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NEW ZEALAND
2011–2014

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I—REPORTS AND PROCEEDINGS OF SELECT COMMITTEES

IN THE REIGN OF HER MAJESTY
QUEEN ELIZABETH THE SECOND

Being the Fiftieth
Parliament of New Zealand

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Introduction

This is a compendium of all select committee reports on the 2011/12 financial reviews of departments, Offices of Parliament, and reports on non-departmental appropriations presented in the House during the 50th Parliament.

Financial review process

The process of reviewing departmental performance began with the presentation of each department’s or Office of Parliament’s annual report and financial statements of the Government for the year ended 30 June 2012. The process of reviewing reports on non-departmental appropriations began with the presentation of reports by the responsible Minister under section 32A of the Public Finance Act 1989.

The Finance and Expenditure Committee allocates to each select committee the task of conducting financial reviews of the performance of the particular departments or Offices of Parliament, as well as the reports on non-departmental appropriations. The annual report of each department or Office of Parliament, and the report on each non-departmental appropriation, accordingly stands referred to the select committee allocated the financial review.

At the time of producing this compendium, no annual report had been presented for the Ministry of Agriculture and Forestry. From 30 April 2012, it became the Ministry for Primary Industries.

The financial review of a department or Office of Parliament examines both current performance and performance for the previous financial year, as recorded in its annual report and financial statements. The financial review of reports on non-departmental appropriations examines either a statement of service performance that compares actual performance with forecast performance, or a statement of results produced or actioned against those forecasted to be achieved. The manner in which the financial reviews are conducted is a matter for each select committee to determine.

Consideration of reports by the House

The financial reviews are considered in the House during the committee stage of the Appropriation (Financial Review) Bill. The debate also provides an opportunity for debate on the Government’s financial position.

Financial reviews of security agencies

The financial review reports of the Intelligence and Security Committee, a statutory committee established pursuant to the Intelligence and Security Committee Act 1996, are included for ease of reference.
Financial reviews of Crown entities, State enterprises, and public organisations

Select committees also conduct financial reviews of Crown entities, State enterprises, and other public organisations. Similar processes are followed but there is a separate timetable for examination, report, and debate. The reports of select committees on their examinations of Crown entities, State enterprises, and other public organisations will be published in a separate compendium in mid-2013.
2011/12 financial review of the Office of the Controller and Auditor-General

Report of the Finance and Expenditure Committee

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Recommendation

The Finance and Expenditure Committee has conducted the financial review of the 2011/12 performance and current operations of the Office of the Controller and Auditor-General, and recommends that the House take note of its report.

Introduction

The Office of the Controller and Auditor-General (OAG) provides independent assurance to the public and Parliament that public-sector organisations are operating, and accounting for their performance, in accordance with Parliament’s intentions. The Controller and Auditor-General is an Officer of Parliament, independent of both the Government and Parliament, but accountable to Parliament for the public resources used.

Over 85 percent of the office’s funding is for the 4,000 or so annual audits of the financial and performance reports of public entities; funds appropriated for this work are recovered from the entities audited. The balance funds the Controller and Auditor-General’s work in support of Parliament’s role of ensuring accountability for public resources. This includes providing reports to Parliament and advice to select committees, and the more discretionary work of undertaking performance audits and inquiries relating to public entities.

Financial performance

In 2011/12 the office’s total income was $81.9 million, an increase of 8.9 percent from the previous year. Of this, the Crown funded just over $10 million, with the balance from audit fees. Total expenditure was $80.4 million (8.2 percent more than in 2010/11). The resulting surplus of $1.4 million was returned to the Crown.

Audits of the auditor

On the recommendation of the Officers of Parliament Committee, the House appoints an independent auditor to carry out an annual audit of the financial statements and the statements of service performance of the Office of the Controller and Auditor-General. CST Nexia (formerly Curran Sole and Tuck of Auckland) was the independent auditor for 2011/12, and was recently reappointed for the next three financial years.

We questioned CST Nexia about its mandate, as we consider it important that the Auditor-General’s office is subject to the same degree of scrutiny as the public entities it audits. We learned that while there are in theory no restrictions on the independent auditor’s role, in practice it does not receive any funding to carry out inquiries or performance audits. In this it differs from the OAG, which receives a specific appropriation for these purposes. CST Nexia told us it has not seen any need to undertake an inquiry or performance audit of the office to date, but it would not hesitate to seek authority to incur costs on such work if it believed deeper scrutiny was warranted to satisfy itself about the OAG’s performance.

While we do not see a problem with audits of the OAG, we are not entirely comfortable that there may be a difference between the depth of scrutiny to which it is subject and that of the scrutiny it imposes on other public-sector organisations. The Officers of Parliament
Committee may wish to consider the provision it makes for inquiries or performance audits when it next reviews the contract with the independent auditor.

**Audit fees**

Most of the office’s income comes from fees paid by the public entities it audits. We are aware that the level of these fees is a longstanding concern of public-sector organisations, particularly at local government level, and we were concerned to note that the office’s income increased by nearly 9 percent in 2011/12. The Auditor-General explained that fees actually increased by only 2.9 percent in 2011/12, compared with 3.9 percent the year before. The main reason for the office’s higher income in 2011/12 was that it conducted the three-yearly review of local authorities’ long-term plans over the past year; their costs spike every three years because of this task.

The Auditor-General said that Audit New Zealand’s rates are compared every six months with those charged by audit firms, sector by sector, to ensure they are not out of line; her aim is to keep the increase to no more than the rate of change in the CPI. She believes that complaints about fees often stem from entity-specific issues that may, for example, have necessitated additional in-depth work, and therefore greater cost to the entity than a routine audit. We suggested that the office might wish to consider how its fee-setting process could reassure the entities audited that they are getting value for money. We also believe it would be helpful to local authorities if the office could arrange its work and charges to avoid the three-yearly spike in costs arising from audits of their long-term plans.

About half the office’s audits are performed by its business unit, Audit New Zealand, and half by private-sector firms. We asked whether the office has a preference for using the larger firms, as this might affect the fees charged. We were told that the office uses nearly every auditor in New Zealand. While it prefers to use one of the four big accounting firms for audits of large commercial entities, the balance of the audit work is spread evenly among medium-sized and small firms.

Following our hearing, the office provided us with useful additional information about the average rates charged by auditors and the spread of work between Audit New Zealand, the four largest firms, and other firms. On a weighted basis, Audit New Zealand earns 49 percent of audit fee revenue, the four largest firms 36 percent, and other firms 15 percent.

**Cost of Auckland Council audits**

We heard that the reform of the Auckland Council is expected to improve the efficiency of its audits, and therefore reduce costs, from 2013/14. However, some increase in fees was unavoidable during the transition period. Audit fees totalled $3.1 million in 2011/12, compared with $2.6 million in 2008/09 for the group of 56 entities that constituted Auckland’s local government.

**Reporting by the OAG**

The office produces numerous reports in the course of a year. Some are legislated requirements, such as its annual reporting on the results of central and local government audits and the three-yearly reports on local authorities’ 10-year plans, while others are more discretionary. Several reports cover its performance audits of public agencies; those issued in 2011/12 included the New Zealand Customs Service, housing on Māori land, the New Zealand Blood Service, and the Crown Retail Deposit Guarantee Scheme. Some reports cover inquiries the office has undertaken in response to requests about matters of public
concern, such as the use of parliamentary travel entitlements. Some reports are designed to maintain high performance throughout the public sector; for example in 2011/12 it published the results of a major survey about fraud awareness, prevention, and detection. Its proposed work plan, including planned reporting, is reviewed annually by this committee.

While we commend the quality of the office’s work on such reports, we have reservations as to whether they are as useful as they could be, and represent the best value for money. Our unease is reflected in the office’s survey of stakeholders: 93 percent rated the quality of performance audits highly; however, only 62 percent gave a high rating to the usefulness of the reports—well below the target of 85 percent. We would like to see the office work to improve the usefulness of its reports and to reduce the cost of their publication; we believe they could be shorter and do more to facilitate systematic comparisons. We acknowledge that the office has taken a useful step in this direction by initiating sector overviews, publishing reports on the education and health sectors in 2011/12.

**Local authorities’ long-term plans**

In 2011/12 the office carried out the triennial audits of local authorities’ long-term plans. We value this work, given the high proportion of GDP accounted for by local authorities and the need for them to account properly for future costs, especially on major infrastructure plans. We commend the fact that the office managed to carry out these audits within existing resources, without employing additional staff or contractors; this was a large factor in the office’s returning a surplus to the Crown of $1.4 million for the year.

We are, however, aware that local authorities are concerned about the cost of such audits. The Auditor-General explained that, by their nature, long-term-plan audits require more senior people on the audit team, which increases their cost. Knowing that cost was an issue, she had held the fees for the latest audits at the same level as three years earlier, but with the proviso that any authority that did not perform up to standard must pay for the additional audit work required. In 15 cases additional fees had been charged, totalling $195,000 and representing 2.8 percent of the fees quoted.

In our view, the office’s report on matters arising from these audits would have benefitted from being considerably shorter; the 2011/12 report was over 100 pages. Its usefulness would also have been improved by the inclusion of comparative information, such as relative rates of return on infrastructure projects, to give a better overview of the relative performance of local authorities. The Auditor-General agreed that comparing rates of return for projects over time could be a valuable tool. She said that the office’s report on local authorities’ plans aimed to generate a discussion about financial prudence and how it could be measured. Several agencies involved in local government management had expressed interest in pursuing the discussion, which would be valuable.

We are also concerned to see the length of local authorities’ plans increasing steadily, and believe that some standardisation of the core information required could help to reduce audit costs for local authorities. The Auditor-General agreed, saying that she continually encourages local authorities to invest in preparing shorter, clearer, more informative long-term plans so the community can participate in informed consultation. She believes it would be helpful if all signals and incentives, including legislation, consistently encouraged the production of brief, readily-understandable information. Hamilton City Council’s plan, she said, was particularly clear and concise.
Financial reporting requirements

We asked about progress on reducing the complexity of the information entities need to include in their annual accounts. The Auditor-General told us that matters have improved with the tiered reporting requirements introduced by the External Reporting Board. Entities with expenditure below $30 million can supply more limited information, while those with expenditure less than $2 million will be allowed to prepare a set of pro forma accounts, for which the board is preparing a template.

Joint reporting

We are interested in the extent to which the office interacts with the Parliamentary Commissioner for the Environment. In the past year both offices produced reports about issues related to fresh-water management, and we believe the interests of Parliament and the public could usefully be served if the offices occasionally worked together, and reported jointly, on environmental issues. For example the Emissions Trading Scheme raises particularly complex issues, and we believe it would be beneficial if, within five years, the two organisations jointly examined questions such as how well the scheme is fulfilling its role of promoting environmental integrity, and how liabilities under the scheme should be reported.

The Auditor-General welcomed the idea, and said she would explore the possibility with the commissioner. She believes the organisations’ contributions would be complementary, as the parliamentary commissioner has scientific expertise while her office considers systems, costs, and the use of resources. Both entities submit their proposed work programmes annually to a select committee for review, and the Auditor-General commented that input from committees about issues of interest to them is always welcome, so the reports are relevant and valued.

OAG’s premises

The office is refitting its Wellington office so that both its business units—the Office of the Auditor-General and Audit New Zealand—can be housed in the same building by the end of June 2013, allowing some cost savings from shared corporate services. Parliament appropriated $2.2 million for the building fit-out, the office funding the balance of the $3.2 million total expected fit-out costs from its cash reserves.
Appendix A

Approach to this financial review
We met on 12 December 2012 and 30 January 2013 to consider the financial review of the Office of the Controller and Auditor-General. We heard evidence from the Office of the Controller and Auditor-General and received advice from CST Nexia.

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

Evidence and advice received
Controller and Auditor-General, Response to written questions, received 10 December 2012.

Controller and Auditor-General, Response to further written questions, received 11 January 2013.


CST Nexia Audit, Additional information, dated 19 December 2012.

Organisation briefing paper, prepared by committee staff, dated 12 December 2012.
Appendix B

Corrected transcript of hearing of evidence 12 December 2012

Members
Todd McClay (Chairperson)
Maggie Barry
David Bennett
Hon Clayton Cosgrove
Paul Goldsmith
John Hayes
Dr Russel Norman
Hon David Parker
Hon Dr Nick Smith

Witnesses
Lyn Provost, Controller and Auditor-General
Phillippa Smith, Deputy Controller and Auditor-General

McClay Good morning. Welcome to the FEC. It’s good to see you again, and it is good to have you here for the financial review of the Controller and Auditor-General’s office. We’ve received all the reports and we’ve just had a briefing from your auditors. I’d invite you to make any comments you would wish, and then my colleagues will have questions, I know.

Provost Thank you very much. Last year we had an extraordinary year in terms of our financial audits, as well as doing our normal 4,000 financial audits, give or take a couple of hundred. We also had the long-term plans in local government and some extraordinary matters around Canterbury—for example, the financial statements of the Government. We had to emphasise in them the uncertainties around the valuations of the Canterbury earthquake. That wasn’t a qualification on the statements; it was merely saying that there was uncertainty around those figures.

We have for a number of years been trying to work out how we get more value out of financial audits and provide better information to sectors and to Parliament. Last year for the first time we produced sector reports, one in the health area and one in the education area. They were well received, and we intend to continue that trend. This year we will produce both of those again, as well as reports on the CRIs and the transport sector. So it is a way we intend to continue on with.

In terms of accounting standards, which I know the committee has been interested in over time, the External Reporting Board has agreed to adopt two sets of standards in New Zealand, one for the public sector—known as IPSAS—and the commercial IFRS standards. They are also introducing tiered reporting, so smaller entities will have to disclose less information—
which I applaud. It will save significantly in preparation time, by reducing the amount of information that they need to disclose in notes, and I believe it will be also more useful for the public of New Zealand and for you as parliamentarians.

We published 22 reports this year. The fraud survey was a significant survey. We had a 74 percent response rate, and we also analysed that data by sectors. Other examples of reports were Customs, Revenue, housing on Māori land, the retail deposit guarantee scheme, and the Blood Service. As Auditor-General, I have decided that I will not only do reports on things that are potentially not going well but also give some positive assurance on things that are going well, and the Blood Service was certainly one of those. Another one was we looked at the benefits of some IT systems. That report took six IT systems and looked at the benefits that they were providing to the public. We have since held a seminar for senior managers and IT managers on that report, which was well received.

During the financial year that you are reviewing we did two major inquiries, which were completed during that year. Late in the year, when I last appeared before this committee I said we had then had a large number of inquiries. In this 6 months we’ve had six major inquiries, of which two are complete.

Turning to the capability of the office, Parliament voted us money to address our issues in terms of property. The building site at 100 Molesworth Street we are in the middle of. We’ve just moved to our new floor on the second floor, and Audit New Zealand will move some time next year as well. So I would like to record my thanks for that funding, which has allowed us to move both parts of our business into the same place and make better use of the joint corporate services team. We have also moved our Auckland office during—actually, it’s this 6-month period, but we were planning in this financial year. We have finally managed to secure new premises in Christchurch, and we are hoping by this time next year to have moved our staff out of the six departments that they are working in. I think the staff have been extremely patient with suboptimal working conditions, as many in Canterbury have suffered from.

We continue to have a high level of training. We recruit graduates into Audit New Zealand and we train them. It’s an ongoing requirement, as turnover means that people move and change, and so we train a new lot of graduates. I’d like to finish on the new medium that we’ve put in place in terms of communicating with people. We have two new websites and have increased the access to our reports, as increasingly people want our reports in soft copy, not in hard copy, and they’re using them online. We have also implemented Facebook and Twitter accounts and online discussion forums. Thank you very much.

N. Smith The first I’ve got is a process question around the interaction between the Audit Office and the Parliamentary Commissioner for the Environment. In that our Parliament is relatively unique in having both an Auditor-General, as yourself, in the general audit function, as well as a Parliamentary
Commissioner for the Environment. I think there are only two other Parliaments that have that interaction. My question is: is it possible for you to do joint reports with the PCE? The reason I have that interest is that if I look at your report on fresh water, there is no question but New Zealand’s got some major both policy and delivery questions around freshwater management. But I look at the report that’s been produced by PCE in the last year and by your office, and I can’t help thinking that the public and Parliament would be better served if you’d actually got your heads together and produced a joint report. So my question is: does the current legislative framework under which you work allow joint reports to be commissioned with the Parliamentary Commissioner for the Environment where you’ve sort of got that combination of questions around performance of public sector organisations but also around environmental outcomes?

Provost My understanding of the legislation—and I’ll let Philippa correct me if I’m wrong—is that we could do joint reports if we could agree that this was a really important issue or if Parliament said: “Why don’t the two of you look at that?” Certainly the Chief Ombudsman and my office have had a discussion about potentially doing something jointly, because I think that’s another opportunity. Because we look at the systemic issue and she looks at all the bits, it would be great to pull them together. These things take time to get themselves together, but I’d certainly be very keen, because I think we can provide better assurance and better information from different perspectives if we could do some of those. I’d appreciate it if this committee particularly or any other committee had ideas that you’d really like us both to look at, that would be extremely helpful to us, to make sure we’re focused on things that are useful to you.

I don’t know of any legislative impediment to doing that, so it’s a matter of us working together. I think the three parliamentary officers—increasingly we are meeting, we are talking about our work programmes. The difference between us is our programme is put in front of you, and you can comment on it. The other two don’t have work programmes that are put in front of Parliament. So we’d have to—

N. Smith Well, PCE does. The PCE puts before the Local Government and Environment Committee their proposed work for the year ahead.

Provost OK, good. The Ombudsman is the one that doesn’t, sorry. But we could do that. But input from these committees would be extraordinarily valuable in doing that, because that means we’re doing something that’s important to you.

N. Smith Could I just be crisp about the question. You said you might be able to do it if the Officers of Parliament Committee, which oversees the Ombudsman, the PCE, and yourself, requested or suggested it. My question is: is it your interpretation of the legislation? Because your independence is quite important from Parliament and from Government. If you of your own volition decided with either office—Ombudsman or PCE—to do a joint report, does the current legislative framework allow you to do that?

Provost That’s my understanding.
P. Smith: Yes. I can’t think of anything in the legislation which would stop it, and it would be complementary in the sense that we tend to look at systemic issues, at cost, at use of resources. The scientific expertise is more likely to come from PCE, so I can see that there are issues where we could work quite well together, given the will and the timing, working, and each having the resources available at the right time. And, I’ll be crisp, yes, I’d welcome it.

N. Smith: If I were to cheekily make a suggestion, I think one of the most complex things that both Governments have attempted to do is around the emissions trading scheme, which is a very complex reform. There are major questions around how those liabilities should properly be reported. They’ve bounced around all over the place, both under Labour and under National. There is equally a question about the ETS meeting its environmental integrity functions. I think that is the sort of area where at some time in the next 5 years it would be useful for that tool from both the Audit Office and from the PCE’s perspective, to look at it jointly.

Provost: I’ll certainly talk to the Parliamentary Commissioner for the Environment about that. We did put out a paper this year to try to explain the accounting for ETS. You’re right, it’s an extraordinarily complex scheme to understand, and to try to get it into some plain English was one of our challenges of the year. Thank you.

Goldsmith: There must be a few arguments that you have in the sense of when you’re looking at procedures about how things should be done by Government departments around spending. How do you resolve—if you, say, assume for an area of spending that it should be done this way and this is the procedure, and the department says “No, we actually think it should be done this way—X, Y, Z.”, driven along by democratically elected officials making decisions. If there is a disjuncture, do you just pull rank or how do you resolve a difference of agreement as to how things should be done?

Provost: I don’t actually have any rank to pull. The only tool I have is to discuss with the particular organisation or to report publicly. What we do in terms of the clearance of each report is, when we do a report we’re very clear about what we expect, so we would expect to see these things. If when we are looking at the evidence that the department puts in front of us we find that our expectations are exceeded or there’s a better way to do it, we’re open to changing that and to doing things differently. At the end we give the report to the entity for factual clearance. So if we’ve got any facts wrong about the way they run the process, we would change our report to, obviously, reflect those facts.

The judgments are ours, and there are times when the judgment we make is different from the judgment the organisation makes. If you look at our follow-up reports, some recommendations aren’t implemented, or some management letter things—and that tends to be because either we disagree or things have changed significantly since we made that report, for example, there’s been a restructuring or a policy change or a ministerial directive that we’re not going to do that. That is then the choice of that entity and their
governors. If I still disagree, I will report on it. But my tool is discussion in reporting, and escalation to a committee or to a governor if I need to.

Goldsmith And my second one is, obviously, particularly at local government level, a huge focus on costs, and audit fees are substantial and an ongoing issue. How do you measure your productivity as an organisation, and whether you're getting more productive or less so?

