percent towards security, justice, and supporting multilateral organisations. Some of us questioned the effectiveness of economic initiatives, and queried their humanitarian value. All of the ministry’s activities take into account issues of gender, human rights, and the environment. The Minister added that many profits derived from locally initiated economic activities end up overseas, and it is important that profits are returned to business owners.

**Budget savings**

Despite a significant increase in the total appropriations sought for this year, we noted little evidence of savings being made. The ministry responded that savings have resulted from its recent reorganisation and from measures such as changes to tax treatment, and it expects to achieve a $25-million surplus at the end of this financial year. The increase in total appropriations reflects financial rollovers from previous years, which derived partly from savings and partly from uncompleted initiatives. These savings are helping the ministry to fund its growth as the demands placed upon it and the number of overseas posts increase.

**Fiji**

The Minister said that he is more optimistic about progress towards an election in 2014 in Fiji than he has been in the past. Four political parties are registered to contest the elections, and the conditions for a free and fair election are improving. A ministerial contact group visited Fiji in May, and another visit is planned for July, to observe the progress and consolidation of arrangements. The Minister said it is important for the region to remain engaged in this area, and we note that further progress is needed before the elections next year.
Appendix

Approach to this examination
We met on 27 June and 11 July 2013 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 25 June 2013.
Minister of Foreign Affairs, Response to standard Estimates questionnaire.
2013/14 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 2014 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 $14.655 billion, nearly five percent more than the estimated actual expenditure for 2012/13. Appropriations sought for the funding of health services for District Health Boards (DHBs) total $11.104 billion, a two percent increase on the estimated expenditure for 2012/13.

We heard evidence from the Minister of Health, the Hon Tony Ryall, and the Ministry of Health.

The time allocated to this item of business was agreed on by us unanimously. In retrospect some of us would have liked it to be longer.

Family caregivers

The New Zealand Public Health and Disability Amendment Act 2013 introduces a regime for paying family caregivers, with effect from 1 October 2013. In Budget 2013, $23 million is sought for paying family members to provide personal care and household management for approximately 1,600 disabled people with high needs. We are aware that the potential costs of this new policy are uncertain, and asked the Minister what would happen if the costs exceed those forecast. The Minister said that provision under the legislation as it stands must be managed within budget; however we were told that consideration is being given to extending the policy, in which case additional funding may be required.

New policy initiatives

In 2013/14, new operating initiatives amount to $386.269 million, of which $346.832 million is new funding, and $39.437 million is reprioritised funding. We note that it is not always clear in the Budget documents where the reprioritised savings are coming from. Given the large amounts being reprioritised, it would be useful if the sources of this funding could be more easily tracked through the vote.

Contingency funding

The Health Services Funding appropriation provides contingency funding of $90.222 million to respond to emerging health-sector risks, Government priority health policy initiatives, and supporting DHB deficits. In Budget 2012, $19 million was provided for DHB deficit support. The Minister said five or six DHBs are forecasting deficits for this financial year, which would total around $20–25 million across all DHBs.

We recognise that the health and disability system has already adapted to lower annual increases in spending over the last three years, and low inflation is helping keep costs down. Although most DHBs have reduced their deficits, we will continue to monitor the
system’s adjustment to a lower growth rate, and savings and efficiency initiatives led by Health Benefits Limited and the Pharmaceutical Management Agency.

**District health board planning and reporting**

A 2010 amendment to the New Zealand Public Health and Disability Act 2000 required DHBs to collaborate at local, regional, and national levels for effective and efficient delivery of health services. Therefore, DHBs are required to prepare annual and regional plans to address needs at all these levels.

Some of us were concerned to hear that at present the Minister is considering annual plans for the current financial year, but none have yet been signed off. We would like to see the annual plans signed off in the near future, so that DHBs are clear about what work they should be focusing on and how they can best collaborate to achieve effective and efficient service delivery.

**State sector legislative reform**

We are aware that the State Sector and Public Finance Reform Bill, which aims to strengthen the management of the state sector and public finances, has now been passed. The bill seeks to amend the State Sector Act 1988, the Public Finance Act 1989, and the Crown Entities Act 2004. We are interested in how the proposed changes will affect the planning and reporting requirements for DHBs, which are mandated in part by the Crown Entities Act.

**Nursing graduates**

We asked the Minister to explain why 30 percent of graduate nurses are unable to find work. The Minister said that DHB vacancy and turnover rates for nurses are very low; however the ministry is changing the way graduates apply for jobs, and refining the recruitment process to match graduates with roles in DHBs and aged care.

We were told that of the 90 percent of graduates who seek work in nursing, those who are unsuccessful at finding jobs are placed in an electronic talent pool, which seeks to match graduates with available positions around New Zealand. We heard that 89.4 percent of graduates who find employment do so in their first region of choice. And, whereas only 57 percent of the 1,232 graduate nurses who applied for jobs were successful in December 2012, by the following February the number of graduates placed had increased to 74 percent. We hope to see improvements in the placement rate and we would like to see DHBs working hard to employ our new nursing graduates.

The Minister assured us that we are not training too many nurses, as 41 percent of working nurses are over 50 years of age, and will therefore retire in the next 15 or so years. The Minister considers that when taking into account pressures on the health system from the ageing population, New Zealand is training the right number of nurses to meet future demand, more will be needed from 2015.

**Rest home care**

We are aware that in a comprehensive report on the aged care workforce, the Equal Employment Opportunities Commissioner recommended mandatory staff-to-resident ratios in rest homes. Asked whether he was considering implementing this recommendation, the Minister said ratios were not going to be considered, as it was more important to ensure that staff are of a high quality, with the right mix of experience.
Some of us consider that there is a lack of comprehensive ministry reporting on complaints and inspections of rest homes. The Minister disputed this, and said that the ministry has recently introduced spot auditing, more extensive training for auditors, and colour-coded summaries, which are available online. Further, full audit reports are likely to be available to the public soon, in addition to the summaries.

**Rheumatic fever**

One of the ten Government Better Public Services key results areas is reducing the incidence of rheumatic fever by two thirds, to 1.4 cases per 100,000 people by June 2017. The Public Health Service Purchasing appropriation includes additional funding for 2013/14 of $5 million for rheumatic fever and $800,000 specifically for vaccine research. The Minister told us that the ministry is introducing free drop-in clinics for children with sore throats, so parents can bring their children for attention at a convenient time, for quick results and access to antibiotics. We also heard that the Government’s investment in home insulation will contribute to reducing rates of rheumatic fever.

**Elective surgery**

We were told that the number of patients waiting more than six months for a first specialist assessment and surgery has fallen from 31,200 in 2005 to 12 at present. We asked the Minister whether the declining average case-weight of surgeries was the result of decreasing complexity of need or if this is a case of DHBs manipulating supply. The Minister contested this, and said that levels of complexity have remained reasonably consistent, and more orthopaedic and cataract surgeries are taking place.

**Obesity**

We asked the Minister about the dramatic increases in the costs of treating obesity and diabetes in recent years, and what preventative measures were being taken to curb this worrying trend. The Minister acknowledged the gravity of the issue and considered that the Government was taking reasonable actions to combat the issue, within tight financial constraints. Current initiatives include fruit in schools, nutrition and physical education public health campaigns, KiwiSport, health-promoting schools, green prescriptions, and new-born and toddler nutrition programmes.

We asked the Minister about calls for regulatory responses, particularly regarding food advertising. We were told that more research is needed, as there is uncertainty about the cost-effectiveness of interventions, and no universally accepted way to combat obesity. We also heard that the Health Research Council has invested $5 million in researching successful interventions. The Minister also said that he is working with the Minister for Food Safety on potential food labelling interventions. We will monitor this area with interest.

**Cancer treatment**

We were told that no New Zealander needs to travel to Australia to receive cancer treatment, and waiting times for diagnostic tests and treatment are decreasing. The Minister told us that the Government is committed to providing treatment for cancer patients within 62 days of diagnosis within the next two to three years. We also heard that “tumour streams” are being developed, to provide a clear guide on optimal standards, and systems will be re-configured accordingly. We support the ministry in its efforts in this area.
Bowel cancer

We heard that the bowel cancer screening pilot on the North Shore has worked well, with good participation rates, leading to the diagnosis of 60 cases of cancer, which can now receive prompt treatment. We were told an area of weakness was participation by Pasifika communities, and work was needed to address this. We would like to see bowel cancer screening rolled out in all DHBs, but only when the ministry is satisfied that it meets the national criteria for screening programmes.

General practice

We congratulate the ministry on implementing enrolment with general practice for babies at birth, but we would like to see a plan that aims for equitable distribution of general practitioners around the country, taking into account population growth and birth rates.

Canterbury District Health Board redevelopment

In March 2013, the Minister announced that Cabinet had agreed to set aside $500 million for the rebuild of Canterbury district health board hospitals. The total cost is expected to be more than $600 million, and will include a contribution from the DHB. Vote Health for 2013/14 includes a non-departmental capital expenditure of $505.354 million, of which $426 million is for the Canterbury DHB hospital.

We were advised that $75 million from existing appropriations will also be going to the DHB, in addition to continuing deficit support. The ministry also has a key role in managing the design and construction of new buildings at Burwood Hospital and the main Canterbury Health Campus. We heard that the contract to build will be awarded in 2013/14, along with design and support functions for the main Canterbury Health Campus. The rebuild is expected to be completed by the end of 2016.
Appendix

Approach to this examination
We met on 10 July and 11 July 2013 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
Paul Foster-Bell
Kevin Hague
Hon Annette King
Iain Lees-Galloway
Scott Simpson
Barbara Stewart
Louisa Wall
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 8 July 2013.
Minister of Health, Response to standard Estimates questionnaire.
Office of the Auditor-General, Briefing on Vote Health, received 8 July 2013.
Organisation briefing paper on Vote Health, prepared by committee staff, dated 16 May 2013.
2013/14 Estimates for Vote Housing

Report of the Social Services Committee

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Vote Housing

Recommendation
The Social Services Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Housing as set out in Parliamentary Paper B.5, administered by the Ministry of Business, Innovation and Employment, be accepted.

Introduction
Responsibility for the administration of Vote Housing was transferred to the Ministry of Business, Innovation and Employment when the Department of Building and Housing was disestablished in June 2012. The Minister of Housing, Hon Dr Nick Smith, and the Minister for Building and Construction, Hon Maurice Williamson, are responsible for various output expenses within the Vote.

Appropriations sought in 2013/14 total $1.112 billion (including multi-year appropriations), an increase from estimated actual expenditure of $1.085 billion in 2012/13. The increase is due to an increase in the housing appropriations, offset by a decrease in building and construction appropriations.

The chairman of the Housing New Zealand Corporation board resigned in June because of concern about a potential conflict of interest with his role as a director of Fletcher Building. A new chair has not yet been appointed.

We heard that housing was a key feature of Budget 2013 because it has been recognised as the biggest risk to New Zealand’s economic recovery, and it is important for the delivery of the Government’s social goals and the rebuilding of Canterbury. The Government’s principal objectives in this area are to increase the housing supply, increase home-ownership, and to enlarge the portion of social housing provided by the community sector. The Minister of Housing said the Government’s success should be measured by growth in the overall housing pool, and particularly the growth of owner-occupied housing beyond the current 66 percent and growth of community social housing beyond 0.3 percent. He also said he wanted to see a decline in the overall percentage of private rental and corporation properties.

Housing Accords and Special Housing Areas Bill
The Housing Accords and Special Housing Areas Bill is intended to improve the affordability of housing by facilitating an increase in land and housing supply in areas where housing supply or affordability are issues. We heard that the Government intends to build around 9,000 houses in Auckland in the first year following the passage of the bill, 13,000 in the second, and 17,000 in the third. However, the Minister of Housing acknowledged that it would be difficult to measure the effect of the bill on house-building, because of other initiatives intended to speed up the consent process, such as those set out in the Auckland Housing Accord.

We heard that the greatest barrier to affordable housing in Auckland is the practice of “land banking”, where residential land is held without being developed until it can be sold
at a profit. The Minister signalled the Government’s intention to change the regulatory environment to make the practice less profitable.

Some of us are concerned that because the bill does not require affordable housing to be built in designated special housing areas, it would not result in any new affordable housing. The Minister agreed that a new house built in Auckland for $700,000 could not be considered affordable, but said that such houses should not be considered in isolation; movement to new more expensive houses could free up less expensive existing houses for first-home buyers. The Minister also noted the Government would expect to establish affordable housing in some specific areas, such as at Hobsonville Point. He said that measures to promote affordable housing as a condition of consent would be negotiated under a housing accord. But he pointed out that the legislation confers the flexibility to require affordable housing where it is sensible and makes economic sense, so these provisions should not be applied to every special housing area.

Some of us raised concerns about the provisions in the bill allowing the Government to override councils when designating special housing areas. We heard that such provisions would be used only as a last resort, and that the Government’s preference, in Auckland and other areas with housing affordability issues, was to use the “accord mechanism”.

**Housing New Zealand housing stock**

The Government intends to spend $2.9 billion from 2014 to 2016 on the corporation’s housing stock, the bulk of it on quality improvements. The Minister of Housing signalled the Government’s intention to also ensure that houses are built where they are needed and with the right number of rooms to accommodate the needs of occupants.

We understand that the corporation will build about 1,000 houses in 2013/14. The Government also intends the ministry to build houses in Christchurch to provide temporary accommodation. The Minister said that more houses would be built by the Government over the next year than in any year for more than a decade. We note that this will not result in a net increase to the number of State houses.

We heard that 99 percent of the corporation’s properties that can be insulated would be insulated by 30 June 2013. The Government also intends to introduce a housing warrant of fitness for the corporation’s houses to provide a minimum standard and a measure of standards exceeding the minimum.

The Minister said that social housing providers would also have to meet the same standard required of corporation properties before they could receive “the very high income-related rent subsidy”. However, he noted that many practical issues must be resolved before the scheme could be implemented outside the State sector. We support the introduction of a housing warrant of fitness, which would be the first such scheme since the corporation’s inception. We agree with the Minister that performance against warrant of fitness standards should be reported. Some of us expressed the view that this should have applied to the private rental market from the beginning.

**Construction programme**

In Canterbury, there are around 5,000 damaged corporation houses, and it intends to build about 700 new houses. Housing intensification is a feature of the corporation’s plan, so the 700 new houses will be built on sites where there are currently about 250 houses. In a move to a mixed model of social housing, and because not all 700 would be needed by the
corporation itself, some of those properties will be sold to the community social housing sector and some will be sold as affordable housing.

The Minister of Housing said that not all of the 450 new houses to be built in the McLennan development in Papakura would be required by the corporation, which intends to keep about 20 percent, and sell the others.

We heard that the Government is supporting first-home buyers by increasing provision for the KiwiSaver First Home Deposit Subsidy by 20 percent in the 2013/14 Budget. The ministry also intends to begin construction of 344 social housing units in the 2013/14 financial year as a consequence of the investment in the Social Housing Fund.

The Minister’s long-term objective is to expand the community social housing sector to about 20 percent of social housing, or about 1 to 2 percent of New Zealand’s total housing stock. He said it was likely that at the end of the financial year 2014/15, the corporation would have fewer State houses than at present, but that they would be of better quality, in the right place, and of the right size.

**Project 324&5**

The corporation has a large stock of three-bedroom houses, some of which are overcrowded and some of which are under-utilised. The purpose of Project 324&5, which will cost around $300 million, is to reconfigure, particularly in Auckland, the housing stock to meet current housing need. The project is expected to deliver 3,000 new State house bedrooms on 2,000 properties over the next two years, three quarters of them in Auckland.

Properties targeted for modification will be those up to 40 years old and on medium to large sections, which can accommodate extensions and still provide a decent outdoor area for tenants. Some three-bedroom houses will be expanded to five-bedroom, two-bathroom homes where there is room on the site and demand in the community. The houses will also be modernised and upgraded, with work on landscaping and fencing. We heard that the extra bedrooms are being prefabricated, and economies of scale will increase efficiency.

**Capital gains tax**

A capital gains tax is not being considered by the Government as a way of controlling housing affordability. Some of us consider that the Organisation for Economic Cooperation and Development advice that a capital gains tax is needed should be followed except in respect of a family home. However, most of us support the Minister of Housing’s view that people who trade under existing property law are already required to pay tax, and that changing capital gains tax rules would not make a substantial difference to housing affordability.

**Earthquake-prone-building policy**

The Minister of Building and Construction said that there are 25,000 non-residential buildings whose rating against the New Building Standard is not known. While the Canterbury Earthquakes Royal Commission suggested that all these buildings should be brought up to 33 percent of the standard, he was concerned that the commitment to assessing so many buildings could drain the engineering capacity needed to rebuild Canterbury. However, he said no decision had been made, and that at the end of July 2013 he would submit a Cabinet paper responding to public consultation.

We heard that exemptions for iconic buildings with culture and heritage value would be an issue. When asked about places like Oamaru, where an entire precinct could have a high
collective heritage value, the Minister said that Cabinet had not yet considered the issue; but his personal view was that, as he did not want to be responsible for wiping out such areas, there might be a need to grant exemptions for buildings that cannot be brought up to an earthquake standard, and that the public should be informed about the risks of entering them.

He cautioned against making judgments on the basis of the collapse of the CTV building in Christchurch, because the building did not conform to legal requirements and should never have been consented or built.

**Liability regimes**

The Minister of Building and Construction said that the regime of joint and several liability does not work because it encourages overly risk-averse behaviour, and that New Zealand should use a proportionate liability regime to calculate liability in cases of building failure. He has proposed such a change to the Law Commission and expects a response soon.

We asked if a mandatory home warranty scheme, which some of us consider would provide a more fair and equitable remedy for residential building done negligently, had also been referred to the Law Commission. The Minister said no such referral had been made, but that if New Zealand were to move to a proportionate liability regime, a mandatory warranty scheme would be needed for the regime to work.

The Minister said that it was disgraceful that new houses do not come with a warranty, but that some of the provisions in the Building Amendment Bill (No 4) would help provide some protection for consumers. However, the advancement of a home warranty regime would be predicated on a favourable response from the Law Commission regarding proportionate liability.

**MultiProof**

The MultiProof service allows builders to obtain a National Multi-use Approval for standardised building designs and variations that are intended to be built many times. The Minister of Building and Construction said that because of the risk-averse nature of the industry, such approvals had initially only been issued for simple building such as garages and “Gottages”, but were now being used for more complex buildings, such as retirement village units. He added that he would like to see the system eventually applied to basic three-bedroomed homes. We support consenting processes that remove unnecessary bureaucratic delay and look forward to being updated on the progress of MultiProof at the next Estimates examination.
Appendix

Approach to this examination

We met on 12 June and 10 July 2013 to consider Vote Housing. Evidence was heard from the Minister of Housing, Hon Dr Nick Smith, the Minister for Building and Construction, Hon Maurice Williamson, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members

Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Phil Heatley
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Phil Twyford
Hon Michael Woodhouse

Evidence and advice received

We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Housing, received 12 June 2013.
Minister of Housing, Hon Dr Nick Smith (Presentation), received 12 June 2013.
Minister of Housing, Part 1 pre-hearing questions responses, received 26 June 2013.
Minister of Housing, Response to standard Estimates questionnaire.
2013/14 Estimates for Vote Immigration

Report of the Transport and Industrial Relations Committee

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Vote Immigration

Recommendation

The Transport and Industrial Relations Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Immigration, administered by the Ministry of Business, Innovation and Employment, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The total appropriations sought for Vote Immigration increase to $224.931 million in 2013/14. The small increase from the estimated actual expenditure for 2012/13 of $212.541 million is due to additional funding for the implementation of the Immigration Global Management System and the International Growth Package.

Infrastructure

The Immigration Global Management System is designed to allow the visa process to be completed online. We were told that the implementation cost will be more than $80 million, and that it will be completed by the end of 2015. Seventy percent of visa applications will be managed online by 2017.

A tool was brought into operation in May 2013 that allows eligibility for a visa to be checked online in certain circumstances. Later in 2013 it will be possible to apply for a visa online. The Minister signalled the Government’s intention that online application will eventually be a requirement.

The Minister is of the view that the traditional branch structure of Immigration New Zealand is poorly equipped to respond to changes in the demand for visa applications. A review is being undertaken, and we were told of the intention to introduce “visa acceptance centres”. The Immigration New Zealand branch offices in Dunedin and Sydney will be closed and replaced by visa acceptance centres, and the status of others, including those in Hamilton and Queenstown, will be reviewed over the next two years. While the future of the Manukau branch is unclear, we were told that most of the South Auckland immigrant community consists of successful visa applicants whose needs have now changed, and the ministry needs to respond to changes in the communities it serves.

The Minister said that he intends to keep affected staff well informed about the ministry’s plans. Some staff have moved in anticipation of closures; job losses are expected to be managed over three years through attrition (staff turnover is around 10 percent per year).

Closures would be premised on the use of technology allowing customers to interact online, and assisted self-service through contact centres. We heard that the challenge for the ministry would be to find a New Zealand third-party provider that can work like an overseas visa application centre, to deal in person with customers who do not have access to online tools.

Migrant exploitation

We voiced our concern with an apparently increasing incidence of exploitation of migrant workers, and asked how the Minister plans to deal with it. We were told that he is
considering amendments to the Immigration Act 2009 to protect migrants from exploitation, even if they are working outside the terms of their visas.

The Minister said he is particularly interested in cases where the employers involved are recent migrants themselves, often of the same nationality as those being exploited; in his view employment law does not reflect the special character of this kind of offence. He is considering what sanctions could be imposed on people found guilty of breaches of employment law against migrant workers.

We note that the Minister’s policy on migrant exploitation and plans to amend the Immigration Act have since been announced.

**Immigration advisers**

Licensed immigration advisers are required to meet criteria relating to qualifications, education, and performance, and must adhere to a code of conduct. The code is due for review, and consultation has been undertaken. The Minister said he expects to sign off the new code shortly.

We asked if the Immigration Advisers Complaints and Disciplinary Tribunal, which deals with complaints against immigration advisers, was sufficiently funded to handle the number of complaints received, noting that in the two years since its inception it has resolved less than half of the cases referred to it. While the Tribunal is now administered by the Ministry of Justice, and therefore not funded by Vote Immigration, the Minister assured us that Immigration New Zealand is working very closely with the Ministry of Justice in this area.

**Approvals in principle**

Approval in principle is conditional approval of an applicant’s application, or conditional approval of an employer’s request to employ someone from overseas. We asked if there was any check on those workers who are actually employed after approval in principle has been given. We referred specifically to the situation of the King Façade workers following the collapse of Mainzeal Property and Construction Limited. The Minister told us that all the King Façade workers who came to New Zealand from overseas have left since the collapse.

He also noted that those training in some areas where New Zealand presently relies on overseas labour (such as visual imaging, computer graphics, design, and animation), had increased fourfold in the last seven to nine years; in his view, however, there would always be a need for foreign-trained people to join the New Zealand workforce for short periods, so the approval in principle scheme is of value to New Zealand.

We urge the Minister to continue to ensure employers use such schemes only when New Zealand labour is not available.

**Migrant investor categories**

We asked about changes to migrant investor categories and whether they have been successful in encouraging overseas capital investment. The Minister said that, while there had initially been few applications under these categories, both interest in the scheme and the number of applications have increased. We heard that applications worth $1.6 billion have been made, and nearly $800 million worth approved, of which $545 million has arrived in New Zealand.
2013/14 ESTIMATES FOR VOTE IMMIGRATION

The Minister noted that most of the money is “very passive”, and he was interested in the possibility of imposing some expectations of active investment. He also told us that it can be a challenge to bring funds from China, and he will need to consider if there are any roadblocks in this process.

A review of the investor categories is expected to be completed by the end of 2013, with a focus on whether the current threshold of a minimum $10-million investment is too high. We will be interested to hear a report on the outcome of this review.

**Recognised Seasonal Employer scheme**

The Minister described the Recognised Seasonal Employer scheme as a flagship immigration policy which has proved its value. Employees come primarily from the Pacific and Melanesian nations to work as horticulture and viticulture labourers, many returning for more than one season. The scheme also contributes to realising New Zealand’s foreign policy objectives by allowing money earned by migrant workers to be returned to the Pacific, where it helps to build communities. He does not expect support for the scheme to diminish.

We were told that the scheme contributes money, skills, and community development to participants’ countries of origin, and that it addresses a historical problem of labour shortage in some sectors of the New Zealand economy. The scheme has also had flow-on benefits for administrative and management jobs in the sector.

We are aware that such schemes could risk work opportunities being diverted from New Zealanders. We are pleased to hear that the Ministry is monitoring closely the governance arrangements established with the Ministry of Social Development, and that there appears to have been little displacement of New Zealand labour.

**Resettlement strategy**

We were concerned that there may be risks in applying the Government’s resettlement strategy only to “quota refugees”, thereby excluding people seeking asylum. No specific risk analysis has been completed on excluding asylum seekers from the current refugee strategy, but the ministry said that it is aware of the risks, and that asylum seekers generally have a different profile from quota refugees. Research has shown that the approximately 100 asylum seekers approved each year are more likely to succeed in New Zealand than refugees, partly because they have immediate access to Work and Income New Zealand services and benefits.

The ministry is aware that the process for granting asylum can take three months. Because of security risks asylum seekers must be checked, and this process is often hampered and delayed by lack of documentation. We were assured that the Government is seeking to ensure the process is completed as quickly as possible, and that people who fail to gain asylum are aware of their rights to review and appeal. We understand that an emergency benefit is available in such cases, but note that it does not include an accommodation supplement.

**Canterbury rebuild**

The Canterbury Skills and Employment Hub is a joint job-matching and information-sharing initiative between Immigration New Zealand and Work and Income New Zealand, which also facilitates immigration services for foreign workers. The Minister acknowledges that, although Government immigration policy gives priority to New Zealand workers, a
large amount of imported labour will be needed to help rebuild Canterbury. Over 1,000 work visas have been approved for rebuilding work, and the Minister expects the number to increase markedly over the coming months.

We asked the Minister if he was aware of any examples of immigrants being paid low wages for such work, and were told that this is being looked into; any information about mistreatment of recent arrivals in Canterbury should be passed to Immigration New Zealand. We also heard that Immigration New Zealand is working with the Canterbury Employers’ Chamber of Commerce to ensure that employers understand their obligations and to establish a settlement support network framework to assist new arrivals. We are pleased to hear that this situation is being monitored and believe that it is important that monitoring is continual.
Appendix A

Approach to this examination
We met on 13 June and 4 July 2013 to consider Vote Immigration. Evidence was heard from the Minister of Immigration, Michael Woodhouse, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members
David Bennett (chairperson)
Chris Auchinvole
Dr Cam Calder
Darien Fenton
Iain Lees-Galloway
Sue Moroney
Jan Logie
Simon O'Connor
Mike Sabin

Evidence and advice received
We considered the following evidence and advice during this examination:
Office of the Auditor-General, Briefing on Vote Immigration, received 13 June 2013.
Minister of Immigration, Response to standard Estimates questionnaire.
Vote briefing paper, 2013/14 Estimates for Vote Immigration, received 11 June 2013.
Responses to additional questions, received 11, 20, and 24 June 2013.
2013/14 ESTIMATES FOR VOTE IMMIGRATION

Appendix B

Corrected transcript of hearing of evidence 13 June 2013

Members
David Bennett (chairperson)
Chris Auchinvole
Dr Cam Calder
Darien Fenton
Iain Lees-Galloway
Sue Moroney
Jan Logie
Simon O'Connor
Mike Sabin

Witnesses
Hon Michael Woodhouse, Minister of Immigration
Nigel Bickle, Deputy Chief Executive, Ministry of Business, Innovation and Employment
Christine Hyndman
Steven McGill
Fraser Richards

Bennett Good morning, Minister. We are running a little bit ahead of schedule this morning, so we'll try to get it done as quickly as we can, and let you get on with your busy workload as much as we can. The members of the committee are here. If you want to give us just a brief introduction, and then we can open up to questions, and we look forward to your responses.

Woodhouse Thank you, Mr Chairman. Morning to committee members. Can I first introduce MBIE Deputy Chief Executive CNigel Bickle, who is in charge of Immigration New Zealand, and manager of immigration policy, Christine Hyndman. There are one or two others behind me who can chime in if I get a bit stuck.

I just want to spend a few minutes highlighting some of the excellent work that’s been going on in Vote Immigration and some of the key projects that are being worked on. I certainly want to acknowledge the work of Immigration New Zealand staff across the world. It’s no secret that the agency was in a bit of a state of disarray when this Government took over 4½ years ago, and I think it is very pleasing to me to see the important metrics of customer satisfaction is going up and is now sitting at 87 percent. Decision timeliness and quality of decisions are up now to over 90 percent today, when they were down as low as 70 percent in 2009. So these are all important measures, I think, of a department and an organisation that is
certainly increasing the quality and timeliness of its decision making. And that is very important for New Zealand, because there is no doubt that we are in a global contest for skills, for foreign investment, for tourists, for education, and, of course, also for the workforce that would be required to rebuild Canterbury. So it is important that we continue to be at the forefront of that contest, and the way we can do that is with good immigration policy, good technology, and a good network across the world.

To that extent, the Immigration ONLINE project, the IGMS project, which is a $75 million IT upgrade, is an extremely important one in that contest.

Member	Sorry, what was that?

Woodhouse	IGMS is the Immigration Global Management System, or IGMS. That is going to be a key enabler of the Government’s Better Public Services target of having a significant proportion of our visa applications undertaken online. The first module of that rolled out last month with the eligibility tool, so people can now go online and check what visas are available to them in certain circumstances, and then later this year the first of the many visa application categories where it will be possible to apply online—and then, eventually, necessary—will be rolled out later this year.

As you know, there has been also a change in the physical structure of Immigration New Zealand. I believe that the traditional branch structure is poorly equipped to respond to the changes in demand for visa applications, and there is a review under way and a reconfiguration under way of that structure in the introduction of visa acceptance centres, which are a much more nimble tool. Certainly in China, for example, where there is a large increase in the number of visas being applied for, that has been a very effective response to that.

I just want to come back to Canterbury. Certainly the rebuild is a very good opportunity to provide employment and up-skilling for New Zealanders. It is important to recognise that all Governments in this country have had a “Kiwis first” approach to its immigration policy, but there is no doubt that we are going to require a significant amount of imported labour to assist with the rebuild. The very important enabling tool in that is the Canterbury Skills and Employment Hub, which is a joint effort between Immigration New Zealand and Work and Income, so that they can facilitate visa applications in a very timely manner and confirm for potential employers and employees that there are no New Zealanders available to do the work before visas are extended. So far, we’ve had over 1,000 work visas approved for the rebuild, but I expect demand to ramp up quite considerably over the coming months as the rebuild gets into full swing.

I just want to touch on a policy that is going gangbusters, actually, and that is the business migration scheme. It is one example, I think, of a very effective visa policy. We are attracting people with commercial nous, experience, global networks, and money to invest in New Zealand, and more than $1.5 billion is in the pipeline now with applications, and half of that has been approved and/or landed into New Zealand. So I’m very
pleased with that, but we are not resting on our laurels; we are reviewing the business categories, the investor categories, and the long-term business visa categories to make sure that they’re pitched at the right sort of people and the right sort of investment that we need into New Zealand.

I just want to touch on refugees. New Zealand has a proud history, particularly in the post-war period, of resettling refugees from around the world. Some 33,000 refugees have made New Zealand their home, and they and their families make a significant contribution to New Zealand. So I was very pleased to be able to announce investment for the rebuild of the Māngere Refugee Resettlement Centre, which will start later this year and will be completed, hopefully, by the end of next year. That will be a significant enabler in the delivery of the refugee resettlement strategy that my predecessor, Nathan Guy, announced in 2012.

Of course, the current issue also is the passage of the Immigration Amendment Bill, which I expect to have passed into law this afternoon. This is a very important tool in enabling firstly the deterrence and then the management of a mass arrival, should one occur. And I certainly don’t want to re-litigate the debates that we’ve been having in the House on that matter about whether or not this bill when passed breaches the various conventions that New Zealand has signed up to. But I do want to stress that I think this is a necessary and balanced response to a risk that is real. The detention is neither mandatory nor arbitrary. There are certain hoops that applicants would need to jump through before a group warrant is secured, and I think there are necessary and appropriate protections in place to ensure that our refugee conventions are complied with.

So with that, Mr Chairman, I hope I’ve given you something of a view of where Vote Immigration is, and I’m very happy to answer what questions you have.

Bennett Thank you, Minister. That is a very good introduction and very concise, and we appreciate that. To your staff in your office and also to the wider immigration department, a big thank you. I know as constituents and as list members, it is one of the things that exercises our offices the most, and we’ve always had a very good relationship with your staff, so I just want you to pass that on, on behalf of the members of Parliament—the very good work that they do in sometimes very difficult situations. So we appreciate that.

Woodhouse Thank you, chairman.

Bennett We are very happy to open up for questions.

Fenton Morning, Minister. I want to start with IGMS. I just have some questions around the impact on the forthcoming year around staffing and office closures. If you could fill me on that, that would be appreciated.

Woodhouse Certainly. Well, as you know the first raft of changes is under way at the moment, and we have announced that the centres in Dunedin and Hamilton will be changed—

Fenton Dunedin and what?
Woodhouse Sydney, sorry. The centres in Dunedin and Sydney will be changed from branches to visa acceptance centres. There are a number of others that are subject to review, and that does include Hamilton and Queenstown. But it is premature to be making any decisions about that. What is important to me is that the network is fit for purpose, that it is nimble enough to respond to those changes, and that it is cost effective. I am also concerned to ensure that the staff who may be affected by those network changes are well informed about what’s being planned and the reasons for it, and I’m satisfied that that’s the case.

Fenton So how many jobs do you think—I mean, what contingencies do you have in the budget for job loss over the coming year, or in future years?

Bickle We have a 4-year budget plan that we’re operating to. Obviously, if I can just reiterate the Minister’s comments around sort of IGMS and the broader programme of change, obviously we have been through a process where what we’re proposing around how we think the world looks like in 2015 has been agreed to by Cabinet, and has been the basis of consultation and decision making with our staff. And we have announced, at this stage, two office closures, and a series of reviews of offices over the 3 years through to 2015. We have also been very clear with the staff, and there were some risks in that, in terms of that the world can change in 3 years’ time, about giving our staff the opportunity to be able to exercise choice now. So, for example, in Auckland we have been clear that we’re going to continue to have two locations: one in Auckland Central and one in Henderson. But we’re unsure of whether we will continue to have an office in Manukau. What that has meant in practical effect is that we’ve started to see staff exercising choices and moving to where there are going to be jobs.

And because we are a very large organisation, obviously, and we have a healthy level of turnover, at about 10 percent, we expect staffing to largely be able to be managed through attrition. We are working pretty closely with our staff and their representatives, so, again, I would reflect back that the feedback we’ve had from the PSA in terms of how we’re managing this change process is that according to the PSA it’s probably best of class in terms of what they’re seeing in the public sector at the moment. So we are very, very conscious to manage this very well. So there is going to be, in terms of the 4-year budget plan we’re working to, obviously a $90 million investment in new technology. We expect to be more efficient as a result, but we largely expect to be able to manage this over a 3-year rolling period and largely through attrition.

Fenton There was a piece on the radio this morning about Queenstown, and Immigration New Zealand seemed to be indicating that you would listen to business and keep that office open. Why would you do that, and not listen to the migrants in South Auckland and Manukau, you know, where there is the biggest collection of migrants, who are dependent on that office and actually don’t have access, in many cases, to online tools?

Bickle So, again, just to be really clear, at this stage we’ve painted a picture around what we think 2015 looks like in terms of the physical footprint of
Immigration New Zealand, but it’s all premised on, first, we have to introduce successfully new technology. Obviously, offshore, one of the big achievements over the last 12 months has been to establish a network now of 38 visa application centres and markets that are provided through a commercial relationship with a third-party provider. This is fairly common in the international space, so certainly we’re not bleeding edge here. So these visa application centres—there are four large providers globally that do this. So by way of example, the provider in China that we use has 882 visa application centres around the world providing services on behalf of 39 Governments, taking 65 million visa applications. So we’re largely doing what’s in international best practice in this area. The only decision we’ve taken at this stage is to close our Sydney office and our Dunedin office. Every other location we’ve indicated when we will do a review. They will be meaningful, individual office reviews, but it’s premised on unless there’s technology that’s in place that allows our customers to interact through online channels, assisted self-service through the contact centres, as well as other service arrangements in place, in terms of providers—and the challenge will be onshore in New Zealand around finding a provider that can do the equivalent of the offshore visa application centres, where customers, if they can’t transact online, can call in, see someone, make an application, make a payment. So those things have to be in place.

Fenton

So just for clarity, when you talk about third-party providers, you’re talking about contracting out some of the services that you currently provide for Immigration New Zealand.

Bickle

Yes.

Woodhouse

Can I just also make the point about location, because it’s been my experience as a local MP in the work that comes through my office that about 80 percent of the work is being managed by Immigration New Zealand in an office that’s not in Dunedin. And that’s been the case for a long period of time where there is a degree of specialisation in the consideration of visa applications right around the country. So this is really a continuation of a model that’s been in place for a long period of time.

As far as the South Auckland community is concerned, the vast majority of those people are actually landed successful visa applicants and their needs for immigration services change over time. So it’s simply not possible to put every service for everyone in every place on the ground. That’s not practical. No other Government organisation does it, and technology is going to be a very important part of interacting not only with Immigration New Zealand in the future but Government generally.

Fenton

Yeah, I just question having a centre in Auckland Central and Henderson when you have a huge population in South Auckland. However, we’ll move on from that. Just going over your answer—so you’re going to contract out some services that Immigration New Zealand provides. What would a provider look like?
Bickle So the provider in the offshore context—as I say, there are four global providers around the world who Immigration New Zealand is—I think we’re using three of them around the world. To be clear, what we’re contracting out is the receipt of applications, filling in the forms that meet our standards, collecting payments, and, in the future, collecting biometric information. What we will never contract out is, obviously, decision making, which remains, you know, the sole purpose of our work. Onshore we’re not sure what that looks like at the moment. We’re about to go into a tender process to look at what providers there might be in terms of being able to run a similar sort of model in New Zealand.

Fenton Thank you. Can I just move on to some of your answers to my questions that I sent through, and thank you for answering those. I’m confused about the skilled migrant numbers because in your answer to question 10 the answer is different to one that you gave me in an answer to a written question. It’s about half the numbers in your answer to question 10 that were in a written question. I don’t know why that is, because the question was pretty much the same.

Woodhouse As a written question you had given me?
Fenton Yes.
Bennett Have you got the written question in your diary?
Fenton Maybe.
Bennett That would be helpful.
Fenton Well, I’m just trying to get some clarity because I’ve got some questions around skilled migrants.
Woodhouse Well, it’s going to be a little difficult unless I see the other question. I’d be very happy to reconcile the two answers, but it may not be possible for me to do that now.
Fenton Well, I’ll get that while we’re sitting here.
Bennett Do you want us to go to somebody else and come back to you?
Fenton No, because I’ll just carry on with this line of questioning. I’ll get the question for you before the end of the session. OK, so in terms of skilled migrants and in answer to my questions, you are saying that you expect the number of work visas to increase by over 20,000 in the next 3 years, but skilled migrants by only 500. And, in fact, they seemed to be going down, from what I’ve seen from both sets of figures. So
what’s going on with skilled migrants? Why are we attracting fewer skilled migrants?

Woodhouse  Well, there’s no doubt the recession has had an impact on the demand by employers for skills, and that’s had two impacts. Obviously, the overall work demand is flattening and going down slightly. I think there has been a blunting of the migratory churn that New Zealanders are at the forefront of in so far as we are travellers. We will go overseas to seek experience. We hope and expect a good number of them will come back again, but that churn has slowed. So there’s no doubt that the demand for skilled migrant residency has slowed. I expect it to pick up again as the economy picks up.

In terms of work visas, there are two types, obviously. There are labour market-tested work visas and there are non-labour market-tested work visas. So when we see through the recession the numbers of working holiday scheme people has stayed high, the number of students until quite recently has been quite high, and about 70 percent of them have work rights. And then, of course, the labour market-tested visas have remained static. Canterbury may be driving some of the increase as we go through.

Fenton  Well, in answer to question 6, you’re talking about temporary migrant visas and you’re looking at an increase of almost 100,000 over the next 3 years, I think. And I know that includes, you know, student visas and others and visitors, but why 100,000 compared with I think it was something like 9,000 in the last year? What’s going on there?

Bickle  So a couple of things. At the moment, obviously, we have a permanent migration system that it has been the deliberate policy of Governments over decades to be capped. So the current range on an annual basis is 45,000 to 50,000, whilst that’s in a multi-year programme at the moment, and as you’ll be aware that’s sort of split sort of 60 percent in the skilled migrant area, 30 percent around family, and 10 percent around international and humanitarian. That’s what makes up the permanent migration programme. And so unless Governments are going to form a view around we’re not going to have any set quotas around permanent migration, the actual forecast numbers aren’t going to be—you know, you’re not going to see huge swings in that.

In the temporary area—and I think as the Minister alluded to—one of the really interesting dynamics that we grapple with is thinking about temporary migration in New Zealand and the role of temporary migration in the labour market. So as someone who spent a decade in social welfare, I was quite surprised coming into immigration and to see that any point in time we will have between 180,000 and 220,000 people—temporary migrants—with a right to work. But very little of that has actually been thought about, necessarily, from a labour market perspective. So 100,000 students with open work rights. Foreign policy objectives—Governments over a long period of time have entered into bilateral arrangements as part of a foreign policy agenda. So we have a cap that was agreed under the Labour Government that’s carried on around up to 52,000 on the working holiday scheme who can come in under bilateral arrangements. We have the RSE.
scheme. So that, in itself, is 160,000 temporary migrants with work rights, before you do get into then the essential skills temporary migrants, which does flex and where you do your labour market testing around what’s going on in the labour market.

Woodhouse So, look, I’ve now had a chance to look again at question 6, and that includes visitors visas. So we are expecting a significant increase in the number of visa-required nations who are going to visit our country. You may recall that President Xi of China forecasts a fivefold increase in the number of international tourism numbers out of China. If we get that proportion in the next 13 to 15 years, that would increase the number of Chinese visitors from 200,000 to nearly 1 million, and I’m quite sure that’s what’s driving the increase on question 6.

As far as question 10 is concerned, it may be that the written question that was answered included partners and children of principal applicants, but the answer to question 10 only includes principal applications. So if you got a number that was about 35,000 or 40,000 in your written question answer—

Fenton Yes. Yes, I did.

Woodhouse —that was likely to include the partners and children.

Fenton OK. That clears that up. Thank you very much.

Calder Minister, I have the pleasure of being based at Manurewa—a vibrant, diverse electorate—and I see the cultural benefits and the economic benefits of immigration every day. I’m interested, if you could just sort of flesh it out a little bit, in how the changes the Government has made to the investor categories—how successful have they been at encouraging improved offshore capital investment in our country?

Woodhouse Yes, a very good question—probing, erudite. After a slow start, I think, in the investor categories, we’ve seen a significant increase in the amount of interest in and successful applications for residence under the categories. There are two. Both categories need to meet good character and health requirements, and then over a threshold of $1.5 million applicants are able to gain residence as long as they have a good standard of English, are a certain age, and spend a minimum period of time in New Zealand. The investor-plus category requires the same character and health, but a $10 million investment reduces the requirement for a high level of English language and the number of days required to stay in New Zealand. We have had $1.6 billion of applications. There are nearly $800 million worth of approved applications and $545 million of that—more than half a billion dollars—has already arrived into New Zealand. So that will have a significant impact on our reliance on foreign investment, for a start.