Provost The range of measures that are in our annual report are what we use to measure and manage our organisation. We don’t have a different set. What we do have is more depth of information. For example, with audit fees we have 20 years of audit fees across sectors. On a 6-monthly basis we have a report of what’s happening in those audit fees, and sector by sector, year by year, to make sure the trend is heading in the right direction. We also look at what is the difference between changes in charge-out rate by the firms and by Audit New Zealand, and what is more audit hours. If you look at the table in the report, I think the year before last the increase in audit fees was 4.9 percent—no—

P. Smith It was 3.9 to 2.9.

Provost —3.9 to 2.9. So it’s decreasing. What I have said, my expectation on audit fees is they should not be above CPI, and they are staying in that range. We also have a process that if somebody has a problem with the audit fees they can go, under the law, to an adjudication. One has been to adjudication in my time as Auditor-General, and our process was found to be fine and the fees stood. We also employ a respected individual, and it is Sir David Gascoigne, to go through our audit fees on a yearly basis, and at the back is his verbatim report. I don’t in any way—I can’t change that, and I always undertake to him when he starts the work that I will publish his report verbatim. He comes in and makes sure our fee-setting system is working. He goes through a number of audit fees and the way we’ve set them, and he quizzes the staff involved and myself to make sure that they’re adequate. So those are some of the processes we have in place.

Bennett As a supplementary on that, that is a question we get all the time from local bodies. They say that you guys charge more than what they can get it done for privately. How can you respond to that, other than, like you’ve said, you’ve got criteria you use? But we get a different message on the street, that you’re excessive in your costs.

Provost The firms do half of my audits, so often when I hear that I think to hold on. The audits and the complaints I get about audit fees are equally across everybody that provides audit fees for me; it’s not one part or other.

Bennett Maybe you need to have a more robust structure around setting your fees that gives them that comfort, because they certainly don’t have that now and the process that you’re engaging in isn’t sufficient for them to feel that you’re getting value for money.

Provost I think there’s a very few clients, and often when I get that feedback there are issues with those people as well. So I’m just—yeah.
Bennett Well, you’ve got an organisation that’s basically growing bigger than the Chinese economy. You know, don’t you think that in these times it would be better if you were trying to save money for the country, rather than spend money?

Provost I think we have saved money.

Bennett Well, I don’t know, you’ve grown by 8 to 9 percent.

Provost The public sector is the public sector, and I need to audit every agency every year. The fact is that is by statute, and I will continue to obey the law to do that.

Bennett Other Government departments have had to do their role and maintain budgets or—you know, why haven’t you shown that financial rigour as well?

Provost I think you’ll see in our budget that in terms of our expenditure we have actually shown efficiencies. In fact, we were under our own budget and returned a surplus last year.

Bennett That’s not the feeling that we get. We get your reports here constantly, in different committees. They’re always glossy, they’re very wordy, and I tend to think that you could save a lot of money on how you do those and what you actually put in them, because a lot of it seems redundant when we read them.

Provost I’d be interested in any specifics and to follow those up with you.

Parker To follow David Bennett’s point on the choice of the private sector auditors that you use, would it be fair to say that you generally use the larger firms rather than smaller firms?

Provost No. I use almost every auditor in New Zealand. I’ve just done the 3-year audit allocation for the schools, and most of the tiny auditors in New Zealand would also be a part of that. It is fair to say that for the big and more commercial audits I have a preference for the four big accounting firms, but the rest of the audits are fairly well spread across the medium and small.

Parker Does the charge-out rate that’s used by the larger firms compare with the smaller firms? What would be the difference in the charge-out rate?

Provost I can’t give you that exactly. Obviously, the small provincial firms have a lower charge-out rate than the multinationals, but we can give you a spread.

Parker Could you give the hourly rate that they charge out at?

Provost Yes, we can.

P. Smith We can look at that, but they tend to give us a fixed fee, I think, rather than—

Provost But we know the rates as well.

P. Smith We do know the rates, yes.

Provost We can give you the rates. We can give you the spread.
Parker Is it possible then to give us a weighted—both give us the rate and where the total cost falls? Because I think David Bennett’s point—you know, I can understand why the biggest institutions that you’re auditing need a level of capability on the auditing side, which you might not get out of the smallest accounting firms. But I also understand David Bennett’s concern that we do get complaints from the councils particularly. That they think that they get—

Bennett Maybe it’s a matter of negotiation and the local area. They could be negotiating—

Goldsmith Well, they just don’t have a choice, do they?

N. Smith The other proper question for us is that some of the requirements we set down in legislation, such as the 10-year plan and the audit functions around it, and that the Audit Office has then got to do what the legislation requires of them, and it is quite proper for us to ask a cost-benefit test as to whether we think that audit process is getting the best value for money for the payers.

Parker There is also, I mean it’s a bit like resource management plans—we need them, but they don’t need to be as long as they are. There is no statutory requirement that they be that long.

Hayes I’d just like to follow up on David’s comments and your invitation to point out examples. Let me give you a couple. One is—I’m not sure if you’ve actually tried to read this.

Provost Yes, I have.

Hayes And how did you get on reading it, because I find it really quite difficult to read and it’s incredibly wordy, and you’ve got to really put a lot of time into finding what whoever wrote it is trying to say. It’s very complicated. The second one is an occasion cropped up the other day in our Foreign Affairs, Defence and Trade Committee and I’d written to you about this.

Provost I’ve got the letter.

Hayes OK. The core issue is restructuring. Sure you’re going to unsettle the horses. The issue is surely, and your people’s report to the committee pointed this out. But the issue is when you unsettle the horses in other agencies, are we getting more or less? And that issue is not addressed. So I find that the reporting prepared by your staff is not actually balanced, and it is not as helpful as it could be if they took a broader view of what they’re trying to say. Do you understand? I’m not sure if I’m explaining myself very well.

Provost Yeah. We have to be very careful with individual entities that if we do make comparatives, they are valid comparatives.

Hayes That’s right, but pointing out there’s a problem, because you’re putting several hundred more people out of work, of course you’re going to get difficulty. The issue in my head is, well, are we getting more difficulty in this entity than those other three? And the reports are not useful, because you point out there’s a problem, we all know that. The question we as politicians...
need to know is have we got a bigger problem or a lesser problem than other entities? And your reports don’t do that.

Provost The sector reports that we are now starting to give you are trying to give you some of those comparatives.

Hayes Yeah, the point is what I’m saying here is that they don’t.

Provost OK. OK.

N. Smith I do think we do require a greater level of explanation around the scale of the increase. Taxpayer funding for you is at a constant, but that 8 percent increase is very large if we look over the public sector as a whole. There’s been no substantive legislative change, in terms of your audit function. Why is it that we’ve got that large 8 percent increase?

Provost Because we did the LTP audits this year. Every 3 years there is an increase. It’s not fair. Your comparison is apples and things. It’s between the financial audit and the LTP audit. Every 3 years we do the LTP audits and there is, in the audit fees they go like this, and back. And on the LTP audits this year we set—I have a local government advisory committee, and knowing the fees on LTPs was going to be an issue I agreed with the sector that we would keep the LTP audit fees to the same level that they were 3 years ago, unless the organisation did not perform. If the organisation did not perform, then they would wear the additional fees for their own lack of performance. We have kept most of the fees within that level, and that change in revenue this year is for the LTP audits.

N. Smith Is it possible for you to provide us with a like for like?

Provost Yep.

Smith That’s a very fair answer, because you’ve got the legislative function, that lump, going through. So I think it would be helpful for you to provide us with some supplementary, ie., for this financial year—2012-13—how that compares—

Goldsmith Maybe a 10-year graph would be a good thing.

N. Smith —so that we can see those numbers. The second thing is you just commented that you held your fees at the same as 3 years ago for local authorities on the LTPs, with a condition in the event that their LTP was deficient and required substantive more work. Can you tell us how many councils did you have to supplementary charge and whom they were?

Provost I’ll have to come back to you on that. I don’t have that in my head.

N. Smith Yes, as supplementary advice.

Provost Yes. There is one other exception, which is, of course, Auckland Council was very different from what was previous. It’s clearly hard to do that comparison.

N. Smith Sure. Well, I actually think the opposite should be true, and that is that rather than actually auditing the separate eight authorities, I would hope, as a consequence of the Auckland Council reform, that our audit costs have
actually been able to come down. And a supplementary question specifically: how has the Auckland Council reform affected the both short-term with a long-term plan, and long-term audit costs for the ratepayers of Auckland? I think that would be very helpful as well.

Bennett And also for this figure too, because, where you’re sitting, you’d expect that to have a decent decrease.

Provost It hasn’t in the first year. No first-year audit will ever have a decrease on restructuring. Over time there will be, but I can assure you Auckland was not a decrease in the first year.

Bennett But that’s our difficulty, because “over time” is a great way of pushing it out, and then you’ve got other costs that come in and erode the potential savings. That’s hard for us to swallow, that argument.

N. Smith But I think if the Audit Office provided us with a supplementary specifically around Auckland—

Provost Yes, we can do that.

N. Smith —and some projections going forward—

Provost Yes, we have those.

N. Smith —it’d help us get to the bottom of things.

Goldsmith Again related to costs, there seem to be two basic elements to your work. There is the straight sort of financial review of an organisation, and then there is the performance review that you do. It seems like there is sort of no end of work you could do on the performance side. If you take local government, for example, you could be measuring how they were effectively promoting the four well-beings, etc., when they were around. So, presumably, in an environment where costs are under real stress you would make a judgment as to how far you’re going to drill down on the performance side—or do you? I don’t know. Are you being as expansive as you were 5 years ago, or is that a question that you should be considering or not?

Provost We always look at the efficiency. Eighty-three percent of our work is in financial audits. We’re always looking for the efficiencies that we can do in audits. My predecessor and I have repeatedly reported, though, that as accounting and auditing standards get more complicated, there are costs involved in that. We have no choice but to obey the professional standards of the profession. We don’t have a choice. We are required to ensure that GAAP is followed, and I would be extraordinarily upset if that was ever changed. I think external standards are really important and that Auditors-General around the world and auditors generally need to comply both with good auditing and good accounting standards.

Goldsmith That’s answering my question. Could I ask confirm, was that 83 percent?

Provost Eighty-three percent.

Goldsmith Is it 17 in performance, then, is it, or is there another group?
2011/12 FINANCIAL REVIEW OF THE OFFICE OF THE CONTROLLER AND AUDITOR-GENERAL

P. Smith  It’s around 83 to 85; it depends on whether it’s an LTP year. Just by way of clarification, there are probably two parts of our work that you could talk about as being performance. The annual audits are all about performance, both financial and non-financial, so there is a fair component of the annual audit for most entities, which requires us to audit their statement of service performance. That is a statutory requirement both that the entities set out in their SOI, what they’re planning to do, and report against it at the end of the year, just as they report their financial performance. We do do separate performance audits, which is a separate funding stream. That’s the money that comes to us from Parliament, and it funds both inquiries and performance audits. Those are the ones that turn up looking like—I think Mr Hayes had one before—that sort of report. They’re the ones that come separately to you. So the—

Goldsmith  For a typical financial review of, say, Treasury, roughly what is the breakdown between, you know, just hard numbers—financial review—as opposed to what I would have thought you meant by performance review was, you know: “You said you were going to do this, and did you measure up against that in terms of achieving a particular outcome?”.

P. Smith  It might be a question best put to our own auditor, as to how they break down—because we are also subject to audit, as you know—what the split is between the financial audit and the non-financial. Is that a question that they could answer, Mr Chairman?

McClay  Yeah, not now though.

P. Smith  No.

Bennett  Can you give us a bit of background about Paul’s question, then, so that we can see how you’ve trended to that 83 percent over the last, say, decade, to see what proportion you did of performance audits over the last 10 years and whether that’s increasing as a percentage?

P. Smith  Proportionately, yes. That will be in—we just look at our annual reports and reporting by output class, yes.

Bennett  We want to see that on paper.

P. Smith  Yes.

Bennett  Also, for local bodies, if you’ve got to increase this year because of their long-term plan, what do you do around your performance audits, then, to reduce their costs in other areas, so that they can perhaps come to a status quo fee? Because I don’t buy that argument that we put it up and we take it down, and it goes up and down. I don’t think that actually is going to work. I think you should be looking at how you can minimise the cost in that year for total audit fee, so avoiding them having spikes. Those spikes are what we deal with, and they get frustrated with it as well.

Hayes  I’ve got an issue around Figure 3 of this report.

Provost  That’s the long-term plan, right? Yes.
Hayes

Yes, LTP. I’m just wondering, in Figure 3 you’re talking about debt ratios for the various councils. I see that, for example, Greater Wellington Regional Council is throwing up its borrowings really significantly. At about the fourth paragraph down you talk about flood protection, for example. I get people in my area saying to me that what the Greater Wellington Regional Council is offering to do there is absolutely unnecessary. So, if you’re looking at this from the point of view of the umbrella, the bird’s eye that we get as politicians, one of the issues is it’s good to know the debt ratios, but it would be damn good to have a little comparison of the internal rates of return, or some sort of indicator of the benefit of the expenditure that’s planned. Otherwise the debt figures are meaningless. I mean, it comes back to David’s important point before, and I’m just trying to use that as the example. As the Government, when you go to the table and Figure 6, clearly rates are not coming down. Local body costs are still consuming far too much GDP, and that’s not the Government’s wish, which is reflected in the legislation last week on local bodies. These sorts of things are not easily being pointed out to us.

Provost

This report in its totality was meant to raise a debate about what is financial prudence. Everybody talks about financial prudence, but actually everybody defines it in a slightly different way. That’s why we have started to set out some indicators of what we think is financial prudence, and ways of measuring it. Your input will be useful—I’d take that on board—because we need as a sector and as a country to understand what we’re talking about here, so we can give you good advice, so local authorities can give good information to their public. It is, I think, for the next 12 months a really, really important debate for us to all have, what do we mean by financial prudence? Usually I don’t put up a framework and say: “What do people think?”. Usually it’s: “This is the framework.” I think this is too important a debate for us not to have. That’s why I’ve been very, very public in the beginning of it to say I welcome the debate, and if these ones aren’t the ones, let’s come out as a group.

Hayes

It’s good as far as you go but it’s got to go further.

Provost

But we accept this is a start. It isn’t the end; it is the start. And, certainly, looking at rates of return for various projects over time I think would be valuable.

Cosgrove

In terms of defining, if you like, the issue of financial prudence, have Government agencies or—the Crown, I would have thought, might have had an interest in providing its own definition of financial prudence. Have they come back to you with any feedback as to what that might entail?

Provost

Certainly in terms of this report, the SOLGM, Local Government New Zealand, Engenium, which is the engineers, and the Department of Internal Affairs are very interested in pursuing it further. So, if that answers your question, that’s as I understand, in terms of local government, where it’s at.

Parker

Just referring to this plan on long-term plans, could I say that I agree with you that there is a need to perhaps reach some standardisation as to what should be in them. That doesn’t mean to say they’ll all be the same. It would
actually mean that we could try to limit them to a reasonable core, rather than letting them grow like Topsy, which would reduce costs, including audit costs. I was interested to read in your assessment of regional councils, that where they have and haven’t got debt, at a regional council level, really relates to whether they’ve got current infrastructure as a driver of costs. I wonder whether, in the context of that, you have occasion to look at whether some of the regional councils increasingly becoming involved in irrigation schemes has become significant. I notice in particular—I was up recently in the Napier region, and Napier regional council has become the driving force for an irrigation scheme there. Has this become more prevalent in recent years?

Hayes It is the Hawke’s Bay Regional Council, actually.

Parker Yes, it’s in Napier.

Provost It didn’t come out strongly in this report. Over the last 12 months I’ve probably only had a couple of conversations about irrigation schemes, so I haven’t at present got an evidential base that says yes or no, but it’s certainly something that we could have a look at and see if it is an emerging trend or whether there’s a couple around the country.

Parker In any event, I congratulate you on that work, because I do think that Nick Smith is right that we as a committee have a concern about long-term council plans. They were forced upon councils by Parliament, and they have been left by the Government, I think, wisely, because we did actually have lack of long-term planning at regional and local government level for decaying infrastructure, and therefore we didn’t have proper accounting for future costs. We know that what is the big driver of debt of councils is actually infrastructure. So, actually, proper accounting for that is good. But I too share a concern that if we let these plans grow like bloody Topsy, we’ll just be creating a level of cost and frustration for everyone. I’d want to move to a slightly different topic.

Provost Could I just comment on that, please? I think long-term planning in local government is good, but we have far too much information at present going into the public arena for the ratepayers out there. There is a simple strategy and a simple—this report talks about the financial strategy. There are some important bits that people need to know. Putting out every single policy that local government has—you know, that are about this big per agency—doesn’t make sense to us. That can be on a website and updated when you need it. There is a better way, in our opinion, that long-term planning can be, and I understand it is being addressed.

N. Smith What do you say to those local authorities that I think politicians of all persuasions have given a bit of a hard time about producing these tomes that are pretty unfriendly, and their view that says: “Well, in our earlier versions if we didn’t include …”—and it’s absolutely true that from the first, second, and third generation of the LTPs, with each generation they’ve got longer. They’re arguing that it’s pressure from your office, where they haven’t covered something, they feel: “Well, we’ve got to include more and more in it.”, and they say that “Well, actually, for us to get through the audit
process they have to become tomes, otherwise we get our wings clipped and get told off.”

Provost And they tell us it’s because they have to comply with the legislation, which is actually quite prescriptive. I stick by what I said in this report: I continue to encourage local authorities to consistently invest in preparing shorter, clearer, and more informative LTPs, so the community is able to take part in more informed and effective consultation of the local authority’s intent. I have—

N. Smith What’s your best advice, because I think that objective that you’ve very crisply put there, I think, is very important for central government parliamentarians as well as our leaders within local government. What’s your prescription as to the best way to get there? Is it a legislative issue? Is it a practice issue? How are we going to be able to get the long-term planning culture into local government to produce those more concise, more user-friendly, and more useful long-term plans?

Provost Change usually happens, in my opinion, from a variety of different ways—everybody consistently going in the same area. I have felt at times a little bit of a lone voice saying: “These things are too long and complicated, so could we get them into an easier form?” I think that all signals and incentives into the system have to be that we want useful short information, not long information where it’s a treasure hunt to find what you’re looking for. So the legislation is being looked at. That would help. The practice of perpetually sending the same communication will help. Just getting some bits that don’t need to be done annually or done even 3-yearly, just say that’s standing information—you can still make it public. I will continue to say to the sector exactly what I’m saying here. I will continue to say it to my auditors. I will continue—I only sign one audit opinion here. I will continue to tell them as well to reduce it. I do understand that everybody wants their bit in the plan. Somebody has to stand above it and say: “Actually, these are the nuggets that the public need to know.”

Parker Just following on that, is there a good example in New Zealand of someone that gets it right, not too long?

Provost Whenever you pick one that you say that’s good, everybody tells you, you know, that this bit’s wrong with it. Hamilton’s is a very readable plan. It’s the shortest of them. I think it’s under 100—well, I think with all the bits it’s over 100 pages, but the major bit at least is under 100 pages. You can read the first 20 pages of that plan and you know what’s happening in Hamilton, the big decisions that have to be made, and it’s clear.

Parker Are their audit costs lower as a consequence?

Provost I don’t know.

Parker I mean, costs for councils could be pushed back a bit by saying: “Your audit costs are higher than they are in other areas because you produce prolix documents.”

Provost Well, certainly, there will be a base amount of information. I’d be very surprised if they had any additional costs this year.
Parker: Yes, but what I’m saying is that they might be the author of their own inefficiency from an audit point if they’re inefficient in their other—

Provost: The audit cost, if it was 10 percent of the preparation, I’d be surprised. The big is in preparing these things, and the shorter they are and the more succinct. It’s also the council’s time, I think, is important. Get them, take the time out of the council.

Parker: I understand that. I’m just saying that if they’re complaining about your fees, one way to drive back would say: “Well, actually, produce bloody simpler, shorter documents and it won’t take as much time to audit them.” which might be allowing that sort of impetus towards that.

Provost: True.

Parker: Could I ask you about your refit. You said that you’ve spent $3 million on a refit to bring Audit New Zealand and the Auditor-General’s offices together.

Provost: Yes.

Parker: Was there a business case done to justify that?

Provost: Yes, and it was put to the Officers of Parliament Committee. There were two major drivers. One was both of our leases were coming to—actually, there were three drivers. Both of our leases were coming to an end, so we had no option; we had to live somewhere. The State Services were moving out of 100 Molesworth Street, and we subleased from them. Secondly, the Audit New Zealand lease was running out, and that one was likely the lead tenant wanted to take over that. So we had no choice. So that was our first reason we needed to move.

The second was we had before I arrived joined together the corporate services team. We had them working out of the OAG—it was suboptimal in terms of Audit New Zealand—so we could put that together. Thirdly, it means, instead of having two lots of meeting rooms, two receptions, two of everything, we have managed to rationalise that and we have one reception area and one meeting room suite. That is more efficient than having two lots of everything.

It was also that—and this was once again before my time—we had an international peer review done, and one of the significant recommendations there would be that it has to be more efficient and effective in the long term for us to come together. Those were the bases of our business case.

Parker: Are your total occupancy costs once you’ve moved into these rationalised premises higher or lower than they used to be?

Provost: They’re slightly higher, because the rent is today’s market, not the market that we negotiated the previous leases in. So what we have done is, rather than saved cost, we’ve minimised our future cost by rationalising some of the floor space. Is that right?

P. Smith: Yes, and capital charge and depreciation.

Provost: Yes.
Parker I have one final point. You made reference earlier to trying to reduce the complexity of accounts so that they are more readable by users and less expensive to prepare. We’ve talked previously at other select committee meetings about how I absolutely agree with that objective. You say that you sound like you’re a lone voice on those things, but, actually, at this committee we’ve been saying similar things for a while. What progress is being made in that regard to sort of tear out all the sort of irrelevant crap that has to be listed in every set of accounts even if it’s not germane?

Provost The External Reporting Board’s tiered reporting has that entities over $30 million—and there’s not that many in the public sector that are over $30 million—have to produce the same amount of information. Those under $30 million and over $2 million—

Parker This is turnover, is it?

Provost Yes, their revenue or expenditure. I think it’s $2 million, have a limited amount more—a smaller amount they have to put. And those under $2 million will do basically a little pro forma set of accounts. We haven’t tried to calculate how much that will save in preparation, but it’s got to be at least something, and my biggest hope at present is around that tiered reporting and that people adopt it and reduce down to what is really needed.

Parker Do you know if anyone is going to produce a sample of what you think would be acceptable to you?

Provost Yes.

Parker And therefore put it out across the public sector so that not everyone has to think for themselves about a hundred times.

Provost The External Reporting Board are in fact going to put out their own template so that people can fill in the figures for the little ones, and certainly for the medium-size ones Audit New Zealand’s normal practice is put out a model set of accounts for the public sector.

Parker Will you be creating an expectation amongst your private sector auditors that they should be looking for simplification of accounts, rather than people—I mean saying there’s nothing to stop you doing something more complex than is required but we don’t want it so—

Provost No, I will certainly be encouraging all the firms and all my auditors to embrace reduced disclosure and more understandable accounts, and it wouldn’t come as any surprise to any of them that I was saying that.

Parker Is it going to fix the issue that we’ve often had with collections, like at Te Papa, where they’re forced to do these revaluation exercises to their asset base of an asset that they don’t either fully insure anyway and they don’t have any objective to sell, and therefore it seems absurd to have a realisation-based valuation methodology forced upon them at considerable expense. Does it fix that?

Provost The IPSAS standard on that—I can’t remember the detail, but there is some choice around the revaluation. We will be encouraging people to take a cost-benefit approach to that.
McClay        Thank you very much. Thanks for your time before us today. We’ve certainly enjoyed it. Can I wish you well, and I hope you have a chance to have a break over Christmas and the New Year.

Provost       Thank you very much.

**conclusion of evidence**
2011/12 financial review of the Department of Building and Housing, and of the non-departmental appropriations for Vote Housing

Report of the Social Services Committee

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Department of Building and Housing, and non-departmental appropriations for Vote Housing

** Recommendation **

The Social Services Committee has conducted the financial review of the 2011/12 performance and current operations of the Department of Building and Housing, and the non-departmental appropriations for Vote Housing, and recommends that the House take note of its report.

** Introduction **

The Department of Building and Housing was responsible for policy, regulation, and dispute resolution services for the building and housing sector. It was disestablished on 30 June 2012 and merged with three other government entities to form the new Ministry of Business, Innovation and Employment from 1 July 2012. All of the former department’s functions continue to operate in the Ministry of Business, Innovation and Employment’s Building and Housing Group except for the monitoring of Housing New Zealand Corporation. This function was transferred to the Treasury on 30 November 2012.

In 2011/12 the department had a total income of $85.44 million and a total expenditure of $82.965 million, resulting in a surplus of $2.475 million.

** Canterbury **

The Canterbury earthquake recovery has been a focus for the department over the last year. It has worked with the engineering community on technical matters and classification of land. Technical investigations into the reasons for the failure of the Hotel Grand Chancellor and the CTV, Pyne Gould Corporation, and Forsyth Barr buildings have been completed, and the department entered into a joint venture with the Ministry of Social Development to provide a temporary accommodation service in Christchurch.

A major review of the earthquake-prone building policy in New Zealand was undertaken in 2011/12, and the ministry has received the fourth volume of the *Canterbury Earthquakes Royal Commission Final Report, Earthquake-prone Buildings*, which will be released publicly in due course.

The department performed well against its key deliverables for the rebuilding of the Canterbury region in its 2011/12 Output Plan. The key deliverables included final recommendations for the Code of Practice for Retirement Villages, advice about licensed building practitioners and restricted building work, a communication and marketing programme about restricted building work, revised guidance on repairing and rebuilding Technical Category 1 & 2 houses (those at lesser risk from liquefaction), supporting the Royal Commission’s preparation for the CTV building hearings, advice about how the Building Act 2004 applies to repairs, advice on the Christchurch City Council and the Canterbury recovery plans, and providing three temporary villages, bringing the total number of accommodation units to 83.
Guidance for repairing Technical Category 3 properties (where “moderate to significant” land damage from liquefaction is possible in future earthquakes) was published in April 2012 following peer review.

The owners of approximately 8,000 red-zone properties are expected to receive insurance payments and leave their homes in April 2013; the Building and Housing Group of the Ministry of Business, Innovation and Employment will then focus on the supply of labour and skills to ensure that the rebuilding meets cost and quality requirements.

We congratulate the department on its work on the recovery effort. The challenge for the ministry will be to continue to provide support in areas such as the technical rebuilding of the commercial and residential environment, and Christchurch’s broader economic recovery.

Social housing reform programme

With the Treasury, the Ministry of Business, Innovation and Employment is co-leading work to address housing affordability issues in New Zealand. The programme will focus on increasing land supply, improving provision of infrastructure for new housing, and improving productivity in the housing sector.

Following the transfer of social housing policy functions from Housing New Zealand Corporation to the Department of Building and Housing in July 2011, the Social Housing Unit was established as a semi-autonomous body within the ministry’s Building and Housing Group. It allocates funding and facilitates partnerships for purposes including land transfers and the sale or lease of surplus state housing stock.

Tāmaki

The Tāmaki Redevelopment Company was established in 2011/12 as a joint venture between the Government and the Auckland Council. The focus for 2012/13 will be the redevelopment of the Tāmaki area, including the provision of a range of social and affordable housing over fifteen to twenty years. One of the challenges will be to ensure that the Tāmaki community is not displaced during the redevelopment.

Some of us are concerned that there was not enough consultation or involvement of the local community in the planning of the Tāmaki transformation. In our view, the new Tāmaki Redevelopment Company should consult the community in developing a vision for Tāmaki.

Hobsonville

The Hobsonville Point development of former Defence land is intended to create a mixed-income community in 2,500 to 3,000 dwellings ranging in size from 60 to over 300 square metres, with one to four bedrooms. Twenty percent (600) of the houses will be priced at under $485,000; of those, ten percent will be priced at between $400,000 and $485,000. The remaining ten percent are to be sold at under $400,000. The department held discussions with the development company to ensure that the houses being built for under $485,000 would meet a particular definition of “affordable”.

We heard that the definition was based on median, not average, income; but responses to post-hearing questions define affordable housing, in the context of this development, in terms of average Auckland income rather than median household incomes. Some of us are concerned that the use of average rather than median income might undermine the intention to target “working households”. There are also concerns that the target audience
for the affordable housing in Hobsonville, whom the ministry told us is those least able to
afford to buy their own house, could miss out if the affordable houses were purchased by
property investors. The ministry said that no direct assistance would be provided to first
home buyers in Hobsonville. Some of us believe that the ministry implied affordable
housing would be assisted by cost spreading across the whole development. It had not yet
made any decisions about restricting property investors from purchasing these homes or
other purchase criteria.

Kāinga Whenua loan scheme

Māori land frequently has many owners, and banks and financial institutions can be
reluctant to lend against it because of the difficulties involved in accepting as security land
with multiple owners. The Kāinga Whenua loan scheme aims to address this by having
Housing New Zealand Corporation accept the house but not the land as security, and
insuring the loan so that borrowers can access finance to put houses on the land.

Changes to the scheme came into effect on 1 December 2012 so that previous home
owners can also apply for a loan, only one borrower must live on the property, the income
cap for borrowers was raised, the scheme covers repairs and maintenance, and Māori trusts
that own land can apply from 2013.

We are pleased these changes have been made, as they will allow more low-income Māori
families to become homeowners.

Building and construction productivity

One of the goals of the Building and Housing Group is to boost the sector’s productivity
by 20 percent by 2020. Work to date has addressed the main recommendations of the
December 2009 sector productivity taskforce report, which included publishing the Built
Environment Skills Strategy, establishing procurement forums in Auckland and
Christchurch, developing key result areas for productivity improvement, and studying
construction and construction delivery systems for intervention opportunities.

This process has indicated that the 20 percent target is difficult to analyse into its
contributory parts, and the ministry cannot provide a measure of progress against the target
so far. We urge the ministry to establish performance measures so that indications of
progress against this target can be provided for the next financial review.

One of the issues the ministry found with productivity in the building sector is a lack of
economies of scale. Only five firms in New Zealand build more than one hundred houses
in a year, most being built by individual builders who utilise sub-contractors, resulting in
little investment in building systems. The ministry also found that the cyclical boom-bust
character of the building industry was a barrier to performance in the sector; we noted that
building firms had a higher rate of failure than the average rate for businesses before 2003
and after 2008.

We were pleased to learn that the ministry would seek to improve workforce skills,
procurement practices, and the research and evidence base to mitigate these obstacles to
productivity.

Building sector reform

The implementation of the Building Amendment Act 2012 (commonly known as the
Building Amendment Bill (No 3)) has progressed and the Building Amendment Bill (No 4)
is awaiting its second reading. The ministry is overseeing the implementation of the
restricted building work regime and the licensed building practitioner regime, with over 20,000 building practitioners now licensed. The ministry has also worked with the Auckland Council to have it accredited as a building consent authority.

**Licensed building practitioner initiative**

We noted an increase in the rate of applications for building practitioner licenses over 2011/12, resulting in a backlog which the ministry has attributed to the introduction of the restricted building work regime (work that can only be carried out by a licensed practitioner) in March 2012. The application rate has fallen for eight consecutive months to November 2012, and is expected eventually to be within the Building and Housing Group’s capacity to process within agreed time-frames. We will monitor the ministry’s progress with the backlog over the next year.

Some of us are concerned that it is too early to enact the Building Amendment Bill (No 4), which includes such measures as replacing the code of compliance certificate with consent completion certificates, and suggested that the replacement of the code of compliance certificate should wait until the licensed building practitioner scheme matures. Some of us also consider that the regime proposed in the bill would not help to upskill the industry. The ministry’s view was that it was important to strike the right balance in a new compliance regime by not setting the bar too high in the short term, as this could have an adverse effect on the industry, and that the competency requirements would be raised over time. Most of us agree with this view.

**Weathertight homes Financial Assistance Package**

The former department implemented the Financial Assistance Package for owners of leaky homes, entering into arrangements with 32 councils that cover 98 percent of leaky home claims. As at 31 October 2012, 1,122 claims covering 3,445 properties were assessed for the package, and 899 claims covering 2,631 properties qualified for assistance. By the same date, 43 claim payments had been made.

Some of us are concerned about the slow progress given that we heard there may be anywhere between 20,000 and 90,000 affected homes and that owners cannot claim financial assistance if their home is more than ten years old. Although a claim has only to be lodged within the ten years, some owners may not become aware that their homes are leaky until the liability period has lapsed.

Most of us support the view of the ministry that progress is satisfactory. The ministry expects that the total number of claimants who opt into the scheme to be 3,544. It did not expect to see many payments being made in the first year of the scheme as claimants needed time to understand the benefits of the scheme and the associated process. The total estimated Crown contribution is forecast to be $186.5 million, with the major settlement costs to occur in 2014 and 2015.

**Non-departmental appropriations for Vote Housing**

**Canterbury emergency and temporary accommodation**

The 2012/13 appropriations for temporary accommodation at the Linwood Park, Kaiapoi, and Rawhiti domains include $12.544 million in capital expenditure, with operating costs for the outyears 2012/13–2015/16 of $6.05 million, $5.98 million, $7.32 million, and $7.55 million respectively. We were informed that 2015/16 is the final year of this funding. Eighty-three Crown-funded housing units have been provided in the three temporary
villages while earthquake-damage repairs are undertaken. The ministry expects between 200 and 300 households to use the temporary accommodation villages in 2012/13.

A further 50 transportable units that are no longer suitable for temporary accommodation are in the process of being sold to help support the recovery effort. We were pleased to hear that some have already been purchased.

Wellington City Council Social Housing Assistance

The Wellington City Council Social Housing Assistance programme is funded by a $220 million grant from the Crown for the first ten years of a twenty-year programme. The programme will be funded by $200 million from Wellington City Housing’s ring-fenced income for the second ten-year period.

Increases in insurance of $1 million per annum and the raising of GST to 15 percent have placed severe pressure on the current financial model. The condition of buildings has also been worse than expected, Newtown Park flats being the most in need of upgrading at $5 million over its expected budget.

However, we noted that costs for the portfolio of work remain close to the original project budgets, and that savings are being sought where possible. We acknowledge that the insurance and GST increases are being funded from the original budget, and no further funding is being sought at this stage.

Social Housing Fund

We heard that the first funding round in the Social Housing Fund allocated $36.68 million in grants to 17 social housing providers in 2011/12. Funding was split into four sub-funds (Growth ($25.3 million), Māori ($4.2 million), Rural ($1.24 million), and Niche ($5.2 million)), with 50 percent of funds to be provided by housing providers as a combination of cash, labour, and no more than 10 percent in sweat equity. The allocated funding is expected to produce 269 houses. Another $104 million will be allocated over the next three years from Budget 2012 in a second funding round.

Of the 2011/12 fund, $23.56 million was allocated to Auckland for the development of 161 new “social and affordable” houses. The 2012–15 Social Housing Fund targets Auckland, with at least a further $21 million to be invested as capital grants for social and affordable housing.
Appendix

Approach to financial review
We met on 28 November 2012 and 30 January 2013 to consider the financial review of the Department of Building and Housing, and of the non-departmental appropriations for Vote Housing. Evidence was heard from 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 Simon Bridges
Melissa Lee
Jan Logie
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Le’aufa’amulia Asenati Lole-Taylor

Evidence and advice received
Ministry of Business, Innovation and Employment, responses to written questions, received 27 November, and 3 and 12 December 2012.


Office of the Auditor-General, Briefing on the Department of Building and Housing, dated 28 November 2012.
2011/12 financial review of the Canterbury Earthquake Recovery Authority, the Earthquake Commission, and the non-departmental appropriations for Vote Canterbury Earthquake Recovery

Report of the Finance and Expenditure Committee

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Canterbury Earthquake Recovery Authority, the Earthquake Commission, and the non-departmental appropriations for Vote Canterbury Earthquake Recovery

**Recommendation**

The Finance and Expenditure Committee has conducted the financial review of the 2011/12 performance and current operations of the Canterbury Earthquake Recovery Authority and the Earthquake Commission, and has reviewed the report on the 2011/12 non-departmental appropriations for Vote Canterbury Earthquake Recovery. The committee recommends that the House take note of its report.

**Introduction**

We combined our financial review of these earthquake-related organisations and non-departmental appropriations in one hearing, and report on them together, in order to give a broad overview of the challenges resulting from the Canterbury earthquakes.

We wish to record our appreciation of the invaluable and intensive work carried out by both organisations to help the Canterbury community recover from the earthquakes. From a financial perspective, we consider it commendable that both entities gained an unmodified audit opinion on their financial statements despite the scale of the challenges and the pressures they have been working under.

**Canterbury Earthquake Recovery Authority**

The Canterbury Earthquake Recovery Authority (CERA) was established at the end of March 2011 to plan and administer the implementation of the recovery from the earthquakes in Canterbury. It is the only government department located entirely outside Wellington, and is expected to have a limited lifespan of five years.

**Recovery plans and rebuilding progress**

Over the past year CERA has published two key plans setting out how the recovery will proceed. The Recovery Strategy for Greater Christchurch sets out the overarching long-term plan, while the Christchurch Central Recovery Plan focuses on the city centre, and specifies four anchor projects to be developed there: the Avon River precinct, a stadium, a sports facility, and a convention centre. The authority is now working with the city council to progress the projects. A further plan covering transport options is in draft form at present, and open for submissions.

We note that in CERA’s view the central city recovery plan drew on extensive consultation with Christchurch residents, and has been well received. Some of us are of the view that many in the community would have a contrary view to that of CERA. We sought more information about how the anchor projects were selected, and whether CERA is considering public-private partnerships for their construction and operation. We heard that CERA is now seeking proposals from any market participants who might wish to own and
operate facilities such as the library and performing arts centre, and is open to considering expressions of interest. It says it does not have a view on whether the town hall should be restored or replaced.

We asked why the provision for a built heritage recovery plan in the draft recovery strategy appeared to have been dropped from the final strategy. We were told that the recovery strategy includes goals for “cultural recovery”, which includes programmes for arts, culture, and heritage collections and for heritage buildings and cultural places. These programmes are being developed by the Ministry for Culture and Heritage, but CERA and the city council remain involved to monitor progress. Some of us are concerned about the slow progress.

Most work on demolitions in the central city is expected to be completed by mid-2013. The repair and rebuilding of infrastructure has also been progressing, with $380 million spent to date and 90 projects, valued at $228 million, under construction. A further 178 projects valued at about $1.1 billion are at the design stage. CERA also aims to acquire 760 properties in the city centre; so far it has concluded three contracts, but it expects to negotiate more than 130 over the next few months.

**Zoning issues**

Land zoning has been a key part of CERA’s work to date, and is nearly complete. About 8,000 properties have been zoned red and therefore fall under the Government’s acquisition offer. So far nearly 6,400 householders have signed an agreement to sell their properties, and CERA has settled just over 5,000. Land zoning in the Port Hills has been particularly difficult and contentious, with about 140 householders appealing CERA’s decisions. Interestingly, equal numbers are seeking to switch from red to green designations and vice versa, depending on their individual appetite for risk.

**Deadline for leaving the red zone**

We are aware that some property owners in the red zone face logistical difficulties vacating their properties by the 30 April 2013 deadline for final settlement, and asked CERA whether it had provided any advice about extending the deadline. We were told that it was gathering information from residents and discussing the issue with the Minister. Since our hearing, the Minister has announced a three-month extension to the deadline for a small group of red-zone property owners to ease such pressures.

**Maintenance and infrastructure**

The deterioration of vacant properties in the red zone is of concern. CERA told us it employs 30 to 40 maintenance workers to try to keep the area tidy, and its community liaison workers try to respond to issues raised by residents. As for the long-term use of land in the red zone, CERA told us it has done little planning work so far, but is happy to discuss with local authorities their thoughts on the infrastructure needed, such as through-roads to access parts of the green zone.

**Commercial properties**

Some of us consider it inequitable that the Government offer for bare sections and commercial land in the residential red zone is only 50 percent of the most recent rating valuation, while other red zone residents are offered 100 percent of the rating value. CERA’s chief executive pointed out that the Government was making such offers voluntarily; EQC does not insure commercial property, and it provides limited insurance
cover for land. He noted that no decisions have yet been taken on whether people will be compelled to accept the acquisition offers.

Some of us also consider that the offers being made to business owners in the red-zoned central business district are inadequate. CERA’s chief executive said that deciding on a fair value involves balancing taxpayers’ interests with those of property owners. If the Government were not involved, land values in the central city would be far lower. CERA believes many business owners will accept the offer to allow them to get back into business somewhere in the city.

**Earthquake Commission**

The Earthquake Commission (EQC) is charged with insuring residential property against loss or damage from natural disasters. Its role has expanded greatly since the Canterbury earthquakes to include managing a substantial part of the repair and rebuilding through a contract with Fletcher Construction, designing and supervising land remediation work, and providing engineering advice. The commission also assists with research and education about natural disaster damage and its mitigation.