There are a couple of things that we’re having a look at in respect of the investor categories. Firstly, most of that money is very passive; it’s fixed interest and bonds. So I’m interested in whether or not—most of these people are very entrepreneurial and very successful—some expectations around more active investment could be made. We obviously have a significant challenge in the rebuild of Canterbury. Also, the flow of funds
from China is a challenge, and I need to understand whether there are roadblocks that can moved around that. And the third thing is there has been some question about whether the $10 million is too high. I’m not sure I accept that, but that is a review that we’re undertaking at the moment and I expect to be able to complete that and the review of the long-term business visas categories closer to the end of this year.

Calder What sort of burden of proof is there on the applicant to prove the existence of these funds?

Woodhouse It’s a physical proof, and there has been some talk around whether or not association with Australian banks or some kind of subsidiary arrangement might suffice. It can’t, and I don’t expect that to change. This requires money landed into New Zealand and Immigration New Zealand require that to have been established before residency will be granted.

Logie I’ve just got a couple of lines of questioning. So what role do you think immigration advisers play in protecting us all and ensuring migrants aren’t being exploited?

Woodhouse Are you talking about licensed immigration advisers? Well, as you may be aware, the previous Labour Government introduced legislation, licensing immigration advisers. They are required to meet a certain standard of qualification, education, and performance. They are also required to abide by a code of conduct. So to the degree that there is, I think, a very effective framework in place, then yes, they play an important role in ensuring that people receive good advice and are treated fairly not only by immigration authorities but by them, by the advisers themselves. The code of conduct is due for review, and Immigration New Zealand has been consulting extensively on any changes to that code. I’ve received feedback from organisations representing licensed immigration advisers that they are very satisfied with the nature of the consultation that’s being embarked on, and we’re in the throes of—I’m about to sign off the new code. So I expect that will raise the bar more, but, really, the proof of the pudding is in the compliance, and that’s where the authority comes in, the Immigration Advisers Authority, to ensure that those who are working in the industry are doing so consistent with the standards that we expect.

Logie I noted in the report that the funding in this area of the regulation is expected to decrease slightly, but the percentage of complaint cases to be closed within 4 months is estimated to have been 97 percent within this time frame, which is extraordinary. But I’m a bit confused, because which part of that includes the Immigration Advisers Complaints and Disciplinary Tribunal?

Woodhouse Yeah. So if we go back to the start of the setting-up of the framework, it was expected that there would be about 1,000 licensed immigration advisers registered. The numbers are lower than that by about a quarter and that has certainly affected the funding of the authority and the disciplinary bodies—the tribunal. Nevertheless, we do pay close attention to the performance of the authority and the tribunal and the degree to which—I think we’re
making up a shortfall, to be honest. I don’t think the fact that we have fewer advisers means that—

Bickle  I think one of the things that did change from the original design—and I understand why—through the select committee processes, was one of the assumptions that lawyers that operated in the immigration space would become licensed immigration advisers. Clearly, when they have their own, you know, sort of framework and code of conduct and standards, one of the major changes that had an impact on numbers was, obviously, you know, not having licensed lawyers who operate in this space. So we have run on a sort of reduced revenue stream, and that’s reflected in the annual accounts. So we have a deficit of about $3.5 million in the memorandum account for immigration advisers, but we’ve maintained the level of funding in order to be able to provide the sort of services.

Logie  Could I just drill into that a little bit more, because “maintaining” it when—my understanding is, for the tribunal there’s two part-time staff and that as of December last year there were 82 complaints against 48 advisers that were still being dealt with, and in the 2 years since it was set up, they’d dealt with less than half the cases received. Surely that’s critical in that global context of us attracting people to have confidence?

Woodhouse  Yeah, I think it’s important to point out that the tribunal itself is actually managed by the Department for Courts, and Immigration New Zealand and Justice are working on the resourcing of the tribunal, but it’s a little difficult for me to actually make a comment on the performance of another vote. But it’s fair to say we are watching—

Logie  In terms of your advocacy, you’ve been advocating for it, but just unsuccessfully?

Woodhouse  I haven’t been privy to any of those conversations with the Minister for Courts.

Bickle  I think, from an operational point of view, one of the things that we’re doing, and again, the framework when we did the Immigration Act in 2010—obviously there used to be a range of functions that sat in Immigration New Zealand from review appeal authorities and what have you. We now have a construct both with the immigration advisers, but, more broadly, we have an Immigration and Protection Tribunal. Complaints and disciplinary processes associated with immigration advisers that sit within the Ministry of Justice. What I’d say is that we are very, very conscious that, at the end of the day, the immigration system working well requires the court-based processes around a range of things that sit in the Ministry of Justice working well, and we are working very closely with the Ministry of Justice in that regard.

Auchinvole  Minister, it’s a pretty established fact for those of us who deal in areas of horticulture and viticulture in New Zealand that no country picks its own fruit, and so clearly are dependent on immigration. New Zealand has really moved ahead with the RSE scheme where it’s virtually a contract arrangement with Pacific Island countries. At a local level, I think myself
and the other MPS in those areas concerned have a very clear idea of the
significance of it to local growers, but I wonder, from a ministerial point
of view, how you view the scheme and what the benefits are to the people
who are brought here and to the orchardists?

Woodhouse

Yes. In fact, horticulture and viticulture rely on much more than RSE,
because there are a considerable number of our working holidaymakers who
also contribute to the primary industries in that area, and to the degree that
they—

Auchinvole

I think met most of them in Scotland last year.

Woodhouse

Yes, that’s right. Well, you travel to many nations in the world and people
will recall fondly their time up a ladder in Cromwell, and picking fruit. But
you’ve touched on the RSE scheme, which has been in place now, I think,
for about 6 or 7 years. I think it is a flagship immigration policy. It has been
refined now, to the point where employers understand the opportunities
and their obligations, and the employees, who are from a number of Pacific
nations and Melanesian nations, are often returning for their second or third
season. I think this year, this summer, we had as many as about 7,400 or so
at the peak of the harvest, in a number of areas. The three main ones are
Hawke’s Bay, Marlborough, and Central Otago, and of course up your way
also.

Not only is this good from an immigration perspective, in the sense that we
are filling a pretty significant gap in our labour market, but I think it’s an
important foreign policy objective as well that we are meeting. It’s not aid,
but it’s certainly aiding the Pacific. I’m getting some excellent feedback
from MPs around the Pacific on the way in which this money is assisting
their communities in the Pacific Islands. It’s not just the individuals. I’m
hearing about bridges being built and port docking facilities in local villages
where they otherwise just wouldn’t have infrastructure. It’s creating a work
ethic in those home villages that is spreading across the community, and is a
considerable win-win. So in that regard I don’t expect there to be any
reduction in the support for the RSE scheme.

That said, there’s no doubt that horticulture and viticulture are going to be a
significant contributor to our growing exports, and it is very important that
those industries are able to solve their labour challenges domestically where
they can. That’s a message that I give to all industries that have in the past
relied on migrant labour. Yes, immigration policy is an important enabler of
that, but it’s at the end of a pipeline, not at the start of it, and anybody who
is keen to benefit from work visas in their industries needs to demonstrate
very clearly that they have done everything they can to identify and solve
the issues domestically.

Bickle

If I could add a couple of facts to that, because again I think it’s probably
something that hopefully, as New Zealanders, we can be incredibly proud
of in terms of this RSE scheme, and one that I think also enjoys a level of
bipartisan support. But from an evidence base, the World Banks basically
sees it as probably one of the top circular temporary migration programmes
in the world. There is significant evidence of a major contribution in terms
2013/14 ESTIMATES FOR VOTE IMMIGRATION

of both money, skill transfer, and community development back in the sending countries, the fact that it has addressed an historical problem around the sort of supply of labour for a couple of important sectors of New Zealand’s economy, and that there is evidence that in addressing that it has given confidence to businesses in those sectors to make capital investment, and it has actually created more employment. Where the employment growth has happened, it has benefited New Zealanders. It isn’t necessarily in the picking of the fruit, but in the packhouses, and the administrative and the management jobs. There’s actually been marginal, if any, displacement of New Zealand workers, which were the triple-win objectives that the Government of the day had when RSE was established.

But I think the other point I would make is continuing to be very vigilant around the governance arrangements that we have in place with MSD around making sure that we aren’t, basically, taking away work opportunities from New Zealanders, and the work of my staff, along with the labour inspectorate, because I think the other big deliverable has been actually getting some of the bad employment practices out of the sector and actually making sure that the deal for a supply of returning productive labour from the Pacific Islands has actually been around playing well above the line in terms of employment contracts, minimum wages, and pastoral care.

Fenton I have just a quick supplementary question on Jan’s line of questioning about IPT. How many section 139(3) cases has the IPT got funding for at the moment?

Woodhouse I can give you a stocktake, I think, of the tribunal’s workload at the moment, including duration, if you just give me a minute.

Fenton Well, I’ll carry on.

Woodhouse I can certainly get that to you later, if we don’t have it immediately to hand.

Fenton That would be good. OK. I’m glad you raised the issue of enforcements, Nigel, because as you know it’s something that I’m very keen to see. We had the Minister of Labour in here last week talking about that. There’s a lot of concern around—I’m concerned around—the amount of energy that’s going into enforcement of migrant workers’ rights when we’ve only got 35 labour inspectors. But I also note in your budget that you’ve flat-lined the budget for inspecting and enforcing breaches of the immigration rules at $19.16 million. How do you expect to deal with the increasing numbers of migrant workers’ issues that you see, for example, not only student visas. There was a story this morning about brothels—another one—and also about the graduate visas. There are some real issues happening there, too, where people are being employed as managers in restaurants so they can qualify for it. So how do you expect to actually deal with that, when you’re not putting any more money into it?

Woodhouse Sure, there are a lot of issues in the question you’ve asked, so I’ll try to go through, I think, the four that I heard. But in the broader context—and I think you did have the Minister of Labour here last week, who that week made an announcement that in respect of Easter trading, for example, that
he was keen to get his labour inspectorate to focus on the things that were, in his view, of a higher priority. It didn’t mean that investigating Easter breaches wasn’t important, but there are others that are out there.

Fenton One day a year.

Woodhouse That’s right. I support that, but I’m also working with the Minister of Labour and the Minister of Justice on a raft of measures to address the small, but growing, I think, problem of migrant exploitation. That’s going to have the three strands. So the Minister of Justice is working on any potential changes to the Crimes Act involving the trafficking in persons. I think New Zealand, because of its isolation and maritime nature, has seen trafficking as a trans-national issue, when, in fact, increasingly it also has domestic elements, so the Minister of Justice is looking at what changes to the Crimes Act are necessary. The Minister of Labour is also looking at changes to the Employment Relations Act, and I think his timetable is over the next 6 to 9 months.

Mine is a little closer, and I’m looking at amendments to the Immigration Act that will do two things. One is to better protect migrants, even if they are working beyond the terms of their visas. That could include being an overstayer or working when work rights were not extended to them. I’ll be making some announcements in the near future about that. But I have a particular interest also in the employers of those people. I will come to an article that appeared in the New Zealand Herald this morning. Many of the employers are themselves recent migrants to and residents in New Zealand, and are very often the same nationality as those who are being exploited. I think employment law at the moment does not reflect the special nature of that sort of offence, and I’m looking at whether or not further sanctions, from an immigration perspective, could be imposed on those found guilty of breaches of employment law against migrant workers.

In respect of sex workers, the New Zealand Herald article slightly misstated the facts as they were given. There have not been 25 occasions; there have been 25 brothels where investigations have been under way, undertaken, and that the process of exploring whether or not the employers of those people are subject to sanctions under the Immigration Act has not been completed, so it’s premature to say that nothing will take place.

The last thing I would say is about resources. I make no apology, as the Government doesn’t, for asking our public servants to do more with the same. That’s really what IGMS and the global service delivery model is all about. I would take, for example, the fact that while we probably have static numbers in our fraud team, we have managed to reduce the number of overstayers in this country in the last 4 years by about 30 percent. We have also implemented changes that see people leave voluntarily, rather than being forced to leave, and the significant extra costs that accompany that. So I don’t accept that the resources in and of themselves mean that there will be any taking of the eye off the ball in this very important area.

Fenton Are you planning to do any more work on follow-ups to AIPs, because what it seems to me is that you grant an AIP and then there’s no follow-up
to check about the numbers of workers who are actually employed and whether they over or under. We’ve got the classic Weta one again in front of us—1,000 workers in the last 3 years, but also others. For example, King Façade, who was a contractor or part of Mainzeal, brought in 110 workers and went bust. What happened to them? So, you know, it doesn’t seem to be that there are any follow-up and checks and balances once you’ve been through the labour market testing and granted approval in principle to employ large numbers of people.

Woodhouse  I think it’s important to keep in mind the scope of the role that Immigration New Zealand has in that. The granting of the AIP is certainly not the end of the process. The Mainzeal situation in Christchurch was very unfortunate. I think there has been quite a bit of interest by Immigration New Zealand about what happened to those workers who were affected by that. If I recall rightly, there was only one who was actually here. Is that right?

Fenton  I’d love to know.

Bickle  Yes, we can certainly supply the information, because we’re working through all of the people who were affected by that AIP.

Fenton  Can I? Because I know some of them.

Woodhouse  OK; absolutely, if you’re happy to do that.

Bickle  Sorry, what information do you want?

Fenton  I want information on the follow-up work they’ve done on King Façade—the King Façade workers who were brought in from China.

Woodhouse  Absolutely. I will just make one more point about Weta, because we continue to have these arguments about whether the Hobbit was a good thing. I want to start by making it very clear—

Fenton  I don’t care whose arguments—

Woodhouse  Well—

Fenton  It’s probably better not to make the comment, actually.

Woodhouse  I just want to say that the people, firstly—[Interruption]

Bennett  Just let the Minister answer, OK?

Woodhouse  The people who are training in the areas that we are presently relying on overseas labour have increased nearly fourfold. So 7 or 8 years ago, 9 years ago, I think we had just over 1,000 people training in visual imaging computer graphics, design and animation. We now have over 4,000 people training in that area, so the reliance on foreign workers in that industry, in that significantly growing industry, is actually reducing. But there will always be a need in many of those industries to have foreign-trained people come in, for a short period of time, and if Governments want to ignore the huge benefit that that brings, not only to the country but to the domestic workforce, by not approving those AIPs, then good luck.

Fenton  The accounts clerks, publicists—these are not jobs that we can’t provide for in New Zealand.
Logie A supplementary question quickly, on that line—well, not that explicit line—and then another question. I’m really pleased to hear you’re doing more work around the protection for workers. I’m wondering if you’re looking into—because I’m hearing an increasing number of stories from Christchurch around the employment agencies and the low wages that the workers are receiving relative to what those companies are taking, and what that means for our economy, nationally as well as the settlement of those refugees—well, not refugees—

Woodhouse The short answer is yes, and I would welcome anybody who has information that suggests that recent arrivals to Canterbury to assist with the rebuild are not being treated in the manner that they should, should bring that information forward to Immigration New Zealand. In terms of settlement and support, immigration works with the Canterbury Employers’ Chamber of Commerce on ensuring that employers understand their rights and obligations, as do the employees, and that there is a settlement support network framework in place in Christchurch. Earlier this year there was a rather high-profile suggestion that that was inadequate to meet the needs of the growing number of migrants into Christchurch. I had a good look at that and I was satisfied that that was not the case, but I think that’s something we need to keep a close eye on as the rebuild progresses.

Bickle If I could just add to that—there is another dynamic around Christchurch, and, again, it won’t be unfamiliar to this committee. Probably one of the major source countries for people coming into Christchurch is the Philippines. That’s not surprising, given the Philippines economy—14 percent is run on remittance—another English-speaking country, Christian, you know, a lot of construction expertise, but there are dynamics that came up through the foreign charter fishing vessel inquiry around the role of both agents back in the Philippines as well as onshore agents, where even good employers who are paying well above the baseline standards were probably quite shocked to learn that 30 percent of people’s wages could be going out on an ongoing basis to agents, and more. So we are working with Business New Zealand, some of the construction employers, and the CTU around things that we can do here, but working back with the Philippines Government and the agency that exists here, to try to do what we can, but accept there are also some of those dynamics that go on as well.

Logie The Minister has previously acknowledged that the resettlement strategy initially is only going to apply to quota refugees. What risk analysis has been done around that?

Woodhouse Can you just be a bit more specific about your question.

Logie You’re focusing on quota refugees for the resettlement strategy, which is to the exclusion of people seeking asylum and coming in, applying to be refugees, through that process. So I’m just wondering, in terms of what risk analysis was done and the consequences of excluding that group?

Woodhouse We might need to lean over our shoulders here.
McGill: I think what the Government decided last year was to initially focus services on the quota refugees and reserve the question about the extent to which those would be broadened out down the track.

Logie: So no risk analysis was done on the consequence of limiting it?

McGill: Not specifically around excluding them from the current refugee strategy. Of course, we’re aware of the risks of any new migrant to New Zealand and the extent to which these issues around them being successful.

Hyndman: If I could just add something—Christine Hyndman, Manager, Immigration Policy. One thing that we are very clear about through the research that we’ve got is that asylum seekers generally don’t have the same profile as the quota refugees whom we take. New Zealand has a big tradition of taking people who are in need of protection, not necessarily particularly familiar with the sort of labour market or community structure or so forth that we’ve got, and people who clearly do need a lot of additional assistance over and above what would normally be available to them through mainstream channels in order to be able to have the opportunity to integrate and contribute, and so forth. Asylum seekers, firstly, are much, much lower numbers—around about 100 a year are approved—and, secondly, are a profile of people who also the research shows us are more likely to be able succeed, given that they have immediate access to Work and Income services and benefits, and so forth, so an issue but not necessarily a huge issue.

Logie: Sorry, I’ve got supplementary questions around that, because I’m really concerned about the Auckland Refugee Council having lost CYFS funding for the hostel from both Work and Income and through Immigration New Zealand. At the moment they’re working with people who, until they get their paperwork, are not entitled to income support. So we’re saying that that’s available to them, and there are people coming into the country and the organisations supporting them have had the Government funding.

Woodhouse: Can I just clarify, as far as I am aware Immigration New Zealand has never funded the Auckland Refugee Council, and the profile of the people—there are, I think, two big cohorts of people who use the Auckland Refugee Council’s accommodation services. One group is failed asylum-seekers, and the other are those for whom the initial determination of the validity of their asylum claim—so they’re not even through the pipeline—has yet to be completed. I am aware that can take up to 3 months. The Government’s focus is on ensuring that that process happens in a timely manner and also that people, if they fail in their attempt to seek asylum, know what their rights of review and appeal are. There is an emergency benefit available to them. That does not extend to an accommodation supplement. But it is fair to say these people have already gone through and failed in their attempts to be accepted as refugees.

The front-end bit I think is one where Immigration New Zealand’s role in addressing that problem is making sure that we make that determination in as timely a manner as we can, but bear in mind that there’s often very little known about these people when they arrive on our shores. Their...
documentation might be poor. There is an obligation to check them, as a security risk, and I certainly make no apologies for that. But I can also say that in respect of the refugee council’s problems at the moment, I have heard from them. I’m going to respond to them. But this is a community issue also, as well as a Government issue, and I hope that they’re looking for as broad a range of philanthropic sources of support as they can.

Bennett Thank you, Minister. We really appreciate your time and the way you’ve answered the questions. And thank you very much to all the officials and staff for all your work. Thank you.

conclusion of evidence
2013/14 Estimates for Vote Internal Affairs

Report of the Government Administration Committee

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Vote Internal Affairs

Recommendation

The Government Administration Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Internal Affairs, administered by the Department of Internal Affairs, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Internal Affairs increase to $551.893 million for 2013/14 from the 2012/13 estimated actual spending of $541.081 million. This increase is due to an increase in the appropriations sought for the multi-class output Civic Information Services, reflecting a forecast increase in demand for identity products such as passports, and a small increase to pay for policy advice.

The Department of Internal Affairs administers Vote Internal Affairs. The Ministers of Civil Defence, the Community and Voluntary Sector, Internal Affairs, Local Government, and Racing, and the Attorney-General and the Minister Responsible for Ministerial Services are the Ministers responsible for the appropriations within the vote.

The former Votes Community and Voluntary Sector, Emergency Management, Local Government, Ministerial Services, National Archives, National Library, and Racing were merged into Vote Internal Affairs on 1 July 2012. In its examination of the 2012/13 Estimates, the Finance and Expenditure Committee apportioned appropriations within Vote Internal Affairs to various subject committees along lines of ministerial responsibility. This year, it referred Vote Internal Affairs in its entirety to the Government Administration Committee.

During our consideration of the 2013/14 Estimates for Vote Internal Affairs we paid particular attention to the appropriations for which the Minister Responsible for Ministerial Services and the Minister of Civil Defence are responsible.

Ministerial Services

The Minister responsible for Ministerial Services is responsible for the appropriations Services Supporting the Executive MCOA, Depreciation on Official Residences, Executive Council and Members of the Executive – Salaries and Allowances PLA, Former Governors-General – Annuities and Other Payments PLA, Former Prime Ministers – Annuities PLA, Former Prime Ministers – Domestic Travel, and Members of the Executive – Travel. In 2013/14 the total amount sought for appropriations relating to ministerial services is $59.619 million, a slight increase from the previous financial year.

We heard evidence from the Department of Internal Affairs. We regret that the Minister responsible for Ministerial Services and the chief executive of the department were unable to attend.

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1 For example, the Community and Voluntary Sector appropriations were considered by the Social Services Committee, and the Local Government appropriations were considered by the Local Government and Environment Committee.
Information Communications Technology

The department does not provide ministerial offices with ICT systems; there is a memorandum of understanding with Parliamentary Service for the provision of these services via its ICT contractor Datacom.

We asked about the protocols for searching a minister’s emails or the metadata of his or her account. We were told that a search of a minister’s email account would probably be conducted by the Parliamentary Service, and that the minister concerned would probably have to authorise such a search. Ministerial Services emphasised that it was not involved in the provision of records to the David Henry inquiry into the leaking of a confidential report on the Government Communications Security Bureau, and did not know who authorised the provision of metadata records to Mr Henry.

VIP transport services

The amount being sought for the provision of chauffeur-driven and self-drive vehicle services to members of the executive is $7.415 million in 2013/14. The fleet is regularly upgraded, and older vehicles replaced. The current fleet was introduced in 2011, and will soon require attention. We heard that the department would prefer to upgrade rather than replace these vehicles.

The department told us that it is investigating alternative ways of managing the fleet. One option is for the department to rent vehicles, thus removing any risk to the Crown from a drop in the residual value of the vehicles.

We understand that the department will announce plans for the fleet next year, and look forward to hearing them.

Visits and Ceremonial Office

The Visits and Ceremonial Office is responsible for managing programmes for visiting guests of Government and Parliament and organising national ceremonial and commemorative events. Funding for these services is provided by the output class Coordination of Official Visits and Events, for which $4.353 million is sought in 2013/14. We heard that a priority for the ministerial services portfolio is managing cost pressures on the office while maintaining a high standard of service.

We note the difficulty of forecasting the number of visits the office is likely to organise in a financial year. For 2012/13 the forecast was for between 25–30 visits. The estimated actual number was 53—almost double the number forecast. The difficulty, we were told, is that the office typically receives only a few months’ warning of a visit, and a basic logistical plan only six to eight weeks in advance.

Managing the office’s budget is also a challenge; visit plans change frequently, visits are often rescheduled and sometimes cancelled, and the office has little control over itineraries and no real discretion to refuse to host proposed visits. We were told that Royal visits were particularly challenging. We note that the final cost for the visit of His Royal Highness The Prince of Wales and Camilla Parker Bowles was $740,000.

We heard that it was much easier for the office to plan and to estimate the costs of a ceremonial event, such as an event at the National War Memorial. Ceremonial events are generally much less expensive. We note that the office is working with the Ministry for Culture and Heritage on the World War I centennial commemorations.
Civil Defence and Emergency Management

The Minister of Civil Defence is responsible for the appropriations Emergency Management Services MCOA, Emergency Expenses, and Subsidies to Local Government. The Minister of Internal Affairs is responsible for other appropriations providing for policy advice for civil defence and emergency management, ministerial support services for civil defence and emergency management, and community information and advisory services for civil defence and emergency management. In 2013/14 the total amount sought for civil defence and emergency management appropriations is $12.811 million, a large decrease from the estimated actual expenditure of $21.39 million of 2012/13. This decrease is largely due to much lower emergency expenses.

Statutory obligations

Part 3 of the Civil Defence and Emergency Management Act 2002 requires the Minister of Civil Defence to produce a national civil defence emergency management strategy, and provides for the Governor-General to make a national civil defence emergency management plan. The plan and the strategy complement each other, and together set out the Crown’s goals for and approach to civil defence.

The Act requires the minister to review the national plan every five years. The most recent review was postponed because of the Canterbury earthquakes, and is now due for completion in 2013/14. We look forward to receiving the results of the review.

Similarly, the Minister must review the national strategy every 10 years. The most recent strategy came into force in 2008. The recently published first progress report on the implementation of the 2008 strategy noted good progress. We are pleased with this result.

International relations

The Minister recently travelled to speak at the United Nations about New Zealand’s civil defence and emergency management. She has also met with representatives of foreign governments to discuss best practice. We were pleased to hear that New Zealand’s civil defence and emergency management is held in high regard by the international community.

We were interested in the results of discussions between New Zealand and Japan on increasing business resilience. The Minister observed that New Zealand’s GDP fell by 20 percent after the Canterbury earthquakes. The Minister believes that New Zealand could learn from Japan’s experience in rebuilding following major natural disasters and in enhancing business resilience.

Public interaction

Part of the role of the Ministry of Civil Defence and Emergency Management, which is located within the Department of Internal Affairs, is to educate and inform the public about the whole range of civil-defence-related matters, from preparing for an emergency to post-emergency notifications.

We were interested to hear about the ministry’s processes for reaching vulnerable sectors of the community, particularly the disabled community, and the lessons it had learned from its attempts to do so following the Canterbury earthquakes. We heard that the Ministry is developing guidelines for civil defence and emergency management groups seeking to reach vulnerable people, which will reflect the ministry’s experience in Canterbury. The Minister announced that she would soon be in a position to talk in detail about these
guidelines, and indicated that she would be willing to brief members at that point. We look forward to hearing further from the Minister on this matter.

The Minister also mentioned her intention for the Ministry of Civil Defence and Emergency Management to increase its presence on social media. We are interested in the use of social media by Government, and will monitor this area with interest.

Volunteering

Volunteers play an important role in responding to emergency events. The Ministry of Civil Defence and Emergency Management works hard on promoting volunteering. The Minister recently attended the graduation ceremony of a project supported by emergency services and the Ministry of Civil Defence and Emergency Management which promoted volunteering amongst young people in Rotorua. The Minister has asked the Ministry of Education and the Ministry of Civil Defence and Emergency Management to determine whether the programme could be rolled out nationally.

The ministry is in the process of revising its guidance for local authorities on the use of volunteers. We note that in the aftermath of the Canterbury earthquakes there was a plan for the various volunteer groups to write the template from such guidance, but now the ministry is writing these guidelines with input from volunteer groups. We are aware that the ministry has been criticised in the past for failure to involve community groups adequately in decisions affecting their communities. We recommend that the ministry take an inclusive approach to its engagement with volunteer groups.

Canterbury earthquakes

We wish to reiterate our commendation of the civil defence and emergency services in their response to the Canterbury earthquakes.

Following the earthquakes the Department of Internal Affairs was responsible for paying out claims for the immediate response and recovery and for repairs to regional water infrastructure. We were pleased to hear that there is only one claim, from Environment Canterbury, left to validate. We commend the department for its work in this area, and we look forward to the settling of the last claim.

Increasing resilience and mitigating risk

We are concerned that many New Zealanders are not heeding the lessons of the earthquakes, especially the importance of increasing the resilience of buildings. The Minister is working with the Minister for Building and Housing to reduce risks. We encourage the Minister to continue to work with her colleagues in local and central government to reduce risk and increase resilience.

We note that there is still much work to do to coordinate local and central government approaches to mitigating natural hazards and risks to life. The Ministry of Civil Defence and Emergency Management and the Minister are aware of these issues, and advocated changes to the Resource Management Act 1991 to address them. They both acknowledge the difficulty of integrating the hazard management functions of certain councils with their planning and consenting role.

We encourage the Minister and the Ministry to continue to work with central and local government colleagues to address these issues.
Approach to this examination
We met on 12 June, 26 June and 10 July 2013 to consider Vote Internal Affairs. Evidence was heard from the Shared Services branch of the Department of Internal Affairs, and the Minister of Civil Defence and the Ministry of Civil Defence and Emergency Management (Department of Internal Affairs). Advice was 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–Civil Defence, received 26 June 2013.
Office of the Auditor-General, Briefing on Vote Internal Affairs–Ministerial Services, received 12 June 2013.
Minister of Internal Affairs, Response to standard Estimates questionnaire.
Response to additional questions, received 26 June 2013.
2013/14 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 2014 for Vote Justice, administered by the Ministry of Justice, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The total appropriations sought for Vote Justice for 2013/14 amount to $396.749 million, an increase of $23.765 million from the estimated actual expenditure in 2012/13. The increase is due mainly to provision for increased spending on non-departmental other expenses (including the impairment of legal aid debt and victim support services), and capital expenditure.

The Minister of Justice, Hon Judith Collins, is responsible for the appropriations within Vote Justice, which is administered by the Ministry of Justice.

Support for victims

We note that the amount collected through the offender levy continues to be higher than expected. The appropriation for victims’ services is funded from the levy and under-expenditure is carried forward every year. The total appropriation for 2013/14 is $8.057 million, increased from $2.695 million in 2012/13, because of a transfer of over $5 million of unutilised funding in 2012/13. We heard that the steadily increasing returns from the levy mean that programmes for victims can be expanded in 2013/14, and the work of the national Sexual Violence Survivor Advocate funded for three more years.

Proposed legislation

We were pleased to hear from the Minister about bills she has introduced or intends to introduce soon, including the Victims’ Orders Against Violent Offenders Bill, which would allow a new type of non-contact order, recognising the persistent effects on victims of serious sexual and violent offending. Some of us were concerned that the provisions in the bill may require the victim to take the initiative and to bear the cost of seeking an order, when such orders can already be sought under existing Acts. We were told that the bill is intended to provide victims with additional protection from unwanted contact with an offender, and the legislation is not expected to be used extensively. The Minister also assured us that she does not intend victims of serious sexual and violent offending to be put to additional expense, so she has no issue with applications for non-contact orders being a legally aided matter.

We will explore these matters further should the Victims’ Orders Against Violent Offenders Bill be referred to us.

Racial harassment threshold

We questioned the Minister about the Race Relations Commissioner’s view that the threshold for racial harassment in the Human Rights Act 1993 is too high. We were told recent controversial cartoons by Al Nisbet did not meet the high test for causing racial
disharmony, and that this threshold needs to be high in a country of freedom. No policy work is being done in this area.

**Family Court reforms**

We asked about the reduction of $7.165 million in funding for Family Court professional services, including counselling, over the next two financial years, and whether there is a risk of costs being transferred to other areas. Some of us were concerned that this question was not answered to our satisfaction. We heard that changes are being made to improve the Family Court system, and counselling will still be available, as will parenting information programmes. One of the premises of the reforms is that enduring agreements between parents are achieved when both parties agree on the desired outcomes. This is why there is a focus on mediation through family dispute resolution, and a commitment to counselling to prepare people for mediation.

We asked about the involvement of an expert reference group in the development of the proposed Family Court reforms. We were told that the group recommended replacing counselling with dispute resolution, which influenced the decision to extend dispute resolution and make it a more formal part of proceedings.

**Hutt Valley Mobile Community Office pilot**

We wanted to know more about the deployment of the mobile community office, a specially fitted-out van providing front-line justice, health, and social services in the Hutt Valley, and whether the initiative is to be expanded elsewhere. We learned that the idea came from front-line justice sector staff. The service involves thirteen agencies, and seeks to make services more accessible in the Hutt Valley and adjacent Wainuiomata. This area was chosen for its proximity to Wellington, and the number of police, court and corrections facilities located there.

After a high-level strategic direction was set for coordination in the justice sector, the desire was to effect a similar increase in collaboration on the front line. The success of the pilot will be evaluated in six months, and we look forward to hearing about the results.

**Alcohol and Other Drug Treatment Court pilot**

We asked the Minister about the Alcohol and Other Drug Treatment Court pilot. After observing such a court operating successfully in California and New York, the Minister opened a pilot court in Auckland in November 2012.

Drugs and alcohol are fundamental to the offending of the 100 participants in the Alcohol and Other Drug Treatment Court sitting at Auckland and Waitakere District Courts. The offenders undertake intensive therapeutic programmes to address their substance abuse and offending, and report to a judge in open court on their progress.

The pilot will be evaluated in five years. We look forward to following its progress meanwhile.

**Proceeds of drug crime**

We asked how much money has been collected from drug crimes and what it is to be used for. We heard that since the Criminal Proceeds (Recovery) Act 2009 came into force, $8.3 million has been recovered. Health and law enforcement agencies can submit bids for innovative initiatives tackling crime and addiction, and the Prime Minister decides which initiatives will be funded. We will watch this process with interest.
Appendix

Approach to this examination

We met on 13 June and 4 July 2013 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

Scott Simpson (Chairperson)
Hon Lianne Dalziel
Paul Foster-Bell
Julie Anne Genter
Andrew Little
Alfred Ngaro
Denis O’Rourke
Katrina Shanks
Hon Kate Wilkinson

David Clendon replaced Julie Anne Genter for this item of business.

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister of Justice, Response to standard Estimates questionnaire.
Minister of Justice, Response to committee questions, received 12 June 2013.
Office of the Auditor-General, Briefing on Vote Justice, dated 30 May 2013.
Vote briefing paper, prepared by committee staff, dated 13 June 2013.
2013/14 Estimates for Vote Labour

Report of the Transport and Industrial Relations Committee

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Vote Labour

Recommendation

The Transport and Industrial Relations Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Labour, administered by the Ministry of Business, Innovation and Employment as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Labour decrease by 1.3 percent to $95.959 million in 2013/14 from an estimated actual expenditure of $97.18 million in 2012/13. Departmental output expenses proposed for 2013/14 total $88.93 million and account for 93 percent of the Vote.

The priorities for Vote Labour in 2013/14 are health and safety (involving the implementation of all of the recommendations of the Royal Commission on the Pike River Coal Mine Tragedy, responding to the recommendations of the Independent Taskforce on Workplace Health and Safety, and establishing WorkSafe New Zealand), and employment law reform.

Health and safety

We note the Minister’s comment that health and safety is the most important matter in the Labour portfolio, and his assurance that the Government intends to reduce deaths and serious injuries in the workplace by 25 percent by 2025.

Pike River

We note also the Minister’s description of the Pike River tragedy as a shocking wake-up call for New Zealand regarding health and safety generally, and we asked what steps have been taken or are planned for the coming year to address the shortcomings that the tragedy revealed. We heard that consultation documents have been produced on mining regulatory reform, and legislation is being drafted to establish new mining regulations, increase worker participation in health and safety measures, and boost support for the Mines Rescue Trust. The Independent Taskforce on Workplace Health and Safety has addressed wider issues, and there are plans to set up a new Crown agency, WorkSafe New Zealand.

Independent taskforce

The independent taskforce was established in 2012 to undertake a strategic review of the continued fitness for purpose of the New Zealand workplace health and safety system. Its report in April 2013 identified weaknesses in the system, and made 15 recommendations. We were told that the Government will respond to these recommendations by the end of July 2013; we also heard that if legislation is required to implement the Government’s response to the review, its introduction by the end of 2013 would be given priority.

We questioned the Minister about one of the recommendations of the taskforce, on extending the existing manslaughter offence to corporations. The Minister explained that, while the Government is considering extending the offence from natural persons to corporations and businesses, it is not intended to provide for charging, for example,
individual board members or chief executive officers. A corporate manslaughter charge would allow fatalities to be investigated by the New Zealand Police, with their superior experience and resources, rather than by the ministry.

**WorkSafe New Zealand**

We asked about progress towards setting up the proposed standalone workplace health and safety Crown agent, WorkSafe New Zealand, which is to be charged with improving New Zealand’s health and safety record. We note that establishing such a body was recommended by both the Royal Commission on the Pike River Coal Mine Tragedy and the independent task force, and that it is intended both to enforce workplace health and safety regulations and to work with employers and employees to promote good workplace health and safety practices. We were told the WorkSafe board would include union representation, and that union check inspectors would be provided for in law; however the Minister said his view is that board membership should be based primarily on expertise and governance skills rather than on representation of particular groups.

We were told that WorkSafe New Zealand’s set-up costs ($1.777 million) will be covered by baseline funding. The Minister also noted that further decisions are likely to be needed on the resourcing of health and safety to respond to very strong recommendations by the Royal commission and the taskforce, which could affect WorkSafe’s future funding.

The Minister acknowledged the difficulty of ensuring that health and safety issues will be managed effectively until WorkSafe New Zealand begins operation late in 2013. However, we were assured that efforts to do so are continuing. We heard, for example, about work being done by the health and safety inspectorate in the forestry industry, where a new approved code of practice has been implemented.

**Labour inspectors**

We questioned the Minister about the absence of funding in the budget for increasing the number of labour inspectors in New Zealand. The inspectorate currently numbers around 35, and it is not expected to grow in 2013/14 or 2014/15. The Minister told us that the work of existing inspectors will be re-prioritised to focus on known problem areas, with “smarter working” on low-level administrative work. We were interested to note that the value of using labour inspectors to proactively enforce Easter trading restrictions is among the priorities being reassessed.

Priority areas for health and safety inspections in 2013/14 and 2014/15 will include forestry, the use of manufacturing machinery, preventing falls from heights in construction, quad bike safety, the Canterbury reconstruction, and hazardous substances in the automotive spray painting, boat building, and metal finishing industries.

**Migrant exploitation**

The Minister recognised migrant worker exploitation as an emerging issue, but observed that it was probably not a new problem. Labour inspectors in Auckland spend 54 percent of their time on migrant worker issues. The Minister agreed this was a surprisingly high proportion, but said that the ministry is improving its ability to detect exploitation by increasing collaboration with other agencies such as Immigration New Zealand. He also said there could be more proportionate and serious sanctions for those exploiting migrant workers. We were told that operational and perhaps legislative change is possible. A discussion paper may be released later in 2013.
Measuring the exploitation of migrant workers is difficult, as much of the evidence is anecdotal. The ministry is, however, aware of problems including charging for employment (because employment can lead to residency), excessive work hours, and failure to meet statutory requirements such as those of the Holidays Acts 2003 and the Minimum Wage Act 1983. Such problems have been observed disproportionately in the hospitality, horticulture, and viticulture industries.

We are pleased to hear that this issue is being treated seriously and that the Ministry of Business, Innovation and Employment is working through Immigration New Zealand to resolve it. While we acknowledge that some progress has been made in this area, with data having been collected since July 2012, recent enforcement work, and publicity through some ethnic media in the Auckland area, we intend to examine this issue at the next Estimates hearing so that we can be sure that appropriate resources are made available, and work is being undertaken to address this issue.

**Canterbury rebuild**

We heard that the ministry intends to focus on the safety of the Canterbury rebuild, in priority areas: asbestos, work at height, excavation work, and mobile plant and equipment.

The Minister intends to endorse a safety charter, along with the Canterbury Earthquake Recovery Minister and a “leaders’ group” of over 30 business owners. The owners of large companies are well-represented in this group, but the Minister acknowledges that, as the independent taskforce recommended, there is a clear need to include the owners of small- and medium-sized businesses in the group.

The ministry consulted the head of health and safety at the London Olympic Delivery Authority, who led the building of the 2012 Olympic village in London, a project which resulted in zero fatalities. The Minister considers the Canterbury rebuild to be a much more complex undertaking than the Olympic Village, and said that while zero fatalities would be a “big ask” in a project that could take 20 to 30 years, it was an appropriate aspiration. We heard that there have been no fatalities to date, which is statistically unusual as such projects would usually see one to two fatalities per year.

We note that the entire Employment Relations Contestable Fund, which provides grants for workplace safety and productivity initiatives, has been diverted to Canterbury for training reconstruction workers. We accept that this is a good use for the fund, but urge the Minister to be mindful of health and safety funding needs throughout the rest of the country.
Appendix A

Approach to this examination
We met on 6 June 2013 to consider Vote Labour. Evidence was heard from the Minister of Labour, Hon Simon Bridges, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members
David Bennett (Chairperson)
Chris Auchinvole
Dr Cam Calder
Darien Fenton
Iain Lees-Galloway
Sue Moroney
Simon O’Connor
Denise Roche
Mike Sabin

Evidence and advice received
We considered the following evidence and advice during this examination:
Office of the Auditor-General, Briefing on Vote Labour, received 31 May 2013.
Vote briefing paper, received 4 June 2013.
Minister of Labour, Response to standard Estimates questionnaire, received 17 May 2013.
Response to additional questions, received 5 May 2013.
Appendix B

Corrected transcript of hearing of evidence 6 June 2013

Members
David Bennett
Chris Auchinvole
Dr Cam Calder
Darien Fenton
Iain Lees-Galloway
Andrew Little
Simon O’Connor
Denise Roche
Mike Sabin

Witnesses
Hon Simon Bridges, Minister of Labour
Lesley Haines, Deputy Chief Executive, Health and Safety, Ministry of Business, and Innovation, and Employment

Bennett Good morning, Minister. Welcome to the committee. We’ve got about an hour but we’re starting a little bit early. We’ll leave it in your hands, first of all, to give us a bit of an introduction, and then I’ll open up to questions, first of all from the Labour Party, and then we’ll shift around the other members of the committee. Welcome to the committee. I think it’s your first time in front of the Transport and Industrial Relations Committee.

Bridges It is.

Bennett We look forward to hearing from you and answering the questions that members may have.

Bridges Thank you, Mr Chair. Thank you, members. It’s very good to be before this august committee to talk about the labour portfolio, an area where there is very significant reform going on at the moment. I won’t speak for long, because I know you’ll be wanting to get into it. But could I just give you a bit of a flavour, I suppose, of what we are doing in this portfolio. Of course, all of the work that we are doing is part of the Government’s Business Growth Agenda and, a subset of that, really, which is Building Skilled and Safe Workplaces.

Let me start with what I suppose is the most important matter this year for me personally, and, I think, also for the portfolio, and that is health and safety. Really that takes the majority of my time and focus in this portfolio at the moment. Of course, the Pike River Coal mine disaster was an absolute tragedy—29 men died; we all know that. It was also, I think, for
our country a shocking wake-up call in relation to health and safety more generally. Of course, we as a Government, you will be well aware, are implementing the 16 recommendations of the Royal Commission on the Pike River Coal Mine Tragedy. There is an implementation plan we are working to. I am happy to answer questions on that.

But, in a sense, I suppose the more significant thing is, if I can say that, what Pike River has meant in terms of a wider work and, really, the Government’s agenda to see at least a 25 percent reduction in deaths and serious injuries at work by 2025, and the independent health and safety task force report on that very question. Today around 75 workers die per annum, 360 are seriously injured, and upwards of 600 actually die from occupational disease. In terms of that task force report that addresses these very serious issues, I will be responding by the end of July. I know for some of you on this committee you may well say: “Well, that’s too long”, but I do think it’s important that I take my time and that we get this right.

This is a work of real significance. It is, frankly, the first major review in health and safety in this area in 20 years—certainly in everyone here’s parliamentary careers. I can tell you that if legislation is required to implement the Government’s response, this will be given priority and introduced by the end of the year. So in effect, I will be and you will be, if there is legislation to come out of the task force, very busy, because you will have legislation that I hope to introduce around the end of this month establishing the Crown agency WorkSafe New Zealand, implementing some of the significant Pike River royal commission recommendations, and then there may well, as I say, be this piece of legislation in relation to the recommendations of the task force. Of course, we’ve got employment law reform as well.