**Review of the Earthquake Commission Act 1993**

EQC’s legislation is now 20 years old, and changes to its role and finances as a result of the Canterbury earthquakes have made it clear that a review of the Act’s workability is needed. The Government recently announced that it is setting up a cross-agency group, led by the Treasury, to review the Act in consultation with industry and stakeholders. It is intended that a public discussion document will be released in March 2013, and resulting legislative amendments introduced later in the year.

The review will focus on what types of property the commission insures; the structure and extent of its cover; how the commission prices its insurance; its institutional structure and roles; and how the Crown’s risk exposure is managed and financed. We will follow its progress with interest.

**Reinsurance arrangements and costs**

EQC pays out on claims from the Natural Disaster Fund and from arrangements with global reinsurers; in the event of a major disaster the Crown tops up these funds under a guarantee—in effect, an extra layer of state-provided reinsurance—for which the commission pays a fee to the Crown. While the Natural Disaster Fund stood at nearly $6 billion before the Canterbury earthquakes, this buffer has now been depleted and will take several years to rebuild. Negotiating satisfactory reinsurance cover was therefore a critical task for the commission over the past year, to ensure that New Zealanders remain covered in the event of another major disaster, and to reduce the risk borne by the Crown.

After consulting the Government about the fiscal risk it was prepared to take on, the commission has negotiated reinsurance cover on terms it considers satisfactory, albeit at significantly higher cost. Before the Canterbury earthquakes, the reinsurance arrangements entailed EQC paying the first $1.5 billion worth of claims from a single natural disaster, with reinsurers covering the next $2.5 billion and the Crown liable for damage above this $4 billion total. Under the new arrangements, the commission would pay the first $1.75 billion of claims, with reinsurers covering the next $3.25 billion, and the Crown guaranteeing costs above $5 billion.
The cost of the reinsurance has roughly trebled, from about $39 million a year to $140 million, reflecting the higher risk perceived by the markets in the wake of the earthquakes. The premium will now be reviewed annually, rather than every three years. The commission told us it is hopeful that costs will fall again over time if there are no further major quakes.

**Costs for households**

While we view the increase in reinsurance costs as an understandable market response, we are concerned about the increased burden this translates into for households, through the EQC levy they pay (for $100,000 worth of building cover, $20,000 worth of contents, and land up to a maximum area) and the premiums charged by private insurers.

Although the EQC levy is set by regulation and not directly related to EQC’s reinsurance costs, it too has trebled, from $69 a year to $207 including GST. We were told that private insurers’ premiums have roughly doubled, but much depends on the construction materials involved; anecdotally, the premium for a modern building in Christchurch is now 30 to 40 percent more than pre-quake, but much, much higher for an unreinforced brick and masonry building in Wellington.

**Risks for the Crown**

The potential liability for the Crown is also a concern. We note that until the Natural Disaster Fund’s reserves have been restocked, the Crown effectively bears liability for the first $1.75 billion of claims, as well as for damage exceeding $5 billion. In the worst-case scenario of a major Wellington earthquake, its liability could be as high as $20 billion.

**Affordability of insurance**

We believe, and the commission agrees, that the increased cost of insurance is likely to lead to significant changes in the way New Zealanders view insurance, and the types of policy the industry offers. Insurance cover in New Zealand has traditionally been very high by international standards—about 99 percent of people in the red zone were insured—and we are concerned that people may start to under-insure because they cannot afford the premiums. The commission agrees there is some risk of this, but it believes insurers will respond by offering policies that still provide a reasonable level of cover, if not the “gold-plated” approach New Zealanders are used to. Traditionally, many policies have been uncapped, and insurers have been surprised by the cost of restoring features such as rimu panelling. They may choose to offer policies that cap the total rebuilding costs reimbursed, or set a dollar amount per square foot. New Zealanders, for their part, may need to start thinking of insurance cover as protection against potentially losing their homes, rather than claiming for relative trivia such as broken windows.

The commission noted that the review of its legislation will take as its starting point the questions of what risks a society can reasonably expect citizens to cover for themselves, and what role the Government should play. Issues will include the nature of EQC’s cover, whether there should be some excess before the cover applies, and the respective roles of EQC and private insurers. A prime consideration will be ensuring that New Zealand retains an effective insurance market.

While we are concerned about the sharp increase in insurance costs, we consider it a very important achievement that the commission has successfully obtained reinsurance from the
international markets. Being able to offset risks via insurance is a critical underpinning for the whole of the recovery.

**Settling claims**

EQC has so far paid out $4 billion on claims, and estimates that it has dealt with 45 to 50 percent of the total of 340,000 claims, equating to 700,000 exposures. It settles in cash for claims under $15,000, and has so far settled 650,000, with another 10–12,000 to go. It expects that larger repairs will be completed by late 2013. Of the 20–25,000 large repairs for which it shares costs with private insurers, most need to be apportioned between the various earthquake events. So far it has completed about 12,600 apportionments and passed the files over to private insurers. The commission continues to work on about 80,000 land claims, of which about a third involve difficult technical and legal issues. It will liaise with those affected from January 2013 and start paying cash settlements shortly thereafter, but expects it to take up to two years to complete all claims.

We are very conscious of the frustration people feel while waiting for claims to be settled, but we also appreciate the size and complexity of EQC’s task. We are pleased to see the progress being made and commend the commission on its efforts.

**Managing repairs**

Fletcher Construction is acting as agent for the Earthquake Commission to manage the repair of homes where damage is estimated at under $100,000 per claim. We questioned the commission about its decision to appoint a single agent to this role, rather than allowing competition to keep costs down. The commission told us it is satisfied that Fletcher’s is providing value for money. In its view, having two project management firms would have increased costs, as they would be competing for the same pool of about 70,000 tradespeople—a constraint that will worsen once private insurers’ repair programmes start in early 2013. The commission noted that private insurers have also chosen a single-project-manager model.

The final cost of repairs has averaged about 15 percent more than EQC’s assessments. We were told that extra damage from subsequent earthquakes accounts for all but about a 1 percent difference. EQC added that discussions with trades associations around the country indicate the rates it is paying are reasonable.

**Damage assessments**

The commission aims to repair homes to their pre-earthquake condition, but accepts that some element of improvement is often needed to meet the building code, especially where maintenance had been neglected before the quakes. It uses various techniques to distinguish pre-existing damage. Drawing the line between repairs and improvements gives rise to difficult conversations with homeowners, but the commission must meet stringent audit standards, applied by the Office of the Controller and Auditor-General and international reinsurers, to ensure its funds are spent appropriately. Reviews of its files by reinsurers and a professional claims review team from Lloyd’s indicate that it is getting the balance right.

We asked about instances where EQC’s assessors have changed their minds, deciding that what had initially been categorised as earthquake damage was actually pre-existing. The commission accepts that it has not always got assessments right the first time, particularly soon after the first major quake, when there was less experience available; occasionally, a
joint re-assessment with a private insurer after subsequent quakes has led to a different conclusion. It regrets the stress caused for homeowners but says it works with the best evidence available at the time. Some of us note that processes have been legislated to cover instances where a person has suffered hardship by acting on mistaken information, and suggest the commission consider recourse to them.

We are aware that there have been complaints about some engineering assessments, and heard that the commission carried out some internal peer review of the work. So far eight complaints have gone to the Institute of Professional Engineers for independent review. We are concerned that a householder who disagrees with an assessment must pay to have an independent engineer check the work. The commission told us it with working with the Ministry of Business, Innovation, and Employment to set up an independent intermediary role, which might help resolve such cases.

**Complaints**

The commission told us that all complaints, however minor, are recorded and go through an established process; if people are not satisfied with the result, they can request their files under the Official Information Act 1982 and pursue their complaints with the Ombudsman. Disputes can also be taken to mediation. We heard that EQC has recorded about 2,100 complaints related to the rebuilding work by Fletcher’s. On the whole, we find the number of complaints unsurprising given the scale of the rebuilding work. We note for the record that complaints represent only 1.6 percent of all EQC’s customer contacts, and that it has also received over 3,000 compliments.

The commission acknowledges that it has been slow responding to Official Information Act requests, as it simply does not have the resources, and at times has had to divert staff from processing claims to deal with them. About 443 complaints have so far gone on to the Ombudsman, representing about 5 percent of the Ombudsman’s work.

We suggested that complaints might be avoided if EQC were to share the scope of works with households as a matter of course. The commission said it is working toward doing so, but there are logistical difficulties to overcome as all its processes are manual and it is still working to improve its database.

**Risk of fraud**

With billions of dollars involved in rebuilding Canterbury, it is obvious there will be opportunities for fraud. The commission sees two particular areas of risk: in the claims people make, for example claiming for non-earthquake-related damage, and in the potential for collusion between contractors and those managing them. EQC is addressing the first issue with a claims review team of 12 investigators. Over the past year it has isolated about $4 million worth of potentially fraudulent claims for further investigation—a relatively small proportion—and has passed on 11 claims to the Police for prosecution. Four prosecutions have been successful so far.

With contractors, the commission has set up processes to minimise opportunities for collusion, but it is also mindful that the 1,500 contractors it deals with are handling much greater volumes of work than their offices were set up for, so billing errors are inevitable. The commission assesses the number of actual attempts at fraud to be relatively low. However, it has recently started working with the Serious Fraud Office and other agencies involved in the recovery to minimise fraud by building a broader risk register and sharing information.
For its part, CERA has been working to improve its systems, having started from scratch in March 2011. Major payments such as those for demolitions and land acquisition are reviewed independently, and several experts are involved in planning and procurement for the large anchor projects now getting under way.

**Non-departmental appropriations**

The Minister for Canterbury Earthquake Recovery is responsible for some very substantial earthquake-related expenditure, covering the Crown’s purchases of residential red-zone properties, and its contribution to local authorities’ costs for restoring horizontal infrastructure. These non-departmental expenses totalled over $1 billion in 2011/12.

CERA monitors these expenses on behalf of the Crown, and details are provided in its annual report. The independent auditor has drawn attention to the considerable uncertainty about these expenses, and hence about the Crown’s liability.

We note that the total appropriations were significantly exceeded in 2011/12, including unappropriated expenditure of nearly $180 million. While any unappropriated expenditure is a matter for concern, we appreciate that the Canterbury earthquakes present exceptional circumstances: estimates are particularly difficult to make, and delays to the recovery are to be avoided wherever possible.
Appendix A

Approach to this financial review
We met on 5 December 2012 and 30 January 2013 to consider the financial review of the Canterbury Earthquake Recovery Authority and the Earthquake Commission, and the non-departmental appropriations for Vote Canterbury Earthquake Recovery. We heard evidence from the Canterbury Earthquake Recovery Authority and the Earthquake Commission, and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Canterbury Earthquake Recovery Authority, Response to written questions, received 4 December 2012.
Canterbury Earthquake Recovery Authority, Response to additional written questions, received 18 January 2013.
Earthquake Commission, Response to written questions, received 3 December 2012.
Earthquake Commission, Response to additional written questions, received 11 January 2013.
Office of the Auditor-General, Briefing on the Canterbury Earthquake Recovery Authority, dated 5 December 2012.
Organisation briefing papers, prepared by committee staff, dated 3 December 2012.
Appendix B

Corrected transcript of hearing of evidence 5 December 2012

Members
Paul Goldsmith (Chairperson)
Maggie Barry
David Bennett
Hon Clayton Cosgrove
Hon Lianne Dalziel
John Hayes
Hon David Parker
Eugenie Sage
Hon Dr Nick Smith

Witnesses
Roger Sutton, Chief Executive Officer, CERA
Michael Wintringham, Chair, Earthquake Commission
Ian Simpson, Chief Executive Officer, Earthquake Commission
Warwick Isaacs, Deputy Chief Executive, CERA
Bruce Emson, General Manager Customer Services, Earthquake Commission

Goldsmith Welcome everybody. I’m just checking—we would like this recorded and transcribed. OK. Thank you for coming. I thought it would be worthwhile having you both at the table, but perhaps if we started with EQC, just to give us a quick summary, and then a quick summary from CERA, and then we’ll open it for discussion.

Wintringham Thank you very much. I’ll get straight in because I appreciate the committee will have a lot of questions to ask. Just a reminder, we’ve had 460,000 claims, which mean 700,000 exposures. We have settled or closed 304,000 of those exposures, and “closed” is a pretty conservative definition. For instance, it includes building repairs completed which are still within the warranty period, so my judgment is that we’re probably between 45 and 50 percent closed in terms of our exposures. We have now hit the $4 billion mark in what we’ve paid out. I won’t go into the emergency repairs and winter heat programme—that’s past history now.

Brief summary: contents claims are effectively closed. We’re following up by phone those with outstanding claims lacking information, but those will be shortly shut down.

Building repairs: again, as you know, there are something over 120,000 homes to be repaired in the Canterbury area. Of these, about 100,000 are EQC’s alone, and 20,000 to 25,000 are the private insurers to lead the
settlement. We are settling those with repairs estimated at under $15,000—we’re settling those by cash. We’ve settled 650,000 and we’ve got, we estimate, between 10,000 and 12,000 to go. Of the repairs, between 15,000 to 100,000 estimated, we have, through the Fletcher’s EQR project management office, completed as of this week—I haven’t seen the last numbers—my estimate is 29,000 repaired. We’ve eased the opt-out provision, so if people want to manage their own repairs, we’ve made it easier for them to do so. Three and a half thousand have opted out to date, and opt-outs are continuing at the rate of about 40 per week, and we’ve changed those provisions. I won’t go into that now, but if people wish to ask some questions about that, they obviously will do so.

All of the repairs over $50,000—so the larger repairs for which we are responsible—will be complete by this time next year. And of the repairs we are undertaking we have earmarked at least 100—we’re running ahead of that—per month for the vulnerable, the elderly. And we obviously have to make some judgment calls about that, on the advice of a number of social agencies.

Apportionment: of the repairs which belong to the private insurers—20,000 to 25,000—almost all will have to be apportioned across events. We have apportioned to date 12,645, I think was the last number that I had seen, and with those we have apportioned we have paid what in our judgment is the EQC liability to the homeowner or the mortgage holder and have passed the file over to the private insurer.

A quick word on TC3, which is obviously of concern to, certainly, a number of people at this committee. We have responsibility for about probably approaching half the repairs in TC3. There are around about 27,000 homes that require repair in TC3, of which around about 10,000 will require enhanced foundation—you know, specialised foundation—repairs. The bulk of those, of course, will fall to the private insurers because those will, in the main, will be over-cap. For us we have completed 1,734 repairs in TC3, and we have just over 1,400 repairs in TC3 which are under way, either from scoping to under the hammer. Also, of that 12,640-odd apportionments we have completed and passed over to private insurers, about 4,500 of those are in TC3. So, in our view, there is no obstacle to the private insurers proceeding with those repairs.

Final comment on land, and I’m sure the committee will want to spend some time on land, I take an opportunity to address maybe some misapprehensions. We have around 80,000 land claims that are outstanding. In almost all cases EQC’s land settlements are not a prerequisite for repair or rebuild of houses. Where, in those few instances, a private insurer might say that the land repair needs attention before they can proceed with a rebuild, we have offered a fast-track process for the insurer for us to address that at the same time or prior to their doing the rebuild. There has been a low uptake on that, but that option is still available. And in TC3 the constraints for major repairs, which are obviously repairs requiring foundations, are: one, drilling to provide information to give to the engineers to design the foundation, and then the design of the foundation
to a stage which will enable it to get a consent—the other two. The insurers may want a contribution for whatever EQC’s land settlement is towards the cost of enhanced foundations. In our judgment, our liability is to the homeowner directly, or to the homeowner’s mortgage holder, so that is a discussion which in our view is to be held between the insurer and the homeowner.

And in land damage, of the 80,000 outstanding land claims, about two-thirds of those are straightforward, and that ranges from what you would call, perhaps, weekend work with a barrow, shingle, and rake and spade to somewhat heavier work requiring a digger and a bit of levelling, and the remainder are the more complex and unusual ones often related to crust thinning and future susceptibility to future events. And those raise some very difficult technical and legal issues, which we’ve been working through very carefully, both to ensure (a) we comply with the Act and (b) to minimise the risk of litigation or reversal of our decisions at a later date.

Dalziel How many in that category did you say, sorry?

Wintringham Of that? Well, if there’s about 80,000, you’d say around about two-thirds are the easy ones, and about one-third are the more difficult ones.

And for the settlement of the land claims: the communication programme begins in January and very soon after that the settlements will begin. Our intention is to cash settle, but we will provide support for the elderly and vulnerable who may not know what to do with the cash, and we will be moving from east to west, and that will be a process which will take the best part of 2 years to complete.

Final comment: I’m going to take this opportunity in public to thank Ian and his management team for what they have achieved over the last 2 years. I think they’ve done an extremely good job. We haven’t always got it right first time, but I would like to acknowledge the thanks to our people, a number of whom, particularly in Christchurch, like the customers we are dealing with, are under some stress.

Goldsmith Thank you very much. Right, if we have a quick summary from Roger.

Sutton Sure. Perhaps to lead off where Michael finished, around the land issue. This event has been characterised by very serious land damage. In terms of the land zoning, nearly 8,000 properties we zoned them red, where they get a Government offer. So far nearly 6,400 people or householders have signed an agreement to sell us their property. We’ve taken possession of 5,173 properties, so we eventually settled just over 5,000 properties, which is pretty extraordinary when you consider the scale of what we’ve been facing. So in many ways the land zoning is nearly complete.

We’ve done the Port Hills land zoning, which proved to be extremely difficult and contentious for a lot of people that live in those areas. There’s an appeal process under way. I think something like 140 householders appealed their land zoning, and about half of them wanted to be green who are red, and about half wanted to be the other way as well. So it’s just one of the issues which is really actually hard. For someone with a young family
who’s had rocks near their house, they go “I just want to go. I don’t believe you. I should be green.” An older couple I was talking to the other day at the supermarket who’ve had rocks bounce over their house, and they’re red and they want to be green. So people just have quite difference sorts of appetites for risk there. But I think the Port Hills decisions have been extremely challenging and very difficult to make—the number of variables there, the level of uncertainty, and the different perspectives from people as well.

Moving through on to insurance. I think insurance—sometimes, when I’m talking at a public meeting, I talk about how there are battles and there are wars, and I think the battles people face with getting things done, whether it be with their own insurer or with EQC, are important, and we want to work through those. But the real important war is making sure we actually make sure we keep cover for New Zealand in the long term, and they understand the risks they face when they insure earthquakes in New Zealand, and that they continue to offer us cover, because that underpins so many aspects of the economy we live in.

So we’ve been very pleased with that, and, you know, Ian with his discussions with the reinsurers, he’s got a nod now. He been able to get reinsurance, and I think all of the reinsurers also now wish to fill their reinsurance programmes as well. So I think that’s almost been one of the silent successes that’s actually been extremely important. You look at many major natural disasters around the world, you see massive changes in insurance cover for people. And while people are seeing higher premiums than they’ve seen before, the fact that we’ve kept cover, I think, has been great.

We are stuck without reinsurance, because, from the reinsurance, everything else really follows. Without the reinsurance, if you like, the insurance companies can’t really act. So we are now seeing many bold statements about offering new policies to people across the city. Less new policies are being offered in TC3 land, but I am very confident that will come, and that’s a real focus with us—working with all the professionals so they can understand what TC3 really means and what the risks are.

In terms of cover coming back, I was talking to one of those sort of property developer types who, he’s not a builder of $50 million buildings, he’s the sort of guy who builds $4 million buildings, and he’s just completed a building on Moorhouse Ave, which, in fact, IRD and I think the Department of Conservation are going to be tenants in for a period of time, and he was very concerned whether he’s going to get any insurance cover. He’s got insurance cover. He originally had his contract works insurance out of London with Lloyds, and this is cover out of NZI, and he thinks he’s paying a premium very similar to what he was paying before, which he’s very surprised by. And he also says that “It’s given me such a boost, I’m going to go up and buy some more land and do some more buildings now.” So, you know, I think the whole momentum of some of these things is really starting to build up, which is great. I’m not saying that there aren’t people who have got terrible, terrible struggles, but unless we actually see
some of these guys, the guys who’ve got money to spend, spending money, it’s hard to see the recovery getting up to the speed we want it to get to.

In terms of the mums and dads and their insurance, I mean, we’re seeing—the easiest stat to give you is Southern Response. They’d have about a third of the market. They have a publicly declared intention to get through 1,000 rebuilds or major repairs next year, and they’ve done 99 percent of their assessments. So things are starting to move there.

I’ve just been at a meeting the other evening with a group of elderly people in Parklands. They spoke about their seeing much, much more action happening there, and there is a sense that things are starting to move for those sorts of people.