Just to talk about Pike River and the task force, they both recommended, of course, a stand-alone Crown agency, WorkSafe New Zealand. You will be well aware that the Government is doing that. We are implementing that. That, in itself, is a really significant piece of work for officials and myself, to get it up and running by the end of the year, which is what we want to do. We’ve got to put in place a board, staff, and to get there, there is also a new health and safety inspectorate model that we’ll be, I think, talking more about in early July. In short, we’re increasing capability, proactive work, national consistency, and, over time, our capacity in terms of the health and safety inspectorate by 20 percent in the near future.

I won’t go into all the other miscellaneous things in health and safety to come out of Pike River and so on. I mean, just to touch on some of them, I have the reports here: an Institute of Directors and MBIE joint work on guidance to directors; we’ve amended the Crown Minerals Act to really beef up and, I think, significantly lift health and safety in relation to that important area; we’ve got consultation documents again here on the mining regulatory regime—significant work in themselves.

Just finally to say, and, again, I’m very happy to take questions on this, a really significant, practical part of health and safety is, I think, rebuilding
Canterbury, and making sure that isn’t just a rebuild that is on time and on budget, but is a safe one. I think there’s quite a story there to be told and to continue telling. As I say, I’m happy to do that.

On employment law, you will know the situation there. We want a fair and flexible labour market. We’ve introduced starting-out wage law that came into effect on 1 May. We’ve had the first reading of the Employment Relations Amendment Bill. I appreciate there’ll be some—I was going to say difference—very different views across the political spectrum in relation to that law. I expect on that basis there will be a robust select committee process that you’ll be chairing, Mr Chairman. As I’ve said in my first reading speech, I’ll be listening very carefully to what is being said here and what comes out of that.

Let me just very briefly touch on another matter or two, on what I would call, I suppose, emerging issues—in a sense they are not emerging; they’ve been around for some time—in relation to migrant workers and exploitation of them. Frankly, I think they are important issues for this country. I’m happy to talk a bit more about that when we get into some dialogue. If I could just say on that, without going into details, that is an area where I think there is room for really a bipartisan, multipartisan approach. Again, without going into details, I would say I’ve been appreciative of some of the work I’ve done with Darien Fenton on that. She has brought matters to my attention, and I think we’ve been able to act swiftly and take those matters seriously.

So, Mr Chair, in summary, the key priorities this year really do focus around health and safety; implementing the Pike River royal commission recommendations; responding to the independent task force; establishing WorkSafe New Zealand; there is employment law reform I am happy to talk about; there are emerging issues and, indeed, issues you may raise with me today that lead to work. So, with respect, you and I, I think, will be busy, very busy, together on this portfolio this year, as we seek to work through a pretty significant agenda.

If I could just introduce to you officials Lesley Haines, Deputy Chief Executive of Health and Safety; Michael Papesch, Director of Pike River Implementation; Kirstie Hewlett, General Manager of Labour Environment; and Adrienne Meikle, General Manager of Resolution Services. With those, I hope, suitably brief introductory comments, I would be very happy to answer questions or get into a discussion.

Bennett Thank you, Minister, and thank you very much for that introduction. Thank you, to members of your ministry, for coming along. We appreciate the work that you do and the way that you’ve always been very helpful to this committee. I want to pass on to your ministry that it’s doing a great job.

Bridges Thank you.

Bennett Darien Fenton, you have the first question.

Fenton Thank you, Minister. I hope you enjoy your time at the ILO next week—is it next week you go?
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<tr>
<th>Bridges</th>
<th>I’m going to, it’s going to be very informative.</th>
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<tr>
<td>Fenton</td>
<td>Helen Kelly is waiting for you. She’s already set up a meeting with the director-general.</td>
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<td>Bridges</td>
<td>She’s been tweeting me already.</td>
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<td>Fenton</td>
<td>Yes, she’s already set up a meeting with the director-general to discuss your employment law reform and how that complies with international conventions. Seeing you started with health and safety, I'll start with that. I’ve got three areas that I want to pursue, but, starting with health and safety, I can’t see any money in the Budget for establishment of WorkSafe New Zealand.</td>
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<td>Bridges</td>
<td>Yes.</td>
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<td>Fenton</td>
<td>And it cost more than $1 million, and actually the overall Vote Labour budget has decreased for this financial year. So where’s the money coming from?</td>
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<td>Bridges</td>
<td>In terms of actually setting up WorkSafe New Zealand, we were able to do that at a pretty minimal cost, about $1.77 million, and that will come out of base lines, effectively. I’ll get an official to give you a bit more flesh on the bone, if you like, of that, but that’s the position there. In respect of health and safety, I think what is true is there was $37 million of new money made clear in the Budget last year. So, in terms of the spending of that, that has been $7 million so far, and then re-tranches of $10 million a year going forward. Just to flesh that out for you, the $7 million really, if you want to think about it this way, has been in terms of design and capability changes. So they’re not necessarily on the ground in a concrete way you will be feeling yet, but it’s been establishing the height hazards unit, funding the task force, and those sorts of matters. But the $10 million per annum going forward very much does move, I think, to capacity in dealing with that, so you will see more health and safety inspectors in new, better-paid jobs, because that is a focus for us and that is a priority for us. I think, just to round out that answer to you, clearly there’s significant change on the way in terms of resourcing and just how it’s all going to fit in with the Crown agent, WorkSafe New Zealand. There are pretty strong recommendations, really, in the task force report around that. We haven’t made decisions on those, but potentially they will affect this funding question as well.</td>
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<td>Fenton</td>
<td>How are you going to manage the ongoing issue of health and safety for this year, while WorkSafe is established? How are you going to deal with that, again going back to the fact that Vote Labour has had funding cut, and I understand you’ve got the same number or around about the same number of health and safety inspectors, and emerging issues—if we want to talk about them—in the forestry industry, for example. How are you going to cope until the end of the year?</td>
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Bridges: I wouldn't underplay what you say. I mean, I think it's a very real issue. In a sense, when you have quite an ambitious—not quite but a very ambitious—agenda, and you're trying to implement that while you also want to keep the day-to-day jobs going, if you like, there is a trick to that. I'm confident we are doing that right. I do think that, you know, there's the health and safety inspectorate ongoing and there's the work being done, of course, to get the Crown agent up and running. That goes along simultaneously. There are, as you say, always those crunchy, difficult issues. Forestry is one of them. Because you've mentioned it, let's just briefly touch on that. The reality is—there's no point dressing it up—too many people have died in that industry over too many years. You know that; I know that. In a sense, whilst it's right that it's political, it is above politics, because it's been there for some time. I went—actually with our mutual friend Helen Kelly—out to forestry in Rotorua a month or so ago, because I wanted to see for myself and hear on the ground what was going on.

I think the message I got loudly and clearly from, yes, the business owners but also the workers on the ground is that in December we brought into play—actually, I have it here—this approved code of practice. In relation to that, they are saying to me, pretty much universally, that this is working, it's starting to work, but it does need time to bed in.

Fenton: Who is "they"? The workers are saying that as well?

Bridges: Absolutely. And I was out there, and what they said, and I was surprised. But what they said, and they were able to give me pretty good—because I was asking them, I think, reasonably hard questions—solid feedback about what this is doing in terms of changing the way they do tree felling and some of these things. So my sense is, after a long period of time, actually, we are seeing progress. It's slow and it's clunky. And I don't mean to be flippant about that, because at the end of the day it is lives, but my view, quite clearly, and what I've heard, is that we need to let this bed in and work, and that's what I intend to do.

Fenton: There's a petition in front of the select committee at the moment calling for an inquiry into the forestry industry. Have you got a view on that?

Bridges: Yeah. Oh, look, again, happy to be very blunt. I don't think there is a need for an inquiry. As I say, this has been a problem we've had for some time. It's not as if we don't know what the problem is, and I think you've seen the Government both at a political and also at a ministry level taking pretty clear actions around this. Now it's actually a time of putting in place what we know and seeing it bed in.

Fenton: Can I just ask in relation to health and safety, how is the kind of the setting up of the WorkSafe agency, working with the labour arm, the employment relations arm of the department? There is a clear conflict, in our view, between the regulation of health and safety and the comment by the task force that its genesis is in the deregulation of the labour market going back decades, and your changes to the Employment Relations Act. It's all about worker participation. Well, a lot of it's about worker participation, yet your
Employment Relations Amendment Bill actually, we believe, will discourage worker participation and voice.

Bridges Yeah. Look, I understand and respect your view, and I think, with respect, probably the view that Andrew and Denise would have on that as well, where you say: “Look, actually, the lesson is that we need more regulation across the board and protections and worker participation and so on.” With respect, I disagree with you. I don’t think it’s—can I say it’s simplistic, because, actually, I think it’s not right to say that how you do employment law is how you have to do health and safety law. Actually, they can be quite different. In neither case would I say that we’re necessarily deregulating; we’re actually moving to more regulation. I’d like to think, actually, what we’re doing is better regulation across the board. I know we’ll disagree.

Fenton Totally disagree on that, Minister; of course, we do.

Bridges We can disagree about that, but I think, actually, that’s what we’re doing.

Little The brutal fact is, Minister, that the people who are getting killed at work are not the managers and the supervisors; it’s the front-line workers. And the latest forestry death in Taranaki, a young chap, Adam Olsson, killed by a falling tree. Here’s the other—the royal commission on Pike River and the task force both pointed to the need for a tripartite framework. The development of your forestry standards—and this is a criticism of MBIE and the labour aspect of it—totally failed to engage with the workers who are getting killed regularly in that industry about what is good standards. The department just totally failed.

And I suppose what I’d like to know from you is, in the implementation of WorkSafe New Zealand, in a department budget that is declining by over a million dollars in this year alone from last year and the projections show it declining consistently to 2016-17, what steps and measures are being taken to promote and encourage a tripartite engagement so that those who are being killed at work and seriously injured and maimed and getting diseases actually get to have a say on how work is done and how the risk to them can be mitigated?

Bridges Well, it’s a good question. Can I just make a few comments. If we wanted to be strictly political about this, the Government could say: “Actually, this tripartite is where you’ve got employers, Government, workers’ unions all at the table. Well, we don’t like unions and we’re not going to go there.” Actually, we haven’t said that. I think we genuinely, through Pike River reform and also through setting up this task force and what they’re saying, are taking this very seriously. And so, for example—and no announcements were made about this—but as we look at the board for WorkSafe New Zealand, there will be union representation on that board.

And then we go down at the worker participation level, the discussion document out right now on Pike River makes it clear that with the discussion document, everything’s up for grabs, if you like, but there are union check inspectors that we are going to provide for in law. So in terms
of, if you want to put it this way, ticking the boxes, I think we’re doing that, frankly, and I think it’s hard to criticise us there.

Let me also say, though, and I see it, that the lesson in health and safety is ultimately one of leadership, and that is both top, down. Actually, at governance level they need to get it and they need to implement it and they need to believe it, but also bottom up. I agree with you. Workers need to feel, perhaps in a way they didn’t at Pike River—and I’m no Pike River expert—but that they can say: “Look, this is unsafe, and we need to stop this.” So I suppose what I am saying is, Andrew, I get that. I get that and I want to see it and—call me optimistic—I think we will see it and I think the significant reforms we’re making are doing that.

And just to say on the funding, I don’t think you’re right, with respect. I mean, the truth of the matter is there’s $37 million more in terms of health and safety in last year’s Budget over 4 years, and I’ve already said the task force has made recommendations on funding. We haven’t announced what we’re doing. We haven’t decided what we’ll do in that yet, but watch this space.

Auchinvole Minister, just to bring it a little closer to home in my case, but also to give it some practical question, can you tell us what’s happening in health and safety in the Christchurch rebuild, which is fairly large?

Bridges Well, I’ve made a couple of visits to Canterbury explicitly on health and safety. As I said to you, I suppose the high-level goal that I have is the rebuild shouldn’t just be on time and on budget; it’s got to be a safe rebuild. And to give you a sense of the issue there, there haven’t been any fatalities, strictly speaking, in the rebuild to date.

Auchinvole Statistically, that’s quite astonishing, isn’t it?

Bridges Well, it is, because, actually, we’re talking about, statistically speaking— heaven forbid; we don’t want this—one to two per annum deaths. If you say this is a 20 to 30-year project, that’s 20 to 30 deaths. I was quite inspired hearing from Lawrence Waterman, who led the building of the Olympic village and so on in London. They had zero fatalities there through, really, a comprehensive programme around health and safety. My view is Canterbury is a much more complex beast in terms of the rebuild—moving parts and so on. But that is a high-level goal that I think we can and should have.

And I’ll just close off—I don’t want to monopolise all the time—but what is also, I think, important here is, on the ground right now, with help from MBIE, there’s a senior leaders group who are really showing leadership on this. And later, I think, this month—actually, it might be July—but I’m back there endorsing a safety charter, I think with Gerry Brownlee, where over 30 businesses have come together and said: “Look, we’re going to make health and safety a front and centre priority.” So it’s a big kind of ask to have zero fatalities, but wouldn’t it be amazing.
Auchinvole A couple of supplementary questions to that, if I may. I do understand, Minister, that you actually engage the people who did do the safety procedures in the Olympic village, because that was quite phenomenal, too.

Bridges Yeah, that’s right. So we’ve had very recently Lawrence Waterman out, who was the head of health and safety with that. He saw the zero fatalities. Some of the really clever things and practical things he did, and he oversaw the sorts of things we could do in Canterbury.

When we look at the Canterbury recovery, really there are four priority areas that we are focusing on. One is asbestos. I’ll be candid with you, from the office work I’ve done over the years, I was reasonably surprised, probably naïve, but that’s still a significant issue and one we deal with day to day. Work at height, mobile plant and equipment, and excavation work are really the priorities for the MBIE team down there as they help to facilitate safe rebuild in Canterbury.

Auchinvole So the leaders group that you’ve established with MBIE’s help, I think you said, are they Government employees or are you drawing them from industry? How do you get cohesiveness? Because, I mean, it’s a lot of big companies, but, also, building traditionally is a lot of small companies too.

Bridges I think we’re very well represented in terms of the big companies. I think you’re right that the trick is in the smaller and medium-sized ones, and that’s a very clear sort of a part of the task force’s recommendations actually that that is where many of the problems are. We do need to focus on that.

Fenton Just one more on health and safety, just following up on that question from Chris Auchinvole. Isn’t it true that all of the funding that was being provided through ACC and MBIE for workplace health and safety training has been diverted to Christchurch? I think that’s an answer that you’ve given me to a written question, and, if that’s the case, what’s happening with other health and safety training throughout the country. That goes back to my original question about why we’re doing all this, what’s happening everywhere else.

Bridges Right, look, I’ve answered many written questions from you Darien so I don’t remember that particular one.

Fenton I’m happy to provide it to you if you want me to.

Bridges I’ll perhaps get Lesley Haines to—

Haines So I’m just recalling what we’ve already talked about at the committee around this. The Employment Relations Education Contestable Fund is what I think you’re referring to.

Fenton No. The health and safety training was provided through ACC, and I think overseen by the Department of Labour. That’s been cut year in and year out.

Haines OK, so there are two things in there. ACC’s spending on health and safety representatives—frankly, you’d have to ask ACC around that, their training. What we are doing in Christchurch, and with collaboration with ACC and
with parties actively involved in the rebuild, including unions, is the ERE funding, which comes into Vote Labour.

Fenton That’s all been sent to Christchurch.

Haines That’s been diverted. In fact it was Helen Kelly who suggested to the previous, previous Minister of Labour that that would be a good use of the funding to support training for workers in the Canterbury rebuild. So that’s in fact what it is being used for.

Fenton So there’s no other training out of that funding happening anywhere else.

Haines Yeah.

Fenton OK, just moving on to other matters. There’s no money in this Budget, no forward projection for increasing the number of labour inspectors. From what I understand, there were 35 throughout the whole country. Is that right?

Bridges Yeah, look, so just to deal very squarely with the resourcing issues, what is true, and you have I think a different viewpoint, in health and safety is that funding is going up. All right. In labour, it’s fair to say it has been static, and I don’t think that’s a bad thing, frankly, because we haven’t had the significant reform agenda there that we’ve had and that we are doing in health and safety.

In terms of the labour inspectorate, I think that sounds right. It can be 33, 34, 35, and that’s about the number that we’re at. One of the things that I see there, just at the very high level, is about reprioritising some of what they’re doing. I think one of the things that came through quite clearly in some of the written questions that you asked and that the department through me answered was that they are getting out much more into workplaces in different visits. I think that’s a good thing. I don’t think there was enough of that in the past. We’re getting more of that. There will also be a reprioritisation, in terms of what they do to some extent. So I think, and I think you would agree with me, can I say, that those migrant worker exploitation issues are ones where actually they should be spending more time, as opposed to perhaps some other issues that are of less priority.

Fenton Yes, I was just going to those written questions. I asked about percentage of time spent by those 35 labour inspectors on migrant work issues or inspections. I can’t remember what the question was but around about that. For Auckland it’s 54 percent of their time. I mean, that is good news, but what concerns me about it is that none of us knows the size and scale of this problem; we just keep getting swamped with it. And I do appreciate that your department followed after the conversation we had. If 54 percent of the time of labour inspectors in Auckland is being taken up with migrant worker issues, that means that’s 54 percent of the time that is not being taken up on other worker issues, and whether you like it or not, Simon, your employment relations changes mean that people are going to be increasingly relying on the Department of Labour, the labour inspectors, for support. I’m really concerned that you have no provision for increasing 35
Let me give you a few comments on the labour inspectorate. As I’ve already said, we’re reprioritising resource to focus on what we think and perceive are the real problems, so that’s part of it. Like you, I was surprised actually to see that 54 percent number—54 percent of their work is the migrant worker space.

We’re improving the ability to identify exploitation. We’re increasing collaboration with other enforcement agencies—for example, and the big example, is immigration, you know, because there’s no point in reinventing the wheel. They have a role in this as well, and I’ve had preliminary discussions with the Minister of Immigration on these sorts of issues, so they need to join up much better what they’re doing.

Can I also say about taking tougher enforcement action—you and I, again, had conversations on those issues where there is evidence of exploitation. I’ve said publicly before, and I say it again: it seems to me that there probably is room for more proportionate and serious sanctions in this area. Someone is badly exploiting the worker—charging for the job, making them work excessive hours. There are serious failings in terms of the Minimum Wage Act and Holidays Act. Those sorts of actions probably should be treated as criminal at some level and they’re not necessarily at the moment. So these are things that the CTU but also the EMA, for example, are hot on at the moment. I’ve heard them. I’m getting advice on these things. I think we can expect to see some operational changes, potentially law changes and potentially the release of a discussion document later this year, so that we can honestly and fearlessly talk about some of these things and see improvements.

I mean I was shocked to find that immigration and labour did not talk to each other about these issues, so there was no crossover there. I know that there is data now being collected since July last year, which relates to the exploitation of migrant workers, minimum wage, and so on, but before that you couldn’t find anything else, so I’m pleased that that progress is being made. But what I want to have assurance to, and what I don’t see anywhere in the estimates, is some commitment to working together with immigration and actually putting some real resources into this, because it’s a growing problem. You’re concerned about it, I’m concerned about, but what’s the most terrible thing is, of course, for the workers who are being affected by this.

And we’re working on it. I think what is true is that when you’re talking about something like migrant worker exploitation it is almost by definition very hard, and that’s probably been the history of this to pin down, to measure. We all know in Government that if you can’t measure it, there’s often a sense of which you underestimate it and do less about it, and perhaps you should. But, you know, really what I’m saying to you is that I think for the first time the Government is really aware of these issues. I’m receiving advice and I think you can expect to see more in this space from
the Government in the future. Your comment about immigration and labour working together was a fair comment—that is happening.

Sabin Thanks, Minister. Can you give us a sense of the challenges with the migrant workers and the sorts of responses that you’re starting to round in on in addressing those challenges? That would be helpful.

Bridges Yes, well, there’s that problem of measurement that I’ve mentioned. There’s also those issues that you hear about anecdotally, but I think we hear about them too often to dismiss—the charging for job offers, because that leads to residency and so on, hugely excessive hours, serious failings, in terms of Minimum Wage Act and the Holidays Act requirements. It’s wrong to categorise this and say it’s just here, here, and here. You are seeing this disproportionately in the hospitality industry, in horticulture, viticulture actually, in my neck of the woods in the Bay of Plenty. So to talk about what is happening, some really good stuff is happening. I should just say while we’re still talking about the problem, the Canterbury rebuild is and will be an issue there that we need to be alive to.

But to give you some examples, in terms of the hospitality industry, there have been enforcement operations, and following that there was quite extensive work in Chinese media to get our messages out. I think from memory, someone correct me if I’m wrong, we know that got to at least 200,000 Aucklanders through the media. Our messages around this migrant workers issue and what should and shouldn’t be happening there. Again, enforcement work in my area in the Bay of Plenty in relation to horticulture, which has resulted in some prosecutions and fines and so on.

Sabin That’s a pretty broad-based response, albeit that there are probably some industries or some areas where you’re typically seeing more of it, and not in terms of your media campaign or getting the information out; it’s quite broad.

Bridges Yes, I think that’s right, and I think, as I say, there is, and you will see, more from Government on this in coming weeks and months this year.

Roche A comment first and then a question, Simon. Thanks for your answers, actually. The Better Public Services programme that the Government’s running sort of talks about departments working together. I don’t see how that kind of fits with your approach that health and safety legislation is separate from employment relations legislation when, in fact, what we know is that unionised workplaces are safer workplaces because there is a culture of workers participating in speaking up.

But, anyway, my question to you was about the fact that there is a shrink in budget in Vote Labour, and there appears to be an increasing amount of work. So I’m wondering what drops off?

Bridges Firstly, let’s pick up—and we won’t get into a long political disagreement about this—in terms of your first comment. All I would say is that you go through the Independent Taskforce on Workplace Health and Safety report that I’ll be coming back on by the end of July. It talks about the sorts of issues you were raising, and particularly the need for a sort of cross-
Government response, if you like—a joined-up response—on health and safety. So we’re looking closely at those sorts of issues.

In terms of what drops off, let me go back to it, a very high level—and the Lord knows, Darien has all the figures because I’ve sent them to her over the last few weeks. But, actually, the money in health and safety has gone up. In labour, I wouldn’t accept that it’s gone down; I think it’s been static. My view is that it doesn’t need more money; there is room for reprioritisation. There is some low-level backroom work that we can probably do smarter, and we can see that money going to migrant workers.

Roche So what sort of backroom work, just as an example?

Bridges Well, let me give you something interesting. If we’re talking about where resources are at the moment, we have significant enforcement resource that goes into Easter trading and into enforcing that. Well, I’m not saying that stops, but, actually, rather than proactively going out, maybe we can be doing that in a smarter way, and there’s resource that can be from doing that shifted into these migrant workers’ area.

Calder Minister, you get a lot of media coverage on the issue of corporate manslaughter and the impact that that may have on health and safety. I know there have been some ideas put forward by various groups, including the task force. Have you got any initials thoughts on where you might go with this concept?

Bridges Yes. Strictly speaking, well, no, not just strictly speaking, but the reality is that that is something the task force has made recommendations around. As I’ve made clear, I will come back formally on that with a fulsome response around the issue of corporate manslaughter.

But I think what would be helpful, because, with respect, I’m not sure that with our friends in the media there is sufficient understanding of what has been recommended. They are not recommending what I think many think of when they think of corporate manslaughter, which is an individualised charge, in particular to board director individuals. We have seen that in other countries, but what the task force makes clear is where we’ve seen it, it hasn’t really worked, and we haven’t seen successful prosecutions.

What they do say, though, is that manslaughter applies to natural persons. For example, if someone is to be involved in a shocking piece of driving and kill someone on the road, an extreme example is they can be charged with manslaughter. They are recommending extending that from natural persons to corporations and businesses. Obviously by definition, given we’re considering everything in the task force report, that is something that we will consider.

I think more generally, as I’ve already said to Andrew, to me, at the risk of being simplistic, what good health and safety needs in this country is leadership. From the bottom up, yes, that’s worker participation, but also from top down, and we need corporate boards around the country taking it seriously, not just ticking boxes but seeing this as an integral part of what they do. Through the Institute of Directors and MBIE guidance to directors...
that we released a couple of weeks ago, I think we’re starting to see a maturation of the debate but also, I hope, some action in this area.

Calder Are you looking for leadership from the workers, leadership from the CEOs, but in terms of the corporate nature of any charge, it would be against the corporation rather than the CEO of that—

Bridges That is what the task force has recommended, rather than, you know, to put this bluntly, CEOs and so on in the dock, because, as I say, overseas—I think in Australia and the United Kingdom—the experience has been that that has been unworkable.

Calder Thank you.

Little As the author of a member’s bill on corporate manslaughter—

Bridges This is right.

Little —and having looked at the issue, there has been on the statute book in the UK, ACT, and Canada corporate manslaughter law, and there are varying ways it applies. Some are a bit like our Health and Safety in Employment Act. The corporate entity is the only thing that gets prosecuted. Others do hold, and in the case of gross negligence, a very high degree of negligence, the directors are effectively held liable in an absolute sense, so once a judge is satisfied that there has been a high degree of negligence and somebody has died as a result, it follows then that their directors, personally, not just to the corporate entity, will suffer some penalty as well. I just wonder, Minister, whether it’s not just the task force that make comments on corporate manslaughter, it was the Royal Commission on the Pike River Coal Mine Tragedy, as well. In fact, the royal commission recommended that a corporate manslaughter law be investigated. Perhaps I’ll just put this suggestion to you, partly I think because of the previous Department of Labour’s poor investigations into fatalities. I have had personal experience of bad investigations by the department on that. But partly, I think, to shift it into the criminal jurisdiction so that the police conduct the investigation with their superior resources and better track record. And one of the things there that I like about the police approach is that where there is a fatality, they err on the side of investigating it as a homicide as opposed to, I think, the Department of Labour’s track record, which is if it thinks it can be explained, it won’t conduct a full investigation. That’s one of the benefits of a corporate manslaughter law, which we don’t have at the moment. So I’ll leave that to you to comment.

Bridges And, look, there’s no question that a manslaughter charge is comparable to homicide, along with murder. That’s a truly serious criminal charge, and who in New Zealand has the best expertise and experience when it comes to truly serious criminal charges? It is the police. What we have here is the royal commission recommending that we go and look very seriously at these issues. We have kept faith with that through the task force. They’ve come back having really thought it through, and I think we’d all agree that was a non-partisan task force containing views from across the spectrum. Experts looked at is seriously. So what is the case? It can get overly complex, but,
of course, corporations can be charged with reasonably serious health and safety charges. So we see that with Pike River at the moment.

Little There are quite serious penalties, but the charges can relate to low level actions. The kind of gross negligence stuff by a group of directors or even the management doesn’t come into it.

Bridges Right, and at the moment a company—just to be clear, to explicitly answer Cam Calder’s point—cannot be charged with corporate manslaughter, and that is the recommendation from the task force, that they should be.

Fenton I’m just going back; there have been a couple of points that have been raised. One is on the Chinese media. Have you done any follow up to how successful that was? Because I’ve had representations from someone who is very active as a representative of migrant workers in the employment authority that the only information that’s been in the Chinese media has been Easter Wu, who is promoting the idea that employers should be able to pay below minimum wage, and that he’s actually had death threats because of cases that have been reported where he’s represented Chinese workers against Chinese employers.

Bridges Well, that’s a very serious matter you raise. We’re happy to look further into it. I’m not aware of any of that. What I’m broadly aware of is, as I say, there were a number of restaurants that were brought to the attention of MBIE and MBIE went in. The labour inspectors went in. There were a number of—albeit not at a high level—charges, I think, there. And what also followed was a reasonably significant advertising campaign, I think mainly in Chinese papers in the Auckland area. My understanding is the coverage of that was some 200,000 Chinese and wider Asian Aucklanders.

Fenton Then just another matter on the health and safety task force—I’m just reading your Cabinet paper of the 7 February in which it says that there will be keen interest on whether there was a tripartite representation—i.e. Government, industry, and worker representation—on the board. It says: “While I believe it’s important there’s a broad range of skills on the board, I believe people should be there in their individual capacity, rather than representing any specific interest group as well.” So the point is that you just told this committee before that you would have tripartite committee.

Bridges So what is very true, and what I meant by what I said in that paper, is I’m not big on tick-box exercises. I don’t think I’ll be letting—

Fenton Tripartite isn’t a tick box. You’re off to the ILO next week; you’re going to be—

Bennett Darien, Darien, just let him answer the question.

Fenton Sorry. Joking with him. It’s all right.

Bridges I think you’ll probably know who might come through the process, Darien, but there is a transparent, robust board selection process led by David Smol, also involving Peter Hughes, John Spencer, and Liz Sinclair of the State Services Commission. I’ve had absolutely minimal involvement in
that, but I think you can be confident that there will be some tripartite representation on that board.

Little

The mistake, let’s say, we made as a country in 1992 was to implement, in a half-assed fashion, the Robens model that had been in Britain since 1974. That was a mistake and that has been identified. The Royal Commission on the Pike River Coal Mine Tragedy confirmed that. Let us not repeat the mistake of 1992. Minister, if you said to your predecessor that it is in our interests to work with you to get the best possible health and safety regime we possibly can, but there is now ample evidence and years of experience overseas to show that a tripartite model that starts at the national governance level, if you like, and goes right down to the enterprise level is the best model because it encourages and promotes engagement by those who are most at risk, and that is the critical factor.

Bridges

I don’t disagree with anything you’ve just said. I mean, just come back to Darien’s point, though. All I mean is, yes, let’s have unionists, workers, business, and Government at the table, but let’s not make this paint by numbers. Rather than just the unions, let’s be blunt about this, slapping up Joe Bloggs because he’s a unionist and he has been for 30 years, let’s have someone with real expertise. And I’m not suggesting that’s what happened. Someone from Business New Zealand, frankly, let’s not just kind of, you know—they get someone because they put someone up and it doesn’t matter who they put up. Expertise and governance skills, first and foremost, and yes, tripartite response in relation to that.

Little

But also people who have an accountability to a community and who are resourced and supported and have access to advice. And frankly, independent advice from the department, because, tragically, we are dealing with the situation in which the department’s approach—we are dealing with a legacy of a failed system today, and it will only improve and get better when the likes of Business New Zealand can put people up and Business New Zealand can resource that person, the CTU can put people up who have, as you say, not just expertise but a passion for it, but who can be resourced and supported and who can be held to account in their own communities about what is going on at that governance level.

Bridges

The thing I was guilty of in that paper, Darien, was trying to be thoughtful.

Fenton

Oh, well, that’s a good excuse. I liked your thoughtful comments. Just a couple of comments on the employment relations bill changes and, you know, we’re looking forward to, as you said, a very robust process. I think it’s going to be a long process, too—

Bridges

Oh, not too long.

Fenton

Well, we don’t have a report-back date, so that will be interesting, but I think you will see something that we haven’t seen because sometimes—

Bridges

Well, as long we can both campaign on it for election time.

Fenton

 Bring it on, as I said, yesterday. Bring it on. OK. Look, one of the things that I’ve been concerned about with your previous changes to employment law, like the 90-day trial period, is the lack of empirical evidence from
workers’ experience. So, two questions: are there any plans to do anything about that this year—because all we’ve heard from is the employer’s point of view—and are you planning to have any proper evidence-gathering around the impact of wages in collective bargaining from the changes in this bill?

Bridges Yeah. I mean, I understand your point and I think, you know, I was going to say and this would be wrong to say but on room for empirical evidence, there’s more than room. It’s important that there is robust evidence-based policies. I accept that. What is also true is that if you look at the Employment Relations Amendment Bill, it’s a series of, I think, discreet—and I know you disagree with this—but practical changes. They are not ideological.

Fenton Yes, they are.

Bridges Well, you know, they’re actually just things where, not just anecdotally, but a series of employers have said here are issues that we are facing, and we’ve looked at the them and we’ve said yes, we think that’s right and we do think it is important to level the playing field.

Roche So you were lobbied? So you’re responding to lobbying?

Bridges Look, let’s face it. Good government action—and that’s what I can’t understand about this whole kind of, I mean, I don’t say this at you Denise, but, frankly, juvenile debate about lobbying—is good government meets with interested parties. I mean, it’s actually what Andrew’s just been talking to me about. I meet with business, I meet with environment groups, I’ll meet with my friend Helen Kelly all the time, and that’s what good government does.

Roche Crestclean, I think it is.

Fenton Just one more question. I mean, it is related to the estimates, because that loopy idea around partial strikes. I mean, first of all, where did it come from? And second of all, are you planning more resources in the employment authority and the employment court, because there’s certainly going to be litigation around that?

Bridges I think just on the partial strikes issues, that is about giving employers the ability to response proportionately to the union’s actions. Now, at the moment, they have to go straight to the nuclear weapons of, you know, lock out and so on.

Fenton They don’t have to. They don’t have to do anything.

Chair All right, Darien, let it go.

Bridges Well, of course, they could roll down and play dead, but this is a situation where there are interests on both sides, and so I think that is actually sensible proportionate change that allows the employers to respond proportionately.

O’Connor Minister, I just want to return to the whole health and safety side and while my proclivity is more motorcycles with two wheels, I’m conscious you have
been doing some work around quad bikes and the safety improvements there. I just wonder if you could highlight, if possible, some of the changes that are happening there as well.

Bridges Yeah, well, that’s similar to forestry in that too many people die. Five people die a year on quad bikes. Many hundreds more are injured. I think it’s about 850 people a year. It’s been a concerted campaign by the ministry to get that down. That’s right. Five serious injuries—five died. I mean, effectively, if you want to just go on the problem a bit more, it is a rural community problem. The majority of deaths on farms are from vehicles, so that’s approximately 50-50 between tractors and quad bikes. I think the ministry has done some very good work here. The quad bike safety campaign they’ve run has had many farm visits and so on and so forth. There are the guidelines for the safe use of quad bikes. I won’t go into the details of that, but that has four pillars, effectively, where if people did those, you know—wearing a helmet, not using quad bikes inappropriately for towing things that are too heavy and this—we wouldn’t see those deaths. That is the reality of the matter. I think the final thing I’d just say, Simon, in response to your question is MBIE is doing a lot but ultimately they can’t be on every farm hilltop policing this every single day. And there is some probably pretty unique cultural issues here where farmers are owner-operators. It’s not just a job to them; it’s actually their life, and they’ve been on quad bikes since they were young. But really, it’s a message of, I think, collective and individual responsibility here. Farmers need to take responsibility for this as well as Government.

Auchinville Minister, you’ve said that the Government’s on track to implement the recommendations of the Royal Commission on the Pike River Coal Mine Tragedy by the end of the year. This is, of course, a very, very significant event and I know it’s occupied a lot of attention from your ministry, but could you run us through what’s been done so far?

Bridges Yeah, so, I think the most important point I would make at a high level is we are implementing all of the recommendations. That’s important. But even more important, this hasn’t just been an exercise about mining and reforming the health and safety laws there. It has led to a much wider work that I’ve talk about, extensively, systemically, the task force, the Crown agency, WorkSafe New Zealand and so on. But let me just go through some specifics that we’re already rolling out. We are setting up WorkSafe New Zealand, as I’ve said, which is a big piece of work to come directly from the Pike River royal commission’s report. We’ve got these directive guidelines out there, and they seem to be working—you know, early days—but working well. We’ve got consultation documents, deeply technical but also deeply important, on mining regulatory reform, and we’re drafting legislation at the moment to introduce, I hope, by the end of this month putting in place WorkSafe New Zealand, new mining regulations, increased work participation I’ve talked with Andrew and Darien about, and better support for the Mines Rescue Trust. So, if I can leave you with a sense that we are doing a lot in this area, that’s the accurate position.

Auchinville Thank you very much.
Bennett: Thank you very much, Minister. I think that’s a good place to finish. We’ve done the hour now. So thank you very much for the way you’ve answered your questions in a very considered and thoughtful manner, and thank you, once again, to your officials, and all the work they do, and also thank you for members for the way that you conducted the estimates today so thanks.

conclusion of evidence
The Primary Production Committee has examined the 2013/14 Estimates for Vote Lands and recommends that the appropriations in respect of Vote Lands for the year ending 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

Shane Ardern
Chairperson
2013/14 Estimates for Vote Māori Affairs

Report of the Māori Affairs Committee

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Appendix 5
2013/14 ESTIMATES FOR VOTE MĀORI AFFAIRS

Vote Māori Affairs

Recommendation

The Māori Affairs Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Māori Affairs as set out in Parliamentary Paper B.5, administered by the Ministry of Māori Development, be accepted.

Introduction

The appropriations sought for Vote Māori Affairs increase to $219.2 million in 2013/14 (estimated actual for 2012/13: $199.181 million).

Appropriations relating to Whānau Ora total $53 million for implementing, developing, and evaluating the Whānau Ora service delivery approach ($8 million), and the purchase of service delivery capability and whānau support ($45 million).

Te Puni Kōkiri

We asked the Minister about the review of the Ministry of Māori Development (Te Puni Kōkiri), which is in its final stage. The Minister told us it was hoped the review will result in more participation by Māori in the development of policy. He also wants to strengthen the regional presence of Te Puni Kōkiri and work more closely with iwi in their rohe.

The Minister considers that other Ministers and officials still consult Māori insufficiently when they develop new policies and legislation; he said this is not intentional, but reflects a lack of awareness. He wants Te Puni Kōkiri to build relationships with other government departments so that Māori views can be taken into account.

Youth unemployment

Currently Te Puni Kōkiri’s role regarding employment is limited to undertakings it can fund through its own budgets, and it has limited influence over the actions of other government departments. Māori youth unemployment statistics have been improving, but the Minister believes they are still “devastatingly bad”. He supports a two-pronged approach to the problem: working with unemployed youth today, and preparing tomorrow’s youth to be more resilient to changes in the employment market. He says Māori are still disproportionately affected by downturns in the economy, and improving Māori educational achievement to a par with their peers is the key to changing this disparity.

Te Reo Māori

We asked the Minister what he thought about the current state of Te Reo Māori. He said kōhanga reo is at a crossroads, but its success is key to the future of the language. Some of us asked whether there should be more encouragement for Māori parents to enrol their tamariki in kōhanga and kura; the Minister said that a number of initiatives are attempting to improve participation rates, and community ownership of such initiatives is being encouraged. He believes he and the Ministry are promoting the growth of Te Reo, but is concerned that many Māori are too complacent when it comes to learning and growing their language.
We asked if the Māori Television Service could still effectively support the growth of Te Reo with a growing number of non-Te-Reo-speakers in management roles. The Minister pointed out that his responsibility is policy, not the operation of Māori Television.

**Next generation**

We asked if the Minister was concerned that the achievements of his generation in growing Te Reo and signing Treaty settlements may not be followed up by today’s generation. The Minister said that previous achievements need to be built on. He said that many Māori leaders would probably say “Our people need a bomb under them” regarding support for Te Reo and making gains for Māori in general. He is pleased by the support for Te Reo in the broadcast media, but expressed concern that job opportunities in that industry might lure many young Te Reo speakers away from teaching careers in kura.

**Spectrum**

We asked about the current management of digital television spectrum for Māori. The Minister said that spectrum is a taonga, and managed accordingly. Giving responsibility to Te Putahi Paoho has kept the spectrum separate from the primarily business-focused Māori Television. The Minister supports the current structure for managing spectrum. He acknowledged that the membership of Te Putahi Paoho needs to be reviewed, but said this will need to wait for upcoming changes to the Māori Community Development Act 1962.

The Minister said that a strong case was put forward for allocating Māori rights to 4G spectrum as well, but the Government disagreed, allocating it to private companies. Rather than allocate 4G spectrum to Māori, it established a fund for information technology and language learning by Māori.

**Local government**

The Minister told us he is not involved in discussions of potential governance restructuring in the Wellington region, although he would like to get involved.

We asked if more could be done to improve Māori representation on local bodies, but the Minister said many previous such initiatives have not been successful, and instead Māori positions on statutory bodies may be the way to go in future. We believe that Te Puni Kōkiri should play a more significant role in any restructure of local government, to ensure a Māori perspective is not lost.

**Marae insurance**

We asked if Te Puni Kōkiri can help marae facing large insurance bills. Early discussions with private insurers elicited signs that some companies are willing to consider offering services tailored to the needs of marae.

**Māori electoral option**

We are concerned by the low rates of enrolment and participation by Māori in local and central government elections. We asked if the Minister could do anything to improve electoral participation rates (both enrolment and voting) among Māori. We suggested that Te Puni Kōkiri could offer support or advice to the Electoral Commission, but they are not currently working on this issue. The Minister acknowledged that civics education is lacking for many young Māori. We recommend Te Puni Kōkiri and the Ministry of Education work together to develop a resource for schools to better inform young people about their civic rights and responsibilities.
Whānau Ora

The multi-class output appropriation for Whānau Ora increases to $36.3 million in 2013/14; the increase is largely due to expense transfers reflecting the anticipated implementation of Provider Collectives Action Plans. Thirty-four provider collectives are expected to be offering services to whānau in the financial year, and they are expected to meet a number of performance targets to fulfil their funding agreements.

The Minister intends to make changes to the implementation arrangements for Whānau Ora. Proposals are before Cabinet and the Minister expects a final decision shortly. The Minister’s goal is to refocus the implementation of Whānau Ora in the interests of reach and capability. The implementation of Whānau Ora will continue to be managed by Te Puni Kōkiri.

A number of initiatives are under way to improve the management of the Whānau Integration, Innovation, and Engagement Fund. There will be a focus on Te Puni Kōkiri’s non-departmental administration at a regional level. The Minister expressed hope that work to tighten up the administration of the fund will not hinder whānau access to it.
Appendix

Approach to this examination

We met on 26 June and 10 July 2013 to consider Vote Māori Affairs. Evidence was heard from the Minister of Māori Affairs, Hon Dr Pita Sharples, 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
Claudette Hauiti
Brendan Horan
Hon Nanaia Mahuta
Katrina Shanks
Rino Tirikatene
Metiria Turei
Nicky Wagner
Jonathan Young

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister of Māori Affairs, Response to additional questions, received 2 July 2013.
Minister of Māori Affairs, Response to standard Estimates questionnaire.
Minister of Whānau Ora, Response to additional questions, received 2 July 2013.
Minister of Whānau Ora, Response to standard Estimates questionnaire.
Office of the Auditor-General, Briefing on Vote Māori Affairs, received 26 June 2013.
Ngā whakapae mō te Pōti Take Māori o te tau 2013/14

Te pūrongo o te Komiti Whiriwhiri Take Māori

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Ka tūtohu te Komiti Whiriwhiri Take Māori kia whakaetaia ngā wāwāhanganga moni mō te tau ka mutu hei te 30 o Pipiri tau 2014, mō te Pōti Take Māori, e whakahaerea nei e Te Puni Kōkiri e ai ki tērā kua whakatakotoria i te Pepa Pāremata B.5.

Kupu Whakataki

E $219.2 miriona te pikinga o ngā wāwāhanganga moni i te tau 2013/14 i rapua mō te Pōti Take Māori (e $199.181 miriona kē: i tino whakapaetia mō te tau 2012/13).

E $53 miriona te katoa o ngā wāwāhanganga moni e pā ana ki a Whānau Ora mō te whakatipuna, whakawhanake, whakamātutau i te ara tukunga ratonga a Whānau Ora (e $8 miriona tērā), ā, me te hokonga o te ratonga tuku pūmanawa me te tautoko mō te whānau (e $45 miriona tērā)

Te Puni Kōkiri

Ka pātai mātou ki te Minita mō te arotakenga o Te Puni Kōkiri kua tae nei ki tōna wāhanga whakakotinga. I mea mai te Minita Take Māori ko te wawata, ka hua mai i te arotakenga te kaha kē ātū o te whai wāhinga o te īwi Māori ki te whakahiato kaupapa here. E hiahia anō hoki a ia ki te whakakaha ātu i te kītea o Te Puni Kōkiri i ngā rohe, me te kaha kē ātū o te māhi i te taha o te īwi i roto i tō rātou rohe.