In terms of, if you like, the overall strategy, we put out a recovery strategy that was launched and gazetted in May. The central city recovery plan—that’s also, obviously, came into effect on 31 July and that was, we think, very true to the 106,000 ideas that came from the city council’s Share an Idea process. The next part of that, and Warwick can talk more about this, is the transport plan, which is currently out for submission as well. So maybe I’m starting to just take up some of your stuff, Warwick. Do you want to speak just a bit about the CBD issues?

Isaacs Thank you. Good morning. In the central city, as Roger has just said, the recovery plan was launched at the end of July to overwhelming support from the residents of Christchurch and also the wider public of New Zealand. In there we identified a number of anchor projects, the first of which were the Avon River precinct, metro sports facility, the convention centre. And so far we’ve established project teams with the city council, working very closely with the city on those things. So, on those key first projects, we’ve had expressions of interest in the marketplace, which have closed now, for the convention centre. We’re about to appoint design, quantity surveying, and project management firms for the Avon River precinct and the top of the eastern frame, where there’ll be a very large children’s playground and family playground there. So the central city is going very well.

I might move to infrastructure. So far there’s been $380 million spent on repairs and rebuilds to date. There are currently 90 projects, with a value of $228 million, currently under construction. There’s a further 178 projects in design, with a value of approximately $1.1 billion. So infrastructure repair and rebuild is certainly moving at pace.

Roger touched upon the central city transportation plan. That’s out for consultation at the moment. That was a joint effort between CERA, NZTA, the city council, and ECAN, and that team worked very, very well to deliver a very good draft. So far we’ve had in excess of 20,000 engagements with that through social media, and our own website’s had in excess of 1,600 individual unique views on that. So we’re very happy with that, and consultation on that closes 1 February next year.
The land acquisition in the central city—that’s going well. We’ve now got contracts on three pieces of land, which doesn’t seem a great number, but we’ve also got 15 in advanced stage of negotiation and 116 other properties which I’d expect to have negotiations completed in the new year. That’s out of 761 properties that we wish to acquire in total.

You may want to talk a little about demolitions—just to let you know that in the central city we expect the main programme of demolition to be completed by the middle of next year. Obviously, with some of the properties we’re buying for some lengthy projects, we do need to demolish some of the remaining buildings on those sites. They’ll take a little longer.

In the Port Hills, as you might imagine, some of the issues up there are quite complex around the removal of residential properties, given there’s weight restrictions on a number of roads and it’s hard to get heavy equipment up there, so we’re working very closely with the insurance companies and their project management offices on how best to deal with those properties. So that’s just a quick update.

Sutton So just as to my organisation for the next year, the focus is very much on making sure we get the residential rebuild happening more quickly, working with players there, working with communities to make that happen. The anchor projects, working with the city council to get those under way, bringing more pro-investment into the city, but it’s also very much about people. At the end of the day, we need to continue work with community organisations, continue to communicate with them. I don’t know how many hundreds of public meetings we’ve had in the last year, but make sure we’re out there working with these communities to make sure we can really get this rebuild happening.

Goldsmith Very good. Thank you very much for that. There’s a huge amount to cover there, so we’ve got some questions.

Cosgrove To EQC, in respect of the monopoly provider, Fletcher’s, a simple question: 2-odd years down the track are you still convinced you are getting value for money, and if the answer is yes, how have you convinced yourself of that, given the total monopoly position for EQC work for Fletcher’s?

Wintringham The answer is yes, and I’ll ask Ian or Bruce to elaborate. But the test is the cost, quality, and timeliness and safety of the Fletcher-managed repairs compared to our own assessments of the cost and the nature of the repairs to be done. So this is not handing over to Fletcher’s saying “Here’s a job to be done, you do it.” We do the assessment, and then we ask Fletcher’s to do that on our behalf, and a lot of the management of that contract is concerned with matters of timeliness, with the quality of the work that is being done, but also the relationship between the cost of Fletcher’s, including their overhead—there’s the actual cost of construction and the cost of their project management—compared with our own estimates, and on the basis of that assessment I have no reason to doubt that we are getting satisfactory value for money.
Cosgrove Could I ask you—slightly hypothetical—but if you had two providers, for instance, in a normal competitive market, you don’t, in any way, shape, or form, feel that that competitive market tension may deliver, in its rawest form, better price? And, encompassed with that, have you done any external benchmarking, over and above your own internal assessment process, or any reviews at all of the monopoly, to provide a regime to test your thinking?

Wintringham I’m going to ask Ian to pick up, but just as an introductory comment, the answer is yes, we have considered two. At the stage when we did, our view was that the transaction and administrative costs of running two PMOs, as well as the fact that both would be seeking labour from the same labour pool, meant that the advantages would probably be marginal, and, given we had an awful lot of other things to do at the same time—but do you want to elaborate on that, Ian?

Simpson If I can. Just to start off with, I’m reacting slightly to the phrase “monopoly”. Fletcher’s are a monopoly PMO if you’d like to call it that, because we’re the only game in town at the moment. There are lots of PMOs working across country for the private insurers; they just haven’t geared up yet. So Fletcher’s were selected by us through a procurement process where other firms had the right to take part in that process.

Clayton But, with respect, you only had one provider of sorts.

Simpson That’s right, but the constraint isn’t the PMO resource; the constraint is the actual labour resource that’s fixing the houses, and that goes out to well over—is it 3,000 contractors we’ve got…

Witness We’ve got 1,500 contractors and about 70,000 tradespeople.

Simpson So 70,000 tradespeople living and working in Canterbury providing the resource. Having two PMOs would fight over that same resource, and in our view would increase the cost rather than decrease. We know we’re getting value for money. We regularly, on a monthly basis, test our assessed cost to the actual repair cost. Last time we did it we’d fixed about 26,000 homes. There was an increase between our assessment and the final repair cost of about 15 percent.

Cosgrove Was that an internal assessment?

Simpson They were our claims assessment, when we first assessed the damage, right through to the final bill for fixing the damage.

Cosgrove That’s all internal. My question was do you benchmark that externally?

Simpson When you say it’s internal, it’s the EQC assessed cost versus the repair that was put in place during the Fletcher’s process. So we set rates on those repair costs—we’re delivering against set rates. For that 15 percent, if you take out damage from subsequent earthquakes, that explains most of the 15 percent. There’s only a 1 percent difference between EQC’s assessed cost of value and the actual final repair cost that’s delivered by the contractor. So we’re gaining the performance we need in terms of pace, and we feel we’re getting value for money in terms of final repair.
Cosgrove: My other part of the question is are you looking at any, or have you done any, analysis or review, over and above the sort of mark-to-market issues, but global analysis or review of that monopoly position?

Simpson: No, we’ve worked with the trades associations across the country in helping us set those rates. As you are aware, there’s been some media interest in whether those rates are too low. So in terms of what we’re paying, we’re comfortable, having spoken to the national organisations, that we are at a reasonable rate for the work that’s done.

Smith: Are you aware, given that your duty is to try and as efficiently as possible get these houses repaired quickly and at fair cost to, ultimately, a public entity, that the private insurers operating in Christchurch have also all chosen a single PMO model, and doesn’t that suggest to you that they have come to the same conclusion as EQC that that’s the best model to meet the objective of quick fix at least possible cost?

Simpson: That’s our view. That’s the way it works. Because when the private insurance sector does kick off it will be early 2013—that’s what they’re saying—that’s our next big risk, that we will be competing for that same pool of resource. So it’s bad enough that it’s between organisations. If you had it within the organisation, that would just double the problem.

Cosgrove: For CERA: in terms of red zoned land, I know that at least one local authority—and this is red zoned land—where the deal’s been done and people have moved away and are waiting with bated breath for a decision on what will happen to that red zoned land, and in at least one case are being hampered in terms of their horizontal infrastructure repairs because they may have to have a road, Roger, as you know, through a red zone to get to a green zone or whatever. When are they likely to get a determination on that? Because presumably nothing stands in the way of making a decision—you own it, it’s been abandoned, you know what’s coming next.

Sutton: Yeah, but if local authorities want to talk to us now about infrastructure they want to keep going with the red zone, we’re happy to have those conversations. In terms of the long-term use of that land, we have done very little work on that so far. I mean, it’s still just early days, we’ve still got people living in there, and I think, to some extent, for us to say to have to declare what’s going to happen to that land—yes, it’s going to take a lot of thought before we make those decisions, Clayton.

Cosgrove: Do you have—and I’m not talking about where people are living. I’m talking about where you own it; they’ve gone. In some of those areas the environment’s deteriorated, as you are aware. Some of the houses have been subject to arson. It’s not a particularly pleasant place to live if you’re on the cusp of it. In terms of clean-up, house removal, even as basic as keeping the grass down, what’s the regime? Because in some of those areas where I’ve driven through it looks like, sort of, OK Corral stuff.

Sutton: We employ—I don’t have the number on top of my head—in the order of 30 or 40 people, something like that, on that sort of tidy-up work within the red zone. We’ve got community liaison people who work with those
communities trying to make sure they can respond to issues as they are raised by people.

Cosgrove Can I just ask you, in terms of community engagement, would you accept that both yourself and the Minister, if you like, are the public face of the organisation, and probably have the highest-profile role in terms of the public face of CERA?

Sutton I accept that I have a very public face in Christchurch, yes.

Cosgrove And have you been hampered at any point with your engagement with stakeholders? Can you identify any areas that you’ve been hampered in, in engagement with stakeholders?

Sutton I work—I mean, the key stakeholders, we actually work very happily together.

Cosgrove Happily together?

Sutton Tonight there’s a monthly dinner of all the chief executives of the local authorities that I attend. I meet weekly with EQC to talk about issues.

Cosgrove Community?

Sutton Community—I’ve done a lot of community meetings. I’m not sure there’s actually any public servant in the country that’s attended more community meetings in the last 10 years than I’ve attended in the last year, Clayton. I think we are pretty available in that way. I haven’t heard of any criticism around that.

Cosgrove Sure, I appreciate it. Could I ask you if the following public comments have hampered your efforts—and I’m not questioning your efforts to engage with the community: one, on 2 February where the Minister called the Mayor of Christchurch “a clown”; on 12 September of this year, where the Minister described that he is “sick and tired” of TC3 residents “carping and moaning”; and, finally, on the 3rd of this month, where he described the Christchurch Press, after an article with respect of scrutiny as being “the enemy of the recovery”. Now, given that TC3 residents, the media, the mayor, the council are key stakeholders, particularly the TC3 earthquake victims, that you and your organisation have to interact with, do you in any way feel that those sorts of responses—one, do you agree with them, and secondly, have they made life difficult to engage positively with stakeholders?

Sutton No.

Cosgrove No?

Sutton No, they haven’t made my life more difficult. I mean, I remember some of the days when there’d been some quite political comments made by people I work for, but people I don’t work for—I’ve attended public meetings at night, going “Gee, I wonder what’s going to happen tonight.”, and actually the public meetings run as per normal. So I think people understand that politicians of every colour are going to make statements from time to time about their political foes and I don’t let that get in the way. My relationship,
professionally, is largely, if you like, with the officials from other organisations, and I don’t see those sorts of things as getting in the way of those relationships.

Cosgrove So does your department stand by the comments of your Minister?

Sutton I don’t think that’s actually for me, actually, Clayton. I think you know that’s not for me.

Bennett Thank you to Michael and Roger. Your contribution to Christchurch, I think, and New Zealand has been invaluable. So thank you very much for your work. The numbers that you talk about are staggering for other parts of the country. We don’t realise the work that you’re actually doing, to that extent, so well done and thank you.

I guess when you see those kinds of numbers a light bulb or two could go off that you think that there are opportunities for people to perhaps game the system or take advantage of it. I’m just wondering what processes you’ve set up, or are intending to set up, that would enable you to keep a finger on what’s happening on the ground, so that there isn’t that advantage taken over the rebuild, and that it is commercially fair but at the same time done in a manner which, you know, you don’t have a situation where, 10 years down the track, where people say “Well, this could’ve happened or did happen.” So are you open to those kinds of needs and what’s your plan around that?

Wintringham One, I don’t think we should kid ourselves. Our liability for Canterbury recovery is at the moment estimated somewhere between $12 billion and $12.5 billion, and, when those sums of money are involved, international experience says that there are opportunities for fraud and some people try and take advantage of those opportunities. So let’s acknowledge that from the start.

For us, what we’re doing, fraud—two areas of risk. One is in the nature of the claims that people make, maybe claiming for damage which is not earthquake damage or claiming for contents more than once, for example, and, second, international experience shows that in the area where, as between the manager of a contract and the contractor, you’ve got to be really careful about collusion there.

So what are we doing? On the first we’ve got a—you chip in, by the way, if I get it wrong. As far as the—we have a claims review team of currently, I think, seven investigators, run by a rather scary ex-policeman, former armed offenders squad and with a PhD, I think, in criminology as well, and with a gleam in her eye. And we have, over the course of the last year, with that team, we’ve introduced a number of metrics to determine and to throw up where unusual claims, or unusual patterns, and, if you’ll forgive me, I don’t want to talk about what those might be in public. And as a result of that—and the numbers are pretty small—but we’ve got, I think, of the order of $4 million that we’ve held up, and I’m not saying all of that is fraudulent, but a proportion is likely to be. My last numbers, I think, were 11, I think, we’ve handed over to the police for prosecution. I think we’ve had four successful
prosecutions. I’m anticipating that that may well continue and I think publicity around that’s quite salutary, and I have some very strong personal views about people who take criminal advantage of the distress of other people in these circumstances.

Now, as far as contractors are concerned, do you want to make a comment about that, Ian?

Simpson First of all—there are 12 investigators in the team, just to be really clear about that. In terms of contractors, it’s actually a really difficult line to draw. So a lot of the 1,500 contractors we are dealing with were managing two or three jobs a week and are now handling a far higher volume, and their back offices aren’t necessarily up to the job to give us the accurate information we need. So we have had a number of cases where we’ve been billed for work that clearly wasn’t done, and we’ve got to make the judgment. So we’ve been billed for demolishing two chimneys when the house obviously only has one chimney. And we’ve got to try and make a decision about whether that’s a book-keeping invoicing area or whether it’s actually an attempt at fraud. So we draw, and have drawn, I have to say, a relatively generous line around that. We haven’t paid the bill but we’ve gone back and said “Look, I think you’ve made a mistake.” That’s why some of the numbers are relatively low so far there.

Also, in terms of the inherent process, we feel it does need collusion to get significant fraud through the system, so we have a number of different people touching the claims, so our assessor up front, then the contractor has to come in and give a quote. If that quote’s different to our assessment, then a third person, a quantity surveyor, will describe the difference to us. So, inherently, those people have to start colluding together before we start getting significant fraud.

And the only other point I’ve made is that we have been approached, as with all the other major players in Canterbury, by the Serious Fraud Office, to start collaborating information to try and build a broader risk register, so we can pick up triggers from a number of different parts of the recovery process.

Wintringham We’ve signed up effectively to a “whole-of-Government approach” to this, which is probably is a lead-in for you, Roger.

Sutton Yes, so we’re working with the SFO around this. I mean, the amount of money to be spent, the $30 billion or $40 billion, that’s pretty much the same as Christchurch’s annual GDP. So within Christchurch’s GDP you find people making dishonest practices, in any case, so making sure we minimise and we eliminate, to the greatest extent possible, is right up there. In fact, in terms of Ian’s example of tradesmen, at my own house, the person who replaced broken windows in my house invoiced me for 46 square metres of glass, not 4.6 square metres of glass. Then I never paid the bill, and it took him a year to come back and say “Look, I’m now taking you off to the cleaners.” because I’d never paid my bill, and I think that was just pure incompetence because he’s just got so much stuff going on.
Within my own organisation we had to start up from ground zero. We started off with Ministry of Social Development control systems, accounting systems and so on to try and manage stuff, and they’ve been good, but, of course, the Ministry of Social Development don’t tend to demolish 17-storey buildings and do those sorts of things. So you know I always say, in some ways, in terms of organisations, there’s good systems and bad people, and then there’s bad systems and good people, and I think I started off with bad systems but good people, and I think now I’m getting average quality and good-quality systems but with good people. So, again, I continue to work hard at making sure everything we do does actually keep a good trace of what transactions are going on and making sure probity is always maintained. But my colleague Warwick, do you want to raise anything?

Issacs Well, I think for us, Roger, you talked about demolition. From day one, we appointed individual expert advisers, independent of CERA. Every single invoice that we get for demolition is checked by an independent quantity surveyor and they have discussions with the contractors, and we either get a recommendation to pay or not. Around the land acquisition side of the central city and other areas, as you can imagine, people could, perhaps, attempt some dishonesty. We have four firms independent of CERA and independent of each other which peer review the numbers that they are involved with there. Around the anchor projects, which are $100 million projects and in excess of that, we have a number of different, again, external experts on probity and procurement processes to ensure that we try and minimise our involvement in any of that sort of thing as much as possible.

Goldsmith I’ve just got a question along those lines. Other than fraud, I mean, there’s a line where you’re constantly drawing as to work being done on houses where you’re improving the actual quality of the house. I mean, you’ve got crummy old house and you’ve got a couple of cracks in the wall because of the earthquake and then you get the whole thing redone as beautiful as new. So how do you manage that in terms of being reasonable but not overly generous and blowing the budget?

Wintringham Yes, that’s a conundrum that we face regularly, and I’ve just been recently down and seeing one house that falls squarely into that category, where, in effect, our repairs will be making up for 40 years of no maintenance, in a way. Do you want to make a comment, Bruce?

Emerson I think that’s right. It is difficult, so our ethos is we’ll put back what was there before, and it has to meet the building code, so there is some element of improvement. That’s accepted, I think, broadly, but actually we just try and give people exactly everything they’re entitled to but nothing more than that. The issue we do face is pre-existing damage, and, particularly, you know, who around the table has looked at their concrete slab foundation since they moved into the house? Because there are shrinkage cracks, there’s all sorts of stuff down there. And in having that conversation about whether, or even having clear evidence about whether, it was there before or after, again, we have some techniques that we use around mould and dirt
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and paint trails and other pieces that were in the crack, but that’s a difficult conversation. So that’s where a lot of the issues come from.

One thing, if it gives you some comfort, is that we are audited to death, not just by the OAG, which is very welcome, but also by our international reinsurers. So a professional claims review team from Lloyds have been through. We’ve had two of the world’s largest reinsurers come through and review the files as well, and so far we’ve had a clean bill of health on that front. So we try to feel that we’re playing it right down the middle in terms of that.

Dalziel This seems to be a major area of dispute between EQC and individual claimants, and certainly in terms of the issues that are coming through my office, the EQC land claims, over-cap decisions, waiting for the joint review and apportionment, they are the top four issues for EQC. But the other one is the reclassification of something that’s already been put in a scope of works by EQC and signed off as earthquake damage now being re-evaluated as historic damage. I wonder whether that has been a decision that EQC has made to go back and re-review those or whether it’s been picked up in either the joint review process or an apportionment process, and I just actually ask the question whether it is appropriate under the circumstances to change your mind about something after you’ve already signed up to the decision?

Simpson I think the issue is that our assessments post-February and even more post-June were better than the assessments post-September in terms of we have people with more experience and more track record of actually doing the work. So I don’t know the exact number but there are some cases where we’ve had to go back and say “Well, actually, I’m sorry but we got it wrong the first time around”. And you’re right. Sometimes the joint review with the insurer does lead to some different information coming through. It’s in no way a policy. It’s not as if we’ve gone out to try and find these cases. They come up in the course of having to do another assessment post another earthquake.

Dalziel Isn’t this causing major stress to people who thought they had an agreement about what was going to happen, and now these people spend all of their time fighting EQC over the reassessment of the claim and not only the apportionment issue between the insurer and that, because at the end of the day that doesn’t matter to them if the work gets done, but it does matter if all of a sudden work that’s been agreed with, earthquake damage is suddenly historic damage, it’s causing huge stress.

Simpson I think the important thing is that we get the home repaired to the relevant current standards as quickly as we possibly can. So that’s why we’re pushing hard on the apportionment programme to have that finished by May next year—even if there are 20,000 claims we have to apportion, and we’re working hard with the insurers to find more efficient ways of doing that joint review process. So I do recognise it has been stressful for a number of people, but as I said before we also just need to make sure we play it
absolutely straight. So we have to act on the best evidence we’ve got at the time.

Wintringham Would you mind just giving me, I mean not now, but just two or three examples of that? Because obviously I’m not right close to the claims administration.

Dalziel Is this the issue that’s tied up with the complaint—this is Ruth Dyson’s issue—that she’s made about one of the assessors that you’ve been using?

Wintringham The engineer?

Dalziel The engineer.

Wintringham Graeme Robinson, is it?

Dalziel Graeme Robinson, yes. That’s what it comes from, isn’t it?

Simpson That’s one part of it. So, in general, we’ve completed a number of assessments through the programme, and those assessments, as I said, have improved in terms of quality of the assessment through time.