Ko te whakaaro o te Minita, kei te itiiti tonu te rapu tohutohu a ngā Minita me ngā āpiha i te īwi Māori i te wā, kia whakahiato kaupapa here, hanganga ture hou ana rātou; ko tāna, e hara i te mea e āta whakaro rohe ana tēnei kia tūpono ēngari, e whakaatu kē ana i tō rātou kore mahara ake. Ko tāna hiahia kia hanga hononga Te Puni Kōkiri me ētahi ātū tari kāwanatanga kia aronga ai ngā tirohanga Māori i roto i wā rātou mahi whakahiato kaupapa here.

Taiohi koremahi

I te wā nei, he pakupaku noa te wāhi kei Te Puni Kōkiri, ka tae mai ana ki te huaki huarahi ki ngā mahi māhi. Ko ngā mahi pakupaku noa nei ka taea mā āna pūtea ake, ā, mō ngā mahi hoki a ētahi ātū tari kāwanatanga, he kōpipiri tōna mana mō aua mahinga. Kua pai haere ake ngā tatauranga koremahi mō ngā taiohi Māori ēngari, ki te whakapono o te Minita, kei te “tino hē rawa ātu” tonu. Ka tautoko ia i tētahi aronga mārau-e-rua hei whakatika i te raruraru: ko te mahi i te taha taiohi koremahi i te rā nei, ā, me te takatū taiohi o āpōpō kia manahau ai mō ngā āhuatanga hou i te wāhi kei reira te māhi. E kē ana ia, kei te pā tūwhene tonu ngā āhuatanga o te ēhanga ki te Māori, ā, ko te tino āhuatanga nui he āhanga i te taiohi ākonga ēngari, ki te whakapai āke i te akoranga o te ēhanga ki e e kē ai ki te taumata o ō rātou whakatipuranga.

Te Reo Māori

Ka pātai mātou ki te Minita mō ōna whakaaro ki te ēhanga o Te Reo Māori i te wā nei. Ko tāna, kei tētahi pekanga ara te kōhanga reo, ā, ko tōna angitu te mea nui mō te reo kei mua i te Aroaro. Ka pātai ētahi ō mātou mehe mea kaha kē ātū te whakatenetena mātua Māori
NGĀ WHAKAPAE MŌ TE PŌTI TAKE MĀORI O TE TAU 2013/14

mō te whakauru i ā rātou tamariki ki roto kōhanga, ki roto kura; ka kī mai te Minita, he huhua tonu ngā kōkiringa hou e whakamātau ana kia pai ake te whai wāhitinga, ā, kei te akiaki hapori kia noho ai hei rangatira mō aoa kōkiringa hou. Kī tōna whakaipo, kei te whakatairanga rāua ko Te Puni Kōkiri i te tipuranga o Te Reo ēngari, e mānukanuka ana kei te kiriora rawa te tokomaha o ngā Māori ka tae mai ana ki te akoranga me te whakatipuranga o tō rātou ake reo.

Ka pātai mātou mehemea kei te pai tonu te tautoko a Te Aratuku Whakaata Irirangi Māori i te tipuranga o Te Reo, inā hoki kei te nui haere te hunga kore-kōrero i Te Reo i roto i ngā tūranga whakahare. Ka tohu mai te Minita, ko te kaupapa here kē tōna haepapa eha ra i ngā māhi a Te Aratuku Whakaata Irirangi Māori.

Whakatipuranga o āpōpō

Ka pātai mātou mehemea kei te māharahara te Minita ki ngā whakatutukitanga o tōna whakatipuranga e whakatipu nei i Te Reo, e haini nei i ngā whakataunga Tiriti, kei kore pea aua ma e whaiwhaitia ake e te whakatipuranga o tēnei rā. Ka kī mai te Minita, me haere tonu ngā mahi whakapakari i ngā whakatutukitanga o mua. Ka mea mai, tērā pehe a māna tonu ngā rangatira Māori ka mea “Kā hiahiai he pahūtanga ki raro i a rātou i ētahi wā” ka tae mai ana ki te tautoko i Te Reo, te hanga painga hoki mō Māori mā whānui. Kei te hariko a ia ki te tautokona o Te Reo e te hunga pāpāho ēngari, ka whakapuaki i tana māharahara mō ngā mea angitu i taua ahumahi, inarā, ka minatia e te hunga taiohi, ka tōhia atu te māhia o te hunga taiohi e aua mea angitu e matatau ana ki te kōrero i Te Reo, ka mahara te rapu tūranga whakaako kē i ngā kura.

Iarere

Ka pātai mātou mō te whakahae renga i te wā ne i te iarere whakaata mamati mō ngāi Māori. Ko tā te Minita, he taonga te iarere, ā, ka whakahae rea me te mea he taonga. Nā te hoatu i te haepapa ki Te Pūtahi Paoho kua noho wehe mai te iarere i te pakihi-arotahi matua a Whakaata Māori. Tautoko ai te Minita i te anga whakahare o te iarere i te wā nei. Ka whakaae a ia me arotakengia ngā mema o Te Pūtahi Paoho ēngari ka mea anō, me tatari mō ngā whakahoutanga ki Te Ture Whakahiato Hapori Māori o te tau 1962 kei te haere mai.

Ka kī mai te Minita, he māro tōna te kēhi i whakataktorōia mō te tohatoha tika Māori ki te iarere 4G hoki ēngari, i whakahē te Kāwanatanga, ka tohatohaina kēngia ki ngā kamupene tūmataiti, ka mahara te toha iarere 4G ki te iwi Māori. Ka whakatūria kēngia e te Kāwanatanga he tahua mō te mōhiohio hangarau, ā, mō te akoranga e ngāi Māori i Te Reo.

Rangatōpū ā-rohe

I mea mai te Minita, kihai ia i roto i ngā matapakinga mō te whakatūtū anō i te pūmanawa nohopuku tiaki kaupapa i te rohe o Te Whanga-nui-a-Tara, ahakoa tana hiahia uru atu.

Ka pātai mātou mehemea ka tāea anō te hiki ake i te kitea o te kanohi Māori i runga rangatōpū ā-rohe ēngari, ka mea mai te Minita, kihai rawa te māhia o aua kaupapa kōkiri i angitu, ā, tērā pehe ko te whai tūranga a ngāi Māori i runga rangatōpū ā-rohe whai mana te huarahi kia takahia kē te ao kei mua i te aroaro. Kī a mātou nei, me nui kē atu te wāhī mō Te Puni Kōkiri i roto i te mahi whakahou anō i te anga o te rangatōpū ā-rohe kia āta kītea ai, kihai te tirohanga Māori e ngaro.
Rīanga marae

Ka pātai mātou mehemea ka kaha Te Puni Kōkiri ki te āwhina marae e pokea nei e ngā pire rīanga nui. Nā runga i ngā matapakinga tōmua i te taha o ngā kairāanga tūmataiti, ka puta he tohu, kei te rata ētahi kamupene ki te tuku me te whakahāngai i āna ratonga kia tutuki ai ngā hiahia o te marae.

Kōwhirīnga pōti Māori

Kei te māhaharara mātou ki te ititi rawa o te whakaurunga me te whai wāhitanga o ngāi Māori ki ngā pōtitanga rangatūpū ā-rohe, ā-waenganui hoki. Ka pātai mātou mehemea ka tāea anō e te Minita te hiki ake i te whai wāhitanga ki te pōti (te whakaurunga me te pōti) i waenganui i a ngāi Māori. Ka whakapuaki mātou, tērā pea ka āhei Te Puni Kōkiri ki te hoatu tautoko, whakamaherehere rānei ki Te Kaitiaki Take Kōwhiri ēngari, kāre rātou i te whaiwhai ake i tēnei kaupapa i te wā nei. Ka whakaae te Minita, e iti rawa ana te mōhio o te huhua o ngā taiohi Māori ki ēnei momo nekehanga a te whaiwhai. Ka whakapuaki mātou, tērā pea ka āhei Te Puni Kōkiri ki te hoatu tautoko, whakamaherehere rānei ki Te Kaitiaki Take Kōwhiri ēngari, kāre rātou i te whaiwhai ake i tēnei kaupapa i te wā nei. Ka whakaae te Minita, e iti rawa ana te mōhio o te huhua o ngā taiohi Māori ki ēnei momo nekehanga a te whaiwhai. Ka whakaae Te Puni Kōkiri ka whakapuaki, kei mua ngā whāinga whakatutukinga mahi kia eke ai ki ō rātou tika, me ō ratou haepapa kirirarau.

Whānau Ora

E $36.3 miriona te pikinga o te pānganga wāwāhanga moni-tini maha mō Whānau Ora i te tau 2013/14; i piki ai nā runga i ngā whakawhitanga whakapaunga moni e whakaata ana i te whakatinanatanga i matapaetia mō Ngā Mahere Mahi a te Ohu Kaituku. Ko te tūmanako, e 34 ngā ohu kaituku ka tāpa ratonga ki ngā whānau i te tau pūtea, ā, ko te tikanga ka tutuki i a rātou ētahi whāinga whakatutukinga mahi kia eke ai ki ō rātou whakaetanga pūtea āwhina.

Ko te koronga o te Minita, he whakarerekei i ngā whakaritenga whakatinanatanga mō Whānau Ora. Kei mua ngā whakatakotoranga i te aroaro o te Rūnanga Kāwanatanga, ā, ko te tūmanako ia o te Minita, ka tutuki he whakataunga oti atu ā ko ake nei. Ko te whāinga o te Minita, he whakahāngai anō i te whakatinanatanga o Whānau Ora e pā ana ki te torotoronga me te raukaha. Ka haere tonu te mahi whakahaire a Te Puni Kōkiri mō te whakatinana i a Whānau Ora.

Kua kanekate haere o ētahi kaupapa kōkiri hei whakapai ake i te whakahaerenga o te Pūtea Whakakotahi, Auahatanga, me te Whakaangatanga. Ka puta he arotahi ki tētahi taukata a-arohe mō te whakahaerenga o ngā tari ā-waho a Te Puni Kōkiri. I whakapuaki awhero te Minita ka kaua ngā mahi whakakikī i te whakahaerenga o te tahua e whakapōrea te te whiwhinga pūtea a te whānau mai i taua tahu.
Tāpiritanga

Ara ki tēnei tirotirohanga
I hui mātou i te 26 o Pipiri me te 10 o Hōngongoi o te tau 2013 ki te whakaaroaro i te Pōti Take Māori. I rongo taunakitanga hoki mai i te Minita o ngā Take Māori, a Hōnore Tākutau Pita Sharples, ā, i Te Punī Kōkiri. I whiwhi whakamaherehere mai i Te Tari o te Tumuaki.

Ko ngā mema o te komiti, ko
Hōnore Tau Hēnare (heamana)
Te Ururoa Flavell
Hone Harawira
Claudette Hauiti
Brendan Horan
Hōnore Nanaia Mahuta
Katrina Shanks
Rino Tirikātene
Mētīria Tūrei
Nicky Wagner
Jonathan Young

Taunakitanga me te whakamaherehere i whiwhi
Nā mātou te taunakitanga me te whakamaherehere i tēnei tirotirohanga kai whai ake:
Urupare ki ngā pātai i tua atu a te Minita o ngā Take Māori i whiwhi i te 2 o Hōngongoi tau 2013.
Urupare a te Minita o ngā Take Māori ki te rārangi pātai mō ngā Whakapae noa.
Urupare ki ngā pātai i tua atu a te Minita o Whānau Ora, i whiwhi i te 2 o Hōngongoi tau 2013.
Urupare a te Minita o Whānau Ora ki te rārangi pātai mō ngā Whakapae noa.
Tohutohu mō te Pōti Take Māori a Te Tari o te Tumuaki, i whiwhi i te 26 o Pipiri tau 2013.
The Government Administration Committee has examined the 2013/14 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 2014, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2013/14 Estimates for Vote Ombudsmen, and recommends that the appropriations in respect of Vote Ombudsmen for the year ending 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2013/14 Estimates for Vote Pacific Island Affairs, and recommends that the appropriations in respect of Vote Pacific Island Affairs for the year ending 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Local Government and Environment Committee has examined the 2013/14 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 2014, as set out in Parliamentary Paper B.5, be accepted.

Nicky Wagner
Chairperson
2013/14 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 2014 for Vote Parliamentary Counsel, administered by the Parliamentary Counsel Office, as set out in Parliamentary Paper B.5, 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 2013/14 amount to $23.506 million, an increase of $480,000 from the estimated actual expenditure in 2012/13. This additional funding is for work on the electronic New Zealand legislation system.

Workload

The Attorney-General praised the work of the acting Chief Parliamentary Counsel and his team over recent years, acknowledging the specialised and difficult nature of the work. We are aware of the large amount of legislation passing through the House, and the pressures on the Parliamentary Counsel Office (PCO) at all stages. We were pleased to hear the Attorney-General is keeping a close eye on the office’s resources.

Statute law revision

The Legislation Act 2012 requires PCO to develop a three-yearly programme of statute revision. We noted that this substantial programme is to get under way in 2014. It was good to learn that the Attorney-General is monitoring PCO’s resources to ensure this work can be done. We will monitor the progress of the statute revision programme.

Pacific desk

We note that 2013/14 is the last of three years of funding from New Zealand Aid for PCO to support the drafting of legislation and provision of related training in Pacific Island countries. We are pleased to hear of excellent feedback on the work from Australia and Pacific countries, who consider the assistance to be a practical and cost-effective form of aid. They would like to see it continue.

PCO has concentrated on assisting the Cook Islands and Niue. It has provided them with templates and guidelines to help achieve consistency in their legislation. PCO reported that these materials are working well. We heard that, although just one senior lawyer is assigned to the work each year, PCO will be considering how it can continue to fund the model. We will follow this matter with interest.
Appendix

Approach to this examination

We met on 13 June and 27 June 2013 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

Scott Simpson (Chair)
Hon Lianne Dalziel
Paul Foster-Bell
Julie Anne Genter
Andrew Little
Alfred Ngaro
Denis O’Rourke
Katrina Shanks
Hon Kate Wilkinson

David Clendon replaced Julie Anne Genter for this item of business.

Evidence and advice received

We considered the following evidence and advice during this examination:

Attorney-General, Response to standard Estimates questionnaire, received 17 May 2013.
Attorney-General, Response to additional questions, received 12 June 2013.
Office of the Auditor-General, Briefing on Vote Parliamentary Counsel, dated 30 May 2013.
Vote briefing paper, prepared by committee staff, dated 13 June 2013.
The Government Administration Committee has examined the 2013/14 Estimates for Vote Parliamentary Service, and recommends that the appropriations in respect of Vote Parliamentary Service for the year ending 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
2013/14 Estimates for Vote Police

Report of the Law and Order Committee

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Recommendation

The Law and Order Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Police, administered by the New Zealand Police, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The total appropriations sought this year for Vote Police amount to $1.586 billion, down from the estimated actual expenditure in 2012/13 of $1.621 billion. Significant allocations include $387.768 million for police primary response management, $371.357 million for investigations, and $306.667 million for the road safety programme.

Staff numbers

We considered Police staff numbers for the 2013/14 financial year, and debated whether the available figures represented a temporary imbalance between attrition and recruitment, or a real reduction relative to previous years.

In preparing for the estimates, the Police predict the rate of attrition for that year, and budget accordingly. In 2012/13, Police predicted the rate to be 3.5 per cent, but attrition of 4.1 per cent eventuated. Contributing factors were rising mobility in the labour market as the global economic crisis eases, and the Australian Police recruiting New Zealand officers in 2012/13. The Minister said that Police staffing statistics merely reflect a moment in time, and change often.

However, some of us believe that these numbers can be judged against the equivalent period in previous years. Examination of the 2012/13 numbers of constabulary staff and other employees indicates that a total reduction of 446 staff members has occurred. In response, the Police needed to hire more staff, and we heard that 440 constabulary staff will be graduating in the 2013/14 financial year. Some of us maintain, however, that the hiring of new graduates will be offset by 2013/14 attrition. The Minister assured us that the Government does not want to see a reduction in the number of sworn officers.

Funding

Taking cost increases into account, the real level of funding for this vote in 2013/14 decreases by $20 million relative to the previous year, and further reductions in funding are projected. We asked the Minister to explain, and heard that the service the Police provide has changed, and so have their needs and priorities. Funding priorities include modernisation and the reform of the Police’s criminal procedure. $10 million was carried forward from the previous financial year for policing sexual assault violations. Prioritising these areas meant less could be spent in other areas, and the Minister believes that police are more effective and efficient as a result.

Technology

In 2013/14, the appropriation for General Crime Prevention Services is $152.568 million. As part of the “Prevention First” strategy, the Police have introduced the use of technology
such as iPhones for collecting and communicating information. This allows police officers on the street to access and enter information, equipping them to make immediate discretionary decisions. Information can be analysed for demand profiles, allowing more flexibility in the district-wide allocation of Police resources. We heard that the feedback to date has been very positive, and that the technology will be available for all staff in every district by the end of June 2013.

We asked how effective the technology will be in rural areas, some of which have limited coverage. We heard that coverage is excellent in most places, and the provider is addressing the remaining constraints. In addition, rural areas may benefit when real-time demand analysis results in the redeployment of urban officers to rural areas.

We heard that as new opportunities for improving productivity are discovered, the technology can be built upon. We look forward to seeing further developments in this area.

**Police stations**

In 2012/13, the Police closed 10 offices. Some of us believe this to be in contradiction to the Minister’s stated position last year regarding the closure of police stations. We heard that the Police have reassessed what type of “police business” they need to deliver in particular communities, and in some cases this has resulted in the closing of a kiosk, community base, or police station. They emphasised that such decisions were made for operational, not financial, reasons. The Police have been encouraging people to ring the crime reporting lines as soon as possible so that they can respond in good time.

**Comments by Deputy Commissioner**

Questions were asked of Deputy Commissioner Mike Bush regarding his comments at a former police officer’s funeral. The Commissioner Peter Marshall noted that he was aware of the Deputy Commissioner’s attendance and comments. Further questions were raised about the appropriateness of those comments.
Appendix A

Approach to this examination

We met on 12 June and 10 July 2013 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
Hon Todd McClay
Ian Mc Kelvie
Mark Mitchell
Richard Prosser
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 questions, received 4 July 2013.
Office of the Auditor-General, Briefing on Vote Police, dated 12 June 2013.
Vote briefing paper, Vote Police, prepared by committee staff, dated 10 June 2013.
Dean: All right, I’ll call the committee to order, and welcome in Peter Marshall, and Viv and Mike. Minister, thank you for agreeing to appear for an examination of Vote Police. So if you’d like to give us some introductory comments, perhaps, and then be available for questions? Thank you.

Tolley: Well you’ve sort of done the introduction of the officials. We also have John Bole here, who’s the chief manager of finance. I think the police have had a very good year—a very successful year. Recorded crime in 2012 was the lowest that it’s been for 24 years, so it was down 7.4 percent from the previous year. And that means that crime is down for the third year in a row—16.7 percent—which is a drop over the last 3 years.

More particularly I’m really pleased to see that the crimes that affect the ordinary, everyday New Zealanders—like burglary, down 11.1 percent; vehicle theft, down 14.1 percent; and robbery, down 10 percent. Those are the sorts of things that the average New Zealander worries about. It affects them—most of us aren’t involved in murders and those sorts of things—but that’s what helps them feel safe in their communities. And it’s really good to see those trending down. I have to make mention of the fact that the Queen’s Birthday is the first Queen’s Birthday we’ve had no fatalities on our roads since records were kept in 1956. That’s not all to do with policing, and we accept that; it was a good, fine weekend, and roads and cars have developed. But the visible police—and I actually drove from Ōhope across...
to Spring Hill and back on the weekend, and there were police everywhere. It was hard to avoid them, particularly on those major roads. So I'm sure that that visible policing made a difference. As all of that has happened—and I wasn’t caught, just in case you were going to ask—at the same time as that, public confidence has never been higher. So public confidence and trust in the police is the best it's been.

I’ve put in front of you this list here, because, really, what I want to say to you today is that where we are in time now is, by the end of June, this 4-year programme called Policing Excellence is due to be completely implemented. You can tell by the list here—and I was going to go through the whole list, but I know you want to ask questions, so I won’t. This list of changes signifies a significant change to the way that policing is delivered in New Zealand. So the police service that you had 5 or 6 years ago is not what you are looking at today. This list of work streams—under what’s called Policing Excellence—has been driven by the police. It has been about efficiencies, but it’s more been about the police being much more effective—led, of course, by the systems change of prevention first. So the idea is that we have a much more mobile, visible police service out there in our communities, preventing crime before it happens. That has driven a lot of the work streams, so things like the focus on victims—every district now has a victims’ support manager. We’ve had 9,000 staff trained in how to deal with victims. We are changing the emphasis of the way the police work, so that they are much more driven by the needs of the victim.

When you look at things like case management and the crime reporting line, that’s all about working better, making themselves much more available to the public. I think probably the most visible of Prevention First are the 33 neighbourhood policing teams that are out and about. They are in the places that have been identified as having continuous re-victimisation, and high crime rates. So these community policing teams are out there working in those communities, working with those communities, to find ways to protect them from the criminal element and to change what happens in those communities—really, really important work.

Then you look at things like mobility, and by the end of this month, 6,500 front-line officers will have an iPad or an iPhone, and 3,900 will have an iPad and an iPhone. What that is going to do is enable our front line to be front-line almost continuously. So instead of having to go back to the station to fill in forms to get information, they are able to get that instantly. They are able to enter into that equipment details that go straight back into the central location that stores all the information about each individual case. The trials that were carried out over the last year showed that we can get about an extra 30 minutes per officer, per shift. That equates to about just over 500,000 extra policing hours over the next 12 months, which is about another 300 officers. So instead of having to add staff, we are making the staff that we have there far more productive, and more important, keeping them out in the public. The biggest comment that I’ve had from the public over the last 12 months has been how much more visible our
police are, and how the public is feeling good; they feel that the police are doing their job and keeping their communities safe.

The other one that I just want to draw attention to is probably the deployment. That’s about giving the managers of staff the flexibility to manage them according to where the crime is happening. So it’s about giving flexibility in staffing, to have the right people in the right place, at the right time.

I’ve just had some changes made in my own area that caused a few concerns, around senior sergeants being moved from smaller towns back into the base of Whakatāne, and I sat down with the Ōpōtiki Mayor last fortnight, and talked to him about what that means. So the senior sergeant’s job was largely an administration job. His biggest complaint to me was that in Ōpōtiki on a Saturday night they only had one policeman sitting in the station, and one out on the street. This sort of change that we’re seeing under deployment allows the managers to make decisions about deploying staff when they’re needed, where they’re needed. So if they need to in Ōpōtiki on a Saturday night, they might have 3 or 4 officers. They might do a blitz. So it gives them that flexibility to do that.

Plus we have in every district—to be completed by the end of the month—a district command centre that gives the district commander an overall picture of where the staff are deployed, what they’re doing, collates all the intelligence. So, again, it’s about using good information to make sure that the police are out in the right places. And, of course, we’ve now given them the right tools.

So just to sum up, we’ve already talked about the work that police are doing as part of the justice sector, because they are the first ones—you’ll see the alternative resolutions. They’re using those; they’re using them wisely. Those arrests are included in the crime, so it’s not a way of reducing the crime stats, but it doesn’t necessarily put people through the justice system, and it’s about finding different ways to deal with people. So all in all, I think the police are to be congratulated. They’ve come through enormous change—unprecedented change—in the way that they deliver services, and they are getting excellent results.

Dean OK, thank you very much for that introduction.

Mallard Thanks. I’ve got a limited series, and then Mr Goff will replace me. Commissioner, was it your decision that Mr Bush speak at the Hutton funeral?

Mitchell I’m sorry, Madam Chair, I don’t see the relevance of this line of questioning at all. In fact, Mr Goff is back in the room, and I think we’re going to get far more informed and intelligent questions from Mr Goff than we are from Mr Mallard.

Mallard I’m replacing Mr Goff until 11.30, and stop cutting my time out.

Dean Thank you, thank you. We have got Mr Mallard here until 11.30. Has whipped in, so that aspect of it is absolutely fine. The relevance of the
question—I'll allow the commissioner to answer as best he can within the scope of this examination.

Marshall I support absolutely Deputy Commissioner Bush in terms of his attendance and in the context of the eulogy. You have to remember this was a funeral service attended by grieving family, by grieving friends and associates of the deceased, and he made those comments in the context of that particular set of circumstances. I have been on public record in terms of supporting him in the context of that particular setting, on that particular day.

Mallard Can I ask Mr Bush whether in fact he read the commission of inquiry—the royal commission report—before he made those comments?

Bush I’m not 100 percent familiar with the detail, but I’m fully across the findings.

Mallard And were your final comments around the integrity of Mr Hutton based on his police record?

Mitchell Madam Chair, I’m sorry, but I don’t see—we’re here for an estimates, and I don’t see how it’s relevant to have someone who’s subbed in to start badgering the assistant commissioner over comments that have no relevance at all—

Mallard Madam Chair, we are deciding whether or not to continue his salary. That’s what we’re deciding now.

Tolley Well actually, that’s not your decision to make. Neither is it this select committee’s decision to make. Neither is it my decision to make.

Mallard Actually, we are deciding whether or not these estimates should be approved, and that includes the salary of Mr Bush, who made very unfortunate comments at the funeral.

Dean All right. Thank you for that. I’ll call the meeting to order. The questions and the objection that you raise are noted. This is an estimates examination and I will go back to the previous ruling that I made—that if the question is in line with the scope of this examination, then I will invite perhaps the chief commissioner to answer as best he may. But if it is the view of the Police Commissioner that this is straying outside the scope of this estimates examination, then that is where we will leave it.

Mallard Point of order. No, I’ll take a point of order now.

Dean All right. I’ll hear it.

Mallard Actually, the Police Commissioner doesn’t decide which questions he’s asked; the committee does. You cannot give to the Police Commissioner—

Tolley Actually, I’m the Minister—actually I’m the Minister—

Dean Thank you, so I will redirect the question to the Minister.

Tolley I’m quite happy to have the question. It does have nothing to do with the estimates and, in fact, I would say that Deputy Commissioner Bush in talking about Policing Excellence and the unprecedented change that has happened through the police over the last 4 years has driven, largely, the
biggest projects. They were driven by Deputy Commissioner Bush. So I think that that's what we should be talking about rather than something that happened 30 years ago. I think Deputy Commissioner Bush was probably 10 or 11 at the time, so I think it's outside the scope of the estimates, Madam Chair.

Mitchell I agree, Madam Chair. I think it's way outside the scope of what we're here to do, and all he's doing is—

Mallard One final question.

Dean No wait—just one at a time, thank you.

Mitchell —is wasting our time. I'd like to see Mr Goff—it's now 11.30. He should come back. He's going to ask far better, more intelligible questions, so I think he should come back to the committee. It's true. He's wasting our time.

Mallard Well, I'll give a new sub if you want me to stay. I'm quite happy to do that.

Mitchell You're wasting our time. It's got no relevance to what we're here for.

Dean OK. Thanks very much. It is now 11.30, so I'll invite the proper member to resume his seat.

Mallard I'm going to change the sub arrangements.

Dean Well, that's OK. The member can talk to the clerk and do that. So I'll take the next question that I have on my list, and that is from Kris.

Mallard Sorry, I want my next question, please.

Dean No, I'm sorry—

Mallard Madam Chair, I had three questions to ask. I asked two of them and I'll ask the third.

Dean No, no, and I am ruling that I am moving on to another member who has indicated he has a question on the list. So I'll invite Kris to ask his question and if that member would like to lodge another question with me, then he's welcome to do that.

Faafoi I'm going to confer my question back to Mr Mallard.

Mallard Thank you, Madam Chair.

Dean No. So in that case, I will then move on to the next person I have on the list, which is Jami-Lee Ross. He will ask his question and then I will invite—

Mallard Well, that's protecting someone who's protecting a Minister who lied to the House.

Dean It's committee procedure and so we will then move on to Jami-Lee Ross.

Tolley I take offence at that. I have not lied—

Mallard You told the House, Madam Chair, that you were—

Tolley I'm the Minister—

Mallard —you know, you told the House—
Mitchell  Madam Chair, we shouldn’t even be talking about this. You’re way outside the scope on this, Trevor. I’m sorry. It’s got nothing to do with estimates. It’s complete nonsense.

Mallard  You told the House that Mr Bush spoke off the record, which was untrue.

Tolley  I actually said—my words are: “I understand that these comments were read from Mr Hutton’s service record.”

Mallard  And that is the question I wanted to ask Mr Bush, to ask whether that was true, because we know it’s not, because we’ve seen the record.

Tolley  I will ask you to withdraw that accusation, Mr Mallard. I’ll ask you to withdraw that accusation.

Mallard  No, not a chance.

Dean  Oh, he’s thrown his toys anyway, so that’s OK. That’s all right. He’s thrown his toys, so that’s fine. So we now have Jami-Lee, thank you very much.

Ross  I’m quite keen to learn more about the mobile changes that are being made in the police, whenever I have been out with the police or recently. There’s been a lot of changes in the technology that they’re using. Can you talk us through how that’s helping the police and the extent to which you’re rolling out that programme? What kinds of efficiencies are you seeing within the force and how will that help the police do a better job for the public in the future?

Tolley  This is a huge investment by police in technology in order to keep those front-line officers out there on the front line. And it’s going to make an enormous difference to the way that policing operates over the next few years. I don’t think we’ve realised even with the introduction the massive changes that will take place and the way that we can use it. Can I just give you an example of feedback that I’ve had from an officer, who said: “I walked up to the car and showed the driver the actual photo of himself in the NIA—in their computer system—one the iPhone. The look on his face was classic and he immediately gave me his correct details.” So that’s the sort of stuff that’s happening. So that’s just one instance. But I have to say at the launch the officers who had been trialling these devices didn’t want to give them up; you know, they wanted to continue. They had just found that it made their jobs so much easier. So they can enter information, they can get information instantly, including photos if we have them, so that they can easily identify people. I don’t know, Deputy Commissioner Bush, do you want to add to that?

Bush  Only the extremely positive feedback from the start and we’re already starting to see the huge productivity gains by our staff, allowing them to remain front-line, where they need to be.

Ross  When will this be rolled out to every single front-line staff member?

Bush  It will be completed by the end of the month.

Tolley  So there’s only two more districts—

Bush  Three, Minister.
Tolley: Three more.

Bush: And it will be completed by the end of this month.

McKelvie: I have a very quick sup just on that issue. I was interested in rural New Zealand and how this technology handles some of my electorate, for example and some of the Minister’s electorate. Is that an issue for you?

Bush: And you’re talking about coverage?

Tolley: Yes.

Bush: Yes, coverage is excellent in most of the country. There are a few locations in which it is an issue, but the provider is addressing those in partnership with ourselves.

Tolley: And I think one of the trial areas was the West Coast, so when they did the trial over the last year, they did try and make sure that they—and I’ve talked to some of the officers down there and there were difficulties. But where, I think, that we do owe Deputy Commissioner Bush some accolades is the contract that he has negotiated with the provider, which actually is a service-based contract. So many of these technology and IT projects focus on the devices. Well, actually, this contract is about the service delivery and so we can ask the provider in areas where coverage is poor—that’s part of the deal and that goes down to negotiating a very good contract. And, of course, over time as these devices need updating we can do that pretty easily.

Prosser: I had a similar concern, actually, to Mr McKelvie in that I’ve spent most of my life living in areas where these sorts of things were the last to arrive and coverage is pretty poor. So what I’m concerned about is that we’re not using productivity gains on advancing technology, which I fully support them having that use of to avoid taking on extra staff in areas where there may be a need for them. You talked about deployment and changes to rules around deployment, giving district commanders the opportunity to move staff around. How much is that going to have an effect on places where we still have a sole-charge police station, in places where there is not overnight regular cover, that sort of thing?

Tolley: It’s the commissioner’s decision, so I’ll ask him to—

Bush: Yes, well we have no plans whatsoever in terms of any reduction of coverage for sworn members in area and what it does is actually gives them greater flexibility to be out in the communities. I don’t want a police officer sitting in a station, sitting in a kiosk. I want that person, him or her, out on the road. So I see it as very positive, of supplementing their ability to do the business.

Prosser: But it’s quite possible that you may have some of these 300 equivalent extra officers being able to be redeployed from perhaps urban areas where they are able to make better use of technology out to the provinces where you might have had a case where a small town had one officer or one on call three-quarters of an hour away, that sort of thing.

Bush: That’s exactly what happens. The district command centres are a sort of central hub and at any one period the district commander, the area
commander, those in charge can say: “We have an emerging issue in Ōpōtiki.”—for argument’s sake—“We have an emerging issue in parts of the Wairarapa. We need to move our staff there for a particular shift, for a particular couple of days, whatever the case is, so they’ve got a global impression of what’s happening, and flexibility—fluidity—is the key.

Tolley And, of course, that good use of intelligence that we’re talking about in corrections, which the police use as well.

Bush And the flexibility of the command centres will actually allow us to understand where that demand is, and, in real time, move our resource to where it needs to be.

Prosser Without then losing coverage in the main centres, where—

Tolley Yeah, that’s right.

Bush Yes.

Mitchell Just on that, I personally enjoyed a 14-year policing career myself, but I’ve been gone for over a decade now and it astounds me how much of a change you’ve made. The police force I was a part of, or the police service I was part of, is very different, actually, to the police service that we have today and it actually makes me want to go out and submit my papers again. You’re doing a great job. Too old, too grey—yeah. You would at least consider it, would you, commissioner?

Tolley If you pass the PCT.

Mitchell Exactly, exactly. No, but I just want to congratulate you, because we are really moving in the right direction and it’s phenomenal the results that we’re getting and the staff are giving us as a community. And one thing that I’ve noticed in my electorate and it drives back to the use of technology and the use of resources is that when I was in the police it was very much you never would never go across into another region or across a boundary. You were very stuck in where you were, and it didn’t always allow the best use of resources. I see now clearly that resources are being shifted around and put where they’re needed and I’m experiencing—we’re experiencing—the direct benefit of that in Rodney without a doubt. I was just wondering if you could—

Dean Very quick question.

Mitchell Exactly, I’m sorry. I get passionate about this stuff, and I apologise. In terms of the technology, and we’re looking at the savings in terms of staff time back in the station, is there going to be a further development of the technology that’s going to be available to staff—front-line staff—in the future?

Tolley I’ll answer it quickly then the deputy commissioner might add to it. My understanding is that there are very good—and this is from the staff themselves—processes being set up, that as they use it, they can then feed back in extra applications that they think they could put the technology to. And the attitude that I had from the executive and from the leadership team
is that that’s welcomed, because it’s only as we start using this technology that we then will find all these things. But you might want to add to that.

Bush I can add to that, in this fashion, in that the 520,000 hours a year that the Minister has referred to are based upon the applications that we rolled out or we are rolling out currently. It is actually at an embryonic stage. There is so much scope to build upon these applications to create more productivity. It’s a very bright and exciting future for us, and all of that new productivity will be invested in prevention activities, which will prevent people from becoming victims of crime or crash, and that’s the overarching purpose of it all.

Clendon Appreciating all your productivity drives, and so on, and that’s the way forward, no doubt, you are nevertheless on a very constrained budget and expect to be for a number of years yet. Do you expect to be able to maintain an adequate number of non-sworn staff? You need people who are not out in cars and on the streets. Are you contemplating—do you expect to fill any vacancies that come around to maintain a full complement of non-sworn staff around the police?

Rickard The way we structure our business is not just about the numbers. It’s actually how we use our people, how we change how things occur, so we’re trying to get the best benefits in order to achieve our outcomes, so it’s not about how many non-sworn or police employees we have, about how many constables, about how many police stations. It’s actually how we use the resource. So we don’t get ourselves worried about the numbers. It’s actually how we prioritise our resource in the key areas, in order to get the outcomes. So we don’t worry, in response to your question, about filling the vacancies. We are confident that we can get the outcomes that are required of us.

Tolley So my understanding is that the way it has been and will be continuing is that if there is a vacancy, on a case by case basis they would have a look. Is that job necessary? Is it part of the restructuring, or is this an opportunity to do some things differently? That is as I would expect of them, before they’re filled. I would make the point, though, that we as a Government do not want to see any change to the numbers of sworn staff, and so we are not looking for a reduction in sworn staff. But if you look at things like the case management and, on that, Policing Excellence, support services to the front line, so HR and finance has been centralised, and that is certainly to get efficiencies, but also to get better management of those systems. So, yes, I expect them to be looking at every vacancy to make that decision.

Goff Can I just pick you up on your last comment, Minister. You said you’re not looking for a reduction in sworn staff. Can I refer you to question No. 28 of the estimates, which shows full-time sworn staff constabulary down 110 on last year, part-time constabulary down 45, other employee full-time down 121, and part-time other employees down 70. That means that the total police personnel strength is down 446 on last year. How can you tell this committee that you’re not looking for a reduction in sworn and other staff?
Tolley I will start, and then I'll get the commissioner to comment. In fact, my understanding is that at any one time you have a slice through, the staffing will be different because you’re taking one point in time. The second point I would make is that the police budget—on attrition, they have to anticipate attrition for the coming year in order to organise their recruit wings. There is a long period of training before an officer goes back out and is—I can’t think of the word—actionable.

Rickard Deployed.

Tolley Deployed, thank you. So we’ve gone through the recession as is normal, as I understand, with a very low attrition rate. In fact, we were down at 3.1 percent in the budget before last. This year they budgeted for 3.5 percent attrition. In actual fact, the attrition has gone up to 4.1 percent, and that means that they are going to have to train some more people. So I repeat, there is no desire to see a drop in the number of front-line officers, and my understanding is that the training recruit wings that are planned will make up the difference, so that we are back to where we expect to be. But Deputy Commissioner Rickard might want to comment on that?

Goff No, I want to focus, please, on you, Minister—

Dean Hang on.

Goff I am asking the questions of the Minister. This is the time in the estimates debate where we have the one chance to ask questions of the Minister.

Dean And we will allow the Minister to complete her answer before you get a chance—

Goff As I understand it, she has.

Dean No, no. We will ask the Minister to complete her answer, and then we will go back to you.

Tolley Does the deputy commissioner have anything to add to that?

Rickard I just want to reiterate the attrition rate is made up—we make assumptions, so given that 5 years ago it was down to 2.1 percent, we made an assumption that it was going to be 3.5 percent coming into this year. That was higher than any attrition rate in the previous years. But during the year we had the Australians come to New Zealand and take a few of our people into the Northern Territory. That’s probably 50 more than expected. Can I make the comment around that, that on one part we are always sad to see our people go, but we do a lot of work with Australia, so the commissioner sits on a leadership board with them, and we’re doing some work to professionalise, have a profession in terms of policing, which means people can go between jurisdictions. It’s a skill set.

Goff Thank you. I want to come back to the key point of my question. Minister, in the estimates we judge police numbers this year on the equivalent period last year. This answer, from you to me, says that our police numbers are down 446. Are you telling this committee that none of that reduction in numbers, of 446 sworn and non-sworn police personnel, is because of funding cuts?
Tolley I’m not sure where you got your 446 from.
Goff Well, you can add it up, Minister. It’s all set out there in question No. 28. It’s very straightforward.
Tolley I’ve got it in front of me. I’m not sure that your adding up is correct.
Goff Well, do the maths.
Tolley That’s fair enough.
Goff Get one of your staff to do the maths and you’ll find that figure is correct.
Tolley But the answer is yes, in fact, they didn’t train enough recruits, based on what they had budgeted.
Goff That’s the reason why we’re down 446—the sole reason?
Tolley That’s my understanding, but we are then making up—[ Interruption ] You’re asking a question.
Goff I want an answer. That’s the point. I don’t want the fluff around it; I want the answer.
Dean Do the courtesy of allowing the Minister to finish.
Goff OK, Madam Chair. It would be much quicker, Madam Chair, if I could just ask the questions, the straight questions, based on the estimates.
Dean Away you go.
Goff Last year you told this committee, and I’ve got it in the corrected transcript: “I do not accept there has been a cut in the police budget.” I want to refer you now to answer 178, Minister, and that’s again figures, but it’s your answer to me.
Tolley Sorry, I have just got an answer here for you, a definitive answer, from the deputy commissioner on your numbers. It’s not 436 down, it’s 110.
Rickard So if you’re looking at the constabulary staff—
Goff No, this is the total numbers.
Rickard So what you’re dealing with there is the part-time—
Goff I said that. I made that clear.
Rickard Remember we’re talking about the head count, so you can’t use the figure 400 because head counts deal with individuals, so when you’re looking at the part-time staff you could have some people doing 0.8 and some people doing 0.4.
Goff With respect, I read out each of the columns.
Dean OK, so there’s a difference in numbers. We know that.
Goff No.
Dean OK, next question.
Goff Let me reiterate this for them. I said full-time constabulary down 110, right?
Rickard Yep.
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Goff      Part-time constabulary down 45. Right?
Rickard  Yep.
Goff      Other employees full-time down 121, right?
Rickard  Yes.
Goff      Part-time other employees, non-sworn people, down 70.
Tolley   Yes.
Goff      OK, so in total personnel numbers employed by the police, you’re down 446, aren’t you?
Rickard  Remembering, Mr Goff, that we have—
Goff      Some of them are part-time.
Tolley   You asked him a question. Do him the courtesy of letting him answer.
Goff      He can handle it. He’s a big boy. He doesn’t need your help, Minister.
Rickard  Remembering we’ve got 440 people coming in at the moment, so when you take a particular time, so if we deal with the constabulary, we’ve got wings graduating. Over this next financial year we’ve got 440 people graduating. So we don’t need—
Goff      What about the others who leave over that time?
Rickard  Yes, we’ve factored in the attrition.
Goff      So right now we’re down in total personnel numbers 446.
Rickard  Yes.
Goff      OK. My next question.
Dean     I will let you have one more and then I’ve got a whole line-up of supplementary questions.
Goff      That’s very good. If only I could get on and ask it.
Tolley   Some of those—so you’re talking two different types of employees. You’re talking sworn and what I’ve said, quite clearly, is that we have instructed the police that they are not to drop the number of sworn police officers that we have. But in all their reconstruction, under Policing Excellence, they have made a number of changes where they have lost considerable numbers of non-sworn employees. That’s the reality.
Dean     Is this a new question coming up?
Goff      Yes, it is.
Dean     OK, I’m going to deal with the supplementary questions we’ve got lined up.
Ross     Just on policing numbers, in the estimates we’re able to go back 5 years, so that’s back to 2008. Have we seen an increase in front-line personnel in the past 5 years?
Tolley   Yes.
Ross     And by how many?
Tolley So this Government in 2009 we put an extra $50 million into the baseline. This Government has funded—the previous Government promised but did not fund—600 extra front-line staff. So that is absolute numbers. We might be down on that because of the budgeting, but they will be made up in the next financial year.

Ross Just to clarify—5 years ago, Minister Goff was a Minister in Government, and we had a whole lot less police than what we have right now.

Tolley Yes, that’s absolutely correct. They promised more, but they didn’t put any more money in.

Ross As a result, are we seeing crime going down because of those extra front-line police?

Tolley Absolutely.

Dean OK. Next supplementary question; thank you very much.

Mitchell My supplementary question sort of carries on a little bit from Jami-Lee, but really it’s trying to get some context around that number, with the increase to 4.1 percent. I think, Minister, you have highlighted, and we all know, that we have come through the global financial crisis. People tend, when they have job security, to stay there and they will delay their plans if they were choosing to move to another career.

Tolley That’s right.

Mitchell We’re now seeing a strengthening economy, where there’s more jobs available, and so people may be choosing to move on from what they’re currently doing. The commissioner made a very good point that there’s been recruitment in terms of police staff over to Australia. That happened in my day, when Queensland came out and recruited quite a large amount of police. So, you know, some of those factors are contributors towards that slight gap that we now see.