In terms of the engineering work that we do, that tends to be, as you can imagine, if we need engineering resources, those are the more difficult cases.

Dalziel Because I understand that that’s going to a review panel. That’s not the mediation is it? That’s separate.

Simpson Again, a general comment. When there is a dispute from the customer or from the insurer, we do have a number of complaint processes, then the mediation process. So all our complaints will go through that process. A number of complaints—eight—have gone to the Institute of Professional Engineers in New Zealand about some work that has been on the engineering front, and we’re working with them through that complaint process. They’ve agreed with us that the most efficient way to work with them through that process is for us to have an independent engineer just review those examples that were brought to their attention.

Dalziel And Ruth just wanted to know if the review panel that you set up to investigate, to investigate complaints about him, had as a member of the panel an assessor who worked alongside him on the assessments that are now being reviewed?

Simpson So I did have a conversation with her around this. I wouldn’t call it a review panel. I think in an early communication we’ve misnamed that. We had some peer review internally about the work that was being done and so I wouldn’t call that an independent review. It’s not an elaborate review we’re doing now.

Wintringham What was the outcome of that?

Simpson In terms of?

Wintringham In terms of the decisions that the engineer made. Sorry, it’s not my job to cross-examine you in front of the committee. But the question was hanging.

Dalziel I’m sure Ruth would be very grateful.
Simpson: I don’t have a specific on that case. But when new information is brought forward, again we’ll always act on the best information we’ve got. So we’ll take the engineer’s report, any of the reports that become available, and when that new information comes up we have a change of opinion in some cases, and in many cases we are supporting and actually backing up the work that was done originally. These are, as you know, some very difficult cases where it does make a big difference to the outcome of the house, and in many cases there is already a dispute in place before the more senior members of the organisation go in to look at the example.

Dalziel: For somebody with historic damage, for example—so the argument is now that you’ve agreed that it is earthquake damage. You’ve subsequently said “No, it’s actually historic damage, so we’re not going to pay for that to be fixed.” Where does the claimant go in that situation to get it independently assessed?

Simpson: If they think the assessment is wrong, they can pay to have an engineer.

Dalziel: But why do they have to pay for that? Where is the process that just lets somebody independent look at the two sides and sort it out?

Simpson: On that, we are working. In terms of repair strategy, we’re going to be working with the Ministry of Business, Innovation and Employment on an independent sort of role to sort of sit down between us and the insurer if there is a dispute in that case.

Dalziel: Yes, but some people are in dispute now.

Emson: The joint review process includes engineers from both the insurer and the EQC. So often there is a separate engineer or a second engineer involved. A good number of those cases end up in that situation where it has changed in terms of the view by either the insurer or EQC. I have a number of examples where we’ve gone back and reviewed cases undertaken, and indeed in one case just north of the city, six homes, and each of them had come back with some minor amendments to the qualification, but we fully supported using an independent engineering service in reviewing those houses. The others your talking about is by self-selection—working with the most distraught and most difficult cases; the ones where we are in dispute, so, inevitably, they become difficult conversations.

Simpson: It might pay to come to the table if you’re going to talk, so we can get it on the microphone.

Dalziel: The ones that I’m talking about in this instance, which is not the Graeme Robinson one, they don’t involve the insurer. They’re all EQC. They’re well under the cap.

Emson: In that case, yes, the option is an independent engineer, but in most cases before we get there we will offer a second assessment, so give the opportunity for the customer to see it happen again, using a different assessor team to run across that work. So we’re providing every opportunity we can. Look, as Ian said before, the difficulty is—and in my own home, the situation is I didn’t know what the damage was before it was affected by the earthquake, and lots of it is around foundations and lots of the homes...
are on piles, and when you pull the floorboards up, which none of us do, you’ll find pile damage of piles that were put down 30-40 years ago have deteriorated. Now all of a sudden we find our floors squeak and bend and buckle a bit. We all assert that’s from earthquake damage, but when you pull the structural piece apart, clearly it is not, and we are trying to be as balanced and as fair in this process as we can.

Dalziel I think for the people I’m talking about they already had it signed off by EQC that the damage was earthquake damage. Subsequently, EQC have backed away from that. People are in the middle of getting their repairs done, and all of a sudden the rules change and they’re very, very distressed about it.

Emson And that is extremely stressful, and, unfortunately, a lot of the earlier assessments were done without, perhaps, the attention that we’re now able to provide with more experience, and those are the circumstances we need to work through, one by one.

Dalziel Well, under the Judicature Amendment Act, a normal process if somebody is paid something by mistake or a commitment is made by mistake and a person’s acted on reliance on it, then usually if it would cause hardship to the person there is a way around that, and I just ask EQC to look at that.

Cosgrove I may have asked you this last time, but in terms of repairs, why is it that EQC doesn’t look at when they do an assessment bracing, because I’ve had it put to me from one of your ex-staff who’s an engineer that—and I’m not an engineer, so forgive the analogy, but he put it to me it’s a bit like an old-fashioned beer crate. You get on top of it, you jig around a bit, the thing stays up, but all the nails are loose. The advice I have, and having seen it first-hand, is that you don’t, even where there is a bracing plan, but where there’s not a bracing plan there’s no invasive test, in the same way as you don’t take carpet up to look at whether the foundations are cracked, which is slightly odd, unless the person pays for it.

And what’s been put to me is you may find a situation a little bit like leaky buildings, if you like, where an assessment has been done, the place has been fixed up superficially, but the beer crate or the frame is loose but standing, and if another event happened, by then it’s so weakened that it may be, I wouldn’t say catastrophic, but it may engender extremely expensive repairs next time around. So, given that, why don’t you do a bracing check when you’re assessing houses?

Wintringham This has exhausted my area of expertise.

Cosgrove Mine too.

Simpson I’ll start, and maybe hand to Bruce in a second. As I think we said, you did ask this question last time, and as we said last time if you think about the time it would add to start ripping panels off walls of every house we had to assess, we’re adding years and hundreds of millions, if not billions, of dollars to the overall cost of the programme, and the second piece is we’ve done some work with BRANZ around that very issue, so Bruce if you could maybe talk about that.
Cosgrove Could I just make a comment on that. I accept your point, but, equally, you could make an argument that if you don’t check, the greater cost may well be down the track rather than—and, again, it’s a bit like the refusal to lift people’s carpet up from their foundations and see if there’s a crack. One assessor said to me “Well, there’s a piece of highly technical equipment that EQC doesn’t use that you can check it with and that’s called a wee steel ruler, where you run it down where a perceived crack is, between the skirting board and the carpet to see.” It’s a highly technical piece of equipment, but EQC doesn’t do that.

Emson The challenge we’ve faced before, in terms of should we be pulling wall linings off and checking bracing—we’re guided by our process that involves the loss adjusters, firstly from an insurance perspective and then the quantity surveyors—

Cosgrove This is all pre-insurance. This is just EQC—nothing to do with insurance at this point.

Emson I understand that, but we’ve got loss adjusters in our business that do the assessment for the damage. Before we start the repairs, quantity surveyors and experts in the building industry work for the Fletcher’s organisation and with the contractor. So both the contractor and the QS is looking at the job before we sign it off and approve it. They are guided by both BRANZ and industry norms. So we are aware of the challenge but are working within the constraints or the guidelines of industry standards as we operate today. And I believe Fletcher’s and the major construction companies were part of that design standard, through BRANZ, and that’s what we’re being led by.

Cosgrove With respect, this is pre-Fletcher’s being involved. This is the guys coming around for the first assessment for an event, where they go through your house and look at everything, and then they write a report and give it you and the system flows. But what’s missing from that, at any check of under-floor foundation, if you’ve got a solid and any bracing check. So the thing I’m worried about is if there’s a future event and some poor Joe is sitting there and there’s a future event and they’re impacted on greatly, and then we get into a situation possibly of trying to prove what was what—again, a bit like my colleague’s comment about historical damage.

Emson I obviously didn’t answer clearly. The assessment done by our people at the initial level is the first assessment. Before work starts we go through a process of re-assessing, then a quantity surveyor and a contractor are involved in assessing the home for the damage.

Cosgrove Even if it’s under cap, because then you give them a cheque?

Emson Yes, for every job.

Cosgrove But hang on, if it’s under cap and you give the person a cheque and they— sorry, not under cap, under the EQR ceiling and they go away and get their repairs done, there’s no second assessment at all is there?

Simpson But if you’re talking about enough damage to cause bracing issues, the visible damage will not be under $15,000. You’re going to have major work. Even if we class it as cosmetic, we’d typically be looking at $30,000 for
cosmetic work. The average job is $35,000, so I can’t see a situation where you’re going to have significant bracing issues and yet we’re not already going in through the Fletcher’s programme to have it resolved.

Emson If it be homes under $15,000 with structural damage that we’ve acknowledged will not be cashed out, only those with the cosmetic damage get a cheque. Everything else is under the repair programme.

Barry My first question is about EQC. I think you’ve done an outstanding job and are to be congratulated, you and your team. So well done. As far as EQC is concerned, though, I want to talk to you about the managing of complaints. I understand from briefings from you that you’ve had something like 443 official complaints that have gone through to the Ombudsman. Can you outline the nature of the complaints and how you are processing and dealing with those, please.

Wintringham Right. There’s two things. One is complaints, and the other is Ombudsman inquiries, and they are often related because a person who is not satisfied with the resolution of a complaint may ask for their file under the Ombudsman, so we perhaps chip in with the detail.

In terms of complaints, I think we divide. There are complaints which are related to some aspect of the repair of people’s houses under the EQR process, and there are some complaints related to and, you know, Ms Dalziel has pointed out examples of people, for instance, who disagree with their assessment or with either the assessment itself or something to do with the nature and process of that assessment.

Let me pick up the Fletcher’s complaints first. My recollection, correct me if I’m wrong, is that of the complaints related to Fletcher’s, I think there are something like 2,100 that have been recorded—2,100 that have been recorded—and that’s across all customer engagement, and that includes, you know, emergency repairs, heating installations, as well as the repair and rebuild—

Barry And can I just put that in a context, and that is you’ve had 100,000 settlements through or repairs through Fletcher’s?

Wintringham Well, yeah, but 29,000 rebuilds. What’s the numbers of the—you’re helping me out here.

Simpson It’s 1.6 percent of all the customer contact that we’ve—

Barry Sure. It’s a small proportion—sure.

Wintringham 1.6 percent. I’m not being smart about it, but we’ve actually had over 3,000 compliments as well, but that’s never picked up. Let’s put that to one side.

Emson Noted for the record.

Wintringham Yes, noted for the record.

Barry Let the record reflect.

Wintringham Of the complaints about the construction process, there are some complaints which we will not be able to deal with, and those complaints
may be—and I do not want to trivialise them, because they’re obviously of concern to people—but the complaint from the neighbour who complained to us about the colour of the house, the colour that we were painting the house next door under the repair, which was chosen by the homeowner. And obviously that is of concern to the neighbour, but it’s outside our, you know, outside our control. Or the person who was concerned that the tradesman was using Dulux rather than Resene paint. There are those. But, you know, some of those we will not be able to deal with.

They wouldn’t go through the Ombudsman, probably, those sorts of complaints.

Probably not. And then the other complaints about the quality of the construction—my understanding, and I’ll ask Ian or Bruce to confirm if I get it wrong, is that the bulk of those are to do with, well, there are some to do with behaviours of the tradespeople who are in there, and there are personality clashes, but the bulk of the complaints about the work itself are to do with the finishing, often painting, and that’s not unusual, because has anybody here had a repair or renovation done that they’re entirely satisfied with?

Normal practice.

But, nevertheless, it’s important, so we have established—what is it—a painting guru? Yes, to go and do the inspections and provide the separate opinion on that. As far as more general complaints about assessment goes, have you got the numbers of that? We could talk about OIAs if you want.

General assessment complaints? Numbers?

I don’t have that in front of me.

No. We may have to give you those, because they are related to OIAs. We have an issue with Official Information Act requests. I mean, no ifs or buts, we do not have the infrastructure of a Government department to deal with them, and people who are understandably frustrated and distressed will seek under the Official Information Act information about their claim. We will respond to that as we can, as a result of which we have at times had to take people off claims processing to deal with those, but now we are building the team to deal with it. You’ve got some numbers there about the number of complaints gone to the Ombudsman. My understanding is that our business is still, yes, it’s less than 5 percent of the Ombudsman’s business. So while it’s a matter of concern to us, we need to get on to that so that it doesn’t become a large part of the Ombudsman’s business. Do you want to add anything?

Could I just ask a quick supplementary on that because it is relevant. Have you thought about automatically sending out the scope of works to people? Because I actually think a significant number of your complaints would evaporate if you just did that automatically.

Yep. Yes. Yeah, we have thought about that.
Dalziel Have you thought about it? Why don’t you do it?
Wintringham Yeah.
Dalziel I mean, electronically it would cost you nothing.
Emson One of the problems, Lianne—sorry, Ms Dalziel, as you’ll appreciate, we have difficulty identifying the customer. So every customer—in my own case, I have nine or 10 claims, multiple events, three categories by complaint, and we have had awful difficulty identifying the customer and building a common database that says, actually, the address that’s 123 Smith Street is this person. We’ve got lots of issues that we’re facing there. We’ve gone through a process of rationalising that, which will allow us now to send out uncosted scopes of works—
Dalziel Yep.
Emson —to customers as they complain.
Dalziel Automatically, or do they have to ask for them? Because what I’m saying is that if you leave it so that they have to ask, you will end up with complaints.
Emson So my reaction is that there’s nothing automatic in our system. It’s all manual, but as a matter of course, that’s what we’re trying to get to.

If I can just come back to, if I can, on the complaints. One of the processes, particularly the EQR exercises, we take every complaint, whether it’s whether or not the builder’s wearing a T-shirt versus a vest, down to, yes, there’s serious issues with the work. One of the things we do offer that perhaps causes some of the confusion is a complaint is lodged, and the customer has that opportunity right up to the point where the tradesperson leaves the home, and then there’s a 90-day period. And during that 90-day period we go back to the customer again, before we make the final payment to the tradesperson through Fletcher’s, to ensure the customer is satisfied with the work. But through that process, if a complaint is lodged at all, we register it as a complaint. So we take in everything, and then there’s a filtration process, from those that are a difference of opinion through to substantive complaints. So there’s a lot of focus on ensuring customers’ complaints can be dealt with.

Barry And do you have a mechanism to publicise that or to acknowledge that, yes, while there have been 2,100 recorded complaints and 3,000 compliments, the resolution is also recorded in some form?
Emson We should publicise it, but—
Barry Mightn’t be a bad idea.
Simpson It’s reported internally.
Wintringham No, it’s not reported externally.
Barry Sure.
Goldsmith All right. Now, we’ve got a fresh line of questioning from Eugenie Sage.
Thank you. Good morning. On the central city plan, and to CERA. Did CERA receive any request from the Christchurch City Council to designate Hagley Oval as an anchor project in the central city plan and blueprint?

I’ve got some notes in my bag about what that whole legal position is, and I couldn’t tell you what those notes are because I was going to read them flying up here but I didn’t because I—yeah. I’m sorry. Can I get back to you on that?

Yes, and the follow-up, then. If there was no such request, why was it designated? Yep, that’s fine.

Going on to heritage, then. CERA’s draft recovery strategy provided for a built heritage recovery plan, which, and I quote “enables innovative and sympathetic restoration and rebuilding contributing to a quality urban environment”. There’s no clear mention of a built heritage recovery plan in the final strategy, which was released by the Minister in March/April. Why was it dropped?

There is a recovery strategy. Sorry, there’s a—the Ministry of Culture and Heritage is leading the work around the heritage plan. I can’t answer why it wasn’t—I’m not sure why it was dropped out of the strategy. I’m not sure why it’s not specifically mentioned, as you say, in the strategy.

So, Mr Isaacs, are you saying that it is the Ministry of Culture and Heritage’s responsibility to complete the plan and not CERA’s, even though it was in CERA’s strategy?

CERA has asked the ministry to do that work, and we are part of the team, as is the city council, on that, but they are the lead agency on that at the moment.

Well, whose responsibility is it for finishing it?

Well, we’re—I mean, we are, you know, we coordinate the recovery, but it is for them to actually lead that bit of work and see it to its completion.

When will it be completed, then?

I think—I’ll go back to them and get an answer to you.

And I hope it’s clearer than some of the written answers for questions that have been coming through.

Just going again to some of the projects, the anchor projects in the central city blueprint, in preparing a blueprint did CERA consider or begin to explore any public-private partnerships for the construction and operation of any of these central city anchor projects?

I mean, I think the answer is—well, Warwick?

Can I just clarify the question you’re asking. During the process of the development of the plan, no.

Or subsequently?

Subsequently, yes, but not during its development. But, certainly, subsequently we have. And that was a part of what I talked about before—
the expression of interest around the convention centre to explore the potential, including PPP.

**Sutton** So, yeah, we are looking for players there who would have done that sort of thing before, who know how to make it a really successful place, who know how to do that sort of thing, who’ve got real know-how and also therefore have got the incentives to build something which is energy-efficient and has all those other good things in there as well if they’re going to be the long-term player in there.

**Sage** So you’ve mentioned the convention centre. What about the performing arts centre?

**Isaacs** So, again, through the convention centre process, we did actually identify that it was a performing arts area. Also, even, I think, we talked about the library, the central city library, being adjacent to the convention centre. Any participants in the marketplace that wanted to put forward some proposal where the private sector may have a role other than just building it, we were open to those expressions.

**Sage** So are you saying that some of the facilities like the library, like the performing arts space, which was in the town hall, which the city council used to own and operate, would potentially be operated by a private sector interest?

**Isaacs** We did put that to the market. Also, that would include the music centre, Court Theatre, who don’t want to own their own buildings. They want to be tenants. So we did put that out to the market and say if there was any interest there, then not only CERA, but the city council and those organisations, would be interested in hearing from those people.

**Sage** Is that one of the reasons why CERA doesn’t believe that the town hall should be repaired and restored, to free up the area—that whole concept for a public-private partnership?

**Sutton** I don’t think we’ve said that, have we?

**Sage** Well, there certainly hasn’t been a clear—your Minister has certainly not endorsed the repair of the town hall.

**Sutton** I’m not our Minister.

**Sage** So what is CERA’s position on the town hall, then?

**Sutton** We don’t have a position on it.

**Sage** Just one final one, then. And so in relation to the convention centre, has any consideration or has any exploration been done on an arrangement similar to the financing of a new convention centre in Auckland involving SkyCity?

**Isaacs** The short answer is no. Again, we put it to the wider—through a very public process. Now, I’m not sure whether that particular party has been part of the responses back to us or not, but the short answer is no, we did not go out of our way to explore that type of arrangement.
But you wouldn’t exclude it if they come back to you on it?

We would have to consider those, as we would consider any others.

I have two questions, one for EQC and one for CERA. But, firstly, I do want to acknowledge that your two organisations, to have received a clean audit report, with the scale of challenges that you have had over the financial year that’s in review, is a pretty extraordinary achievement. When I look at the time pressures, the billions of dollars that you are collectively responsible for, the technical challenges, the sorts of strong emotions, it’s a pretty good report that we’ve had through from audit.

My first question is with respect to EQC. It’s a pretty extraordinary organisation that we have in New Zealand around managing earthquake risk, and, effectively, your pot has been completely cleaned out with the Christchurch earthquake. Earthquakes aren’t kind in coming in regular 30-year intervals. We had the experience of the Murchison earthquake in 1928 and Napier just 3 years later. It’s effectively a random event. Touch wood it doesn’t happen, but there is a risk that somewhere else in New Zealand we could get a major risk event, with your pot empty, and New Zealanders are relying on you to provide that cover. What have you been able to secure in terms of reinsurance cover so that—God help us we don’t—if we get a massive 7.5 or 8 earthquake in this city with a sort of $20 billion to $25 billion bill, what level of reinsurance have you been able to secure for the medium term until EQC has been able to recover its reserves up to the sort of pre-Christchurch earthquake point?

Yep. You negotiated it on our behalf, Ian, so do you know the exact numbers? Yep? Good.

So we actually managed to increase our cover in the last renewal, the cover that kicked in from 1 June this year, so prior to that point, we, the EQC, took the first $1.5 billion of claim costs, and then we had reinsurance cover up to $4 billion, and then it was back on to our balance sheet. That cover, thankfully, given the sequence, we’ve had reinstated for a second event. So while that is $2.5 billion of cover, our claim is almost $5 billion for the Canterbury sequence.

When we renewed last year, we were able to add an extra $1 billion layer to the top of that cover, but because of pricing constraints we didn’t see as much value at the bottom range, so we lifted the bottom of the programme from $1.5 billion up to $1.75 billion. So we’ve added to the scale of the programme.