Tolley Yes, and, in fact, we had the Minister from Northern Territory out here not long ago, who were very proud of the fact that they were actively recruiting our officers because they are so well trained, they are highly respected, and they are a great addition to their police force. But I think that we have to keep in mind that this is still a very low attrition rate, of 4.1 percent. That is well below the Public Service, and many other departments of the Public Service are envious of the very low attrition rate that we have in our police service.

Shanks Yes, I want a go on Phil’s question as well in terms of the part-time and full-time equivalents. So if you were look at your full-time equivalents, you are telling us that, actually, they haven’t really moved significantly and you can justify why they have. You’ve got good rationale for that.

Tolley That’s right.

Shanks In the part-time ones, which we talked about, which—Phil put apples and oranges together in the same basket, actually.

Tolley That’s right.
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Goff    No, they’re all people.
Tolley  Talked fruit.
Shanks  And that’s a little bit dishonest in the question that he asked, but putting that aside—
Goff    Well, I beg your pardon?
Dean    Sssh. It’s not your supplementary.
Shanks  If you were take the head count down to hours, is there much of a difference? Do you understand the question?
Rickard Yes, I do. So to try and respond to both, because they’re going to come—
The reality is that any one time, to reiterate, at any one time, our head count will change. That’s the nature of our business because we don’t employ like other employers. We have to put people through police college. So in 2008-09 we were 83 over. No one at that time questioned us about why we were over. What happened was the attrition rate was assumed on a 4.5 percent and it went down to 2.4.

So what happens in our business is we have to prioritise our resources. So we can have a conversation about the numbers, and add up all the numbers, but in the end our responsibility is to keep New Zealanders safe, and what we do is we prioritise the people that we have to actually do the jobs that we want them to do. So if we keep having conversations about numbers, we never get past what you actually want from your police service. Is it just based on a good police service? You’ve got 50 fewer people—does that means you’re not good? You know, I debate the point that people want us to do that. So that’s the opening point.

The hours issue is what Deputy Commissioner Bush just talked about. All of our change programme has been about freeing up policing hours and using the people that we’ve got, and the Minister talked about it in terms of the 520,000 hours and the 300 equivalent FTEs. That’s where we are trying to invest our people. This is a timing issue. I’ve got, as I’ve indicated in terms of our police members, 440 people scheduled to go through the Royal New Zealand Police College.

Goff    Yeah, and another several hundred that will leave in the next year with the double attrition rate.
Dean    Thank you. I’ve got Richard with a supp.
Tolley  That’s the budgeting that they do. They have to. That’s what you would expect of them.
Goff    At the moment you’re down 446. That’s the point I’m making and nobody has denied that.
Tolley  Yes, but you’re including non-sworn in that—
Goff    Yeah, yeah. Of course.
Tolley  You’re—that’s right.
Goff    They do work, don’t they?
But they’re not putting non-sworn through the police college. We’re talking sworn officers, and in respect of the budget that they have for that, they have lost non-sworn, backroom staff—

I’ll get you on record.

Yes.

Will it be back up above the baseline amount this time next year, Minister?

No. Not if you’re—

You won’t be—you won’t be? You won’t put all those non-sworn people back?

If you let me finish, if you are including total police numbers, which is what you are doing—

Yes.

—both sworn and non-sworn, I’ve already said to you on three occasions now, through Policing Excellence and the changes that have been made, if you just take HR and finance, they have reduced the number of non-sworn officers. We said in estimates last year that there would be over 100 jobs that would be no longer in the service. So to your total numbers—

Will you—

No, no. Wait—just wait.

To your total numbers, yes, but to the sworn—

Will you tell the committee that the numbers will be up to the level sworn as of this time next year when you come back to the committee?

Well, as much as they can, given that—

As much as they can?

Well, yes—

Will they or won’t they?

Well, given that they have to budget for an attrition rate that they won’t know whether they’ve achieved until the end of the year. You have already heard the deputy commissioner saying they have scheduled more—

Minister, put your hand on your heart and tell the committee this is not about the fact that the police budget—

No. Just stay in order, Phil. Asked and answered.

—in real terms has been cut.

It’s nothing to do with the budget.

Oh, never has anything to do with the budget.

Well, it isn’t to do with the budget, other than—

Every police officer I talk to out in the community tells me how tight the budget is—
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Dean So I will ask for order now. Minister—
Goff —and that they are understaffed.
Dean Order! Thank you.
Tolley Of course the budget is tight.
Dean I will ask for the next sup—
Tolley No, but hang on. I’m sorry, Madam Chair. Can I just finish? Yes, the budget is tight—
Goff Well, it’s down. It’s actually down.
Tolley —but that has nothing to do—
Goff It’s not just tight; you’ve cut it.
Tolley I offered to finish the question. If you want to pass on, I’m happy to do that too. But if you want an answer, then please be quiet and let me answer.
Goff Well, get to the point.
Tolley So the answer is yes, the budget is tight. Everyone’s budget is tight.
Goff It’s been cut. It’s not been tight.
Tolley It has not been cut. They’re getting the same amount of money, but that has nothing to do—
Goff That’s not what this says.
Tolley —with the number of sworn officers that the police will be employing. However, in order to put money into the budget for the estimates, which is required of them, they pick a figure of what they think the attrition will be and then they budget their training accordingly. That may or may not come to pass. We might find that attrition goes up, so that at any one time, as the deputy commissioner has said to you, you have a different number of sworn officers.
Goff So you can’t give the assurance I sought.
Tolley What I can give, the assurance I can give you, is that this Government does not want to see a reduction in sworn police officers.
Goff But you’ve got one right now.
Dean OK, so I think I get it, anyway, so that’s good. We’ll move on to Richard for his supp. Thank you.
Prosser Thank you, Madam Chair. Supplementary to Jami’s question, actually—you said you’d funded an additional 600 officers. So that’s an actual net increase?
Tolley Yes.
Prosser In terms of relativity to population shift, is that an actual net increase in terms of sworn officers per 100,000, from which, as I understand it, is on the low side of average, certainly in comparable jurisdictions, or are we still—
Tolley I can’t answer for now. I know that in 2008 that was an election promise that we made and it was achieved with those 600 officers. I don’t know—does anyone know what the stat is now?

Rickard The 500 number that you—

Tolley Yeah, I don’t have that, but we can find that for you.

Prosser If you could, please. Yeah, that would be good, thank you.

Faafoi Minister, can I point you to question 178 in the estimates responses, which shows the appropriation for police and the assumed inflation, and in the last column in a table the real change in funding for the police for the year in question and then the out-years to 2016-17, which shows there is a real cut—in real terms there is a cut in funding. They’re your questions, so can you confirm that there actually is a real cut in funding there?

Tolley No, I can’t. I mean—

Faafoi Haha! That’s what it says. It’s in black and white.

Tolley Excuse me. You asked me a question.

Dean Let’s have a level of courtesy maintained.

Faafoi Well it works both ways.

Tolley If you were talking about the police as they were 5 or 6 years ago, then yes, it might be. But, actually, the paragraph under that graph shows you’re dealing with a different service. They have completely reorganised themselves, and so Labour’s cost-plus mentality, you know—you chucked heaps more money at it and actually crime went up. So what we’ve seen the police do is change themselves and their spending priorities, and they are managing within their budget.

Faafoi So supplementary to that—am I not to read from this table, which is a response from your office in the police, that in this year there’s an effective $20 million cut, in the 2014-15 year under the projections you’ve given us there’s a $43 million cut, for the next year a $23 million cut—

Tolley I can read and what I am saying to you is that you can make the statistics look any way you like—

Faafoi They’re your statistics, Minister.

Tolley Well, they may well be, but the police—

Faafoi No, it’s your answer.

Tolley —isn’t the same organisation. So their needs are quite different—

Faafoi I’m actually happy with that response because it doesn’t make sense.

Tolley —and their priorities are quite different, their spending priorities.

Faafoi Can I have a supplementary?

Dean No, you can’t because we’re half way through question time.

Rickard Can I just clarify the figures that you’re talking about, moving forward.
Faafoi They’re quite clear. I understand them, but I’m just not sure if—

Rickard But let me just talk about the figures, then I’ll respond to your question, because the reality is we got extra funding in terms of some of our international programme. We got extra funding in terms of our work we’re doing amongst the justice sector. So that gave $20 million. With that funding, we’ve actually spent the money on what we needed to. We don’t need it for the years going forward. So that’s what it was for. We’ve been very clear in terms of the spending around the international programme, our criminal procedure reform and modernisation. That’s what we asked for funding for. We were clear in terms of the money that we were going to take forward around our rape policing spend. So that is what we asked back in March. We’ve taken $10 million forward for that.

Dean OK, thank you. Can you just remind me, please, what’s happened to the crime rates over the last couple of years?

Tolley Yes. 16.7 percent drop.

Goff We’ve got fewer police, we’ve cut the budget, but there must be another red herring—

Dean Hang on, hang on—a bit of courtesy, thank you.

Tolley So the road toll’s down, the crime rate is down, public trust and confidence is up. So the changes that the police have made—

Faafoi And as the police budget is—

Shanks Oh, you focus on the money and not the outcomes.

Tolley That’s right and that’s what—

Dean Just a bit of courtesy, thank you. The Minister is speaking.

Tolley And that’s what the previous Government did. It gave more money but got worse outcomes. Crime went up. Actually the police are much more effective and they are much more efficient.

Dean Thank you. I have a question from Ian, thank you.

McKelvie It’s sort of a supp, really, in a funny way. We sheep farmers, of course, go back to 1951 to get the real cost of the stuff, you know. But I really want to get on to something more topical. Just for your information, that was.

Goff You’re well down, Ian.

McKelvie We are. I just wanted to touch on two things that have been raised in the course of the discussion and I have to get my head around them. One is the number—I think Deputy Commissioner Bush talked about the number of hours saved by the technology thing. I just wanted to get clarity on that. And you’ve just very briefly then touched on the public perception of the police. So I want to just bring those two things back into the discussion.

Bush So the 520,000 hours saved just through mobility—and it’s 30 minutes per shift for a front-line officer. So that’s right across the organisation. So every mobile device in the hands of our officers means that they can spend 30 minutes more on the front line. They don’t have to travel back to a police
station. They don’t have to be in a police station. They’re out there in the community. If you calculate that, add it up and extrapolate it out, that’s the 520,000 hours invested in prevention activities, which is all about less victims.

There are, as the Minister has referred to, other Policing Excellence work streams that also bring productivity and extra time for our front-line staff—less bureaucracy, more time in the community, more time on the front line, more time keeping our communities safe.

McKelvie I wanted to touch on that because it didn’t give us any data. So you haven’t extrapolated the public perceptions of the police?

Tolley Well, the police do an annual survey of trust and confidence. The commissioner might want to talk about that, because I heard him—

Marshall The full trust and confidence in New Zealand police is 78 percent, and full trust and some confidence is actually 95 percent. Having worked overseas in various law enforcement organisations during the course of overseas deployments, that is a phenomenal result—95 percent in full trust and some trust in confidence. You don’t need to be too wise to think of who the 5 percent who don’t trust us might very well be.

Ross What was it like 5 years ago?

Bush If I can add to that for your question, the extra hours in the community is what derives that extra trust and confidence. So the more visible police are, doing what the community actually require us to do is what drives that trust and confidence up.

Tolley If I can give you one little example, it is that I was talking to a woman who is in my electorate, who had made a call to the crime reporting line. I don’t know whether anyone here has used that, but that’s a fantastic part of Policing Excellence, where as a member of the public you don’t have to go into a police station, you just ring up. You can, you know, report a vehicle stolen, you can report a burglary, you can get your insurance number, and you can do it all over the phone. So she rang up, and, like me, she didn’t even know. She rang 111 and it was triaged into the crime reporting line. But it was a historic burglary that had happened some time ago. She gave all the details, spoke to the person who was very helpful, and she said she’d hardly hung up the phone and there was a knock on the door and there was a policeman standing there who was part of—she just happened to be in one of the areas that had a neighbourhood policing team.

So that information was relayed immediately to him. He then was standing outside. He went in, he talked it all through with her, he then went round the house and looked at her windows and looked at her doors, and she just thought this was marvellous. She said to me: “I feel much safer in my home.”, even though a couple of weeks earlier she had had a burglary. She said: “They’re there.” To me that was the classic of where we want to be in our communities. Foot patrols are up 70 percent on the previous year. So it’s not just facts and figures here; it’s actually happening out in our communities.
Faafoi

At an earlier estimates hearing, I recall someone saying that you expected attrition to be low—with unemployment high, you expected attrition to be quite low. I’ve crudely gone through—

Tolley

3.5 is quite low.

Faafoi

OK. I’ve crudely gone through the Ten One magazine, which the police put out, and gone through the retirements and resignations. I’ve got this graph here that I’ve put together with the help of the Parliamentary Library, showing that in January 2011—the blue line is sworn resignations, and as you can see there’s quite a spike from 31 August 2011. The last one showed that somewhere in the region it had 70 officers resigning from the police force. Can I get a rough idea or explanation as to why we’re seeing an increase in the resignations?

Rickard

Yep. So I go back to my earlier response. You’re dealing with an attrition rate earlier that was 2.4 percent. The normal attrition rate for New Zealand police over 50 years was between 4.5 and 6 percent. That’s the attrition rate you should actually expect from New Zealand police. That’s our normal attrition rate.

So what we’ve done is we’ve budgeted for this current financial year to have an attrition rate of 3.5, which was above the actual attrition rate the year before of 3.1. It was a reasonable assumption. So what’s happened during the year—we expected somewhere around 400 people to leave the New Zealand police. When you get more people leaving than anticipated, then you’ll get those little glitches.

Can I say that we’re used to it, because we run our business. We know how to run our business; we have some confidence that we know how to manage our people and our outcomes that are required, and where to put our people. I understand the requirement to keep coming back to numbers and where numbers sit. We’re trying to get you into a position to have some confidence in terms of how we use our people and not just the number of people. That’s only one equation.

Faafoi

I guess what I’m trying to get to the bottom of is where I’m told one thing but the numbers seem to be saying something else. If they have gone up, and they’ve stayed relatively high compared with the level beforehand, is there a reason for that?

Rickard

Well, as I said, the attrition rate in the previous year had gone up, and this year we budgeted at 3.5, and it’s higher than that. That’s why you’ve seen that graph. So that graph’s exactly, as I’ve responded, what I’d expect to see in terms of any graph.

Tolley

But you’ve got over 8,500 sworn officers—or is it 8,900?

Rickard

It’s 8,900.

Tolley

That’s the normal number. So, I mean, I don’t know what the scale on there is, but if you’ve gone from 2.5 to 4.1, that is a difference.
Faafoi: Yeah, but Minister, I guess what I’m saying is that this committee was told about a year ago that attrition was going to be low, and that has not been the reality.

Tolley: Well, 4.1 is still low attrition.

Faafoi: So I’m just trying to marry those two statements up, and they don’t seem to marry up.

Tolley: Last year at estimates it was 3.1; this year it’s 4.1. That’s a 1 percent growth. That’s not huge.

Faafoi: Not according to last year.

Goff: Last year, Minister, according to the debate and transcript I’ve got here, you rejected my assertion that the police were looking at closing police stations. This year, in answer to question No. 81 on the estimates paper, you’ve closed 10 stations since September last year—eight of them in Auckland—and that’s probably not the full story, because in my local police station, which I also raised with you last year, it’s had “Temporarily closed” on its door for the last 4 months. How can we accept your assurances to this committee when you reject the assertion that you’re looking at closing police stations last year, and 10 stations have closed in the interim, eight of them located largely in one section of Auckland?

Tolley: So let’s talk about what we mean by a police station.

Goff: Oh, come on. We’ve redefined police numbers, we’ve redefined its spending, and now we’re going to redefine a police station?

Tolley: I’m not redefining anything.

Dean: Phil, do you want to do the courtesy of allowing the Minister to—

Goff: Oh, come on, Madam Chair. Look, for God’s sake, we’re adults here. Why don’t you just honestly answer the question and say that the numbers are down, you’ve cut the funding—

Dean: Well, if we’re adults here, why don’t we start—

Goff: —and you’ve closed stations—not are we going to redefine police stations.

Dean: All right. So you’re having a little rant—

Goff: No. Come on, let’s—

Dean: —so I’m going to allow the Minister to finish the question and then we’re going to wrap it up.

Tolley: So there is a difference between police stations and some of our community stations and kiosks. Some of those are being closed and no one’s ever denied that.

Goff: Oh! That’s just nonsense. What you call a kiosk here are in my electorate, and I’ve visited them—they are police stations. They always have been—community police stations. You’ve redefined it to kiosk for your own political purposes.

Tolley: No, I haven’t.
2013/14 ESTIMATES FOR VOTE POLICE

Goff That is fraudulent. That is fraudulent.

Dean Thank you. I’m going to invite the—

Tolley I actually used the words “community stations” and “kiosks”. I didn’t say either/or.

Goff Oh, OK. That’s fine, but you define places that I know are stations as kiosks. That’s dishonest.

Tolley No, I didn’t. You’re doing that.

Goff No, no, you have in this paper at question No. 81.

Dean Order! Thank you. I’m going to invite the Minister to answer the original question. I’m going to invite the Minister to finish her question, uninterrupted by the member—thank you very much—and then we will call this meeting to a close. I’m aware that the member is a little heated, but, nonetheless, we will maintain the rules of this committee and I will invite the Minister to finish her question.

Goff I just expect a bit of honesty at select committees, Madam Chair. That is what I expect—some honesty, not redefining everything to protect your crooked numbers.

Tolley Have you finished?

Goff No, I haven’t, actually.

Tolley So, first of all, I would say that it depends on what you define as a police station. First of all, I have no operational responsibility in how the police deploy their staff. So that’s the first thing. I don’t have any ability to open or close any stations, whether they’re community or kiosks. What I will do is ask the commissioner to talk about what is happening out in our communities. But, again, we come back to the fact I have to state that bricks and mortar don’t solve crime. They don’t prevent crime and they don’t solve crime.

So what we have seen is a number of those community stations, as the commissioner and his staff have decided are not providing a good public service, but are often manned by volunteers who are often only open in restricted times, are no longer necessary to provide a good service. But I will ask the commissioner to comment because, actually, it’s his responsibility.

Marshall Thank you, Minister. Mr Goff, you asked us this question of me last year, and I made the point that no stations would be closing for financial reasons, and I stand by that statement. A number of bases, where they call them kiosks or community bases, and, indeed, a police station, have been closed purely for operational reasons because we have decided that it does not fit the type of police business and service that we want to provide to a community at any given time. We have the crime reporting lines. We’re in the business of encouraging people to actually ring through straightaway to crime reporting lines so that we can get the information intelligence bang straight out straightaway. So although a number of locations have been closed, they have not—and I make the point emphatically—been closed for...
financial reasons; they’ve been closed because it actually suits the business that I run, and I make the decisions in relation to those closures in the context of discussions with my executive, and we make those decisions.

Goff Yeah, but that impacts on the community that those stations serve, commissioner, and very clearly. You can’t walk in and see the station.

Dean OK. Thank you very much. I’m going to, with a bit of courtesy from that member, which we obviously haven’t had, thank you for coming along today. It has been an elevated in temperature estimates hearing, but I want to thank you for your professional approach to your responses to the questions of the committee, which, I have to say, at times haven’t been professional in some quarters. So thank you very much.

Goff Nor was the chairing of the meeting, Madam Chair, if you want to go down that track.

Marshall Thank you.

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Vote Primary Industries

Recommendation
The Primary Production Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Primary Industries as set out in Parliamentary Paper B.5, administered by the Ministry for Primary Industries, be accepted.

Introduction
The appropriations sought for Vote Primary Industries for 2013/14 are $653.379 million, compared with an estimated $536.540 million, for 2012/13.

Vote Primary Industries includes the following approximate appropriations:

- $131 million for the development and implementation of policy advice
- $144 million for border and domestic biosecurity risk management
- $96 million for management of Crown forestry assets

The Ministry for Primary Industries also expects to collect $116 million from the sale of forest produce from Crown forests.

Biosecurity
The Minister stated that biosecurity is one of his top priorities and explained that only by protecting New Zealand primary industries could the Government reach its objective of doubling the value of primary production exports by 2025. We are concerned that despite this priority, there are still issues regarding the ministry’s response to biosecurity incidents. For example, an investigation into the discovery of part of an animal leg in some Palm Kernel Expeller (PKE), a stock feed, was concerning. As New Zealand imports most of its PKE from Malaysia, where foot and mouth disease is endemic, this was a potentially very serious biosecurity incursion, yet it had taken six weeks to determine that the leg came from a New Zealand sheep. The Minister said that lessons had been learned from the incident and that definitive DNA testing of such finds would in future take place earlier in any investigation. He had sent officials to Malaysia and Indonesia to ensure that PKE storage facilities in those countries were of an acceptable, animal-free standard, and were approved, and to impress upon them New Zealand’s biosecurity focus. Recommendations from the visits have now been made and will be acted upon, and enforcement of the existing requirement that products originate only from approved facilities in those countries is being strengthened.

We were concerned that the consolidation of bulk consignments of PKE at the ports of exit and on entry into New Zealand made it difficult to trace the origin or destination of
particular consignments. We heard that 15 companies are importing some 1.4 million tons of PKE per year into New Zealand, with each ship carrying from 20 to 28 thousand tons. We heard that these companies maintained their own documentation detailing consignment origins, ports of exit and entry, use of transitional facilities and destination; and although mixing of consignments does occur, this normal bulk storage practice does not detract from traceability.

The Minister was asked whether the Government was encouraging the importation of increasing amounts of PKE and genetically modified ingredients such as soy for dairy cattle feed, and asked how this would affect “brand New Zealand” as regards our most important agricultural export. We heard that the Government was encouraging sustainable farming fund projects. The Minister said that in the meantime, the Government was confident that improving New Zealand import health standards were ensuring that any imports of feed were not a biosecurity risk or detrimental to the “brand New Zealand” image.

The Minister was asked what the Government intended to do about two serious biosecurity problems; the Great White Butterfly, and Kauri Dieback disease. The Minister said both problems were being taken very seriously and that scientific research on them is being funded. Funding for Kauri Dieback runs until 2014, and various stakeholders have undertaken research on the causative fungus. This research is currently being independently reviewed for future action. We heard that the eradication programme for the butterfly has a low probability of success. No effective surveillance tools are available at present, but efforts to develop such tools are continuing, and a report on the situation will be completed this year.

2013 drought

We asked about the availability of assistance for drought-affected farms. We heard that the 2013 drought was the worst for 70 years and the Rural Support Trust and Rural Assistance Payments have provided assistance for farming families. The assistance programme will run until the end of September 2013. Only 124 requests for assistance were made, with most farmers seeking to recover using their own resources. There has been a very good response from the IRD, banks and supply companies, all of which have maintained a flexible outlook on the financial situation of farmers.

Use of dicyandiamide

We asked for the Government’s current view on the use of dicyandiamide (DCD) on dairy farms, bearing in mind the confirmed contamination of milk products. We heard that while there is no food safety risk involved and the chemical was used by only a small percentage of farmers, DCD is being voluntarily withdrawn from the market. Some research is continuing to investigate the effects of application of the product at different times, but there are no firm plans for field trials. Before permitting its reintroduction, there would need to be more research undertaken into possible food safety risks, an international codex instituted, and a New Zealand standard accepted.

Genetic engineering

We asked about the Ministry’s intentions regarding the introduction of genetically engineered pasture. We heard that there was no immediate intention to do so and that
there would need to be a very robust debate on the subject backed by sound science before such a policy was adopted. No time-frame has been proposed.

Climate change

We heard that the Government is addressing resilience and sustainability in agriculture in the face of climate change. The sustainable farming fund provides around $8 million in funding for 42 projects under this heading, most of them with an environmental sustainability focus. Some of the Primary Growth Partnership projects also focus on this area and, within the Global Research Alliance, New Zealand is seen as a leader in this field.

Primary Growth Partnerships

The Primary Growth Partnership (PGP) invests in research and innovation for primary industries. Funding allocated for PGP projects form a significant portion of this vote, reflecting the Government’s intention to grow the primary production economy by seven percent annually over the next four years. There are currently 15 PGP projects, with $674 million invested by the Government and industry. We note however that the projected annual financial benefit for New Zealand by 2025 has been reduced from $8 billion annually to $7 billion.

The Minister said project updates were readily available and the PGP website was continually updated. He acknowledged that financial information on some of the newer projects is not available as it has not yet been evaluated, but we heard that audits are regularly carried out on the projects, with no major adverse findings to date. The Minister said that a ministerially appointed advisory panel provides advice to the chief executive, who decides what funding is allocated. The panel then reviews the success of the projects. Questions were asked about accountability in the PGP process, and a promised evaluation framework intended for completion in 2012 that was yet to be delivered. The Minister said this system provides accountability and transparency for all stakeholders including the public. Some of us disagree. We asked the Minister about a PGP project involving an overseas-owned company that has interests in genetic engineering projects that may be contrary to the interests of New Zealand. We were told that the PGP assessment system was robust, and any benefits, knowledge and intellectual property remain in New Zealand even if the company is foreign-owned.
Appendix

Approach to this examination

We met on 27 June 2013 and 11 July 2013 to consider Vote Primary Industries. Evidence was heard from the Minister for Primary Industries, Hon Nathan Guy, 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 Primary Industries, Response to additional written questions, received 9 July 2013.

Minister for Primary Industries, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Primary Industries, received 25 June 2013.

Vote briefing paper, Vote Primary Industries, prepared by committee staff, dated 25 June 2013.
2013/14 Estimates for Vote Prime Minister and Cabinet

Report of the Government Administration Committee

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Vote Prime Minister and Cabinet

Recommendation

The Government Administration Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Prime Minister and Cabinet, as set out in Parliamentary Paper B.5, administered by the Department of the Prime Minister and Cabinet, be accepted.

Introduction

In 2013/14 the appropriations sought for Vote Prime Minister and Cabinet are $26.851 million, an increase from the 2012/13 estimated actual of $24.720 million. This increase is for new investment in the Department of Prime Minister and Cabinet’s leadership and coordination of the national security sector, and to address fiscal cost pressures.

We heard evidence from the Department of the Prime Minister and Cabinet. We regret that the Prime Minister was unable to attend.

National security and intelligence

The department has the key role of leading and coordinating the intelligence system and the national security sector. For 2013/14 additional funding of $1.16 million is sought for the output class National Security Priorities and Intelligence Coordination, to address cost pressures and strengthen capability.

We were told that the national security environment was threatened by increasing numbers of cyber incursions into New Zealand businesses and the state sector. We heard that 130 incursions were detected in all of 2012, compared with 160 in the first half of 2013.

Some of us consider that the Government should seek the support of Opposition parties to progress legislation amending the law governing the national security agencies, such as the Security Intelligence Service and the Government Communications Security Bureau.

Central Agency Shared Services

The department faces growing cost pressures, including the need to restore core administrative infrastructure. The Central Agency Shared Services (CASS) project provides joint corporate service functions to the three central agencies: the DPMC, the State Services Commission, and the Treasury. In 2012/13 the department budgeted $2.5 million for CASS operating expenses, whereas estimated actual costs were $2.935 million. We note that the latter figure is also the amount budgeted for 2013/14.

The department now pays more for the delivery of corporate services than it did before the introduction of CASS; however, it said that it now receives a much higher standard of service. The department considers that CASS has improved its resilience and reduced risks. We are pleased with this result, but we will continue to monitor CASS to ensure that the agencies involved realise the potential benefits.
David Henry investigation

We are interested in David Henry’s investigation into the leaking of a confidential report on the Government Communications Security Bureau. The inquiry was established by the Department of the Prime Minister and Cabinet. This inquiry led to the resignation of Hon Peter Dunne. We are aware that Mr Dunne’s email metadata, and later some of his emails, were acquired by Mr Henry during his investigation. We understand that this occurred with the member’s consent.

We note with concern that Mr Dunne’s movements around the Parliamentary complex were tracked via his access swipe card, and that a log of his movements was given to Mr Henry. We find it troubling that the swipe card security system—set up to protect members of Parliament from security risks—was used to effect the resignation of a Minister.

We note that parliamentary security is provided by Parliamentary Service under the responsibility of the Speaker of the House of Representatives.

Performance Improvement Framework

The State Services Commission recently published a report on its review of the Department of the Prime Minister and Cabinet under the Performance Improvement Framework process. The review generally paints a positive picture of the department. But it also offers some recommendations for improvement, which include rebuilding organisational resilience; uniting the various business units with a common purpose, strategy, and action programme; improving performance measurement; increasing links with the wider community; taking a more strategic approach to the development of staff; and examining the senior management structure in the areas of national security and intelligence. The department has found the review process to be very useful, and has indicated its willingness to address the issues raised in the report.

We are pleased with the department’s response to the report’s recommendations.
Appendix

Approach to this examination
We met on 26 June and 10 July 2013 to consider Vote Prime Minister and Cabinet. Evidence was heard from the Department of the Prime Minister and Cabinet, and advice was 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 26 June 2013.
Prime Minister, Response to standard Estimates questionnaire.
Response to additional questions, received 26 June 2013.
State Services Commission, Performance Improvement Framework: Review of the Department of the Prime Minister and Cabinet, June 2013.
# 2013/14 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 2014 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 1 percent to $6.769 billion in 2013/14, from estimated actual spending of $6.702 billion the previous year.

Over half the appropriations in the Vote are for benefits and other unrequited expenses, including KiwiSaver kick-start payments and tax credits, Working for Families tax credits, and child support payments. The total of $3.729 billion sought for these purposes is similar to the previous year’s estimated actual spending, but with some changes in appropriations within the total.

About a third of the Vote covers debt and loan write-offs, write-downs, and impairment. The total of $2.236 billion would increase only marginally over the previous year, but it includes significant changes in some appropriations.

Just over 10 percent of the Vote funds the operations of the Inland Revenue Department (IRD). These departmental output expenses would increase by 8 percent from the previous year, to $716.8 million. The main increases are for the department’s business transformation programme, implementing reforms to the child support scheme and student support, and the salary trade-offs initiative. Departmental capital expenditure (1.1 percent of the Vote) would increase by 8.5 percent to $77 million. About half of the $6 million increase is a capital injection relating to the child support scheme.

Business transformation programme

We questioned the Minister in detail about plans for the Inland Revenue Department’s business transformation programme, which includes the replacement of its ageing FIRST computer system. This is a huge project—initial estimates in 2011 placed the “ball-park” cost at $1–1.5 billion over 10 years—which has major implications for the Government’s operating balance, and for its ability to implement new tax and social assistance policies.

Background

Since late 2011, IRD has been planning for updating its business practices and ageing computer system to meet the demands of its expanded functions and the growing expectation of online services. We were told that it has spent $29.05 million on consultants and contractors for the project between 1 July 2011 and 31 May 2013. The department’s role has grown significantly in recent decades: it is now a major administrator of social programmes—student loans, Working for Families, KiwiSaver, and child support—as well as the collector of taxes. It shares information with several other government agencies, and is increasingly involved in international tax issues as businesses become more multinational.
A key part of the business transformation programme is the replacement of the department’s computer system. Installed in 1991 and originally designed to last 10 years, FIRST has been added to extensively as the department’s work has expanded. The Minister told us it continues to perform sterling service, but has very limited capacity to take on new functions, which constrains the Government’s ability to implement new policies.

**Costs and timing**

We understand that Cabinet recently approved in principle the business case for the transformation programme, but details have not been released and the initial “early ballpark estimate” of $1–1.5 billion over 10 years for the project’s cost has not apparently been revised. We note that the Estimates allocate only $15 million of new spending for business transformation in 2013/14, and only $77 million for all of the department’s capital expenditure. Since a project of this scale will have major implications for the Government’s operating balance, we asked the Minister of Revenue when costs and timing for the project are likely to be confirmed, and appropriations sought.

The Minister told us that the business transformation programme is not a single project, but a series. He said Cabinet had agreed in April on a timeline for the process: business cases are being prepared for the first set of components, which Cabinet will consider over the next few months before making decisions on their financial implications. Firmer estimates of the investment needed for the first components should therefore be available later in the year, probably at the end of the third quarter or the start of the fourth, and planning would then move on to other components. At this stage, he said, the total cost was hard to determine; he believes the initial estimate of $1–1.5 billion, made in 2011, remains a useful working figure, but nothing more.

As for when the expenditure would be incurred, the Minister said most of it is likely to come to charge after 2014/15, but he could not provide details until the planning process was completed. Labour members are concerned that with over $12 million already spent on services for this project to lead consultant Capgemini in the last financial year alone, no full cost estimates, strategy documents, or implementation plans have been made available to the committee, to the public, or apparently, based on the Minister’s statements, even to the Cabinet.

Regarding the project’s overall cost, we recall that the chief executive of software company Xero, Rod Drury, has called the $1.5 billion figure ridiculously high; a similar-sized project in Massachusetts, we note, cost about a quarter of this amount. The Minister countered that comparable projects in the UK and Australia have cost well over $1.5 billion; but he said the focus is now on developing firmer estimates for the project’s components rather than revisiting the overall total. He said his department is consulting Mr Drury and others closely on ways to minimise costs, and he stressed that the focus will be on delivering an effective service at the lowest possible cost. He considers such consultation appropriate, as Xero is a major player in the domestic IT market, and is therefore likely to be involved in the project in some way.

**Implications for policy and process**

The Minister agreed with us that the Government’s limited ability to implement major changes to tax or social policies until FIRST is upgraded is a matter of considerable concern. In his view, while such a constraint is clearly unacceptable for the longer term, it is unavoidable for the next couple of years at least. The Minister agreed that it underscores
the importance of proceeding quickly to develop and phase in FIRST’s replacement, but he emphasised that it is also vital that the project be done properly, and not rushed.

Some of us observed that, given the project’s importance, more investment could be expected over the next two years; the project’s timing should not be driven by the goal of achieving an operating surplus in 2014/15. The Minister said he was not aware of any such linkage in the Government’s decisions about the project. Labour members note that if fuller quantified cost estimates for the FIRST rebuild had been included in Budget 2013, it is unlikely that, ceteris paribus, the projected fiscal surplus would have been available in 2014/15.

Lessons from Novopay

The Minister noted that the business transformation programme dwarfs the Ministry of Education’s Novopay project, and acknowledged the importance of applying the lessons learned from Novopay’s difficulties. This is being done, he said, by means of regular meetings of the group of Ministers involved in information technology oversight, approximately six-weekly, to keep abreast of progress, and by breaking the project down into its component parts. He emphasised that the replacement of FIRST would be phased in project by project, not rolled out in one hit.

We noted that the lessons of Novopay included the value of piloting large-scale projects before nationwide rollout; the importance of addressing and testing any system bugs prior to rollout; and the importance of a transparent, modular approach to manage risk and maintain accountability. We suggested that, in the light of the problems with Novopay, it would be reassuring for the public to be made aware of the details of the timeline and sequencing, once they have been decided. The Minister confirmed that this would be done.

Tax compliance and management of debt

The department continues its efforts to ensure that taxpayers and borrowers comply with their obligations. We heard that additional funding it received for compliance activities in the 2010 and 2012 Budgets has produced very good results, returning at least $6 for every dollar spent. We note that, with such a strong return on an investment for compliance activities, strong grounds exist for further investment in this area. In the hidden economy, discrepancies of about $246 million had been found by the end of March 2013, while $164 million had been found in discrepancies resulting from aggressive tax planning and fraud. Some of us note with concern a high proportion of New Zealand’s highest-net-worth individuals who are not currently declaring tax on the top tax rate, and consider that there remains a major avoidance and equity issue still to be addressed.

Property investment

Budget 2013 provides for an increase in baseline funding of $6.65 million annually for the Inland Revenue Department to pursue property investment tax compliance. The Minister told us this funding is expected to return $45 million a year in revenue.

We note that measures in previous years to address avoidance in the property sector by tightening depreciation rules were forecast to raise $800–1,000 million, making this one of the largest sources of new revenue. The Minister was unable to tell us how much had actually been collected compared with this forecast, but said that the rate of return on such investment is generally substantial; for example, from the property sector an additional
$560.4 million of tax debt had been recovered in the past year relative to the previous year, about $12 for every dollar spent.

Some of us suggested that the Government might make an even larger investment in property-sector compliance, since the returns are so high. The Minister said it was a matter of judging value for money, as efforts in other areas, such as pursuing student loan debt, also produced very good returns.

**Outstanding debt**

The department has focused in recent years on debt prevention and early intervention, and has had considerable success in reducing newer debt. However, the stock of older debt has continued to increase as interest and penalties compound. It is of concern that impairments for child support debt, and for tax, KiwiSaver, and Working for Families tax credits debt have increased by over 20 percent in the past year. The Minister said that one reason child support debt had escalated was that the law did not allow the writing off of debt that would clearly never be repaid. The position should become more realistic following major reforms to child support laws, recently passed, which would start to take effect from 1 April 2014. Outstanding student loan debt was now being addressed with measures announced in Budget 2013.

**Student loan repayments**

About 15 percent of student loan borrowers live overseas, but they represent about 60 percent of borrowers in serious default on their repayments, and about 82 percent of debt in default. There are estimated to be about 9,000 serious defaulters, owing a total of about $150 million. Budget 2013 announced several new measures targeting student borrowers overseas, including proposed legislation to allow those in serious default to be detained at the border on their return. The Minister said it is interesting that word of the proposal has spread quickly: in the first three days after the announcement, nearly 350 borrowers overseas had contacted the department asking what they should do to comply, and several had already entered into repayment arrangements. This was in line with past experience: about 70 percent of borrowers, when approached, volunteer to make some form of repayment.

The Minister emphasised that the sanction of detention at the border would apply only to borrowers in serious default, and would probably only be used in a handful of cases, where other avenues, including court action, had failed. He noted that the sanction parallels existing measures for child support debtors.

We were told that the additional cost involved in the measure is expected to be minimal, as it would mainly involve data matching with the Department of Internal Affairs and the New Zealand Customs Service. The Minister said the possibility of not renewing passports for recalcitrant borrowers has been considered; such a move has potential advantages, but would raise important human rights issues.

**Protecting the tax base**

The IRD has been working with other countries through the OECD on the issue of international erosion of the tax base, known as BEPS (base erosion and profit shifting). This work covers the problems of multinational tax avoidance and evasion, and includes issues like the taxation of large multinational companies and international online trading.
The Minister told us the OECD is expected to publish a report in mid-July which should help determine the steps New Zealand could take to protect its tax base.

We expressed concern that any action could be two years away, given the time generally needed for decisions on multilateral issues, where treaty implications must be considered. The Minister said he had instructed his officials to report as quickly as possible, and to advise about possible interim measures.

**Online trading and GST**

We are concerned about the rapid increase in online purchasing, especially from overseas suppliers. The trend presents a serious risk to the Crown’s revenue base, as purchases below a minimum cost are exempt from goods and services tax. There are also wider economic implications, as the exemption favours overseas retailers over their New Zealand-based competitors. We asked the Minister whether he has assessed the size of the problem, and what action is being taken in response.

The Minister told us the IRD is working on the issue with the Customs Service, which collects GST at the border, and the Treasury. They are discussing the issue with several online trading operators and examining approaches to enforcement. He expects their advice to be finalised in August or September, and then a document released for public discussion of the options. He said it is clear this is an escalating problem; at present, it appears that the cost of enforcement is fairly evenly balanced against the revenue forgone, but the balance will shift before long.

We asked how other countries are approaching the problem. The Minister said there is debate about where the de minimis threshold, below which purchases are exempt from GST, should be, and no consistent pattern in the way it is calculated. We note that a recent study by Victoria University examined whether New Zealand should change its de minimis threshold, or the method by which it is calculated. At present, imports are tax free if the duty and GST payable is less than $60. The study indicated that Australia had reduced its de minimis duty threshold to $25, as had Canada, and estimated the revenue gain at about $100 million a year. The Minister told us the study is among the information being considered. He noted that Australia’s approach focuses on imports of goods, whereas New Zealand generally favours a comprehensive approach covering both goods and services. He accepted, however, that a focus on goods could arguably be a useful starting point. We will follow this issue with interest and look forward to the release of the discussion document in September.
Appendix A

Approach to this examination

We met on 29 May and 26 June 2013 to consider Vote Revenue. We heard evidence from the Minister of Revenue, Hon Peter Dunne, and the Inland Revenue Department, and received advice from the Office of the Auditor-General.

Committee members

Paul Goldsmith (Chairperson from 26 June 2013)
Maggie Barry
David Bennett
Hon Clayton Cosgrove
Hon David Cunliffe
John Hayes
Todd McClay (Chairperson until 25 June 2013)
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Jami-Lee Ross (from 26 June 2013)
Hon Kate Wilkinson

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 29 May 2013.

Minister of Revenue, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Revenue, dated 29 May 2013.

Response to additional questions, received 19 June 2013.
2013/14 ESTIMATES FOR VOTE REVENUE

Appendix B

Corrected transcript of hearing of evidence 29 May 2013

Members
Todd McClay (Chairperson)
Maggie Barry
David Bennett
Hon Clayton Cosgrove
Hon David Cunliffe
Paul Goldsmith
John Hayes
Hon David Parker
Rt Hon Winston Peters
Jami-Lee Ross
Hon Kate Wilkinson

Witnesses
Hon Peter Dunne, Minister of Revenue
Naomi Ferguson, Commissioner and Chief Executive, Inland Revenue Department
Struan Little, Deputy Commissioner, Policy and Strategy, Inland Revenue Department

McClay It’s good to see you again. Welcome to the Finance and Expenditure Committee. We have a hearing of evidence on Estimates Vote Revenue this morning. We have an hour available to us, so at your leisure I’d like to invite you to make a few comments, and I’m sure my colleagues will have a couple of questions.

Dunne Thank you, Mr Chairman. It’s nice to be back. [Introductions]. Hopefully we can deal with your questions. Can I just make the following by way of opening comments. These are really just to put, I guess, some things on the record, which the committee may find to be of interest.

The Inland Revenue Department is the Government agency that most New Zealanders interact with on a daily basis. We collect around 80 percent of the Crown’s tax revenue. We administer social policy programmes, like Working for Families tax credits. Last year we paid around $2.7 billion in credits to around 400,000 families. Repayment of student loans last year—$768 million collected. Child support—$434 million collected. KiwiSaver—$3.2 billion was forwarded to KiwiSaver schemes for 1.97 million members in 2011-12.

We’re involved in the development of information-sharing protocols with a number of other agencies to not only place us much more at the core of the public service but also helping other agencies that have interactions with the public operate more effectively. Those obviously require changes to privacy
law and tax administration, all of which is coming through the normal parliamentary process.

At the same time, we’re confronting the reality of an ageing technological base. Our FIRST computer system, which was implemented in 1991, and I’m told just recently was designed to last 10 years, is still performing sterling service, but, clearly, given the growth of our core business in the last few years to encompass the programmes I just mentioned, we are obviously in need of significant change there. We’ve got people requiring access to new services, pretty much like the way they do their banking, so the pressure is on the department to develop services akin to that. We have the whole issue of the digital environment, issues regarding smarter intelligence—how individuals, corporates, and others access the system. And then they’ve got the broad issue of multinational companies, which are everywhere in one sense and nowhere in another sense when it comes to tax, and how they are addressed.

We’re working through a number of major policy issues, which I’ll talk about in a moment. We’re also, through the recent Cabinet decision, working to develop the re-engineering of the department in terms of its technological capability. We’re certainly working through with the OECD and other countries the whole question of international tax-base erosion, how we can check the New Zealand tax base, and we continue to develop acronyms to cover most of the stuff.

Tax compliance activity remains strong. Between the 2010 and 2012 Budgets, we’ve received significant additional funding to address issues relating to the hidden economy—property, debt collection, following up on unfiled returns, and aggressive tax planning and fraud. So far, as a result of this, until the end of March this year, we’ve identified discrepancies, not necessarily overdue tax but discrepancies of around $246 million. That’s a return of about $6.32 for every dollar we’re investing in collection. That’s mainly in the hidden economy.