In terms of the medium term, one change that the market has requested from us, that we’ve complied with, is we’ve moved to an annual programme. Historically, we had a rolling 3-year programme to try to take some of the volatility out of the premiums, given the uncertainty, largely the seismic risk in Canterbury, but around the country. They’ve pulled that back, so we’re now, this year, moving to an annual cycle. So we need to maintain that ongoing transparency with the international markets, just to
let them know how we’re progressing and the contractors in terms of doing the business

Smith So, just to be clear, at the current regime for EQC you’ve got a $1.7 billion excess?

Wintringham Yes.

Smith And you don’t have $1.75 billion in the tin?

Wintringham No.

Smith And so, effectively, the Crown is covering a liability—

Wintringham Yes.

Smith —of up to $1.75 billion in the event of an earthquake, and what I’m hearing is that, and you’ve got $5 billion of reinsurance cover over and above that. Is that correct?

Wintringham No.

Smith Well, you’ve said 4, and you’ve added a further 1.

Simpson Sorry. The top is $5 billion, but you take off 1.75 at the bottom. So the absolute cover is just over—

Smith 3.25.

Simpson 3.25.

Wintringham Yes. So to go back—so before, we covered the first $1.5, then there was $2.5 billion of reinsurance, which took us up to 4, and then after that we—which then reinstates, but if it’s for the same event, then we get back into our own funds, and, ultimately, the Government guarantee. Now we’ve got, in the event of another major event the Government carries the first 1.75, the reinsurers carry the next 3.5 because we’ve gone up from 1.5 to—

Simpson 1.75.

Wintringham Yeah, but the reinsurance cover itself has gone up after our 1.75 excess.

Simpson Yep, up to $5 billion.

Wintringham So that’s 3.25. I’m sorry. So 1.75 we carry, and now we’ve got 3.25 from the reinsurers, but that’s on an annual basis, but our judgment is that, in the absence of another major event, we will be able to renew that on an annual basis at certainly no worse pricing than currently, because I think the price that we are paying for that, for our cover at the moment, reflects the uncertainty of the Christchurch events. The longer we go on without another one, the memory of the market fades.

Smith Can I be clear—pre–Christchurch earthquake we effectively had that which was in the National Disaster Fund plus your reinsurance, and from the answer that you’ve given me, the level of cover that we currently have is in effect less (a) because the National Disaster Fund has been cleaned out—

Wintringham Yes.

Smith —and so there is an inherent element of risk for the Crown—
Wintringham: Yes.
Smith: —which is significantly above what it was pre-Christchurch—
Wintringham: Yes.
Smith: —in terms of a significant event. If I look at worst-case scenarios of a one-in-500-year event in Wellington, which could potentially have as much as a $25 billion liability, you’re indicating that, sorry, the Crown, by my rough numbers, is likely to be carrying a liability of up to 20.
Wintringham: Yep, but this is not a decision which the board and management of EQC decided to take alone. We took that decision after sounding out from the Government and the Government’s advisers about the degree of fiscal risk that the Government was prepared to take, and there is a significant cost in terms of our reinsurance. I mean, we are now paying, what, 100?
Simpson: 140.
Wintringham: Yeah, we are now paying $114 million per annum for our insurance premiums. I suppose the other part is, it depends when the next event occurs, because with the increase in the EQC premium, obviously a part of that increase was to ensure the beginning of the rebuild of the Natural Disaster Fund.
Goldsmith: Just a quick follow-up and then David’s got one, but just remind us—the cover you had prior to Christchurch, I have $15 billion in my head. The fund and the reinsurance you had prior—
Simpson: Prior to Christchurch we had $6 billion in the Natural Disaster Fund, and the reinsurance cover we’ve just talked about, which for a single event adds $2.5 billion. Plus, we should add, in terms of the Crown risk, since 1993 we’ve been paying the Crown $10 million a year for the Crown guarantee. So that, in effect, was State-provided reinsurance. That’s the way we looked at it. That’s the ultimate. Could I also just clarify if I could, Dr Smith, in terms of the Wellington event, we need to compare like with like, so EQC’s residential portfolio, while the whole Crown cost may be 25, we’re looking at a 50th percentile cost of about $7 billion.
Smith: So the worst-case scenario for Wellington for EQC is more like a $7 billion bill?
Simpson: Well, that’s the 50th percentile. That’s the mid-point. If you get up to the 95th percentile, I think you’re looking at $11 billion or $12 billion.
Parker: If the cost of the reinsurance has risen, has that doubled? Fifty percent more, is it?
Wintringham: We paid just under. For the 2.5 in excess of 1.5, we paid around about $38 million to $39 million, so for the—
Goldsmith: Prior to Christchurch earthquake?
Wintringham: Yeah, this is prior to Christchurch. There are portions which rolled over bit by bit, but the simple explanation is we paid about $38 million, $39 million. It always hovered under 40, and now we are paying $114 million for a
slightly larger amount of reinsurance, but at a slightly higher attachment point.

Simpson  Sorry, I did mumble my answer. It’s 140, rather than 114.

Wintringham  Thank you.

Parker  140!

Wintringham  140.

???  That’s tripling.

Simpson  Roughly triple.

Wintringham  Yeah, I took your advice there.

???  Thought we’d done well!

Parker  What’s the effect of that on a householder’s EQC premium?

Simpson  Our levy is set by regulation, and there’s no direct actuarial link between our costs.

Parker  OK. So what have levies gone from, to?

Simpson  They were $69 per year including GST, and they’ve trebled to $207 including GST.

Parker  And for that the householder gets a level of earthquake cover which is limited by an upper amount, and in respect of the risk over and above that, they pay via their private insurance. And just remind me what the level is it’s capped at?

Simpson  The EQC cover is $20,000 for contents, $100,000 for the building and land area, capped by area rather than value.

Parker  OK. So just to keep it simple, we exclude land—$100,000 roughly for the building—and in terms of the cost increase in respect of their insurance-related costs over and above their $100,000, presumably that’s about tripled in the private sector as well?

Simpson  Not sure. It maybe doubled in terms of private—it’s depending around the country, but maybe doubled in terms of the—

Sutton  Of late I’d say, yeah, I mean, the anecdotal stuff I hear is that people’s premiums commercially are up significantly, although it depends a lot on what you’ve got. If you’ve got a brick and masonry building, you know, in Wellington that’s unreinforced, you’re going to pay a much, much higher premium there than you did previously. If you’re building a modern building—the example I have, modern buildings in Christchurch are paying 30 percent or 40 percent more than they did pre-quake, but then they’re probably paying half of what they were having to pay, say, soon after one of these quakes.

Parker  OK. So, sorry, I’m just trying to get this in rough numbers. So for earthquake cover now for someone who’s got, you know, a house that might be worth, say, $400,000, the earthquake component of their premium will be probably around $600 a year. Would that be roughly right?
Well, the EQC bit is about $200, and you’re paying for a— I mean, I think I pay about $800 a year to insure my house.

In total, including that?

Including the EQC.

The reason I ask is that one of the reinsurers came to see me and said New Zealand has the highest level of earthquake cover in the world and that they thought that going forward, unless the Government was willing to step in and provide a level of the cover, and, as Nick Smith’s already illustrated, they already do, they were contemplating more, they didn’t think that the levels of earthquake cover that we have going forward will be affordable for a lot of people. Do you have a view on that?

Yes. Affordability of insurance, speaking from our perspective, depends to a very large extent on the ability of the insurer to lay off that risk with reinsurers. So the nub of the question is the willingness of reinsurers to take on the risk and the price at which reinsurers will do so. So at the moment we’re seeing—this is from our perspective; I can’t speak for the private insurers—this is only residential, with those numbers we’re seeing a significant step up in pricing. It may be famous last words, but my judgment is that that’s a peak, and we will start pulling back from that, and we are not seeing any evidence—all our lines were fully subscribed, in fact oversubscribed, last time.

That’s right.

So I understand—I understand the insurance is available at a price. My question was do you think there are going to be increasing numbers of New Zealanders who under-insure because they can’t afford full insurance? Are you seeing any pattern around that?

Yeah, look, the first comment I’d make is that New Zealand’s level of insurance is really high. So we’ve found out in the red zone about 99 percent of people actually were covered—you know, quite an extraordinary number. And I think that’s very, very high internationally. And that all the buildings have earthquake cover is probably unique. I think the insurance companies are thinking about how they cap some of their cover at the moment. So a lot of people have had uncapped policies, so if you’ve got a house with lovely rimu panelling and all this other sort of stuff and it’s going to cost this much money to go and fix it, the insurance company has been obliged to do it. So those uncapped policies, we’re seeing insurers moving towards saying “Well, we’ll rebuild your house. We will give you a new house, but we’re going to cap the rebuild price at”—make up a number—“$200 a square foot.” or something like that. So I think they’re looking to try and cap their cover because they’ve just been surprised at the amount they’ve had to spend fixing a lot of people’s houses.

So assuming that flows through, my question still is are you worried about there being a trend? And given the increasing cost of insurance, do you think there is any likelihood that some people are going to say “Hey, I can’t afford it.” and they’re going to either not insure, under-insure?
At the margin that will be a risk, but I think actually the market will respond with different products that actually still provide a reasonable level of cover, but maybe not the gold-plated policies that we’ve seen—

I think that is something for us to consider, do we have have policies which cover us against broken glass and what I’d call trivial, without being too rude, but don’t actually cover you for the really catastrophic event, and I think we as a society, people, need to think carefully about what they want to be covered for. Do they want to be covered for trivia or things that really matter?

The big risks that they can’t afford.

Can I just suggest that I think that’s an area that you people need to monitor very clearly because we’ve seen in respect of the proportion that is uninsured, it actually falls on to the Crown again, or we have people who suffer a terrible consequence, which just, you know, leaves them relatively poor for the rest of their lives. So I would encourage you to be monitoring whether that’s the case, because the answer may well be then, your answer, that we have to encourage people to insure against major events rather than trivia.

This is one of the major considerations of the review of the EQC Act, which is currently under way, which starts off with what is the reasonable expectation that a society should have of the risk which people cover themselves, and what would be the Government’s role, and then how do you give effect to that through the scheme?

Will that include what would be the effect on your cost and the ministry’s cost of having an excess? Because at the moment there’s virtually no excess in the EQC portion of it, and that must drive some behaviours.

Oh, yes, all of that is absolutely right. It’s on the table for discussion. It’s the nature of the cover, the excesses, relations with the private insurers, who does what, what the cost of it is. Those who have responsibility for the review, one of their primary considerations is maintaining an effective insurance market in New Zealand, because that obviously underpins economic and social activity.

Nick Smith touched on the risk in Wellington. Probably the more likely risk may actually be the central North Island at the moment because you cover volcanoes as well, don’t you?

Yeah, well, I’ll give the chief executive a chance to collect his thoughts while I—yep, the answer is yes. Certainly, prior to Canterbury we were in, I think, the mid-stages of modelling what events under our cover would trigger, what, more than 80,000 or thereabouts claims?
Simpson: Yep.

Wintringham: And there are, well, you know, there are a definable number. And it still comes back to that the probable maximum loss for our cover, it still remains the Wellington fault because it's a combination of the geophysical or natural risk with the proximity and nature of the built environment. And it's still Wellington. And to go back to your comment earlier, Dr Smith, we are prone to earthquakes, but with the great prescience of the people who established the EQC scheme in the mid-1940s—Earthquake and War Damage as it was then, of course—between then and Canterbury, we have had no major earthquake in the built environment. You know, Te Anau, Edgecumbe, Inangahua. God bless the people who live there, but it's not in the centre of a major city. So we're riding on the back of that.

Dalziel: I have a number of questions, but I'll just focus in on the residential red zone and CBD. I thought that the Minister may have softened his stance a little bit in the House yesterday with an answer to a question on people wanting to stay after 30 April. In his reply he said that it would be assessed on a case by case basis. But then he went on to say “But I would have to say it is unlikely.” Have you offered any advice on this and what was that advice? He talked about the cost of maintenance of access and infrastructure to homes, but that's paid for by the council rather than CERA or the Government. So what’s the council’s position on it? And there will be people who won’t accept the offer, so they’ll still be there anyway. So it’s a really important question, because there are some people who are just weeks away—of 30 April—from having their house ready to move in to. So you’re going to require them to move twice when just allowing them to stay for a matter of weeks after that deadline would actually allow them to have a much easier transition to their new life.

Sutton: This is something I get stopped in the supermarket by people, I get phone calls from people, about this issue, and the elderly people want to talk to me about this issue—in particular, the sort of cases you talk about Ms Dalziel. So it’s something we are talking to our Minister about, but at the end of the day it is very much a political decision about what happens there, but we’ll continue to answer the Minister’s questions as he asks our views on these issues as we collect information. But we are trying to talk to those people to try to understand what their needs are, what the hold-ups are going to be, and how many of them there are. We are talking to people about that.

Dalziel: But have you provided advice recommending that it be extended on a case by case basis?

Sutton: No, I don’t think we have actually provided any written advice—no.

Dalziel: So he hasn’t asked you to provide any advice on extending the deadline for some people, even on a case by case basis?

Sutton: No, no, he hasn’t, but we are working on some advice at the moment.

Dalziel: And bare sections and commercial land in the residential red zone, why 50 percent of the most recent rating valuation for the land?
The simple answer to that is the fact that the residential land that had a building on it had EQC cover, so it was insured to that extent—

That’s not a reason why you’ve made an offer for a voluntary settlement of their land, which would normally be subject to a compensation claim. So you’re treating commercial buildings in the residential areas differently from the way you’re treating commercial buildings in the centre of town.

If these buildings had been taken for a road or something or other under—

They would have market value at the time.

Yes, so they may have market value at the time, and you could argue market value at the time is much, much less than RV, because—

No, no, market value at the point at which the designation would be required. So the Government can’t extend out the time and then say “Actually, your land’s not worth anything now because it’s got a motorway coming up to the door.” I mean, there’s lots of court cases on that.

I guess my advice is that if we had said “Look, today we’re going to offer to take your land for this motorway.”, and that land had been decimated by this earthquake event, then that land would be worth much less than RV, though.

But if you’d done it at the time— You know, if it was related—

Like I said, if we paid them the value before the earthquake—

The market value.

— but the key thing is it’s before the earthquake. My advice is that the relevant number is post the earthquake.

Yeah, but hang on, you’ve given 100 percent of the land value—the rating valuation, not the market value, but the rating valuation—for the land for everyone else in the red zone, but not the business owners. Why on earth are the business owners being treated so poorly?

Well, the business owners’ land isn’t actually insured.

That’s not the point. This is a voluntary offer that you’re making for people to settle the land.

But that’s also the point as well—that it’s actually a voluntary offer as well.

But then you’re extending the time—

I think, Ms Dalziel, you’re just not letting him answer the question.

It is still a voluntary offer. Decisions haven’t been made whether the offer is going to be compulsory or what’s going to happen to those people. It may be some of those landowners decide to stay, and it may be the Government and the local body decides to allow them to remain as well—we haven’t made those decisions yet.

But if they’ve got no damage to their property?
Goldsmith  We'll just have one final question, because we've done our time, and then we'll move on to the next thing.

Dalziel  And there are a lot of business owners in the centre of town too—or building owners, property owners—who are being, basically, screwed in terms of the amount they are being offered as well. So it's been pretty hard on business in that regard, so if you’re in the residential red zone, you’re only going to get 50 percent of the rating valuation for your land. But even in the CBD you’re not even guaranteed the rating valuation for your land either. Some people are losing a lot of money. I saw one business owner saying that he was prepared to accept half the rating valuation of his land, but he owns extensive properties in the centre of town where the CBD, the frame, will increase the value of the land significantly. So what are you doing for those poor property owners?

Sutton  At the end of the day I guess I also work for the taxpayer, and I have to pay them what I think is fair value. I think if the Government actually had done nothing, if the Government, after this earthquake, had said “Look, we’re not going to take any active role in the CBD. We’re just going to stand back and do nothing.” Then I think the land prices—if the land price had been $100 before the event and the Government had said “We’re going to do nothing.”, then the land price would have maybe been less $20.

Dalziel  The alternative wasn’t nothing.

Sutton  Well, in other countries, that has been the alternative—

Dalziel  But it was never going to be the alternative here. How do you answer a business owner, a constituent of mine—

Sutton  I guess in answer to that—

Dalziel  —who owns a building and they have been offered insufficient money to set up their business somewhere else?

Sutton  I guess at the moment a lot of those business owners we’re seeing are talking to us about taking the money, because they see the money we’re offering them is actually going to allow them to buy a business elsewhere in the city at a price they think will actually work for them.

Goldsmith  OK. All right, well, thank you very much. We’ve had a good session—an hour and a half. Thank you very much for coming in, and we appreciate all your efforts. Thank you very much.

**Conclusion of evidence**
2011/12 financial review of the Department of Conservation and of the non-departmental appropriations for Vote Conservation

Report of the Local Government and Environment Committee

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Department of Conservation and of the non-departmental appropriations for Vote Conservation

Recommendation
The Local Government and Environment Committee has conducted the financial review of the 2011/12 performance and current operations of the Department of Conservation and the non-departmental appropriations for Vote Conservation, and recommends that the House take note of its report.

Introduction
The Department of Conservation manages and oversees the conservation of New Zealand’s natural and heritage assets in terrestrial, marine, and fresh-water environments for the benefit and enjoyment of all New Zealanders. It manages public protected lands and marine reserves directly, and facilitates agreements for the protection of private land. The department is responsible for managing protected wildlife and marine mammals, and has a role of fostering recreation in areas under its management.

Financial and service performance management
The department’s revenue for 2011/12 was $332.685 million, and its total expenditure was $325.647 million, resulting in a net surplus of $7.038 million.

The non-departmental output classes Identification and Implementation of Protection for Natural and Historic Places and New Zealand Biodiversity Funds had net surpluses of $3.105 million and $433,000. In 2011/12 the annual appropriation and actual expenditure for the output class Moutoa Gardens/Pakaitore was $23,000.

The output class Management Services—Natural and Historic Places is reported separately by the Historic Places Trust and the Queen Elizabeth the Second National Trust.

The Office of the Auditor-General gave a “good” rating to the department’s management control environment and “very good” to its financial systems and controls, as it did in 2010/11. Service performance information and associated systems and controls received a “good” rating, after a 2010/11 rating of “needs improvement”.

Staffing
Over the last several years the department has been reviewed and undergone a substantial restructure, leading to an increase in the number of redundancies. A move to a shared services model accounts for most of the increase. We were assured that only three staff members received redundancy only to be re-hired by the department on a casual basis. The department said it was employing a number of temporary contractors to hold open positions to be filled by permanent staff once the restructure was complete.

New Zealand Biodiversity Funds
The non-departmental output class New Zealand Biodiversity Funds makes grants to provide land managers with information and advice, or assistance with the cost of pest and weed...
control, fencing, and other biodiversity management measures, and to support community biodiversity restoration initiatives. The advice fund and the condition fund were over-subscribed for Funding Round 17 which commenced during the 2011/12 financial year. We are pleased that the funds will be re-formed in 2013/14, and extra funding provided from 2014/15.

We were interested to learn that the department is compiling a geospatial map of the land it manages, and that it will include some private land involved in conservation measures. This will allow the department to see where there are gaps in conservation coverage, and any corridors of land that could be joined up.

**Advocacy**

One of the department’s functions, as set out in the Conservation Act 1987, is “to advocate the conservation of natural and historic resources.” Fulfilling this function can include submitting or appealing resource management applications. We discussed the department’s opposition to an application before the Environmental Protection Authority to extend salmon farming operations in the Marlborough Sounds on the basis that it would be next to a marine reserve, and asked whether this stance might encourage industries to oppose the creation of new reserves to protect the potential for future applications. The department agreed such a risk could exist, but did not think the premise of some members was necessarily correct.

It is important for the department to ensure that its sponsorship programme avoids any real or perceived conflicts of interest in relation to its advocacy function and other conservation work. The department is looking carefully at the question of managing conflicts of interest, and is drafting and testing a piece of work.

**Māui’s dolphins**

Earlier this year it was announced that the department and Ministry for Primary Industries would review the Māui’s dolphin portion of the Hector’s and Māui’s Dolphin Threat Management Plan. Submissions closed on 12 November 2012. We heard that submissions are being analysed and advice to the responsible Minister prepared. The department said it would be irresponsible not to consider the submissions carefully, and that interim protection measures would remain but that the proposed extension of the marine mammal sanctuary would be deferred until the Minister made a decision about the threat management plan.
Appendix

Approach to financial reviews
We met on 6 December 2012 and 31 January 2013 to consider the financial reviews of the Department of Conservation and of the non-departmental appropriations for Vote Conservation. Evidence was heard from the Department of Conservation and advice received from the Office of the Auditor-General.