In the property sector, an additional $560.4 million has been recovered, and that’s $12.02 actually for every dollar invested, $23.6 million of assessed tax in unfiled tax returns, and the rate of return there is about $8.67. And there are further discrepancies of around $164 million from aggressive tax planning and fraud, and, again, the return there is about $35.42 for every dollar invested.

The Budget this year gives us a further $6.65 million on a permanent basis, so it’s an adjustment to our baseline to continue in the area of property compliance, and we estimate that that will bring us in another $45 million a year in revenue.

Finally, given the general thrust of the Budget announcements this year, regarding a more competitive and open economy, return to surplus, etc., there are some specific tax proposals within that. This is a lighter tax budget than some years in the past, but there are areas around the changes to the definition of black-hole expenditure, tax relief, either deductible or depreciable, relief being available in that area now for specified areas. There
is the issue of allowing tax losses from research and development expenditure to be refunded up to a certain limit, particularly for start-up companies, and the changes to student loan repayments.

I should mention that in the student loan space, the return we are getting there is very good. It’s again around $10 or $11 to one. Since the Budget announcements around chasing overdue student loan borrowers at the border, we’ve had in the first 3 days something in the order of just under 350 people—overseas-based borrowers—contact the Inland Revenue Department saying: “Oi, this might affect me. What do I need to do to comply?”, and we’ve had a number of people enter into repayment arrangements as a consequence of that.

Just to put that into context, we have 15 percent of our total number of student loan borrowers based offshore. However, they constitute 60 percent of the borrowers who are in default, and they are responsible for around 82 percent of the debt that’s in default. So that’s why we’re making a particular focus to collect more in that area.

Coming up we’re working very much, as I said, through the BEPS process that the OECD has initiated. We’re looking also at the whole developing issue of GST and online trading; there is work coming through in that area. And, generally speaking, we’ve got major initiatives like child support changes coming into effect from next year. We’ve got legislation in the House at the moment on a range of issues that I know you’re deliberating on shortly this morning, and we’ve got another bill coming your way equally soon. So there’s a fairly busy programme, and our challenge is, really, to maintain business as usual and to keep these initiatives flowing while we undertake the significant technological changes that we are going to be confronting over the next decade.

McClay

Good, Minister. Thank you very much.

Cunliffe

Thank you, Minister. Thank you for a very full introduction, and, of course, much of the work that goes on with the Inland Revenue Department is stuff that needs to go on. Whoever is in Government, we really appreciate the full briefing you’re giving us on some of the operational challenges that the department faces, because, of course, it’s a shared interest that the system works for whoever’s around.

Perhaps we could just start with the business transformation programme. I note that there is a capital expenditure provision—the current estimates of $77 million—but I just want to check in. Does that include anything for the major business transformation programme where the Government’s saying it could be $1 billion to $1.5 billion?

Dunne

Well, let me start on the first figure, and we’ll work back. The $1 billion to $1.5 billion figure was that that was provided in the briefing for the incoming Minister after the 2011 election. It’s not, if you like, a firm estimate as such; it’s a ballpark figure.

You’ll be aware that this work began during the time of the previous Government, where we took the view at that point that we would start with
a designated project—in that case, it was the student loan project. It became clear that because of the difficulties of the first system that the initial notion of an off-the-shelf solution for student loans wasn’t feasible, so we came back to the idea of having to effectively rebuild block by block our overall system. Where we’re at is that business cases are now being prepared for the first set of specific components of the change. They will be coming before Cabinet in the next few months, and Cabinet will then make decisions regarding the financial investment that is involved. We will roll out the first area, and then we move to the second, third, fourth, and so on.

Cunliffe Can I just seek a little more clarity on the timeline, Minister, for that roll-out, so is the information being provided to the House and to the public? When would you expect to have the first estimates, which are more than ballpark?

Dunne I would think later this year, probably at the end of the third quarter, start of the fourth quarter.

Cunliffe And is it your sense, at this stage, that the $1 billion to $1.5 billion is a realistic envelope, or can you give us any indication—

Dunne I think it’s a horizon to look at. Because this is going to be a series of projects within an overarching whole, it’s a little difficult to say absolutely what that total figure would be. But, again, we’re looking at a long-term horizon. It’s probably a useful working figure, but I wouldn’t go beyond that at this point.

Cunliffe So can I just offer some data points? I tried to do a quick internet search of major revenue rebuilds, and I came across one in Massachusetts, I think, where they did a complete ground-up rebuild, and it cost about US$250 million. It’s got the same sort of regulation as New Zealand. I just wonder how you could possibly spend $1.5 billion?

Dunne Well, as I say, that is a figure that was projected in 2011. I haven’t focused on updating that figure per se, since that time, because our emphasis has been on the development of the individual projects and how they take shape in the time frame against which they will be developed.

If you look at the history, and Naomi can speak with regards to the British experience, but certainly with regard to Australia, much larger sums have been involved, in terms of the rebuilds that they have undertaken.

Cunliffe I don’t know if you recall a press article by Rod Drury, the CEO of Xero—you know, he’s running a company that does a major software service for accounting software. In his view, and I cannot remember his exact words, the concept that you’d spend $1 billion to $1.5 billion on a mainframe and business transformation programme was ridiculous.

Dunne I saw that comment.

Cunliffe By an order of magnitude, and he’s a well-qualified guy.

Dunne And he’s someone we are talking with regularly and constantly. He’s been pretty heavily involved in a number of our discussions to date.
I expect that players like him will have a significant role in this as it unfolds, but we’re not in the process, obviously, of calling for, or letting, tenders yet. But I think that his comments have to be seen in the context of someone who’s likely to have a significant slice of the action. If he, or anyone else for that matter, has ways of minimising the costs—

Cunliffe Do you think it’s proper for him to be commenting publicly if he’s a potential tenderer?

Dunne I don’t—look, look. We haven’t called for tenders yet, so I don’t think you can rule out—

Cunliffe But you’re saying he’s likely to get a slice of the action.

Dunne I’m not saying that. I can’t make that call at this stage, because we haven’t called for tenders. I’m saying that if you look at his significance in the New Zealand market, and the fact that we will be seeking input from the domestic market, you could draw a conclusion that his involvement is likely in some shape or form. But I can’t make that call for him. I can’t make that call on behalf of the department at this point. All I’m saying is that he has an interest—we all have an interest—we are working with him and with others, and if the costs can be minimised and the quality of the service delivered, so be it.

Cunliffe Do you disagree, Minister, with the substance of his comments? It seems an inordinate amount of money to be ballparking.

Dunne Sorry, can you just repeat the first part of your question.

Cunliffe Sorry, do you disagree with his comment that it seems an inordinate amount of money?

Dunne Oh, I don’t disagree, and I’ve said there’s a lot in what he said that I would agree with, and I’ve said that publicly. We’re working, if you like, to make sure that we deliver a consistent, effective programme—obviously from the Government’s perspective—at the lowest cost. As I say, the figures that have been quoted were the ballpark quoted initially. They have not been revised upwards or downwards, and, really, we’ll take it on a project-by-project basis.

Cunliffe So have you been to Cabinet since then with paperwork that sets out a time line and a process for the consideration of the detail—

Dunne Since?

Cunliffe Since the BIM.

Dunne Oh yes, yes. Cabinet has had at least two or three discussions about this, and Cabinet agreed in early April with exactly what you said—a time line, a process. I’m now working to the delivery of that, and I will be working closely with not only Cabinet but groups of Ministers with interests in the information technology areas, as we take it through.

I guess I should say that, as I suspect you may want to head in this direction—let me just make this observation—I’m not going to talk about Novopay per se, but there are some lessons from that that are applicable.
Cunliffe You are anticipating one of my questions, so perhaps you would like to set out what some of those lessons are.

Dunne Well, the lesson that I’ve taken from it, and we are keen to work through, is that there needs to be fairly close engagement from the outset with not just the relevant Minister but with a group of Ministers about what is being developed, the time frames, the processes, and the steps. So I’m working closely with the ICT Ministers—I forget what the full acronym is—to keep them regularly in the loop, to have them involved in the process so that we don’t get to the point where suddenly things are looking a little dicey and, if you like, no one’s kept an eye on it. So that process is under way. I’m meeting with them on an approximately 6-weekly basis, and everything will be factored in as a consequence.

Cunliffe So two of the obvious lessons on Novopay would seem to be: don’t turn off your existing system until your new one is working well and there aren’t 500 bugs in it; and the other one would seem to be not to try to roll out nationwide a major transformation programme; do it iteratively or regionally.

Dunne Well, I think—yes, and I’d say this in response to that. The Inland Revenue Department transformation programme in terms of its size will leave Novopay somewhat in the shadows. But I think the lessons you put up are correct.

Firstly, we are not talking about a sudden turn-off of FIRST and its simple replacement by something else; this is a phasing-in project. FIRST, while it’s old, it does very well still what it was configured to do. If we didn’t have things like student loans, Working for Families, KiwiSaver, Child Support, etc., then we wouldn’t have the same issue. But, effectively, over the last 20 years, under successive Governments, the nature of Inland Revenue’s business has changed to the extent that the Revenue today is not simply the collector of taxes; it’s the deliverer of a lot of major programmes as well, so our technology has to match. So we’re not talking about drop-dead day, move on. That’s the first point.

The second point, which I think you acknowledge, is that a major change across all fronts in one day, or one time, is not going to occur. That’s why we’re taking a project-by-project basis.

Cunliffe That’s why, with respect, I think, the public having some awareness of the sequencing and timeline would be very helpful. Can I just on that point—

Dunne Can I just say on that point: once that is finalised—and that will be, as I say, in the time frame that I indicated earlier—we will certainly be making public those details.

Cunliffe Cabinet has been advised in early April, you said, about the time frame.

Dunne Well, Cabinet agreed with the proposition in early April. Our first approach to Cabinet in the current year would have been in November of last year—the current financial year, so it would have been November of last year.
Cunliffe: That’s helpful. Has Cabinet had visibility to any updated ballpark estimates of total cost further to the $1 billion to $1.5 billion—

Dunne: Not at this point, because, as I said earlier, we’re not in a position to go back with specific funding proposals, but Cabinet will be getting business cases very shortly.

Cunliffe: And that may have been fortunate for the Budget, given that some of this will come to charge before 2014-15. Wouldn’t that be true?

Dunne: Some will, some will, but I think it’s more likely to be in the out-years beyond that.

Cunliffe: Do you think it will be more than $75 million worth in 2014—

Dunne: I can’t comment on that. I don’t know at this point.

Cunliffe: You don’t know?

Dunne: I don’t know, because, as I say, we haven’t completed that exercise.

Cunliffe: I guess I’m concerned for policy implementation here, because it’s a major and long-term project. I think you’d agree that the current FIRST system, as you say, while you can keep it going, is very limited in its additional capacity to take new policies. It’s been maxed out. It’s likely that even the current Government, and certainly an incoming Government, would want to do new things over the next few years. To what extent, therefore, is the time lag between the arrival of this new system and its being fully operational likely to constrain policy?

Dunne: There is certainly a constraint at present. That constraint is likely to be in place for the next couple of years at least, I would think.

Cunliffe: For the next couple—let’s get a bit of a fix on this, because this is why the timeline is so crucial. If the timeline is reasonably compressed, it will not be a huge constraint on policy implementation. If the timeline is extended, which may be helpful for risk management, it becomes more of a constraint. That would be a fair comment, wouldn’t it?

Dunne: That would be so, yes.

Cunliffe: So, if you’re saying “the next couple of years”, and we go back to the previous question, which is how much are you going to spend between now and 2014-15, you’re saying you have no idea, but now you’re saying this thing will be operational within a couple of years and it won’t be a constraint on policy.

Dunne: No, I’m not quite saying that. Let me just go back to what I actually said. You asked me how much we are going to spend between now and 2014-15. I can’t tell you that information at this stage because the process of determining that has not been completed. It will be within the time frame that I indicated before. In terms of the second part, does that mean that all of a sudden we start a project and it’s completed and switched in? No, each of the component steps takes time, obviously, to develop, whether it be student loans, Child Support, PAYE, GST, or whatever. Each will take some time.
As to the broader question of whether this presents a constraint on Government’s abilities, in the short term that is correct, and I think there are some significant issues around for that for any Government. That is a point that we are keen to minimise to the greatest extent we can, but the reality is we are constrained by our technology. I don’t think that’s acceptable on a permanent basis, but it’s the reality we confront at the moment.

Cunliffe So I put it to you that we can assume, Minister, that you would want this to be implemented as quickly as is justifiably possible to minimise those constraints. It would therefore seem convenient that this year’s Budget and these estimates include zero capex—

Dunne No, look, I think that’s drawing a long bow. I think there are two competing factors at play here. One is we’ve got to do the job properly, so the process needs to be robust, clear, and appropriate.

Cunliffe But you will definitely have a significant capital expenditure by 2014-15 if you are not to run headlong into very pressing policy constraints.

Dunne We’ll be taking, as I say, business cases to Cabinet in the next little while. That will then set out the programme for the future, including some of the funding requirements. Cabinet is well aware—

Cunliffe Minister, just on that—I won’t dwell on this—if I just put the marker down that had this process been advanced by merely a few months, and those numbers had been included in the Budget estimates, on the basis of the other decisions in this Budget, there would have been no fiscal surplus. The magnitude of that expenditure may well have dwarfed—

Dunne Yes, and the consideration—I would say to you in response that in the consideration of this item by Cabinet over the last number of months, I don’t recall any issue of the linking of those two arguments being raised.

Cunliffe Minister, I have a policy question. I’ll come back to some others later, but we’ll spread it around. On the issue of property depreciation, from my memory there was a forecast revenue increase of around $800 million to $1 billion round at full running of the Government’s moves to tighten property depreciation. What was the original full running forecast, what has been the actual revenue received, and are they the same?

Dunne It’s very difficult to separate that out from the total tax pool of collection. If you wanted, we could do some drilling down by way of a separate answer, but I can’t give you that information right now. What I can point out, though, is that in the areas of where we felt there was a level of abuse occurring—and we’ve dedicated significant additional resources over the last few years—the rate of return has been, as I quoted earlier, substantially high. In fact, if I just go back to those figures, if you take the hidden economy in the property sector, an additional $560.4 million of tax debt recovered just in the last financial year.

Cunliffe I put it to you that some of those numbers have already been released under the Official Information Act, which is why I’m asking, and I’m not quite
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Sure that it’s acceptable that you wouldn’t know what the original forecast was. You’re telling us $564 million was actually collected—

Dunne I’m saying that’s in the area of additional revenue.

Cunliffe That’s new revenue on property development.

Dunne Yes.

Cunliffe Yes, and I’m putting it to you that the forecast was at least $800 million. I’m interested to know why it hasn’t reached the forecast, and whether you have any comment on that. It’s probably the single largest—other than the GST increase—new revenue flow that you had, but you can’t recall where it was running versus forecast?

Little I can’t even answer that. There’s no way to look at that right now.

Cunliffe Could you text someone, because we’d quite like to know—

McClay David, if the Minister wants to come back to us they do with questions, that’s appropriate.

Little There are issues about the wider change in depreciation laws, which is a significant change. That will feed through all the tax types, so picking that out would be very difficult, to pick when that is. The specific initiatives that the Budget provided around particular property earnings are more defined and easy to track, and we have the figures the Minister used.

Cunliffe In those figures, Mr Little, how does it track currently versus the original policy forecast?

Little I can’t tell you that.

Dunne I think it’s fair to say that we began in either 2007-08 or 2008-09—it was certainly during the term of the previous Government—to look at some of the areas of potential avoidance in the property sector. You will recall, I’m sure, that we made an investment at that point that returned quite a significant amount. That is actually what encouraged us to strengthen the process in 2010 and give—

Cunliffe To be fair to the Government, you have in this Budget put in—

Dunne Another 6.6 on a permanent basis.

Cunliffe For which, I note, you’re getting something close to a 7:1 return on investment.

Dunne Yes.

Cunliffe So that begs the question, why wouldn’t you invest a little more, if there’s obviously more tax to collect? It would, for example, have brought in more than the car-park tax.

Dunne Well, if you look at what we’ve done, as I said, over the last 3 or 4 years, that rate of return, at about 7:1, has been pretty consistent, but if you then look at other areas where—take student loans, for instance—our rate of return chasing overseas, to chase borrowers in the main, was around 12:1. There are other rates of return that I quoted earlier that are much higher.
than that. So it becomes a value-for-money exercise—the point being, though, that we are keen to—

Cunliffe Closing that question, why wouldn’t you invest more if you are getting a 12:1 or a 7:1 ratio?

Dunne Well, we have been investing more—we have. That’s the whole point.

Goldsmith I’m interested in the holy area of maintaining the GST base, and that’s 25 percent of our total revenue—a very important element of the tax system. Like every country in the world you’ve mentioned, we’re trying to grapple with how we cope with changing patterns online. I certainly know from my friends and contemporaries that they are more likely to buy their shirts from an online store in the US, and they are currently not paying GST on those. So I’m just wondering how much resource—one, are you getting a closer handle on the size of the issue? I see some reference to potentially it might be about $1 billion issue, and GST of something of the magnitude of 15 percent of that. I don’t know. Have you get a better handle on the size of it? What are the options? And how quickly do you think we’ll be, you know, bringing in something there to maintain that base?

Dunne The short answer to that question is, as you say, that the incidence of online trading and the GST implications is increasing. It’s a joint area between the Customs Service, which collects the GST at the border, and Inland Revenue. There is no doubt that this is going to become an even bigger issue in the future. The Customs Service, ourselves, and Treasury are working through some issues at the moment. I’m expecting that the Ministers of Customs and Finance and I will receive advice some time later this year about the options that are available to us.

Goldsmith You can’t be any more fulsome or detailed about what some of those might be?

Dunne Not at this point. We are talking to a number of the online trading operators, and we are working through issues of enforcement, which are principally, as I say, in the customs area rather than the IRD area. What we will do is between now and probably August-September this advice will be finalised. We will then be putting out a discussion document, with options for public consideration.

Goldsmith OK, and just in general, in the broader sense, how do you balance up—there is obviously a cost of collection issue, but there is also maintaining the base issue; you might be prepared to pay a higher cost in order to maintain the base. There is also an aspect of levelling the playing field, I suppose, for local retailers as well. It’s fine if they’re twice the price of international competition, but if there’s a 15 percent margin, that’s confusing.

Dunne Where we’re at at the moment, I think, is that the line between the cost of enforcement and the revenue being forgone is a reasonably evenly drawn line at this point. That is not going to remain the case long term, obviously. There are implications then for, as you say, domestic retailers, there are implications for the burgeoning number of online traders, and, ultimately, for purchasers. These are all part of the current discussion. As I say, a lot of
this will depend on the capacity of the Customs Service to intercept or to—what’s the word—invigilate goods at the border, if you like. These will be the considerations that go into the discussion paper that we’ll be putting out in September.

Goldsmith Just quickly, are we aware of any other comparable country that has done something on this yet?

Dunne Various countries have debates about what their de minimis level is. Some have reasonably high figures; some have very low figures. There is not a consistent, as far as I can ascertain, pattern. What for us is important, therefore, is to work out what best suits our environment and best suits the likely growth, if you like, of those online trading opportunities in the future. We all hear the anecdotal stories of how people make their purchases these days, and obviously that sort of stuff is just simply going to intensify over the next however many years.

Bennett Didn’t the Australians announce something last week around this territory where they were making some general proposals around it—not quite specific enough?

Dunne There was some proposals in their Budget. They tend to have a reasonably flat de minimis, don’t they?

Goldsmith No, theirs is quite high.

Dunne Theirs is high, but it’s about—

Bennett Yeah, they were specifically looking at the issue because as constituent MPs, this is raised with us and from a business perspective it’s a very big issue.

Dunne Struan makes a point. They are looking at goods in the main. We’re trying to take a comprehensive approach because it’s goods and services.

Bennett Would you think that the goods approach would be a lot easier as a starting point?

Dunne That’s arguable, yeah, but as I say, this is at least a two-way process in terms of other agencies that are involved, probably a three-way process, and we will be having some proposals out for public consideration around September.

Bennett Are there any moves internationally—following on from Paul’s question—around those big sellers, you know, online companies that potentially are seen as having a dominant market share around the world in these effects? Are there any international proposals or comments that are coming out to rein them in a bit?

Dunne This starts to get us into the space of some of the work that’s being done in that whole BEPS area, the OECD work that I alluded to earlier. There are steps that I think companies like Amazon have taken and I think the US has been particularly active in this space. But what we’re doing in the whole area of multinational tax avoidance and evasion is working very closely through the OECD process. That is likely to lead to a report being presented to the OECD mid-July, or thereabouts. We will be in a position, in the light of
that report, to then draw some conclusions for what might need to be done domestically.

Barry  Who is driving that report?

Dunne  This is the OECD’s process.

Cunliffe  The BEPS process, yes. Two brief supps. The first one is Victoria University recently released a study on the GST duty threshold where they suggested that reducing it to, I think, in one of the cases Australia’s down to about 25, Canada is down to about 25 bucks de minimis threshold, and they estimated that about $100 million a year of revenue gain with an economic advantage that it would level the playing field for domestic retailers because that’s basically a subsidy for offshore. Do you have any comment?

Dunne  Well, I’m aware of the study and that’s something that’s in the mix that I referred to earlier.

Cunliffe  Are those revenue estimates ballpark?

Dunne  Look, I can’t comment on the accuracy of them, but I’m aware of the point that they’re making. Their paper is certainly, as I say, something that’s in the mix of consideration at present.

Cunliffe  On the BEPS process, can you confirm the timing of when the OECD is likely to make decisions, and whether you are confirming any low-hanging fruit that might be worked on?

Dunne  I indicated just a moment ago that that report we are expecting around mid-July. In the light of that, I’ve asked officials to report to me as quickly as possible thereafter with, I guess, an assessment of its implications and what options might or might not be available to us domestically.

Cunliffe  Do you think it’s realistic—final point on this—that if the OECD’s issuing a discussion document in July and it would require multilateral agreement around, presumably, Treaty-based measures, that that process is going to be completed within, say, another year after that? If not, aren’t we talking a good 2 years for implementation in New Zealand?

Dunne  And that is why I’ve asked, in the light of that report, for a report to be prepared for me basically saying this is what it has thrown up, these are the implications for New Zealand, are there things we should be looking at in the interim.

McClay  All right, thank you. We’re going to just finish with Mr Goldsmith, then Mr Peters, and then Ms Barry.

Goldsmith  The other area that I was interested in is around the student loan changes announced in the Budget and the proposals, too, to detain people at the border for default or to try and encourage people to get back into the system, I suppose. I guess that is quite a significant move. In terms of the revenue that we could gain, I presume that’s justified by fairly substantial potential gains?

Dunne  Well, it is. If I just give you these figures, you might find to be of interest. We have identified just over 9,000 borrowers that potentially would come
within the net of what’s being proposed. The default that those borrowers have is around $151 million. We’re not talking here about people who are simply behind in their payments; we’re talking about people in serious default. What we’ve found over the last two and a bit years, since we began the initiative—and there are various levels of contact involved, the first is a pretty low-level contact; the ultimate is to say, we’re taking you to court to recover the debt—is about 70 percent of borrowers, once contacted, start to enter into some form of repayment arrangement. That might vary from a sort of a more regular payment—“Oh, you’ve caught up with me, fair enough. I was wondering what I needed to do. I’ll start to make repayments.” And it goes through to some anecdotal cases we’ve heard of people saying: “How much do I owe?” and writing out a cheque for that amount there and then. And as I say, the experience since the Budget of the several hundred people that have already approached the department saying, “Hey, this border control measure might affect me. What’ll I need to do?” would be consistent with that type of pattern. For those that might argue that this is different from any other thing that we do, it exactly parallels what we’ve done for a long time with child support debtors.

Goldsmith Yes, OK. Thank you.

Peters Mr Dunne, on a number of approaches to you on matters to do with taxation, you, as Minister, have constantly asserted the issue of secrecy whether the client is named or not. Why is that?

Dunne Well, the tax Acts are very specific about protecting secrecy.

Peters So, secrecy is very important to Inland Revenue and you as Minister?

Dunne Yes, it is.

Peters Well, then, was it you that leaked the Rebecca Kitteridge report on GCSB to the media?

Dunne No. And that’s got nothing to do with this inquiry.

Peters You’re being questioned here, and it has. Well, have you given evidence to Mr Henry, sworn or unsworn?

Dunne Mr Henry has spoken to me, but as I say, this has nothing to do with this inquiry.

McClay The only thing I’d say, Mr Peters, is we’re looking at Vote Revenue here. We need to just be cautious around—

Peters Something that goes to the core of Inland Revenue, and that is the issue of secrecy and whether it is abided by in all respects. I’m talking to the Minister now about a secrecy issue. So you gave evidence to Mr Henry, did you? Was it sworn?

Dunne No.

Peters All right. You didn’t leak the document?

Dunne Mr Chairman, I seek your protection here.

Peters I’m asking you a question.
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<thead>
<tr>
<th>Speaker</th>
<th>Comment</th>
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<tbody>
<tr>
<td>McClay</td>
<td>Colleagues, quiet, please.</td>
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<tr>
<td>Peters</td>
<td>Did you or did you not—</td>
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<tr>
<td>McClay</td>
<td>Mr Peters—</td>
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<tr>
<td>Dunne</td>
<td>Mr Chairman, a point of order. This is a hearing on Vote Revenue. It relates to the administration of revenue policy and the revenue Acts. The matter Mr Peters is inquiring about is totally separate.</td>
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<tr>
<td>Peters</td>
<td>He can’t take a point of order. The whip is here—</td>
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<tr>
<td>McClay</td>
<td>I didn’t recognise it as a point of order. Colleagues, please be calm for a moment.</td>
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<tr>
<td>Cosgrove</td>
<td>You did, because you’re listening to it.</td>
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<tr>
<td>Bennett</td>
<td>Point of order.</td>
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<tr>
<td>McClay</td>
<td>Mr Bennett. See now, there you go, I’ve recognised Mr Bennett has a point of order.</td>
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<tr>
<td>Bennett</td>
<td>We have an issue here around the submitter and what’s been asked of them. I request that you take that into account, Mr Chairman.</td>
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<tr>
<td>Cosgrove</td>
<td>Point of order. Two points. One, a witness cannot take a point of order, and you recognise a point of order if you allow the witness to speak to it. Secondly, where Mr Peters appears to be going with this is directly related to the integrity of the Minister in his actions with his department, and if that integrity is questioned in one area, it can be questioned in another. And I would just allow some latitude to Mr Peters. He hasn’t had two questions yet. And these guys and you are jumping all over him.</td>
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<tr>
<td>Bennett</td>
<td>You can’t go from one area to another. This is Vote Revenue. This is a point of order. So you can’t say that you can go from one to the other.</td>
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<tr>
<td>Peters</td>
<td>Mr Bennett, the chairman hasn’t recognised your point—</td>
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<tr>
<td>McClay</td>
<td>No, finish, thank you. No more, no more, no more. Mr Cosgrove, no more. Thank you, but no more.</td>
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<tr>
<td>Cosgrove</td>
<td>Point of order.</td>
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<tr>
<td>McClay</td>
<td>No, I’m not recognising any—I am coming to Mr Peters for some clarification. No, I’m not recognising you yet.</td>
</tr>
<tr>
<td>Cunliffe</td>
<td>Point of order.</td>
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<tr>
<td>McClay</td>
<td>Mr Cunliffe, I’m not recognising you yet. I’m not recognising you yet.</td>
</tr>
<tr>
<td>Cunliffe</td>
<td>You have an obligation to take a point of order.</td>
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<tr>
<td>McClay</td>
<td>Yes, but I have a number of other people who have called before you, so please wait your time.</td>
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<tr>
<td>Cunliffe</td>
<td>That’s fine, but this a separate point of order.</td>
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<tr>
<td>McClay</td>
<td>It may well be.</td>
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<tr>
<td>Cunliffe</td>
<td>If you want to deal with the other point of order first, that’s fine. Then I’ll make this again.</td>
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2013/14 ESTIMATES FOR VOTE REVENUE

McClay  If we could sit quietly, colleagues and if we could show a little bit of decorum, I am sure we’ll get through this. Mr Peters, what I wanted to say to you is that we do have an issue before us which is to look at Vote Revenue, and the Standing Orders are very clear, both in as far as what the scope of what we can discuss is, and also the Chairman’s ability to decide what’s in the scope of that and what’s not. So what I would like to do is ask you to bring it back to revenue. I’d like to ask you to be very careful around this, because we do have issues of due diligence for others. But in as far as the point of whether or not somebody before us, a witness, can take a point of order, the witnesses come and speak to this committee and at all times we need to show them courtesy. I didn’t recognise a point of order, but I actually would like to hear from the Minister where he has concerns about some of these issues. Mr Cunliffe, what was your point of order?

Cunliffe  Just simply to make the obvious point that in an estimates hearing, we are forward looking, and it is entirely within scope, because it is a forward looking process, for the integrity of that process to be able to be questioned, and if Mr Peters’ points go to the confidentiality of information held by the department or the Minister, that’s in scope, I would have thought.

Hayes  It’s not forward looking [Interrupt]

McClay  Hang on. Just one at a time, colleagues. Colleagues, John, Mr Peters, everybody—one at a time, please.

Peters  We are dealing with all aspects of the operation of Inland Revenue. Not just one aspect or a few aspects as it suits the committee members, but every aspect. One of the critical ones in our law is secrecy. Mr Dunne, would you be concerned if one of your staff leaked secret information?

Dunne  In principle, yes. In terms of taxpayer information related to the revenue Acts, absolutely.

Peters  So it is important that a secrecy standard is set by your department from the bottom to the very top?

Dunne  Well, the department has a standard that is prescribed for it in the legislation that is honoured in its dealings with taxpayers and continues to be so.

Peters  And that includes you as Minister?

Dunne  In my dealings with taxpayers, I am acutely cognisant of the secrecy provisions, and on many occasions I have declined to become involved in cases because secrecy issues are at stake.

Peters  All right, well, being a very important principle, did you leak to the media the Rebecca Kitteridge report—yes or no?

Dunne  I have already answered that.

Peters  He has not answered it.

Dunne  Yes, I have.
Peters  Yes or no?

Bennett  A point of order. It is a completely inappropriate question for this committee—

Cosgrove  That is for the chair to decide, not you.

McClay  No, I am hearing a point of order and then we’ll take one at a time.

Bennett  It doesn’t show the respect to the Minister or the position of power, and I— [Interruption.]

McClay  I can deal with this. I can deal with this. The question has now been asked twice; it has been answered twice.

Peters  I raise a point of order. I have not had an answer of yes or no.

Dunne  With respect, you asked the question earlier, and I gave you an answer of no.

Peters  And you are prepared to say that that is a matter that you would say on oath before this committee? [Interruption.]

McClay  Colleagues, just a moment.

Dunne  Mr Peters, I’m not on trial by this committee.

Bennett  Yeah, exactly.

Peters  Well, I’m afraid it’s not a matter of a trial. I am trying to get—

Bennett  I raise a point of order. Mr Peters over there is, I feel, abusing that process of questioning the Minister. The Minister gave a very clear answer and then Mr Peters sought to make this into something that it isn’t. I think we’ve had enough of this.

McClay  Colleagues, in our Chamber, the Speaker is clear: we take members at their word. I take the Minister at his word. We have the Standing Orders that are also very clear on this. A question has been asked; he has answered it. It was asked again; he’s answered it. We can perhaps move on.

Peters  One final question. And it’s this: to not tell the truth to this committee on this issue—

McClay  No, I rule that out of order. Mr Peters, I rule that out of order. Just as in our House you can’t accuse people of being not truthful—

Peters  I didn’t. I asked him for a judgment. I didn’t ask him that. I said if a witness is before this committee and said something that was incorrect, knowingly, that would amount to perjury, wouldn’t it?

McClay  Yeah, but that’s not something to put to a witness, that’s something to put to the Chair, and in effect, I have already given some guidance on that based on the Standing Orders. So if you have any other questions—if not, we’re going to move on.

Peters  That’s all I’ve got to ask him, actually.

McClay  All right, thank you. Maggie Barry?
Oh, no, my point’s been covered.

Colleagues?

I can give you a revenue question.

Revenue question? That’d be nice.

Well, look—

It was a revenue question.

It was a revenue question. On KiwiSaver and student debt and in child support debt, particularly student debt and child support. You’ve got impairments growing by over 20 percent in both categories—21 percent in the first, 23 percent in the latter. I’ll put it to you that that is a pretty grievous rate of debt increase, and it shows that the debt stock’s out of control. I remember your good colleague Judith Collins lambasting the former Government when child support debt reached less than half of what it is now. It’s doubled on your watch. What are you doing about it?

Well, in fact, we’ve got the biggest reform of the child support laws in 20 years—

We’ve debated in the House.

—which are now in place. They take effect—the first tranche of those take effect on 1 April next year; the second tranche from 1 April 2015. And one of the issues that actually confronts is the whole way in which the debt has escalated because of the application of the law at the moment. It was out of step with, I think, contemporary social practice. The question regarding student loan debt I’ve alluded to in my earlier answers about what we’re doing, chasing overdue borrowers.

Just a supplementary on that, because you’ve come back to it, which is presumably that includes the ability to detain at an airport someone who’s got an outstanding non-paid student loan, under certain circumstances?

That’s correct.

And that would apply to people trying to get back into this country as well?

That’s correct.

So do you think that that’s going to be a strong incentive for people to return home who might have had an OE—

Well, what’s been interesting to date, as I said, just in terms of the response since the Budget, has been the number of people that have actually, if you like, twigged to this fact and have approached Inland Revenue saying: “How do I improve my situation so that that fate doesn’t await me?” So I think that’s been a very powerful incentive, yes.

How many?

I can’t give you a precise figure, but it would be several hundred.

My supplementary question to Mr Dunne is why did you give evidence to Mr Henry?
Bennett  Point of order. That’s not a supplementary.
Peters  Point of order. My point of order is I am asking this Minister about his ministerial role at a select committee, and I am entitled to. And I’m not going to sit here and listen to people who have been here 5 minutes telling me what the rules are around here. The rules are expansive. I can ask him about any point of his activity as the Minister of Inland Revenue.

Cunliffe  That is true.
Peters  That is true.

McClay  Thank you. Just calm down a little bit, everybody. I don’t need any more points of order. You’re right—within the Standing Orders and the scope of what’s before us at the moment, members can ask questions. However, we did move on, and you said it was a supplementary; it’s not. So, Maggie Barry, if you’ve got a supplementary on this, we can then come back—
Peters  Well, it is supplementary.

McClay  Well, it’s not on the same points, so it’s not really a supplementary.

Bennett  You’ve been here too long, mate.

Cosgrove  With respect, Mr Chair, you’ve taken in your time as chair, and in this meeting, a number of supplementaries from both sides of the table that have not related directly to the question. You’ve been actually quite flexible, and, I think, quite appropriate with that, but I just urge you to be consistent. Many members ask supplementaries, and they’re not directly on the point of the primary question of the questioner. If you are going to be consistent, you should. Therefore, you should allow Mr Peters’ question.

McClay  Well, good. But, again, the Standing Orders are clear on this. My judgment was that Mr Peters’ supplementary question was a supplementary question to the previous line of questioning he was answering. It was nothing to do with this. However, I’ve decided that we’ll move on. There will be time, unless we keep bickering, for ongoing new lines of questioning.

Barry  So the supplementary is around the recovery of the student loans. So what other measures have you taken to try and get the overseas borrowers to come to the table on this—because with the ones who are in default, as you’ve pointed out, there’s a great deal of them living offshore. It’s over 9,000 borrowers in the potential arrangement, so what other measures have you been able to take?

Dunne  Well, since 2010 there have been direct approaches to borrowers. We’ve been using offshore agents in some senses. In a number of cases, a very small number, probably fewer than 20, we may well be proceeding to court action to recover the debt.

Barry  At what point would you do that?

Dunne  Well, when all else has failed. I must say that the experience has been that with most borrowers—as I said before, around 70 percent—when contacted seek to engage in some form of process about how they repay. We have a very small recalcitrant number that take the view that because
they’ve left New Zealand they’ve left their responsibilities behind, and they are the ones that we would pursue, ultimately, through the court process. I suspect they are also the ones more likely to come within the point that Mr Cunliffe was making about being detained at the border.

Barry: There haven’t been any instances yet where people are detained at the border?

Dunne: No. That was only that—

Barry: That was only announced—

Dunne: That was only announced. That will be legislated for during this year.

Barry: So, but in the past 3 weeks you’ve had over 350 people have made inquiries?

Dunne: Yeah.

Barry: So at this stage it would be to send a signal—

Dunne: It’s sent a signal, and what’s been very interesting is that since this work began in around 2010, the bush telegraph has been beating very loudly, particularly in Australia, where most of these borrowers are. But we have borrowers scattered around the world; I think the next biggest concentration is probably the United Kingdom. And, obviously, they talk. They are aware that something’s going on. As I say, a number are coming forward to see how they might regularise their situation. In a number of cases, because we now have a contact person in place, parents or others in the family are making contact to say: “What on earth is your situation? What’s going on, and what are you doing about it?”. So there’s a whole mix of pressures, and the level of repayment, as I say, has been around about the $12 to $1 in terms of the rate of return.

And I should just make the point too that our short-term debt has actually come down quite dramatically, by about a fourfold figure in the last few years.

Barry: And that’s a sign of success, really, isn’t it?

Dunne: Yeah.

Barry: So the amount again—you’ve got 9,000 borrowers and—what is it?—over $150 million involved?

Dunne: That’s right. Yeah. That’s the default payment. I’m not talking about people who are just a bit behind; I’m talking about the hard-core default payment is around $150 million.

Barry: Sure. And, given the amount of work that’s gone into this idea that they would be arrested at the border, in terms of the costs of doing that, actually making sure that that occurs, that would not be a significant amount compared with the $150 million?

Dunne: No. The gain well and truly outweighs the—

Barry: Have you quantified that?
Dunne Have we done that at this stage? No. But it’s not going to be—because we would be working in the first instance through a data match with Internal Affairs and the Customs Service, so this is really just simply sharing information and then being in a position to stop someone at the border. It’s not actually going to be a significant additional impost in that respect.

McClay I have a supplementary from John Hayes, but before I do, Mr Dunne, Minister, but the requirement for people to be arrested at the border only comes about when they don’t meet their obligations.

Dunne Oh, that’s very much a last stage process. This is not going to happen to every—

McClay Should they make contact with Inland Revenue, start meeting their obligations, work out a payment system, and so on, then indeed they can travel in and out of New Zealand, as long as they’re meeting their commitments—is that correct?


Hayes In your casting around for ways of tackling this problem, have you thought about not renewing the passports of that hard-core, recalcitrant group; and, if you have thought about it, why wouldn’t you do it?

Dunne The issue has been considered. No firm decisions have yet been reached on that. There are significant, obvious potential advantages. There are also some disadvantages around what you might describe broadly as human rights issues—you know, the right of New Zealand citizens to a passport. But it certainly has been looked at, yes.

Cosgrove Something finance companies possibly as well?

Dunne Well, one of the issues—

Cosgrove That might be a good idea. If you’re looking for—

Dunne I appreciate that your question is flippant, but, actually, behind it lies a serious point.

Cosgrove It’s flippant to you; it isn’t flippant to taxpayers.

Dunne No, there is actually a more serious point, which I don’t think you’re really raising, but the serious point is if you were to embark down that path, where do you draw the lines in terms of limits for the future?

Bennett A big part of any Budget is the tax revenue forecasted that is expected. Is there a variation between your forecast and Treasury; and, if so, what would that be?

Dunne There’s always been a historic variation, and the reason for that is because we start from essentially different points. The Treasury forecast is essentially a forecast. The IRD figures are based on historic assessment of collections. We normally work to minimise the discrepancy to the greatest extent we can, but because we start from different assumptions at the beginning, there always will be a difference. But it’s not, at the end of the day, hugely significant.
Bennett: OK. And so when we hear comments around petrol tax increases being detrimental to achieving Budget surplus and tax revenue, is that the case or not?

Dunne: Well, for the purposes of the Budget, I think I’m correct in saying that the Treasury forecasts are the ones that are worked off. As we go through the annual process, we then look at the IRD assessments of what’s being collected and their projections based on that collection. But the Treasury forecasts determine the Budget figures. And, really, questions about their accuracy should be addressed to the Minister of Finance.

Bennett: OK. And, for example, for today, when you had the Fonterra announcement, would you have any expectation that would increase tax revenues?

Dunne: Well, any announcement that’s going to increase growth and development will lead to an increase in tax revenues.

Peters: Look, my question, Mr Dunne, is that, given any legitimate execution of your role is open to this committee to question and you are the Minister responsible for Inland Revenue, why did you give evidence to Mr Henry?

Dunne: Mr Chairman, I thought you’d ruled these questions were out of order.

McClay: Yeah. Thank you. Mr Peters, I have. So you’ve asked that question a number of times. You’ve received some answers on it—

Cosgrove: No, no, he hasn’t received an answer to that question.

McClay: Colleagues, I didn’t invite—

Goldsmith: Point of order.

McClay: No, I’m not taking a point of order just yet. Colleagues, I’m not asking you to interpret or intervene on what I’m saying. I’ll have my say, and then I’ll show you the courtesy of allowing you to do the same thing. What I was saying is, Mr Peters, you’ve started a line of questioning. You’ve said that it has to do with where we’re going with this vote. What I would like to do is ask you, having asked the same question a number of times and receiving answers, to bring it back to the vote or, I’m sorry, we’ll have to move on. That’s my judgment.

Peters: Mr Chairman, I did not ask the question: “Why did you give evidence to Mr Henry?”.

Cosgrove: You can rule that out as a supplementary.

Peters: Look at the record of this questioning today, and you will not find that question having been asked. And I’m entitled to ask it because it comes within the ambit of this operation as Minister of his department. I put it on the issue of secrecy, which is paramount to this department as much as any I know. I’m asking him: this was a very important inquiry—why were you before it giving evidence?

Goldsmith: I am just wanting to clarify how—

Peters: Is this a point of order or not?
Goldsmith  Yes, it is.
McClay  Speaking to the point of order.
Goldsmith  I want to clarify how this question of whether the Minister spoke to Mr Henry relates to the estimates that we’re looking at today.
Peters  I just did. I just told you. It’s to do with the ambit of his operation. I know that I’m entitled to ask at this select committee— and if I can’t ask it here, where can I ask it?
Cosgrove  With respect, Mr Chair, you ruled the same question out, which has not been answered, 5 minutes ago, because it did not relate to a primary question as a supplementary, and you then said you’d allow it if there was more time. Mr Peters is asking his question.
McClay  Well, colleagues, the challenge that we have, though, is the lines of questioning that keep coming forward actually are not being brought to—
Cosgrove  Because you won’t let him proceed.
McClay  No. Mr Cosgrove, I don’t remember interrupting you. I let you have a say; how about you show me the same courtesy? The point that I’m making is that we have Vote Revenue before us. It is possible under the Standing Orders to look at other issues that have an effect upon Vote Audit, but I’m yet to see how any of the questions you’ve raised have come back to vote audit, which is before us. So if you have a question around Vote Audit, then it should be raised now. And if the line of questioning continues in the area it is, there are other formats and forums for that to be taken up, not on Vote Revenue.
Peters  Mr Chairman, this is a very important committee dealing with a very important matter. I said at the very beginning that the issue of secrecy has been asserted by this Minister—and he said it in his primary answer—to be of significant importance. So secrecy is at the core of this question, and his behaviour in respect of issues of secrecy as Minister. With the greatest respect, I brought it within the ambit, and now you’re trying to say— because it’s not going the right way for some committee members who don’t like to hear the answer, although they’re not being asked anything themselves personally—that I’m somehow out of order. I am not. My point is—
Goldsmith  Speaking that point of order—
Peters  No, I asked a question and you said if it wasn’t tacked on to a supplementary in the way I did, you would allow me to ask it. I am asking. I only want to know two things. I want to know why were you, Minister, before Mr Henry in this matter of inquiry on a leak; and, second, was your evidence before Mr Henry taped or recorded in any way? Pretty simple stuff.
McClay  But, again, Mr Peters, I’m sorry— there are other places where this can be taken up. However, in as far as Vote Revenue is concerned, that’s about an issue that’s outside of what you’ve said. So you can try and pull this back to Vote Revenue should you wish, but now, colleagues, we’re almost out of
time. There’s time for one more question from Mr Peters, and then we’re going to have to move on, because we only have an hour.

Peters My question is, Minister, why do you think—when you’ve asserted secrecy in so many cases that I have personally brought to you on a wide range of matters, when the client has never been divulged, so there’s not a secrecy issue here; it’s a class action I’m talking about—that you think you can come to this committee and not answer the simple questions as to your behaviour as a Minister of Revenue on a matter that is to do with the secrecy of the Cabinet operation where your ministerial role is concerned? Why do you think you can come here and duck that? Because my assertion is you did leak the report.

Dunne Mr Peters, I am not ducking the question. I’m here as the Minister of Revenue responsible for the administration of the tax Acts. I have indicated in response to your question that the secrecy provisions of those pieces of legislation are paramount, in my view. I honour them in my daily activities as Minister, and the department honours them in its daily activities as well.

McClay Minister, thank you very much. I’d like to thank you for that answer, and we’ve run out of time today in not showing you the courtesy you deserve.

**Conclusion of evidence**
2013/14 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 2014 for Vote Science and Innovation, administered by the Ministry of Business, Science and Innovation, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Science and Innovation increase to $927.302 million in 2013/14 from an estimated actual expenditure for 2012/13 of $800.315 million. Hon Steven Joyce, the Minister of Science and Innovation, remains the Minister responsible for the appropriations within Vote Science and Innovation. We heard from the Minister of Science and Innovation, from the Ministry of Business, Innovation and Employment, and from Callaghan Innovation. We also note that at the time of the Minister’s appearance we had not received the response to written questions.

National Science Challenges

In Budget 2012, the Government launched the National Science Challenges, to determine which science issues are most important to New Zealanders. After engaging with the New Zealand science sector and the public through the Great New Zealand Science Challenge, holding a public submissions process, and considering recommendations made by an independent panel, the Minister announced the ten National Science Challenges facing New Zealand on 1 May 2013: High-Value Nutrition, Our Land and Water, Resilience to Nature’s Challenges, Science for Technological Innovation, the Deep South, Life in a Changing Ocean, New Zealand’s Biological Heritage, Ageing Well, a Better Start, and Healthier Lives.

We asked whether the Minister was satisfied with the public’s engagement with the National Science Challenges, and the number of submissions received. We heard the Minister was pleased that many thousands of New Zealanders reviewed the draft challenges, and indicated which of them they supported. The Minister said he considered it unsurprising that most of the challenges chosen were in areas where research was already occurring; the challenges were designed to tackle the biggest science issues facing New Zealand, most of which were already reasonably well known. He noted that the process had highlighted some new challenges, such as responding to demand for advanced foods, and issues pertaining to the Southern Ocean. The Minister said the feedback he has received from the science sector about the process was positive.

Research and development funding

Vote Science and Innovation contains a new appropriation of $3.1 million in the International Growth Package initiative in Budget 2013, to provide repayable start-up funding for businesses. We asked whether the Minister had established criteria for deciding whether a company would need to repay a research and development project grant if it moved overseas. We heard that some of the contracts with private companies required government funding to be repaid before the firm moves overseas; the Minister suggested that all contracts might include the same provisions, but the details are still being finalised.
The Government would seek to ensure that contracts maintained a research and development “ecosystem” in New Zealand, as a public good.

The Minister told us that there were important differences between the newly introduced research and development growth grants and the former technology transfer vouchers; among other changes, the process for assessing applications was more objective and less discretionary. Growth grants will contribute 20 percent of the cost of research and development undertaken by private firms. The model is intended to ensure that applications are for projects to which businesses are committed. The Minister was confident that the obligation to contribute 80 percent of the research funding would not deter small and medium-sized enterprises from applying for the grants. The Minister noted that more funding is available through research and development project grants, but he prefers the proportionately smaller Government contribution in the form of growth grants, to encourage private-sector contribution to business research and development.

Expenditure on research and development has improved over the last two years, with businesses now investing 0.58 percent of GDP in R&D, up from 0.5 percent two years ago. The Government has a target of doubling business R&D investment to more than 1 percent of GDP. We heard that there has been a “significant change” in the public mindset, as people see the real benefits of research and development, where previously the area was discussed largely theoretically.

**Lincoln Hub**

We are aware of the recent focus on improving agriculture technology transfer through the Lincoln Hub, and asked about continuing developments. The Minister described the Lincoln Hub as an “unpolished gem”; it was home to some of the best agritechnology scientists in the world, who have benefited from a recent increase in investment in the agriculture industry in the South Island. The Minister suggested that beneficial collaboration might result if the hub can bring in private-sector researchers to complement the public-sector researchers who have already embraced the facility. We heard that the challenge is to time the investments from the public and the private sphere so as to bring scientific teams closer together, and also bring in more private-sector players.

It is expected that this model may be replicated elsewhere if it proves successful in Christchurch. Manawatu, for example, is already recording interest in developing a food science hub. There is an innovation park in the Waikato, which was established from a public/private partnership, to enhance innovation in agritechnology and Ag-bio, and the Minister suggested that this area could also use the model to develop its environmental and land management expertise.

**Marsden fund**

We are aware that the appropriation for the Marsden fund increased to $51.755 million in this Budget, and wanted to know what had motivated the increase in funding. The Marsden fund supports investigator-led research, which is an important foundation for innovation. The Minister explained that it is important that the Marsden fund receives an increase in its appropriation to maintain a balance between pure and applied research, and to help develop the scientific skill base. The Minister said the process for determining who receives funding under the scheme has also been changed to make it more relevant to New Zealand.
Callaghan Innovation

On 1 February 2013, the Government launched a new advanced technology institute, Callaghan Innovation, to support science- and technology-based innovation and its commercialisation by businesses. The organisation’s structure, services, and functions are being developed, and its business case for the three years from 2013/14 is due to be presented to the Minister at the end of June. He is confident that this deadline will be met. We also heard that negotiations between Callaghan Innovation and the Auckland City Council over the integration of the Foodbowl into Callaghan Innovation will soon conclude. The Foodbowl is a facility for food and beverage companies to produce commercial runs of new products for trial marketing.

Mineral extraction

Vote Science and Innovation contains an appropriation for energy and minerals research of $11.725 million, for research applications regarding mineral extraction and energy security. The objective of the fund is to increase the contribution of energy and minerals to New Zealand’s economic growth, enhance energy security, and help New Zealand to meet future energy and mineral needs in efficient, affordable, environmentally responsible ways. The fund targets research to increase understanding of the resource base and assist commercially and environmentally informed decision-making about extracting minerals from the ground and seabed.
Appendix

Approach to this examination

We met on 12 June and 10 July 2013 to consider Vote Science and Innovation. Evidence was heard from the Minister of Science and Innovation, Hon Steven Joyce, the Ministry of Business, Innovation and Employment, and Callaghan Innovation, and advice received from the Office of the Auditor-General.

Committee members

Dr Cam Calder (Chairperson)
Carol Beaumont
Catherine Delahunty
Hon Jo Goodhew
Chris Hipkins
Colin King
Tim Macindoe
Tracey Martin
Simon O’Connor
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 11 June 2013.

Vote briefing paper, prepared by committee staff, received 11 June 2013.

Minister of Science and Innovation, Response to standard Estimates questionnaire.

Minister of Science and Innovation, Response to questions 1 to 135, and response to questions 136 to 145, 79 and 80, received 12 June 2013.
2013/14 Estimates for Vote Senior Citizens

Report of the Social Services Committee

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Appendix 5
2013/14 ESTIMATES FOR VOTE SENIOR CITIZENS

Vote Senior Citizens

Recommendation

The Social Services Committee recommends that the appropriations for the year ending 30 June 2014 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 services from 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 Ageing Strategy.

The Vote does not cover delivery of services to senior citizens, or funding for the management of the SuperGold Card or the Veteran SuperGold Card, which are funded from Vote Social Development.

The appropriation sought for 2013/14 is $1.013 million. The marginal decrease from the estimated actual expenditure in 2012/13 of $1.016 million reflects Vote Senior Citizens share of efficiency savings to be delivered by the Ministry of Social Development as a whole.

The Minister specified a number of priorities for the Vote in 2013/14: expanding the SuperGold Card programme, reviewing the Protection of Personal and Property Rights Amendment Act 2007, increasing awareness of the Elder Abuse and Neglect Prevention Service, disseminating lessons learned from a pilot project in Napier to address social isolation, implementing the Carer’s Strategy Action Plan for 2013 to 2018, and updating the Business of Ageing projections.

Positive Ageing Strategy

The Positive Ageing Strategy provides a framework to guide Government policies and programmes and helps central and local government agencies to develop action plans to improve the well-being of older people. A review of the strategy in 2012/13 found ways to improve its effectiveness: making information about the strategy more accessible, increasing online content, and encouraging more involvement and sharing of information by non-governmental organisations and district health boards.

Elder Abuse and Neglect Prevention Service

The Minister told us that she views preventing abuse of the elderly as the responsibility of everyone in a community and that her focus is on promoting an understanding of this responsibility throughout the community.

We were told that the office has funded 24 non-governmental organisations for providing Elder Abuse and Neglect Prevention Service sites, at a cost of $1.76 million. These organisations, including some run by Age Concern, provide assessment and response services and education and training. We were pleased to note that volunteer community
coordinators and neighbourhood policing teams are working together to identify elder abuse in areas not reached by the Elder Abuse and Neglect Prevention Service.

We asked the Minister what is known about elder abuse in ethnic communities and how it is being approached in terms of policy and service delivery. The ministry reported that no specific policy work has been undertaken on elder abuse and neglect in ethnic communities. Research by the Families Commission on risk and protective factors found that the data collected is not sufficient to determine whether there are cultural or ethnic differences in the prevalence of elder abuse and neglect. We urge the ministry to collect more information on issues faced by elderly people in ethnic communities, to determine whether this is an area requiring further policy work or service delivery initiatives.

We were pleased to hear that culturally sensitive services are available to Pasifika and Māori communities, including Treasured Older Adults Pacific, known as TOA, and the Te Oranga Kaumātua Kuia Disability Support Services Trust. We were told that information is also available about the sorts of services required and available in ethnic and migrant communities. We agree with the Minister that the need for these services seems to be across all sectors of the community. We consider it important to ensure that the services the Government funds are available in all communities.

Age Concern is one of the non-governmental organisations working on preventing elder abuse and neglect. The Minister said Age Concern had expressed concern to her about the areas of the country where they do not operate. She assured us, however, that in every community there is some pertinent resource, although it might not be the Elder Abuse and Neglect Prevention Service which Age Concern provides. Volunteer community coordinators, for example, are working with the New Zealand Police to recognise elder abuse.

**Age Concern New Zealand**

We note that Age Concern New Zealand relied heavily on the Community Response Fund, which was a short-term measure to help providers of critical social services during the economic downturn. The cessation of that funding could mean a loss of services for the elderly in areas including Kaitāia, Rodney, Rotorua, Wairoa, and Marlborough. We asked what continuing support could be given to Age Concern to balance the loss of the Community Response Fund.

The Minister acknowledged that the work of Age Concern is absolutely vital, but said that tight fiscal constraints made it difficult to find additional money for social service agencies. She told us that it is important for communities to support such services.

**Economic contribution of older people**

*The Business of Ageing, Realising the economic potential of older people in New Zealand: 2011–2051* projects that the income available to older New Zealanders would increase significantly over the next 40 years. The Minister told us that this contribution is at present tracking at the top end of the 2011 projections, which are to be reviewed in the coming year. The Minister said that she is, “sick and tired of hearing older New Zealanders described in the same sentence as some sort of natural disaster”. In fact she believed they are a significant

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commercial bloc paying taxes and buying things. The Minister acknowledged that finding ways to keep older people in the workforce was a challenge for businesses.

We heard that the Minister is not aware of any evidence of older workers being displaced as a result of the introduction of youth rates.

**Social isolation**

The Minister said that it is important for communities to work with non-governmental organisations and district health boards to share information on and tackle issues that affect the health of the elderly, such as loneliness. We were told that the ministry is to develop a “tool kit” for use by communities, local authorities, and district health boards to help to address such problems.

We asked about the results of a pilot project, Napier Connects, which was set up in June 2012 specifically to address social isolation. The project sought to encourage older people to be more engaged with their community. The ministry is reviewing the project and assessing its effectiveness, and we are pleased to hear that the results will be disseminated in the coming year.

**SuperGold Card**

There are now 614,000 holders of the SuperGold Card. In 2012 the number of businesses involved in the SuperGold Card scheme almost tripled, and by the end of March 2013, 4,401 businesses and 8,750 outlets participated. There have been efforts to increase the participation of rural and provincial businesses, because such areas have less access to off-peak free public transport, which is the principal benefit conferred by the cards.

The Minister noted that the number of Australian businesses accepting the SuperGold Card under a reciprocal arrangement has increased; 90 percent of businesses in Victoria and all businesses in New South Wales that accept the Australian Seniors Card now accept the SuperGold Card.

**Protection of Personal and Property Rights Amendment Act 2007**

The office is undertaking a statutory review of the Protection of Personal and Property Rights Amendment Act 2007, and is examining in particular whether the changes made to the Act in 2007 have achieved their purpose of making the personal and property rights system safer for older New Zealanders.

We look forward to seeing the results of this review, which are to be reported back to the House by 26 September 2014.
Appendix

Approach to this examination

We met on 12 June and 10 July 2013 to consider Vote Senior Citizens. Evidence was heard from the Minister of 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 Phil Heatley
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Phil Twyford
Hon Michael Woodhouse

Evidence and advice received

We considered the following evidence and advice during this examination:

Hon Jo Goodhew (Presentation), received 12 June 2013.
Office of the Auditor-General, Briefing on Vote Senior Citizens, received 12 June 2013.
Minister of Senior Citizens, Response to standard Estimates questionnaire.
Response to additional questions, received 26 July 2013.
Vote Serious Fraud

Recommendation
The Law and Order Committee recommends that the appropriations for the year ending 30 June 2014 for Vote Serious Fraud, administered by the Serious Fraud Office, as set out in Parliamentary Paper B.5, be accepted.

Introduction
The total appropriations sought for Vote Serious Fraud amount to $10.28 million, down from the estimated actual expenditure in 2012/13 of $10.425 million. Significant allocations include $9.955 million for investigation and prosecution of serious financial crime and $225,000 for policy advice.

Reduction in funding
We noted that departmental output funding is forecast to decline in future years, but the number of complaints, investigations, and cases brought to prosecution are not forecast to decrease similarly, and we asked whether this would restrict the Serious Fraud Office’s ability to carry out its work. The Minister told us that she is aware of the potential effects of any loss of funding, and is working towards addressing this in the 2013/14 financial year. By the end of 2013, the incoming chief executive will have completed a performance improvement framework and an expenditure review, which will include a decision on whether more funding will be needed from the next budget. The Minister assured us that this issue will be resolved by the equivalent Estimates hearing next year. We intend to monitor this situation.

Serious fraud in Canterbury
As rebuilding continues in Canterbury following the earthquakes of 2010 and 2011, serious fraud in the region is expected to increase. We asked whether the office was aware of any increases in crime or fraud, and how it is preparing for such eventualities. The rebuilding work is at an early stage, with mainly smaller construction projects in progress. When larger building projects begin, the office expects to see an increase in complaints.

We heard about two of the office’s preparation mechanisms for possible fraud in this area. Recently it held a conference for those involved in the rebuilding process to inform them about fraud issues, the type of actions that need to be reported as a concern, and to whom they should be reported. The office has also specified four areas of potential concern: the construction industry, the procurement industry, corruption, and bribery. It has publicised these concerns nationally in an attempt to deter fraudulent behaviour in these areas. We will monitor this situation with interest.

Finance companies
We asked for an update on investigations into finance companies. We heard that all 15 investigations have been completed, nine of which resulted in prosecution. The four remaining trials are timed to be completed by the end of May 2014, depending on court systems and processes.
Appendix A

Approach to this examination

We met on 12 June and 10 July 2013 to consider Vote Serious Fraud. Evidence was heard from the Minister of Police, Hon Anne Tolley, and the Serious Fraud Office, and advice received from the Office of the Auditor-General.

Committee members

Jacqui Dean (Chairperson)
David Clendon
Kris Faafoi
Hon Phil Goff
Hon Todd McClay
Ian McKelvie
Mark Mitchell
Richard Prosser
Lindsay Tisch

Evidence and advice received

We considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Serious Fraud, dated 12 June 2013.
Minister of Police, Response to standard Estimates questionnaire.
Minister of Police, Response to additional questions, received 4 July 2013.
Vote briefing paper, Vote Serious Fraud, prepared by committee staff, dated 5 June 2013.
Thank you for your forbearance, everybody. Minister, thank you for your forbearance and welcome to this estimates hearing. I know we are now under time pressure, so we will be very focused.

So, I have with me the acting chief executive, Simon McArley, and the general manager of corporate services, Carol Palmer.

I have given you a slide that shows the performance of the Serious Fraud Office. Again, over the past few years, I think you will see from that that they have expanded the work that they do. They are now much more timely with their investigations, and from the completed within the prescribed timeframes we are up to 86 percent. The average age of those open investigations has come down. But, more importantly, the conviction rates are running at 100 percent. That means that they are certainly focused on taking good cases to court and being very successful with that. I think they have had a good year, and really I'll leave it at that and you can ask any questions.

OK. Thank you very much. Members, questions.

Minister, I notice in the Serious Fraud Office, the departmental output funding is forecast to decline by nearly 25 percent between this year and next year. Now, I know some of that money is to do with organisational change, but when I look at the number of complaints anticipated being received, and the number of investigations likely to be formally commenced, and the number of cases being brought to prosecution, those numbers haven’t gone down by anything like 25 percent. So my question is, important work is being done by the SFO. They have a 25 percent cut in
their budget but not in the cases they’re having to deal with. That is going
to leave them less able to carry out the job that we expect of them, isn’t it?

Tolley Yes. So you’ll see in the answers to questions that a Budget bid was made.
But you will also have noticed that we have an acting chief executive, so my
understanding is that the position of chief executive is being advertised
imminently, and my first requirement of an incoming chief executive is that
they undertake an expenditure review. And I have alerted the finance
Minister that I will report that expenditure review back to him before the
end of this year. So we are well aware of the effect of losing that money in
the next Budget, but I have undertaken to provide the details from an
expenditure review and also—what is it? A PIF. We call it a PIF—a
performance improvement framework that will be also completed in that
time, and then report back to Cabinet and the finance Minister before the
end of the year.

Goff So you expect–

Dean Any other questions?

Goff Yeah, this’ll be my last one. We’re working on the premise that you
acknowledge that the work volume’s not going down rapidly but the budget
is. There’s going to be consequences for the effectiveness and capability of
that organisation, and you’re going address that, and you’ll come back to the
committee next year and we’ll see a different picture?

Tolley Yes.

Goff OK. Thank you.

Prosser You may have just actually answered it. I was going to seek an assurance
that the budget available to the SFO is able to be ramped up and they’ll not
fall short of resources if it turns out in the future that the number of serious
fraud offences does actually not reduce.

Tolley Well, in this current financial year, but I think, as Phil Goff has pointed out,
the budget does show that drop in the next financial year, and that’s what
the expenditure review is to have a look at: is it possible for this
organisation to manage, or do we have to look at a Budget bid next time
round?

Dean Thank you very much. There was quite a bit of activity in the last financial
year to do with investigations into finance companies. Can, perhaps, you
give us a bit of an update about where those investigations are, as far as the
SFO is concerned?

McArley Yes, I can do that. We have completed the last of the finance company
investigations. That was the investigation for Hanover. It was completed a
couple of months ago and an announcement made. As far as prosecuting
those cases that disclosed serious offending, we have prosecuted nine cases
out of the 15 we investigated. Of those, eight of them—actually, seven of
them already have convictions lodged against them, but we have two full
trials yet to complete, and we have two partial trials of remaining defendants
to complete, so, all together, four remaining trials to get through. They’re all
timed to be completed by the end of May next year probably, depending on the processes of the court system.

Dean  Would you anticipate that the Serious Fraud Office would have that nature of inquiry in the future given the changes in legislation that have come before the Parliament?

McArley  I wouldn’t anticipate that nature of inquiry coming out of the non-bank lending sector. I would, however, anticipate that there will be serious financial crime, and, in fact, finance companies haven’t been all that we have been working on. We’ve been working on a wide range of financial crimes, and we continue to do so.

Dean  And—if there’s no one else—we were alerted last year to the fact that, as a result of a major event such as the Canterbury earthquakes, there was an attendant consequential rise in all sorts of things, like crime and fraud. Has the Serious Fraud Office noted any increase, and are you anticipating an increase, and how do you think you’re going to manage that?

McArley  We haven’t noted an increase to date, but we wouldn’t be expecting to given that the recovery is in a fairly early stage. At the moment where we’re seeing recovery work is around gates, fences, and paving. A lot of the large construction work, including the large residential construction work, is yet to get under way. We would suspect that as those larger-dollar projects are pursued, we would see an increase in complaints. We’re not hoping to see an increase in complaints, obviously, but overseas experience has told us that where there’s money, there’s fraud, and where there’s opportunity, there’s serious and complex fraud.

Tolley  But they are doing a lot of work, working with organisations like the FMA and CERA and insurance companies. And you held a conference.

McArley  We had a conference for those people involved in the rebuild process. We had a multi-agency conference where we had four or five different Government agencies presenting and raising awareness around what fraud issues were, what the aspects to look out for were, and where those should be reported, so—

Tolley  So, doing a lot of work on the ground, leading up to the bigger construction push. It’s something we are very aware of.

Dean  Yeah, because there are potential victims here, aren’t there?

Tolley  There are. And a loud message to come out of that conference last week was around whistleblowers. And we know, with financial crime, you know, that if something doesn’t smell right, doesn’t look right, doesn’t sound right, it probably isn’t right, and that there is a responsibility on organisations to take notice of that when people come to them. So we are encouraging whistleblowers because that’s the best way of catching this, and there needs to be an environment that actually encourages those people to come forward.

McArley  And in addition to that, we’ve also identified four or five key areas which we see as being potential risks, and have highlighted those nationally across
the country in an attempt to provide a deterrent effect ahead of the rebuild rather than as a result of the rebuild. So we’ll be focusing on issues around the construction industry, procurement industry, corruption, bribery in those areas so that we’re sending a message now before it occurs that these are things that we’re alert to, and aware of, even if those offences aren’t occurring at this time in Christchurch.

Dean Yeah. Look, I’m going to wrap it up now. We have got a shortened examination, but I think that your annual report is pretty clear, and I think I’ve given the opportunity for members to ask questions.

McArley Yes, that’s fine.

Dean OK? All right. So thank you for coming in today, and, again, Minister, I want to apologise for keeping you over, but I want to thank you very much for making yourself available.

Tolley Thank you.

Dean Thank you.

**Conclusion of evidence**
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Recommendation

The Social Services Committee recommends that the appropriations for the year ending 30 June 2014 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, is responsible for most of the appropriations in the Vote. Other Ministers responsible for various appropriations within it are Hon Tariana Turia, Minister for Disability Issues, Hon Nikki Kaye, Minister of Youth Affairs, Hon Tony Ryall, Minister of Health, Hon Dr Jonathan Coleman, Minister of State Services, and Hon Todd McClay, Minister of Revenue, who replaced Hon Peter Dunne after the hearing of evidence.

The appropriations sought in 2013/14 total $22.232 billion, an increase of $881 million (or 4.1 percent) from the estimated actual expenditure in 2012/13. Vote Social Development represents 26.8 percent of the total appropriations for all Votes in 2013/14. It is the largest Vote in the Budget.

The Minister will be giving priority in 2013/14 to reforming the welfare system, the way the ministry works for children, and the way the Government contracts services.

Welfare reform

We note that the Government has announced new funding of $188.6 million over four years to implement welfare reform. There will be changes to benefit categories, and to expectations for beneficiaries to engage in training or employment. The reforms reflect an investment approach to the benefit system, seeking to manage long-term costs by investing most effort in those who are able to work among the beneficiaries projected to carry the greatest future welfare cost to the Crown.

The reforms provided for in the Social Security (Benefit Categories and Work Focus) Amendment Act 2013 will come into force on 15 July 2013, and include new benefit categories and new “social obligations” for beneficiaries. We asked about the information technology changes that will be needed as a result, and heard that the ministry believes the necessary systems are on track for implementation. Testing, including independent external quality assurance, is in its final stages and we heard that it is progressing well. The Minister acknowledged that the change to the new system would be a large undertaking, but was confident that it would be ready for 15 July.

Benefit fraud

We note there were 714 convictions for benefit fraud amounting to $23.4 million in 2011/12. Changes to the detection and punishment of welfare fraud are to be introduced in 2013/14. They will include holding partners of welfare recipients to account for any part in offending, and new measures to prevent repeat offending, including higher thresholds for offenders to regain a benefit.
The ministry, Housing New Zealand Corporation, the New Zealand Police, the Accident Compensation Corporation, and the Inland Revenue Department will seek to combat welfare fraud through a collaborative taskforce, and the ministry expects to prosecute about 1,200 cases, up from about 700 in 2012. We appreciate that only a small proportion of beneficiaries commit fraud, and were pleased to hear that money recovered will be used to address other social-sector issues.

**Hardship grants**

The number of hardship grants made has decreased by 33 percent over the past two years, and we were told that this reflects fewer applications being made rather than more of them being declined.

We noted that a hard-copy form or a telephone call is sometimes used for a preliminary emergency needs assessment in some Work and Income offices, and asked whether some unsuccessful preliminary applications might go unrecorded, giving the appearance of fewer applications being made. The Minister and the ministry assured us that all applications are expected to be logged because applicants have a right to seek review of decisions.

Some of us recommend that the Minister ensure that all offices and staff of Work and Income New Zealand are aware of this expectation, and that they record electronically all applications for hardship allowances.

**Studying while receiving a benefit**

In October 2012 changes were made to the social security system that affected the ability of sole parents to study while in receipt of a benefit. Further changes will be implemented in July 2013. We asked the Minister whether these changes could result in sole parents not being able to continue their part-time studies because work expectations clashed with their courses.

The Minister confirmed that parents on the current domestic purposes benefit whose youngest child is older than five years are expected to work, and this will continue under the new regime. She said study would have to be managed around this expectation. She acknowledged, however, that while she believes the reforms have struck the right balance, there may be some clashes, and we were assured that Work and Income New Zealand could work with any affected individuals to “achieve a positive outcome”.

**Working with children**

**Children’s Action Plan**

The Minister told us that several current pieces of work are derived from initiatives in the Children’s Action Plan to support and protect vulnerable children.

The plan is overseen by a Ministerial Oversight Group, comprising the Ministers of Finance, Police, Justice, Health, Education, and Whānau Ora, and is chaired by the Minister for Social Development. It proposes more collaboration between agencies regarding regional Children’s Teams. While there is no new funding in the Vote for implementing the plan, we understand that there is a contingency budget. The first of the Children’s Teams is operating in Rotorua, and another will be set up in Whangarei later in 2013.
The ministry will continue to implement initiatives from the Children’s Action Plan in 2013/14, including the introduction of a new care strategy, involving changes to Child, Youth and Family.

We asked why family violence is not included in the section of the ministry’s statement of intent relating to the goal that “fewer children are vulnerable”. The Minister said that family violence is one of a number of factors not mentioned in the section (others include relationship breakdown, and alcohol and substance abuse). The omission was deliberate because these issues are being addressed outside of the plan. The Minister assured us that family violence incidents will be followed up, particularly when children were present, and are likely to be a priority for the Children’s Teams, and funding for family violence coordinators has been secured for a further two years.

**Vulnerable Children's Board**

We were interested to hear about the establishment of the Vulnerable Children’s Board. In this new model of accountability, social-sector chief executives work together to improve results. The board works collectively to give effect to policy recommendations, and to manage the way money is allocated, and staff are employed.

**Child, Youth and Family**

We are concerned that Child, Youth and Family has seen a large increase since 2008 in notifications requiring further action, and asked the Minister whether it has the capacity to deal with the demand for services. The Minister told us that increasing the staff of Child, Youth and Family would not be as effective as cross-agency and community-driven action, which she intends to be undertaken by the Children’s Teams. She said that the ministry needs to monitor the rate of notifications to Child, Youth and Family and the workload of case managers, which she said was a little high. She considers that the threshold for intervention by the agency is appropriate.

The ministry has had a memorandum of understanding since 2010 with the New Zealand Police concerning action when children are deemed to be unsafe; the ministry told us that it is working well. We note that the ministry is also developing protocols for situations when children are found in methamphetamine laboratories. We were pleased to hear it will be completed by the end of July 2013, but did question why the protocol had taken this long, given that the Police already had a specific protocol.

The Minister said that she doubts the value of the Police passing on all notifications they receive to Child, Youth and Family without applying a filter or threshold. We note that the Minister’s view on this issue is similar to that expressed by the Children’s Commissioner, when we undertook the 2011/12 Financial Review of that office. We would like to be informed if policy or practice in this area should change.

**Investing in Services for Outcomes**

The Minister told us that there had been a lack of clarity about which community organisations the ministry funds and why. The Minister considers that if the Government is to make significant change for those who are most disadvantaged, funding should be closely analysed, and projects should not be funded purely for reasons of history or popularity. She told us that the Investing in Services for Outcomes project is on track in its examination of the capability of the community sector and Government expectations of it.
The ministry is working with the community and non-governmental sectors on how the effectiveness of the new approach will be measured. We were told that outcomes would not be imposed by the ministry, and that different measures would be used for different organisations. We look forward to hearing how this new approach works in practice.

**Community Response Fund**

The Community Response Fund, which was set up to address immediate pressures caused by the economic down-turn, has now closed. The Minister said it had always been intended as a short-term measure. Some of us were concerned that the ministry had not measured whether the pressures had eased before closing the fund.

We raised with the Minister the possibility that cessation of the fund might lead to the closure of some community agencies, and asked how the issues those organisations dealt with would then be handled. We were told that the new approach to funding community bodies is to focus on gaps, what the ministry wishes to purchase, and the desired outcomes. Gaps could be filled by the second round of Capability Investment Resource funding.

**Youth Development Partnership Fund**

The Youth Development Partnership Fund enables the Ministry of Youth Development to work with territorial authorities and people aged from 12 to 24 years to use “knowledge, skills and experience to participate confidently in communities.”

Some of us expressed concern about changed eligibility criteria, and the exclusion of programmes operating at times when young people should be in education (that is, between 9 am and 5 pm). This appears to exclude programmes such as the Conservation Corps, which aims at work readiness—a Government priority.

The Minister of Youth Affairs told us that the Conservation Corps did not attract as many participants as the ministry had expected, and that other schemes, such as the Sir Peter Blake Trust Youth EnviroLeaders’ Forum, the Enviroschools Foundation, the Community Environment Fund, and the Māori Affairs cadetship programme, provide young people with similar opportunities.

Some of us believe that programmes like the Conservation Corps, even though they may operate during times when young people should be in education, should be eligible for funding under the Youth Development Partnership Fund. We see them as important tools for getting young people into work, with outcomes that align with the Better Public Services targets.

**Youth justice**

The Ministry of Youth Development supports the Government’s Better Public Services target of reducing the youth crime rate by five percent by 2017. The Minister told us that the youth crime rate has in fact dropped by 14 percent since June 2011.

Terms of reference for a Youth Crime Action Plan were released in September 2012, and the Ministry of Social Development, the Ministry of Youth Development, and the Department of Justice will draw up the plan together.

The Ministry of Youth Development is also working with the Department of Corrections to gather information about young offenders in correctional facilities and on probation. It has been supporting the Christchurch youth offending team’s consultation with young, particularly Māori, people in Canterbury. The Minister said the ministry is also supporting
the Fresh Start programme, which is administered by Child, Youth and Family and has a budget of $72 million over four years.

The Minister of Youth Affairs considers that more work is needed in this area, particularly with Māori and Pacific youth. She would like it to go beyond the Fresh Start package to include efforts to maintain young people’s engagement with education, training, or work.

We heard that iwi-based programmes that include Tikanga Māori help to reduce rates of recidivism by young Māori, and note that the ministry intends to allow communities to have more input into the services provided by such programmes.

We consider that recidivism by those who have participated in a government programme may be a better measure of the success of government intervention than the national statistic for youth offending. We also note that no information was provided about the severity of youth crime. We recommend that the ministry gather specific data about the rate of recidivism amongst young people who have participated in a government programme, and trend data about the severity of crimes perpetrated by young people.

**Disability issues**

**Lifetime Design**

We were interested to learn about “lifetime design” principles in housing development. Lifetime Design is an independent not-for-profit organisation, established by CCS Disability Action in 2006 and supported by the Government. It advocates design standards aimed at making houses liveable at all lifetime stages, particularly for the elderly and people with disabilities.

Over three years 863 new dwellings have been constructed on Lifetime Design principles. A memorandum of understanding has been signed with Christchurch City Council and local authorities in Thames, Tauranga, and Auckland, and Summerset Retirement Villages will build 160 dwellings by the end of 2016.

The Minister for Disability Issues views the adoption of Lifetime Design principles throughout the public and private sector as critical. The cost to the State of assistance for people who acquire a disability can be very high, but the cost of incorporating Lifetime Design principles at construction is relatively low. A further $1.5 million is budgeted for the next three years to continue work with the building industry and the community on Lifetime Design housing.

**Canterbury rebuild**

We heard that the Ministry of Business, Innovation and Employment has proposed to reduce the accessibility requirements for buildings being constructed to rebuild Canterbury. The Minister said that she had ensured that the disabled community was represented on the committee that makes such decisions; as a result the chair of Workbridge was appointed to the committee. We share the Minister’s view that government agencies should take account of the needs of the disabled community.
Appendix

Approach to this examination

We met on 5 and 11 June and 10 July 2013 to consider Vote Social Development. Evidence was heard from the Minister for Social Development, Hon Paula Bennett, Associate Minister for Social Development, Hon Chester Borrows, Minister of Youth Affairs, Hon Nikki Kaye, Minister for Disability Issues, Tariana Turia, and Hon Peter Dunne, the Minister of Revenue at the time, and advice received from the Office of the Auditor-General.

Committee members
Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Phil Heatley
Melissa Lee
Jan Logie
Le’aula’amuliala Asenati Lole-Taylor
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Phil Twyford
Hon Michael Woodhouse

Evidence and advice received

We considered the following evidence and advice during this examination:

Hon Paula Bennett (Presentation), received 10 June 2013.
Hon Tariana Turia (Speaking notes), received 12 June 2013.
Office of the Auditor-General, Briefing on Vote Social Development, received 5 June 2013.
Minister for Social Development, Response to standard Estimates questionnaire.
Minister for Disability Issues, Response to standard Estimates questionnaire.
Minister for Disability Issues (Speaking notes), received 26 June 2013.
Minister of Revenue, Response to standard Estimates questionnaire.
Minister of Youth Affairs, Response to standard Estimates questionnaire.
Response to additional questions, 25 and 26 June and 2 July 2013.
The Government Administration Committee has examined the 2013/14 Estimates for Vote Sport and Recreation, and recommends that the appropriations in respect of Vote Sport and Recreation for the year ending 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

We note that the Minister for Sport and Recreation failed to meet his obligations to respond to our questions, notwithstanding an extension being granted by the committee.

Hon Ruth Dyson
Chairperson
2013/14 Estimates for Vote State Services

Report of the Government Administration Committee

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Vote State Services

Recommendation
The Government Administration Committee recommends that the appropriations for the year ending 30 June 2014 for Vote State Services, as set out in Parliamentary Paper B.5, administered by the State Services Commission, be accepted.

Introduction
The appropriations sought for Vote State Services decrease slightly to $41.586 million for 2013/14 from the 2012/13 estimated actual spending of $42.161 million. This reflects efforts to reduce the departmental output expenses baseline by 3 percent and a reassessment of the funding required for remuneration and costs relating to the employment of chief executives by the State Services Commissioner.

Better Public Services programme
The Better Public Services programme was launched by the Prime Minister on 15 March 2012. It set 10 goals for the public service to achieve over five years, ranging from reducing long-term welfare dependence to improving public interaction with government. The project seeks to create a higher-performing, trustworthy public service that delivers quality results within budget. Leading the delivery of the programme is a key priority of the State Services Commission.

The Minister of State Services and the chief executive of the commission described progress on the “functional leadership” model established under the programme. The model gives certain chief executives responsibility for government-wide management of services such as procurement, information and communications technology, and property. As a result the public service office footprint in Wellington will be reduced by 30 percent, saving an estimated $250 million in rent over the next 20 years. The Minister cited a recent review by the Government Chief Information Officer of government ICT as progress towards the goals of the programme.

We note that a recent evaluation of the Better Public Services programme by Ernst and Young indicated issues with its delivery. It found problems with leadership, ownership, strategy, and the provision of resources. The Minister said that the project was still in an early stage, and that the report highlighted areas in need of improvement, which the Government was working on. He said that the Government was on track to achieving the programme’s goals. None the less, some of us are concerned with progress on delivering Better Public Services. We will monitor this area with interest.

Later this year the Government will release the results of the first year of the programme. We look forward to receiving a copy.

Legislation
Parliament is currently scrutinising the State Sector and Public Finance Reform Bill, which seeks to amend the State Sector Act 1988, the Public Finance Act 1989, and the Crown Entities Act 2004. We understand that the effect of the amendments would be to
encourage more collaboration between agencies and to improve leadership throughout the sector, at system and agency levels. We are interested in these changes, and will monitor their effect on the Public Service should the bill be enacted.

**Monitoring of information communications technology projects**

The State Services Commission is tasked with monitoring the progress of “high risk” government ICT projects. We heard that the commission is monitoring 34 projects, six of which are assessed as “high risk”. The commission receives appropriations for this function under the multi-class output appropriation *Policy Advice and Management of the Public Management System*, for which $27.627 million is being sought for 2013/14.

**Novopay**

The Minister responsible for Novopay, the Hon Steven Joyce, recently released a report of the ministerial inquiry into the Novopay payroll service. In this report the State Services Commission was criticised for its monitoring of the payroll system project. The commission was tasked with providing independent quality assurance on the Novopay project. According to the inquiry, the commission failed to raise concerns about the project with ministers. The Minister of State Services and the commission accepted that this criticism was valid. They both emphasised that improvements had since been made to the Novopay system, including the appointment of a new acting chief executive at the Ministry of Education and better reporting to ministers on the issue.

Some of us remain concerned that the State Services Commission failed in its responsibility to oversee the project adequately, and note another worrying issue: a lack of ministerial accountability. The chief executive of the Ministry of Education and a deputy chief executive have both resigned, while the Minister of Education continues to avoid accountability for the project’s failures.

**Data security**

An alarmingly large number of data security breaches have occurred recently in the public sector. One estimate put the number of files inappropriately released at 120,000. These breaches are eroding the public’s confidence that their privacy will be protected by the Public Service. Some of us consider these failures to be systemic.

We also note that the Privacy Commissioner said recently that New Zealand was lagging behind other countries in providing regulatory safeguards for people’s data. The Minister of State Services disputed this assessment, and believes that the Government is addressing the issue. Nevertheless, some of us consider that more needs to be done.

**Office space in Christchurch**

Following the Canterbury earthquakes the offices of a number of government agencies were relocated from the central city to space adjacent to the Christchurch airport. The Minister of State Services told us that the Government intends agencies to return to office space in central Christchurch. It is expected that this relocation will help to create a critical mass of people living and working in central Christchurch, which should attract private businesses to return to the city centre.

We are concerned about the cost of breaking the current long-term leases, and we look forward to receiving further information on this matter.
Appendix

Approach to this examination

We met on 12 June and 10 July 2013 to consider Vote State Services. Evidence was heard from the Minister of State Services, Hon Dr Jonathan Coleman, and the State Services Commission, 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

Hon Phil Goff replaced Hon Trevor Mallard for this item of business.
Denise Roche replaced Holly Walker for this item of business.

Evidence and advice received

We considered the following evidence and advice during this examination:
Office of the Auditor-General, Briefing on Vote State Services, received 12 June 2013.
Minister of State Services, Response to standard Estimates questionnaire.
Response to additional questions, received 12 June 2013.
The Government Administration Committee has examined the 2013/14 Estimates for Vote Statistics and recommends that the appropriations in respect of Vote Statistics for the year ending 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
2013/14 Estimates for Vote Tertiary Education

Report of the Education and Science Committee

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Vote Tertiary Education

Recommendation
The Education and Science Committee recommends that the appropriations for the year ending 30 June 2014 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 $2.881 billion in 2013/14 from an estimated actual for 2012/13 of $2.745 billion. Hon Steven Joyce, the Minister for Tertiary Education, remains the Minister responsible for the appropriations within the Vote. We heard from the Minister of Tertiary Education, as well as officials from the Ministry of Education, Education New Zealand, the New Zealand Qualifications Authority, and the Tertiary Education Commission.

Funding for foundation learning
We are aware of changes in the allocation of Student Achievement Component (SAC) funding, which is the Government’s contribution to learning and teaching services for enrolled students in tertiary education organisations. We asked how it would be decided who receives the increased level 1 and level 2 SAC funding, and whether provision was assessed at a regional or national level. We were told that the Tertiary Education Commission considers regional as well as national allocation when tendering one-third of the SAC funding, and that the rest is not tendered.

We are aware of a fall in the number of equivalent full-time students (EFTS) in a number of regions. Using the Hawkes Bay as an example, the Minister explained that this reduction was only at level 1 and 2 of NCEA, that there had been an increase in provision at higher levels, and that the changes are designed so that funding is now only allocated to foundation learners. The changes to the allocation were influenced by evidence that some recipients of funding had already attained a foundation level of learning, and were now enrolling again for level 1 and 2 of NCEA, which could ultimately leave recipients in a position where they have more debt but no increased ability to pay it off.

We heard that the results of the level 1 and 2 tendering may influence whether level 3 funding is competitively tendered, but that at this stage there is no plan to do so. The Minister explained that he is focused on helping students achieve level 1 and 2 through school, trades academies, or Youth Guarantee. There is also a particular focus on ensuring that second-chance learners achieve basic literacy and numeracy skills. We heard that, after achieving a foundation level of knowledge, the greatest impact on whether a student will receive increased income from their study is if they achieve level 4, so the Minister is encouraging people to achieve this level.

Trades training and apprenticeships
Some of us had heard anecdotal evidence of skills shortages in the building and construction industry as training has declined, and in some areas, halted. The Minister disputed this claim, and said that he had been working to “clean up” industry training, as
previously more than half of all trainees were not achieving any credits. He said that the cause of the skill shortage in the industry was the global financial crisis, which had reduced the number of people being employed and trained as apprentices in construction.

We are aware that the appropriation for Apprenticeships Re-boot has increased to $13.15 million in Budget 2014. This initiative commenced in April 2013 to raise the profile of and participation in the new apprenticeship system by providing grants for the cost of equipment and tools for the first 10,000 apprentices to enrol. We are also aware that the Government has allocated over $200 million for the Industry Training Fund and Modern Apprenticeships appropriation, an increase of $60 million from the previous financial year, which resulted from a reallocation of underspending in the industry training fund over the past three financial years, and projected for the next two financial years. The Modern Apprenticeship programme is designed to make it easier for employers to recruit and train talented young people and for the recruits to gain a nationally recognised level 3 qualification.

From 1 January 2014, the Modern Apprenticeships programme will be replaced by a new nationwide scheme called New Zealand Apprenticeships, which will allow students to work towards a level 4 national certificate.