Committee members
Nicky Wagner (Chairperson)
Maggie Barry
Jacqui Dean
Paul Goldsmith
Gareth Hughes
Raymond Huo
Nikki Kaye
Hon Annette King
Moana Mackey
Eugenie Sage
Hon Dr Nick Smith
Andrew Williams

Evidence and advice received
Department of Conservation, Responses to written questions, received 4 and 5 December 2012.

Department of Conservation, Responses to additional written questions, received 18 and 22 January 2013.

Office of the Auditor-General, Briefing on the Department of Conservation, dated 6 December 2012.

Organisation briefing papers, prepared by committee staff, dated 5 December 2012.
2011/12 financial review of the Department of Corrections

Report of the Law and Order Committee

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Department of Corrections

Recommendation

The Law and Order Committee has conducted the financial review of the 2011/12 performance and current operations of the Department of Corrections, and recommends that the House take note of its report.

Introduction

The Department of Corrections manages offenders who are sentenced to imprisonment or community sentences or held on custodial remand, and provides rehabilitative programmes to address the causes of their offending. It also provides information to the judiciary regarding sentencing decisions, and to the New Zealand Parole Board regarding prison release decisions. The department’s total revenue for the 2011/12 year was $1.179 billion, and its total expenses were $1.177 billion, resulting in a net surplus of $2.816 million.

Financial and service performance management

The Office of the Auditor-General assessed the department’s management control environment and financial information systems and controls as “very good”, improving on last year’s ratings. The office recommended a number of improvements it considered would benefit the department’s performance.

Reducing reoffending

Reducing reoffending is one of the department’s core deliverables. To this end, the department runs treatment programmes for drug and alcohol-related issues, for example, and we asked about the progress of these programmes. We heard that two-thirds of the prison population have drug or alcohol-related issues. The department has nine drug treatment units, but has yet to reach some of those in need.

We asked the department whether it believes that imposed or voluntary drug and alcohol treatment is more effective. The department said it could only answer from its own experience, which has been with treatments that are not strictly speaking imposed, but are interventions offered to match the stage the prisoner is at. Some prisoners may only require motivational encouragement to quit, while others may require a full-scale programme. We heard that it is generally easy to encourage prisoners to attend programmes because the progress of their sentence depends on it to an extent. However, the test of effectiveness is whether the prisoner’s behaviour changes. We were told that the department’s programmes reduce reoffending by approximately one-third for the prisoners who complete them.

Risk assessment tools

The “Risk of re-Conviction X Risk of re-Imprisonment” (RoC*RoI) tool is an actuarial measure which uses historical static factors to assess a prisoner’s risk of reoffending or re-imprisonment. We are aware of a report which argues for a dynamic risk assessment method, and claims that the historical static method can result in up to 30 per cent of offenders being assigned a higher risk factor than is appropriate; we asked for the department’s response to this argument. We heard that the department considers that the best approach is a combined one; alongside the RoC*RoI, the department has introduced a
dynamic risk assessment, which is completed by probation officers and case managers every time they see an offender. The department believes that together the two assessments should largely yield an accurate estimate of risk.

**Smoking and drugs in prisons**

We asked the department to update us on the effects of banning smoking in prisons and on efforts to reduce drugs in prisons. Regarding smoking, the department said that since the ban, fires in prisons had fallen by three-quarters and many departmental staff have stopped smoking. It reduced the use of nicotine replacement therapy because indefinite use of that therapy is not desirable. We are pleased to hear of positive change in this area.

The department does not monitor people after they leave prison, but we heard that anecdotal evidence from probation officers suggests that approximately 10 per cent of former prisoners sustain their smokefree status. The department agreed with us that monitoring in this area is desirable.

The department has seen substantial reductions in drug use in 13 of the 19 prisons. We asked what has contributed to this success, and heard that three factors had been particularly helpful. First, the drug dogs have been effective, and their number has been increased recently. Secondly, prison procedures have become more stringent, with prison cells searched regularly with and without prisoners’ knowledge, and searches of individual prisoners. Finally, the department has intensified searching of prisoners on release-to-work programmes, to reduce its risk exposure.

**Serious assaults on prison staff**

In 2011/12, serious assaults on staff rose to 18, seven more than occurred in the previous year. Most of them occurred at Rimutaka or Christchurch prisons or Northland Region Corrections Facility, and we asked whether there was any reason for this. We heard that the assaults in Northland and Christchurch have been random and difficult to predict. The Rimutaka prison population has grown substantially, and we heard that the management response needs to be stepped up accordingly. The department expects to see better results from this prison in the next year, and we look forward to an improvement.

We asked about the measures the department is taking to prevent assaults. We heard that it wants to encourage good communication between staff and prisoners, and create an incentivised atmosphere that discourages violent behaviour. This balance involves a policy of zero tolerance of violence in prisons, while avoiding prison staff carrying batons and pepper spray, and reassessing the processes staff use in dangerous situations. The department sees this as the ultimate goal, and is being advised on potential improvements by an international panel.

Staff selected to work in a New Zealand prison undergo six weeks of intensive initial training, where some Australian states run a 9- or 12-week programme. We asked the department whether the entry criteria and training for prison staff are inadequate, and heard that there was room for improvement. The department has strengthened its pre-employment checking regime, emphasising integrity issues. It has expanded its training programme, but intends to examine this area further in the current review of operational systems. We will monitor any changes with interest.
Serco
Serco has significantly improved its performance in its second year of contracted prison management, and in the third year the department expects to see further improvement, particularly in rehabilitation. The department plans to introduce league tables early in 2013 to allow the performance of private and public prisons to be compared. We look forward to examining the results. We were told that the international expertise brought to New Zealand by the contractors was of benefit to the entire prison system.

Privacy
We are aware of a case where an offender’s criminal records were sent to the wrong fax number, and asked the department for a response. It said that it is a 7,500-person organisation and such breaches are difficult to prevent completely. It tries to limit the consequences of mistakes by stressing to its employees that they must report errors as soon as possible. We also heard that the department had reviewed this area of its operations and as a result plans to introduce a check-sheet with advice for staff on such security issues by Christmas; and by May 2013 it plans to strengthen the management of its personal information. We hope that these adjustments will result in fewer privacy breaches.

Technology
We asked if the department was considering upgrading the security technology it uses in facilities. We heard that new body-orifice-search chairs have been implemented at Auckland Prison and the Mount Eden Corrections Facility, and that the corrections chief executives throughout Australia and New Zealand will soon be receiving a presentation on the various new technologies available.

New Zealand Labour, Green, and New Zealand First minority view
It came to our attention prior to the appearance of officials at the financial review that the Department still sends offenders’ conviction and sentencing information to eligible requesters by fax. On one occasion we know about, the fax number was misdialled and the information sent to another fax number.

We asked the chief executive about this, and he acknowledged that this mistake had been made. He also acknowledged that this was not the first time he knew of that such information had been incorrectly sent by fax to a number other than that of an eligible requester. In defence of the practice, he pointed to the existence of a notice on the standard departmental fax header asking any recipient other than the proper one to destroy the information and notify the department of the wrongful transmission. He also said that many information requests were received by the department on a daily basis, and that the error rate of misdialled fax numbers appeared to be very low.

We found these responses unsatisfactory. The fax in question did not appear to contain the notice that the chief executive asserted was standard for these types of communication. And given the extremely sensitive nature of the information contained in such faxes, with the consequent potential catastrophic effect on the rehabilitation of former offenders of the wrongful disclosure of that information, we do not think that the assertion that errors seem to be rare is much of an answer. And the issue of the Crown’s liability for such information privacy breaches is not a question we were able to begin to address with the chief executive in the time available at the financial review.
We think the department needs to take this matter more seriously than it appears to. We also think it is time to stop sending this sort of information by fax, given the easy potential for erroneous transmission.
Appendix A

Approach to financial review
We met on 5 December 2012 and 30 January 2013 to consider the financial review of the Department of Corrections. Evidence was heard from the Department of Corrections and advice received from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
David Clendon
Kris Faafoi
Hon Phil Goff
Ian McKelvie
Mark Mitchell
Richard Prosser
Jami-Lee Ross
Lindsay Tisch

Evidence and advice received
Department of Corrections, Responses to questions, received 19 November 2012.
Department of Corrections, Responses to additional questions, received 25 January 2013.
Office of the Auditor-General, Briefing on the Department of Corrections, dated 12 November 2012.
Organisation briefing paper, prepared by committee staff, dated 5 December 2012.
Appendix B

Corrected transcript of hearing of evidence 5 December 2012

Members
Jacqui Dean (Chairperson)
Charles Chauvel
David Clendon
Kris Faafoi
Ian Mc Kelvie
Mark Mitchell
Richard Prosser
Jami Lee Ross
Lindsay Tisch

Witnesses
Ray Smith, Chief Executive
Brendan Anstiss, General Manager, Corrections Services
Vince Arbuckle, General Manager, Human Resources
Christine Stevenson, Deputy Chief Executive

Dean
Good morning. I will ask my colleagues to introduce themselves, and then perhaps if you’d like to do the same. Ray, we’ve set down an hour, so we’ll take that from half past 10. If you’d like to give us some introduction and then we will open for questions. [Introductions]

Smith
I’ll be very brief, but just to introduce our team, because we did go through quite a significant restructure and have one member sick today, but the senior executive team are here and our chief financial officer. So why don’t I just let them quickly introduce who they are and what they’re responsible for. I thought it was important that you got to meet them all. [Introductions]

So the one member that’s missing is Graeme Carruthers, who’s the general manager of governance and assurance for the department. So we’re a little bit slimmer than we used to be, and people have slightly bigger portfolios. Perhaps notably, off the back of the restructuring, Brendan heads the prison service and probation service and rehabilitation, so we brought that together, and that might be something we’ll get to talk about a bit more about how that’s going. It was a big change. So that’s kind of cut the size of the team down quite a bit as we try to integrate.
I thought I’d be very quick and just give a couple of highlights. If I could just start by saying that I think the highlights for me for this year were getting the reducing reoffending target agreed with the Government in the Better Public Services programme and getting that published. That, I think, is galvanising the organisation to change and to be different than it has been in terms of its focus on rehabilitation for offenders. We’ve always done work in that area, but I think that target’s really going to push us to change many of the things that we’ve done. So I’m very pleased with that.

We completed our performance improvement framework review with the State Services Commission. Like all departments there are things that we can do better in, but I was particularly pleased with the ratings we got around the vision, strategy, and purpose of the organisation, and we are considered to be one of the top quartile performers in that area. So we kind of know where we’re going and how we think we need to get there. Some of the challenges we have that came out of that review were around our direct engagement with our staff, so the engagement between managers and front-line staff is an area where we can do better, and we’ll be putting some attention on that in the coming year.

We completed our expenditure review, which was a big project. That gives us a fair view through the next 8 years, through to about 2020, about what the kind of cost pressures are and how we sustain our baseline through that period, meet the various dividend commitments and so on that we’re committed to, but, more importantly, maintain the stable functioning of the departments. So I’m very pleased about that and to get through that process.

We’ve reconfigured a number of prisons, so many—well, there’ve been a couple that have closed. Notably, Wellington Prison closed formally finally last Friday, after many years of operation, and there have been a number of units across the country that have closed down. We’ve still got New Plymouth to go, but that’s very much on the wind-down. That programme is going to schedule and going fairly well.

We did complete the restructure that brought us together as one team. It’s probably the most fundamental change since Corrections was put together in the mid-1990s. It’s a big change, and the key to it is regionalising our service delivery more and giving people in the regions more of a chance to actually drive and deliver and purchase services that make a difference in their community. So that’s quite a fundamental shift away from the head office controlling all of the activities. I’ll give you a copy of our plan.
Just to conclude, but before I say that I did want to say that I think we conducted ourselves as a department particularly well in the face of some fairly difficult cases throughout the course of the year, and the placement of child sex offenders in communities and so on when they come out on release from prison. I think we faced a fair degree of intense scrutiny. I think we conducted ourselves very well, and I think we've done a good job of what we have to do, and it's not always easy for my team. I'm very pleased with the way that they fronted up. It's not always easy to front up when you've got hundreds of people unhappy with what you're doing in a local community, but I think we did that really well. And we did it really well with the New Zealand Police, so we didn't do this on our own. And I think we're working well together—the police and the Department of Corrections.

So I'll just conclude by offering you our year 2 plan, if I might. I'm not sure how that gets passed around. So last year I gave you a year 1 plan. This is year 2. The overall objective of the department, notwithstanding we didn't have the reducing reoffending goal last year so explicit. Same set of priorities but another 50 or 60 things to do this year. We had 57 things in our last plan; we got all but four of them done. So we review this plan every week and try to make sure we deliver on the things we said we were going to do. So every year we produce this mainly internally, so people in the organisation—7,500 people—know what we're trying to do and the kind of progress we might be making.

I'll hand over to you. Thank you for the opportunity.

Dean Thank you very much. Just before I go to members’ questions, how widely do you distribute this and discuss this plan?

Smith It’s a public document. On the inside of the organisation we’ve worked really hard to communicate it—every staff member has it. And we’ve regional roadshows to spend days with staff communicating about it. We’ve sent it to key stakeholders on the outside of the organisation. I think one of the challenges we’ve got is getting stronger over the course of the next calendar year about communicating outside of Corrections. So I don’t think this has traditionally been a strength, but I think we are getting better at that and the regionalisation, I think, is—a key part of that is people getting out and talking to their local stakeholders about what’s going on and getting them engaged in the activities.

Chauvel I see from the written questions and answers, Ray, that you’re rolling out a Novopay payroll system from 1 January. Is that correct? If it isn’t, what’s Talent2 been contracted to do? I don’t know whether you or Vince wants to answer this.

Arbuckle That’s totally incorrect. There’s absolutely no relationship between the department and Novopay at all, and no intention to do so.

Chauvel So what is the content of the contracts with Talent2?
There’s no contract with Talent2 in relation to payroll. Talent2 did some advisory work on some human resource projects, but it was nothing to do with payroll.

So we won’t be seeing the prospect of prison officers and probation officers going without pay from 1 January, like we’ve seen in the Ministry of Education?

There’s no chance at all.

Oh, very good.

Reducing reoffending—that’s a big part of the work you’re doing, and I know that you have been recently doing a lot of work on drug and alcohol treatment in prisons. Can you go over for us in a bit of detail about the work you’re doing there and how much of an impact you believe that’s having?

Perhaps I’ll start and then I’ll hand to Brendan. We’ve got a programme, we’ve got nine drug treatment units running in prisons. We’ve just extended the one in Hawke’s Bay and we’ve got a programme through to 2014 to continue rolling out drug and alcohol treatment programmes. What we know is that two-thirds of people who come to prison have a drug or alcohol-related issue, and we haven’t been getting to that total population. But we know also that our drug and alcohol treatment programmes really work. Interestingly, the Māori participants in the programme have been doing even better than the other population groups. So this is a programme that’s been pretty successful. By the time we get to 2014 we’ll have not just the intensive 3-month and 6-month programmes that we run in the drug treatment unit but we’ll have a range of interventions that step up towards that. Not everyone needs to go on a 3-month programme, but some people need education, brief interventions, information. So we’ve got a programme that will meet—the objective is to meet with the demand, which is two-thirds of the prison population, from the time we receive prisoners.

On the outside and in the community, of course, there are many more people who we deal with, and probation officers are being upskilled to deliver motivational interviewing techniques and other short skills training and information for the people that they interact with. So we’re trying to use all of our workforce to get to more people on the drug and alcohol issue, and that programme ramps up all the way through to 2014.
Anstiss I suppose, like Ray says, if you’re going to take a stab at what a common problem is for the offender population, then you couldn’t really go wrong with alcohol and drugs, so whether it’s a problem right now or whether you’ve had a problem in the past or whether you’re going to have the problem in the future. So what we’ve said is that more than 33,000 offenders under our care, either in the community or in prison, are going to receive some form of treatment. The exact form of treatment is going to depend on how severe their need is. Some offenders might just need some education on the dangers of alcohol or drug abuse, and that might be a relatively brief intervention delivered by a probation officer or a nurse. Other offenders are going to need more intensive programmes. They might have been through the new drug court. They’ll need follow-up there. Offenders in prison might need 6 months’ worth of intervention, so it is about getting the right calibre of intervention to match the need. But what we are adamant about is if you’ve got an alcohol and drug problem, you’ll receive an intervention in one form or another while you are with the Department of Corrections. Like Ray says, we know that makes a difference, so this is one of the core planks of our efforts to address reoffending.

Ross I see under “Reducing Reoffending” in your annual report that you’ve also talked about an introduced screening tool to assess mental health of prisoners as they arrive to prison. Can you tell us about that, and how that’s working?

Smith So every prisoner who arrives now goes through the mental health screening tool. Gosh, I think around 43 percent—it is a very high number of prisoners—were referred for further forensic assessment. That doesn’t mean that they all have an ongoing need, but we have identified an issue right up front, and so we’ve been through several thousands of prisoners now on entry, and they can get referred for forensic treatment, and then the forensic specialists then make a determination about what that treatment involves—whether it involves ongoing sessions or help or medication, or whether that is not to be the case.

That is a very big change in our operating model. One of the things you worry about a little bit when you start to change your practice is the impact it has on other parts of the system—i.e., the health system. So we were concerned that if we increased our screening whether people could actually get the services off the back of it. We just had a meeting yesterday with the Director-General of Health and his team, and actually they have been able to keep up with the demand, so we’re feeling quite positive about the beginnings of that programme. One of the things that it will really help with—and I think we’re already seeing the benefits of it—is prisoners not self-harming. The threats to life that occur in prisons we have seen a reduction, but we think we could get further with that.
Clendon You often hear a view expressed that drug and alcohol treatment is only effective if the prisoner, if the inmate, if the person concerned, volunteers—if they go into it acknowledging they have a problem. Do you accept that view or do you think that an imposed treatment programme can be as effective?

Anstiss I accept the view that people have strong views one way or another about this. We don’t impose treatment on people; what we do is deliver an intervention that matches their readiness. So for some offenders, as Ray said, they might, in fact, need motivational encouragement to attend treatment. So perhaps your first few sessions we don’t launch into telling you about the dangers of alcohol and drugs. We instead think about where this is taking you and what the course if you don’t change anything might lead to. So it is not a question of whether treatment needs to be mandated or not. We have offenders under our supervision in our custody in prison. It is pretty easy to encourage them to attend treatment programmes, because their progress through the system to some extent depends on that. The real test is whether or not they change their behaviour. What we know from the programmes that we offer is that they reduce reoffending by about a third for people who go through and complete the programmes. That means that they are pretty effective in changing behaviour.

What we are rolling out is further programmes to those harder-to-reach offenders who might only have mild to moderate issues with drug and alcohol but to date haven’t been touched by a 6-month programme or a more intensive programme. So we are adamant that we are not going to let those offenders and their problems with drug and alcohol escalate to a really problematic level. We want to get them earlier on. That does mean that you need to work with motivation sometimes, though.

Smith I think the big issue in there has been somewhat on our side, needing to make sure that we can increase the participation rate, and that is about programme availability and the way we organise ourselves in prisons and the way we segregate people in prisons, and the security classifications we have people under. One of the good things about having that big stretch target is it is really forcing the conversation now about how we run parts of our prison system to ensure that what we do for security reasons, which you can understand, doesn’t stop people participating in things that can make a difference for them, and trying to get that balance. I think that is a challenge to the system but a very positive one, and most corrections officers I talk to want the people they work with to be able to participate in programmes. Sometimes when I am talking to prisoners, you’ll hear that they can’t get into a programme. So I often wonder that it is not so much a lack of motivation as availability, historically, and I think that challenge for us is to make sure that we exhaust that and then we’re left with perhaps the smaller group who really don’t want to participate and how do we get them into something.

Dean OK, of course, it is now a year and a half or a bit over since smoking was banned in prisons. Give us a progress report. You’re pretty happy after a year?
Smith Yeah. Well I think the staff did an amazing job. Actually, the prisoners did really well too, and their families. When you talk to prisoners, what they will tell you about why—plenty of them will grumble a bit about how they’d like to have a fag, but, actually, a lot of them are quite proud of the fact that they’ve achieved this, because, for many of them, they don’t have a lot of achievements that they can kind of really point to. So to not have their family spending money on bringing cigarettes in for them I think is a positive thing. To be able to say to their kids “You know, I’m not smoking,”, and role-modelling at least one very positive thing I think has been a great thing. Women prisoners, in particular, will say that to you when you chat to them.

Look, I think in an overall sense that it has been about as smooth as it could be. There are a range of risks at the beginning of introducing a change like this. We started to phase down the amount of nicotine replacement therapy and lozenges, and that is into a better state I think than it was in the early phases, where there was