A new initiative will grant “significant employers” access to two years of secured Crown funding to train apprentices, at a time when industry training organisations (ITOs) can secure only one year of funding. The Minister explained that most of the ITOs are being funded one year at a time recently as there have been a number of changes to the sector. We heard that the ministry has not yet determined what a “significant” employer is, and the Minister does not expect many employers to apply for this recognition; the policy was introduced so that employers not satisfied with the quality of apprentices graduating from the ITOs would be able to train their own. The Minister said that this policy recognised that ITOs were not always responsive to the needs of employers or trainees.

Pasifika and Māori training

We are aware that the Government has focused on increasing the number of Māori and Pasifika students in trades training, particularly in trades that will be in demand during the rebuilding of Christchurch. The Minister confirmed that he is seeking to increase the number of students enrolled in the He Toki ki te Rika and Pasifika trades training schemes, which provide training in Christchurch, from 600 to over 3,000 over the next three years. We heard that these schemes have proven successful, in large part because of the involvement of iwi and community leaders, which has necessitated extra funding for pastoral care. Another contributor to the success of the scheme is the involvement of employers, to ensure that participants are able to find work. The Minister expects more employers to be involved in these ventures in the future.

Impact of changes to student support

We asked about the impact of the removal of student allowances for postgraduate students on enrolments at universities in 2012. The Minister said that complete data was not yet available, but that early indications showed a decline in postgraduate enrolments in some institutions, while others had seen an increase. The figures from April 2013 showed that the number of doctoral students had decreased compared with April 2012, while the number studying for Master’s degrees has increased.
The Minister explained that the changes to student support were not intended to dampen demand for tertiary study, but rather to ensure more efficient spending in tertiary education and better results from total spending. This has required an increase in the number of EFTS; since 2008 EFTS had risen from 222,000 to 234,000 in 2012. The Minister said that he did not expect the changes to eligibility for student allowance for students over 40 to have a significant impact on the number studying.

Engineering

This Government has identified engineering as an area of critical importance, and it has been working to increase the number of graduates in this discipline. We asked for an update on progress in recruiting and training engineers. The Minister told us that despite some improvement, there is more work to do. We heard that New Zealand has tended to train too few engineers, resulting in fewer per head of population than the OECD average. We also heard that New Zealand under-subsidises the tuition of engineering at university in comparison with other countries. The Minister said that he has increased the funding in this area by nine percent in the last Budget and funded extra places with education providers, in an effort to correct this. We heard that the Government is on target to achieve its aim of 500 additional engineering graduates per annum by 2017, and has been working with Auckland and Canterbury Universities regarding their engineering schools to ensure this increase continues. We heard that the Minister is conducting a benchmarking exercise on the cost of provision for different disciplines, which may lead to adjustments, to avoid deterring people from considering engineering study.
Appendix

Approach to this examination

We met on 12 June and 10 July 2013 to consider Vote Tertiary Education. Evidence was heard from the Minister of Tertiary Education, Hon Steven Joyce, and the Ministry of Education, Education New Zealand, the New Zealand Qualifications Authority, and the Tertiary Education Commission and advice received from the Office of the Auditor-General.

Committee members

Dr Cam Calder (Chairperson)
Carol Beaumont
Catherine Delahunty
Hon Jo Goodhew
Chris Hipkins
Colin King
Tim Macindoe
Tracey Martin
Simon O’Connor
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 11 June 2013.

Vote briefing paper, prepared by committee staff, dated 10 June 2013.

Minister of Tertiary Education, Response to standard Estimates questionnaire.

Minister for Tertiary Education, Skills and Employment, Response to additional questions 1 to 126, received 10 June 2013; 127 to 218, received 11 June 2013; and 219 to 224, received 11 June 2013.
2013/14 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 2014 for Vote Tourism, administered by the Ministry of Business, Innovation and Employment, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Tourism increase 22 percent to $129.05 million in 2013/14 from an estimated actual expenditure for 2012/13 of $105.654 million.

Much of the large increase is due to a new policy initiative, the International Growth Package. In Vote Tourism, this initiative will fund two appropriations, Marketing of New Zealand as a Visitor Destination and Tourism Growth Partnership.

Emerging markets

Tourism New Zealand is expecting significant growth in a number of new markets in the next few years, including India, Indonesia, and the Philippines, and especially China. The South American market is also expected to grow.

The Associate Minister said that current forecasts indicate the number of Chinese visitors reaching 400,000–500,000 in the next five years, but a “stretch” target of 1 million visitors in 2016/17 has been set. The Associate Minister could not give specific figures on the expected benefits from the growth in Chinese and other Asian tourists. Emerging markets are expected to provide new opportunities for the New Zealand tourism employment sector, including foreign language speakers, and chefs capable of catering to tourists’ tastes and religious requirements.

We asked what Tourism New Zealand was doing to up-skill the New Zealand tourism workforce to cater for more Asian visitors. We heard that the Ministry of Business, Innovation and Employment produced a China Market Review in 2012, and devised a toolkit for tourism providers. A number of tourism training organisations are educating their students to meet the needs of Asian customers.

We wondered if New Zealand risked becoming a victim of its own success in marketing to Chinese visitors, and whether the tourism sector infrastructure is prepared for the expected growth, for example in terms of flights, accommodation and language support. China Southern Airlines is increasing the number of flights per week from China to New Zealand, and more resources are being provided for the processing of visitor arrivals. The construction of a number of new hotels has been announced, particularly in Christchurch, but the Associate Minister acknowledged that more would be needed to meet expected demand. Existing hotels in popular visitor markets are also investing in upgrading.

We were concerned that many Chinese tourists still visit New Zealand as part of a trip to Australia, often in tour groups. We asked how Chinese tourists could be encouraged to visit New Zealand specifically. A new initiative, the Premium Kiwi Partnership, markets New Zealand to high-end travel retailers in China. The hope is for more independent travellers who will stay longer and spend more in New Zealand. Currently many tourists
from China visit on shopping tours, but attracting independent travellers is expected to bring more visitors to the regions beyond the traditional shopping destinations of Auckland, Rotorua, and Queenstown.

**Traditional markets**

We queried the continued investment in and emphasis on *The Hobbit* movies as a marketing tool, since tourism growth is expected to come from Asia. The Associate Minister acknowledged that the films have limited appeal in Asia, but said they still appeal to tourists in more traditional markets, such as Europe and North America. These top-tier markets are still critical sources of income, and 8.5 percent of surveyed European visitors cited *The Hobbit* as a motivating factor in their visiting New Zealand. The North American market has started to grow again after a period of decline.

**High-value visitors**

We asked if the high-value visitor market is growing, and heard that the average value of visitors’ spending in New Zealand has dropped in the last five years. Tourism New Zealand believes more effort is needed to attract high-value visitors. There is continuing growth in high-end resorts, both in the number of resorts and the business they generate, as marketing to special-interest tourists, particularly those interested in golf, has increased.

Another high-value market with growth potential is business events. The Minister told us that conference delegates spend on average three times as much per day as traditional tourists. We heard that the proposed convention centre is forecast to bring another 33,000 business visitors annually.

**National cycleway**

We asked the Associate Minister for information on the economic benefits generated by the national cycleway. We heard that a review of four of the 11 cycle trails that have opened is under way, and the results are expected in the third quarter of 2013. We questioned the Associate Minister’s inability to provide us with clearer figures, particularly on the number of full-time permanent jobs created, more than four years after the establishment of the national cycleway project. The Associate Minister assured us that the analysis due later in 2013 would provide these figures for the first four trails.

We asked if the national cycleway was being marketed to international tourists. Tourism New Zealand told us that the cycleway is a small part of the international marketing programme at present, as the trail network is not yet complete and related infrastructure still needs to be established. As more trails are completed, the promotion of the cycleway will be expanded to include high-value visitors. Tourism New Zealand believes the cycle trails will have potential for attracting Australian visitors in particular, building on the success of efforts to attract mountain bikers from that market.

Asked how the trails are governed after completion, the Associate Minister told us that each trail has a management group, and local and regional councils also play a large part in their administration.

Labour members were concerned that the Minister, for the second year, could not provide specific numbers of jobs that had been created as a result of this national cycleway project.
Appendix A

Approach to this examination
We met on 13 June and 4 July 2013 to consider Vote Tourism. Evidence was heard from the Associate Minister of Tourism, Hon Chris Tremain, Tourism New Zealand, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members
Jonathan Young (chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Clayton Cosgrove
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell
Dr Jian Yang

Evidence and advice received
We considered the following evidence and advice during this examination:
Minister of Tourism, Responses to additional written questions 1 July 2013.
Minister of Tourism, Responses to standard Estimates questionnaire.
Minister of Tourism, Responses to written questions 1–148, received 17 June 2013.
Office of the Auditor-General, Briefing on Vote Tourism, received 13 June 2013.
Vote briefing paper, prepared by committee staff, dated 21 May 2013.
Thank you, Jonathan. I understand we’ve only got half an hour, so I’ll keep the opening comments short and sweet. I know Mr Cosgrove is very keen to get into the cycleway.

No, no, I yield to Mr Little. He’s far more penetrating with his questions than me, Minister.

Can I start by introducing Lisa, who is the GM of Tourism Sectors, and Kevin Bowler, the CE of TNZ.

Just a few opening comments about tourism, how important it is to our economy. Obviously, it’s our second-largest industry in the country, and it plays a huge role in actually addressing some of the imbalances in our current account deficit going forward, and I think it’s one of the key fundamentals as to why we’re going to be investing in tourism going forward. Tourism represents about 3.3 percent of New Zealand’s GDP, with 119,800 full-time equivalent jobs, so it’s a significant industry for New Zealand and one of the key reasons why we’ll be looking to invest an additional $158 million into the industry over the next 4 years.

I just wanted to focus on, firstly, our Business Growth Agenda, which I’m sure all of you around the committee will have been focusing on in recent years. But this is a key plan to drive the economy forward, particularly when it comes to export markets, which again are really important for us. A big part of the agenda is tourism, and you’ll see a number of initiatives in there as part of this plan, which we have been taking forward strongly. So in that space, just briefly, streamlining passenger facilitation—so you’ve seen the SmartGate services improve, and, particularly, in line with our goal of
improving the digitisation of services, last month alone we saw 70 percent of those able to use SmartGate using it, which was a great achievement.

Capturing the full potential of the Asian market is really important, particularly when we’ve seen 29 percent growth out of China last year. It’s a significant market for us, which is huge. We’re continuing to invest in major events. Obviously, significant events like the upcoming ICC Cricket World Cup are going to again play particular dividends for us, particularly, Kanwaljit, potentially with the Indian market.

Obviously, the convention centre was one of the key things that we had in this plan, which we’ve now been able to move forward on, which has been pleasing. I think that, along with the other facilities around New Zealand, provides real potential growth for us.

Obviously, the cycle trail, which I know Mr Cosgrove is particularly interested in, has been a very successful—

Cosgrove

Hanging on every word.

Tremain

Good stuff. I’ve no doubt you’ve been out there cycling it yourself, Mr Cosgrove.

Cosgrove

I’ve got a few punctures.

Tremain

We’ve opened 11 of the 18 rides now. We’re making really great progress there. It’s important that you know that MBIE is undertaking a review of some of the progress made there, and that will be delivered in the third quarter, in terms of economic opportunity that’s derived from existing and open rides.

The Hobbit movies have been particularly successful, and we’ve seen some good results out of those. But I think the thing I want to finish on, in terms of my opening comments, is the new 3-year marketing strategy. That’s that $158 million that was announced in the Budget and really forms a big chunk of the estimates that we’re discussing today. So in that space we’re putting in $44.5 million into emerging markets. I think we’ve seen good growth, or potential growth, out of those, particularly hand in hand with our trade opportunities, so that’s really exciting.

In terms of international business events, we’re putting additional money into those. The decision around the convention centre has given us the opportunity to really get behind that opportunity. Lifting the tourism yield—that has been a concern in that we have been driving bigger numbers, but actually the value has been coming down, so we need to focus on those high-end markets.

There’s $20 million into very high-value visitors, which Kevin can speak about later, if you’re interested, on the detail of that investment, and $28 million into the Tourism Growth Partnership, which aims to lift up the product and provide a better level of offering.

So I think it’s exciting times in tourism. It’s a wonderful opportunity to lift export proceeds from this and to address some of the concerns the Opposition has around our current account. So the floor is yours.
Young Thanks very much, Minister.

Cosgrove This is the third Minster we’ve seen this morning who’s excited about something.

Young That’s great.

Tremain Just imagine if I was dour about things. That wouldn’t do. That wouldn’t be very good, would it?

Young That’s great. We’re very passionate about these things. Well done. We’re going to come to Andrew Little now, who’s going to lead some questions.

Little Thank you, Minister, and thank you, Chair, for the opportunity to pose the questions. Minister, a lot of emphasis has been placed on the role of Hobbit marketing in attracting tourists, and I think Tourism New Zealand made a release early this week about that. Looking at the independent analysis about future prospects, the biggest growth is going to come from, I think, as you have identified, China. I’ve also got here India, Indonesia, the Philippines, and South America. To what extent will Hobbit marketing play in reaching to new tourists from those origins, and how much of the $158 million is going to go into those areas?

Tremain So to answer your question particularly about Hobbit, I think where we’ve seen the growth and genuine uptake as a result of Hobbit marketing has been from our more traditional markets, certainly from America, where we’ve seen a market that was in decline, if not flat, starting to come back quite strongly. The evidence from the research we’ve done into those visitors has been, on average, that about 8.5 percent of people have indicated that it’s a significant part of their decision in coming to New Zealand, but also out of Germany and the UK, some of those traditional markets. Just to answer your question there, Mr Little, specifically we’ve got significant money going into those traditional markets. It’s all very well to be focusing on the new ones, and I’ll come back to those, but actually our critical markets still are those traditional ones, our tier 1s—so that’s the UK, Germany, the United States, and particularly Australia. So that’s where Hobbit has been most effective.

It’s not to say there isn’t some uptake in some of these more emerging markets, but actually the money going into the emerging markets—I will tell you, just to answer your question specifically there—was $44.5 million over 4 years. So those markets, we are seeing hand in hand with the trade opportunities. Take Indonesia, for instance—significant opportunity from there. India—some of the forecasts, if you look at the estimates, page 45, potential growth forecast to rise from 33,000 up to 50,000 over that period. So I think it’s positive.

Little Thanks for that. I take from that that in terms of real growth the priority has got to be China.

Tremain Yep.

Little You’ve set the target of a million visitors by 2016-17, 4 or 5 years away.

Tremain It’s not a firm target in terms of our projections.
Little A stretch target.
Tremain It’s a stretch target.
Little OK. In the written questions, one of the questions, question 136 was about the financial benefits to the economy of that spending, additional spending, on emerging markets. The answer talks about the new arrivals. Has there been some estimate given of the additional jobs that that’s expected to generate within New Zealand, as opposed to—sure, we see the tourists arriving at the gate, but what do we expect will happen in terms of job generation within the New Zealand border?
Tremain I don’t have specific details in terms of the actual jobs. Kevin, you might be able to talk about that in detail. But, look, there’s no doubt if we’re going to get the level of uptake from traditional markets—I mean, we’ve seen Japan coming back slightly, which is encouraging. That market was in decline. If we’re going to see increases from some of these emerging markets, that is going to lead to more jobs.
Bowler I also don’t have a specific number on jobs, but certainly the source of new visitors is going to create some new job opportunities for people with specific language skills and specific skills in terms of culinary preparation of specific foods that are halal certified, for instance.
Little So just on that basis, what role is Tourism New Zealand playing in ensuring that either people are acquiring those skills, to be able to pitch to that sort of market, or that businesses are adapting and adjusting, to be ready to be part of that growth from emerging markets?
Tremain Perhaps I can answer that, as part of our work has been particularly with regard to China. We’ve seen 29 percent growth in the last year. We’ve put together a thing called the China Market Review, which has had a number of initiatives that have come as a result of that—there’s a tool kit and a range of research that’s got under way there. But it goes to the heart of exactly the question you’re asking, which is how do we prepare ourselves, how do we have the staff that can cater with some of the language issues, how do we prepare for the issues of cuisine that we’re facing. I’ve had a couple of visits to schools like the one down in Queenstown, who are providing specific services for teenagers—anyone who’s into that space. I think we will see a big lift there.
Lotu-Iiga Thank you, Minister, for the overview. Obviously, it’s exciting. I’m excited—
Cosgrove Just control yourself, Sam.
Lotu-Iiga You talk about the different markets for tourism and, you know, we’ve got Chinese tourists, we’ve got Indian—you know, emerging markets in tourism, and the different sources of income for our country. You can also sort of fragment according to a high-value market for tourism. Can you just give us a feel for what those look like, where they’re coming from, and how we can better focus some of our activities on people that actually, once they’re here, spend quite a bit of money on our country? Because I thought those were important markets, as well.
So, clearly, with our statistics over the last 5 years, we’ve seen—well, the numbers have been relatively flat, but even what we have seen is the value of spend go down. Partly that’s been because we’ve been fortunate that the Australian market picked up significantly through this recessionary period, and the cruise market’s picked up significantly as well. The cruise market doesn’t spend as much per day as some of your traditional markets, like the UK and the American tourists. Certainly, the Australian market has tended to be lower spenders, as well, on a per day basis.

So, yeah, we do need to focus—we acknowledge that—on the higher-value end of the market. I think, as a proportion, we’ve actually done pretty well as a country at that top end. We’ve seen the resorts—Kauri Cliffs, Cape Kidnappers, those sorts of resorts—come into their own, and I think there is huge opportunity. Kevin, you can give us some detail in terms of the spend that those sorts of opportunities provide per day versus, say, an average spend, but it’s significant.

Yeah, there’s a couple of specific areas that we focus on. One of them is encouraging special-interest travel, so we’re working with the golf industry at the moment to encourage visitors who are focused on golf as a pastime when they’re here. The other one is the business events base. It’s one that attracts really high spending per day conference delegates. So the extra investment we’re able to put into international business event attraction will have an effect of driving higher-value visitors. So there’s actually quite a raft of things. In the China market, our focus is particularly around driving more mono - New Zealand visitors, so that is discouraging the visitors who are going mostly to Australia and a little bit to New Zealand, and encouraging the sale of itineraries which are only New Zealand.

So the business side, the convention centre—well, the proposed convention centre—is going to play a big part in that.

The convention centre, if we just take an average spend, a convention spend—I’ll see if I can find it for you. But they’re significantly higher than the daily spend of a tourist. I think a business—have you got those figures there, Lisa?

About three times.

It’s about three times. Yeah, $423 per night versus $124 per night as an average visitor. So that’s the three times difference.

And do they stay—how long on average?

My understanding—and I’ll get my team to back this up—but they don’t stay on average longer, but they do spend a lot more. I mean, what the forecasts are based on is another 33,000 delegates, and they’ll spend something like 101,000 nights in Auckland and further afield. That’s only about 3 nights per delegate.

We do know with those types of travellers that they tend to have trips out into the rest of New Zealand as well. That tends to be something that they tend to do, which is another benefit.
Bakshi  Firstly, you’ve got allocated about $28 million in the innovation and tourism sector. What type of innovations are you expecting or what initiatives (inaudible)?

Tremain  It’s important that this money just doesn’t go into existing product and subsidises businesses for existing product that’s on the market. So it’s really important that that’s done on a dollar for dollar basis on new investment. So that’s the first thing. It’s not proposed to be involved in, necessarily, tourism infrastructure, but actually product where we lift the value of offering, either in existing or in new products. So while the details of the policy will come out 1 July, I can get the team again to talk on that, if you want. But we see a lot of opportunities in the technology space—the use of investment in, say, apps to provide a better experience. So if you go through the Māori Arts and Crafts Institute, for instance, there may be an opportunity from a technology base to actually improve the experience for younger and us middle-aged users who are using that sort of technology.

Young  I wouldn’t have thought you were middle-aged, Minister.

Tremain  Thank you.

Little  Just in the answer to the written questions, there’s a question asked about the cycle trail. The statement is that an evaluation of the economic benefits of the cycle trail won’t be available until the third quarter of this year, later this year, at least. The cycle trail has been around for a while now. You must have some idea about jobs created, businesses established and affiliated to it?

Tremain  So the cycle trail has been around for a couple of years—

Cosgrove  This is the one you struggled with last year, Minister.

Tremain  I didn’t struggle with it at all. You struggled with the upside of it, if I recall correctly.

Cosgrove  It was a fish and chip shop and a bike shop.

Tremain  I recall that was around a Fishbike shop, which was a hire shop, not a fish and chip shop, Mr Cosgrove.

Cosgrove  So, only one business? I thought it was two.

Tremain  So it was you that confused the issue. Look, yes, there is a review of four of the 11 that are already open, so I think that’s within a space of 2 years of them being open. I think that’s a realistic time. I think you have to reflect on, say, the Otago rail trail, which has taken 14 to 15 years to get to where it is now. Just to put that into perspective, I mean, Otago, just even in the last 2 years—in 2008-09, so their analysis of 2010-11—it went from 10,000 riders to 14,000 riders. Percentage of international over that period went from 11 percent international to 20 percent international, and the figures now, I’m sure, would be huge.

Back then the expenditure per person went from $472 to $582. The economic impact, which would result in jobs, Mr Cosgrove, went from $7.2 million to $12.2 million. So, I mean, if we can use the Otago rail trail as a
benchmark, I’m confident that many of the trails that are being rolled out will deliver similar economic gains over time. And employees—because I know that’s of particular interest—in 2008 there were 75 FTEs; up to 121 on the Otago rail trail.

Cosgrove  Sorry, just before my colleague proceeds, that’s the Otago rail trail. I think my colleague—and correct me if I’m wrong—was asking you of the rail trails that you have put in place since you’ve been in Government, since 2009, so that’s, what, 3 or 4 years thereabouts. How many—because you can’t sort of claim jobs from trails that you never put in place; that was another Government somewhere, I think.

Tremain  I’m just trying to give you an indication of what we can expect from these wonderful rides.

Cosgrove  No, no, simply what I’d like is, since your rail trails have been put in place, how many full-time jobs have been created? It’s the same thorny little question we asked you last time. Could you give us a figure, please?

Tremain  So in terms of jobs that have been created in terms of manufacturing the rides, we’ve had about 900 jobs, which has been excellent. I can’t give you a specific answer as to the number of new jobs that’ve been created on the trails at this point in time. But I’m very confident—

Cosgrove  It’s Groundhog Day.

Tremain  Well, I’ve given you an indication that within 3 months we will have four announcements for four of the trails.

Cosgrove  So after 4½ years—because in fairness to you, and I’m deeply disappointed, because we knew there were two businesses created. I thought it was two, but it’s now one. Last year—

Tremain  That’s not correct.

Cosgrove  So after 4½ years, you can’t tell us today how many jobs have been created as a result of the cycleway from yours—both?

Tremain  We’re doing analysis. MBIE’s doing a report as we speak. Within quarter 3 of this year, we’ll have an analysis of four of the trails so that you can have your day in the sun.

Young  That’ll be great.

Little  So, given that you haven’t completed your evaluation, I accept that. So to what extent is the focus of Tourism New Zealand placed on cycle trails as a point of marketing for New Zealand for overseas tourists?

Tremain  OK, so I’ll let Kevin discuss that in detail. Just as an overview, it is a part of particularly the high-value end of the market, which we are focusing on. So it’s part of the 3-year strategy that Kevin has been putting together with the industry, which we indicated last year that we’d be going through a review of that 3-year strategy. Biking is a part of that.

Bowler  Yeah, it’s a relatively small part of our current marketing programme globally, but we anticipate it will become a more significant part as we
extend more into these special interest areas, and as the trails are completed and the infrastructure around them is established.

So at this stage it’s still a little bit early for us. One or two of the trails have enough infrastructure to be internationally ready for marketing, but there’s still quite a lot of work to be done before we feel we’re in a position where international visitors will, in any significant numbers, be attracted to the trails.

We are already doing quite a lot of work with the Rotorua industry, where they’ve actually got quite established mountain-biking infrastructure within that community, as we are in Queenstown. The cycle trails are a good extension of that work into the Australia market.

So I’m very confident that we’ll have some good success, particularly in the Australian market, and that most of that success is ahead of us.

Tremain Can I just make another couple of comments, because it is important that, yes, right now I can’t tell you the exact number of jobs on all of the trails, but the feedback we’re getting is stunning. Just in Waikino Station Café, on the Hauraki Rail Trail, they expected 35,000 patrons in the first year, but the real figure from May 2012 is about 120,000. That’s one alone. In the Bridge to Nowhere, this jetboat business, at $135 a head, gone from 400 customers in 2011, 800 in 2012, 1,050 in 2013—so, genuine growth there.

We’ve got examples here, again on the Hauraki Rail Trail, with genuine economic benefit of $1.8 million per annum, and a really interesting article from Hawke’s Bay from the Labour Party spokesman up there. He says that the cycleways are great. They may well increase tourism numbers. I thought that was interesting.

Cosgrove I can tell you this: he’s also waiting for a job.

Tremain Waiting, waiting, waiting. He’s been waiting for a job for quite a number of years, as far as I understand.

Cosgrove I know. Yeah, we all are—the country is.

Young You mean to say he’s turned from the dark side?

Bakshi Minister, just for knowledge, can you tell us what happens once these trails are completed? What will happen to the governance of these trails?

Tremain Yes, so the governance of the trails—we’ve set up a management group with representation from each of those groups. So we’re just going through a process now about whether there will need to be any further Government supporters.

But you’ve got to remember that $30 million, in addition to the 50 that we’ve put in, has come in from regional and local councils to support the trails. So there is a significant buy-in from local councils to this. Yes, it is an international tourism opportunity, but, actually, the domestic tourism being created from it is significant. You only have to look at it in my own area. The number of people getting on their bikes and getting out there, it’s exciting.
Yang So Tourism New Zealand has done extremely well in the China market. I believe you’ve been working extremely hard on this. I understand that in the next 5 years you’re expecting the number of Chinese visitors to reach about 1 million. Is that right?

Tremain It’s a stretch target.

Yang Yeah.

Cosgrove So it’s lycra.

Bowler Our forecasts are between 400,000 and 500,000.

Cosgrove It’s a lycra target.

Yang OK. All right. OK.

Tremain That was based on what the Chinese President was indicating would be the total growth and expansion of Chinese tourism internationally.

Cosgrove It’s elastic.

Little They never get that wrong.

Yang Sometimes I feel a bit scared because if the market is growing so fast, I’m not sure whether you will become the victim of your own success—that is, whether we have enough facilities to accommodate Chinese visitors. Can you brief us on this—for example, are you planning more hotels and motels which are Chinese visitor friendly? Like, have you provided Chinese language instructions, or these kinds of things?

Tremain Starting with the channels, in terms of where the Chinese visitation will come from, obviously, China Southern Airlines is continuing to expand its footprint in the number of flights it brings out here per week. So they’re continuing to increase that, so that channel’s open. Obviously, our facilitation of visitors has improved significantly with the likes of—not that China will benefit from SmartGate in the first instance, but the benefit to other passengers allows us to process the likes of Chinese citizens through our more traditional channels better because there are more resources available for them.

Getting down to what we’re seeing in the market, which Mr Cosgrove will be interested in, is the Christchurch announcement of a number of new hotels, which is good to see. You know, there’s no doubt we’re going to have to leverage up, even if we achieve the numbers that Kevin’s talking about—the 400,000 or 500,000. Have you got any comments?

Bowler Yeah, I think we’re very open to inward investment, in terms of hotel infrastructure. I think we’ve got a number of hotels that are probably in need of refurbishment, and I think there’s a capacity issue as well in a number of parts of New Zealand, particularly over the peak months of the summer.

Tremain Can I just make one comment. I was in Rotorua just a couple of weeks ago, and each of the hotels in Rotorua—the 12 bigger ones—had all invested in improving their room quality in their hotel infrastructure, which the

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chairman of the RTO said was almost unheralded, given that they’d been through pretty tough times. So they’re all gearing up for what they see is an improved market.

Yang One of the challenges to this is that a few agents have come to see me and said that, actually, although the number of visitors is increasing, it is still very tough for them to earn money, because many of them would go to Australia and then come to New Zealand, and a lot of money would be spent in Australia. So you mentioned this mono-trip to New Zealand. What are you going to do exactly to make sure that more people come to New Zealand specifically?

Tremain Well, there are a couple of things here. The ADS market has been a provider of a lot of our initial tourists from China. That market has been largely shopping tour based, which has been low value too. A lot of the profits from the tours are captured essentially outside of the country, and driving a lot of those tourists through shops that have actually ended up in front of the Commerce Commission in the last few weeks. So we are prosecuting, and that’s for sure.

I think the big initiative here, Jian, is our work in China itself. We’ve got a programme called the Premium Kiwi Partnership, which is actually focusing directly on travel retailers in China, at the high end. So the aim there is to, together with immigration, have better visa processing to actually try and, over time, move away from the ADS market to a free, independent traveller market. We’re just gradually starting to see that come through some more FIT travellers, which we hadn’t seen before. Those FIT travellers tend to book themselves through the retailer, and more money ends up on the ground in New Zealand, which is important.

Little This is vaguely supplementary, I think, to that. It ties in with some of the other points I’ve been making. We know that there is this ambitious target—increasing our Chinese inbound tourists from 200,000 to a million in 5 years. When we talk about sort of the big initiatives to date—the cycle trail, what have you—you talked before about where the Australians are taking advantage of that. What are we going to do with the big additional number of Chinese tourists? What do we expect them to be doing? Are they going to be on the cycle trails? Are they chasing hobbits? Are they just going to the casino? What are we expecting them to do, and how do we capture the value from it?

Tremain That’s a really good question. I think the best way to look at this is to consider it alongside the Japanese market, which, initially, when the Japanese market came here some 15 or 20 years ago, it was originally a shopping-based tourism model. Well, that’s changed significantly, and a big chunk of that market now is FIT travellers. So, yep, your shopping-based tours do tend to go to your three—Auckland, Rotorua, Queenstown, haere rā. But your FIT traveller certainly gets out into the provinces on a much wider basis. So I think it comes with the maturity of the market over time, but I think that is over time, not, you know, next year.
Young: Good. Well, thank you very much, Minister, for your appearance, and thank you for your team. All the very best for these great goals coming up for the next year. Very exciting.

**Conclusion of evidence**
The Transport and Industrial Relations Committee has examined the 2013/14 Estimates for Vote Transport and recommends that the appropriations in respect of this Vote for the year ending 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

David Bennett
Chairperson
2013/14 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 2014 for Vote Treaty Negotiations as set out in Parliamentary Paper B.5, administered by the Ministry of Justice, be accepted.

Introduction
The total annual appropriations for Vote Treaty Negotiations in 2013/14 amount to $72.626 million. The annual appropriation has been reduced by 51 percent from an estimated actual of $148.742 million in 2012/13. Vote Treaty Negotiations also includes a multi-year appropriation of $1.4 billion for the four years from 30 June 2013 to 30 June 2017 to cover Treaty settlements.

The Office of Treaty Settlements has made good progress in the last year. A highlight is the signing of the final deeds of settlement for the South Island. In addition, seven agreements in principle have been reached. In the next year the Minister hopes to sign 12 deeds of settlement.

Post-settlement management
The Minister told us about a new office which has been set up within the Ministry of Justice to offer post-settlement support and advice to iwi, hapū, and their post-settlement governance entities. We asked the Minister about efforts to foster the capability of iwi to manage the funds and resources they receive in Treaty settlements and ensure they build a strong and enduring economic base. The Minister believes that encouraging iwi to pool resources and cooperate within their regions can bring benefits including greater capability and growth in assets. He cited the example of South Island iwi, who have shown a willingness to work together to benefit all their members. He acknowledged that the focus on settling with individual iwi can mean that overlapping interests can cause conflicts, but he is hopeful that a spirit of cooperation will develop among iwi in their post-settlement phase. Settled iwi are in a position to share the knowledge and experience they have accumulated with others newly entering the post-settlement phase.

Relativity mechanism
We asked the Minister if arbitration had begun to determine the cost of triggering the relativity mechanism for the Treaty of Waitangi settlements for Tainui and Ngāi Tahu. We heard that a preliminary payment has been made for undisputed items, and the Office of Treaty Settlements is working on a process for determining the disputed items. The result of the arbitration will be binding. We heard that the conflict relates to determining whether or not payments relate directly to settlements.

Central North Island settlement
We asked if the Office of Treaty Settlements has a role in resolving the mana whenua issues relating to the Central North Island Forests Land Collective Settlement. The Office is monitoring progress on the issue, and while the Minister is concerned that it is taking too long, he still feels that the iwi should work through the issue independently. We asked if
the settlement legislation allows the office to step in if the iwi negotiations collapse, and heard that the office is unable to as the legislation requires any decision to be made by consensus among the iwi.

**Takutai Moana claims**

We asked about progress on applications under the Marine and Coastal Area (Takutai Moana) Act 2011. The Minister said that some applications have been filed in the High Court, but his view was that ideally an assessor should evaluate claims before applicants would have to resort to court action. Fifteen new applications are being considered, and a number of applicants are close to settling. The Minister is committed to dealing with claims as quickly as possible.

**Te Ture Whenua Māori**

The Minister is keen to see Māori-owned land that is currently idle being utilised to benefit its owners. At present 30 percent of Māori land has no formal management structure. A review of Te Ture Whenua Maori Act 1993 is in progress, and the review panel is now receiving submissions and feedback on its five principal recommendations.

**Landbanked properties**

The Minister is taking action on the many landbanked properties that have been sitting idle for years while buildings deteriorate. The Minister feels strongly that it is unjust to hand over “trash” to iwi. The committee considers that the Office of Treaty Settlements should explore all options for use of assets that are held for iwi settlements.
Approach to this examination

We met on 26 June and 10 July 2013 to consider Vote Treaty Negotiations. Evidence was heard from the Minister of Treaty Negotiations, Hon Chris Finlayson, and the Ministry of Justice, and advice received from the Office of the Auditor-General.

Committee members
Hon Tau Henare (chairperson)
Te Ururoa Flavell
Hone Harawira
Claudette Hauiti
Brendan Horan
Hon Nanaia Mahuta
Katrina Shanks
Rino Tirikatene
Metiria Turei
Nicky Wagner
Jonathan Young

Evidence and advice received

We considered the following evidence and advice during this examination:

Briefing paper, prepared by committee staff, dated 21 May 2013.

Minister of Treaty Negotiations, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Treaty Negotiations, received 26 June 2013.

Response to additional questions, received 1 July 2013.
Ngā whakapae mō te Pōti
Whiriwhiringa Take Tiriti o te tau
2013/14

Te Pūrongo o te Komiti Whiriwhiri Take
Māori

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Tūtohutanga

Ka tūtohu te Komiti Whiriwhiri Take Māori kia whakaaetia ngā wāwahanga moni mō te tau ka mutu hei te 30 o Pipiri tau 2014, mō te Pōti Whiriwhiringa Take Tiriti, e whakahaerea nei e Te Tāhū o te Ture e ai ki tērā kua whakataktorua i i te Pepa Pāremata B.5.

Kupu Whakataki

E $72.626 miriona te katoa o ngā wāwahanga moni ā-tau mō te Pōti Whiriwhiringa Take Tiriti,oi te tau 2013/14. E 51 ō-rau te whakaherekenga mai o te wāwahanga moni ā-tau e $148.742 miriona i tino whakapaetia i te tau 2012/13. He wāwahanga ā-tini tau e $1.4 piriona hoki ka whakaurua atu ki roto i te Pōti Whiriwhiringa Take Tiriti mō ngā tau e whā, atu i te 30 o Pipiri i te tau 2013, ki te 30 o Pipiri hei te tau 2017 kia kapi ai ngā whakataunga take Tiriti.

Pai ana te ahunga whakamua i te tau kua hipa nei a Te Tari Whakatau Take e pā ana ki Te Tiriti o Waitangi. Ko te hainatanga o ngā whakaaetanga o tūtahi mahi nui i tutuki. Tua atu i tērā, e whitu ngā whakaaetanga mātāpono kua tūtahi kua tau. Ko te tūmanako ia o te Minita mō te tau kei te tū mai, kia hainatia he whakaaetanga whakataunga e 12.

Whakahaerenga whakataunga-whai muri

E ai ki tērā i kōrerohia mai e te Minita ki a mātou, kua whakaturia he tumu hou ki roto iho i ngā nekenekehanga o te Tāhū o te Ture hea hoatu tautoko, whakamaherehere hoki ki te iwi, ki te hapū, ā, ki ő rātou hingona tiaki kaupapa mō te whakataunga-whai muri hoki. Ka pātai mātou ki te Minita mō ngā kaha ka whakapaua ki te hiki ake i te mōhio o te iwi ki te whakahere i ngā pūtea me ngā rauka whiwhi i a rātou mai i ngā whakataunga o Te Tiriti, ā, me te āta titiro hoki ki tēa e rātou te hanga he papa tīmata ōhanga tūroa, pakari hoki. Ko te whakapono o te Minita, mā te akiaki i te iwi ki te whakaeama rau ki roto puna kotahi me te māhi tahi i roto i ő rātou rohe e tēa ai te mau mai i ngā painga me te kaha atu o te matatau me te tipuranga o ngā hua. Ka whakahuatia ake e ia te iwi o Te Wai Pounamu hei taurira nā te mea, kua whakaatu i tō rātou hiahia ki te māhi tahi kia whai painga ai ő rātou mema katoa. Ka whakaae a ia, mehemea ka hāngai te arotahi ki te whakatatū whakataunga a te iwi kotahi kua papā ngā kerēme inaki, kua tutū te puehu ēngari ko tāna ko tūmanako, ko tipu ake he wairua mahi tahi ki waenganui i te iwi i te wāhanga o te whakataunga-whai muri. Ko te iwi tatū, ko rātou ārā ka kaha ki te tuari i te mōhiotanga me te wheako i whakaememita haeretia e rātou i te taha o taua hunga i uru tauhou atu ki te wāhanga whakataunga-whai muri.

Huarahi pānga noa

Ka pātai mātou ki te Minita mehemea kua tīmata te whakawātanga kia whakakotorua he utu whakatīmata i tētahi huarahi pānga noa mō ngā whakataunga Take Te Tiriti o Waitangi mā Tainui, mā Ngāi Tahu hoki. I rongo mātou kua whakakotorioranga kēngia tētahi utunganga tuatahi mō ngā mea kihai i tautohengia, ā, kei te hanga Te Tari Whakatau Take e pā ana ki Te Tiriti o Waitangi i tētahi hātepe whakakotororanga mō ngā mea ka tautohengia. Ka herea
ngā hua whakawātanga. I rongo mātou, hāngai ai te papā ki te whakatakotoranga mehemea, āe rānei, kāore rānei ngā utunga i te hāngai tika ki ngā whakataunga.

**Whakataunga mō Te Puku-o-Te Ika-a-Māui**

Ka pātai mātou mehemea he tūranga tō Te Tari Whakatau Take e pā ana ki Te Tiriti o Waitangi i roto i te mahi whakatūake mehemea e pā ana ki Te Ohu Whakataunga Whenua Ngāherehere o Te Puku-o-Te Ika-a-Māui. Kei te aro turuki Te Tari Whakatau Take i te ahunga whakamua o te take, ā, ahakoa e mānukanuka ana te Minita mō te roa rawa o te aro turuki nei, ki ōna whakaaro, waiho te iwi me tōna kotahi anake ki te whai ake i te take. Ka pātai mātou mehemea ka tukua te tari whakatau take e te hanganga ture kia uto atu ka ngahoro ana ngā whiriwhiringa o te iwi. I rongo mātou, kīhai te iwi e kaha nā te mea, e ai ki te hanganga ture, mā tētahi whakaaro whakaae whānui i waenganui i te iwi anake he whakataunga pērā.

**Ngā kerēme Takutai Moana**

Ka pātai mātou mō te ahunga whakamua o ngā tono i raro i Te Ture Takiwā Takutai, Takiwā Moana (Takutai Moana) o te tau 2011. Ka kī te Minita ko ētahi o ngā tono kua whakatakotoria ki mua i te aroaro o Te Kōti Teitei āngari ki tōna whakaaro, ko te huarahi pai kē me haere ki tētahi kiaaro matawai kia aro mataawaia e ia ngā kerēme i mua i te huringa o ngā kaitono ki te kōti kia hāmenetia te kēhi ki reira. E teku mā rima ngā tono hou kei te whakaaroarohia i te wā nei, ā, he huhua ngā kaitono kua tata ki te wā whakatutahi. Kua herea te Minita ki te whakatutuki tere rawa atu i ngā kerēme mehemea ka tāea.

**Te Ture Whenua Māori**

Kei te rika rawa atu te Minita kia whakamahia ngā whenua Māori e māngere ana i te wā nei kia whai hua ai te hunga nō rātou aua whenua Māori pērā. I te wā nei, kāore he anga whakahaere ōkawa o ngā whenua Māori e 30 ō rau. Kei te ahu whakamua tētahi arotkenga o Te Ture Whenua Māori o te tau 1993, ā, kei te whiwhi ōtapatanga te rōpū arotkenga i nāianei me te urupare mō āna tūtohutanga matua e rima.

**Ngā pito whenua kua pēkengia**

Kei te whaiwhaitia ake e te Minita te maha o ngā pito whenua kua pēkengia, ā, kua hia tau kē nei aua whenua e noho māngere ana, e taretare haere ana hoki ngā whare. Ki te Minita, he hē rawa atu te hoatu whenua “taretare”, whenua “taretare” pērā noa ki te iwi. He kaha te kino o ōna whakaaro mō te hoatu pēnei. Ki te komiti, me hōparangia e Te Tari Whakatau Take e pā ana ki Te Tiriti o Waitangi ngā kōwhiringa whakamahinga hua katao e puritia ana mō ngā whakataunga a te iwi.
NGĀ WHAKAPAE MŌ TE PŌTI WHIRIWHIRINGA TAKE TIRITI O TE TAU 2013/14

Tāpiritanga

Ara ki tēnei tirotirohanga
I hui mātou i te 26 o Pipiri me te 10 o Hōngongoi o te tau 2013 ki te whakaaroaro i te Pōti Whiriwhiringa Take Tiriti. I rongo taunakitanga hoki mai i te Minita mō ngā Whiriwhiringa Take Tiriti, a Hōnore Chris Finlayson, ā, i Te Tāhū Ture. I whiwhi whakamaherehere hoki mai i Te Tari Whakatau Take e pā ana ki Te Tiriti o Waitangi. I whiwhi whakamaherehere mai i te Tari o te Tumuaki.

Ko ngā mema o te komiti, ko
Hōnore Tau Hēnare (heamana)
Te Ururoa Flavell
Hone Harawira
Claudette Hauiti
Brendan Horan
Hōnore Nanaia Mahuta
Katrina Shanks
Rino Tirikātene
Mētīria Tūrei
Nicky Wagner
Jonathan Young

Taunakitanga me te whakamaherehere i whiwhi
Nā mātou i whakaaroaro te taunakitanga me te whakamaherehere i tēnei tirotirohanga ka whai ake:

Pepa Tohutohu nā ngā ringa whakatutuki mahi o te komiti i takatū i te rā 21 o Haratua tau 2013.

Urupare ki te rārangi pātai mō ngā Whakapae noa a te Minita mō ngā Whiriwhiringa Take Tiriti.

Tohutohu mō ngā Whiriwhiringa Take Tiriti a Te Tari o te Tumuaki o Te Mana Arotake i whiwhi i te 26 o Pipirii tau 2013.

Urupare ki ngā pātai i tua atu i whiwhi i te 1 o Hōngongoi tau 2013.
2013/14 Estimates for Vote Women’s Affairs

Report of the Government Administration Committee

The Government Administration Committee has examined the 2013/14 Estimates for Vote Women’s Affairs and recommends that the appropriations in respect of Vote Women’s Affairs for the year ending 30 June 2014, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson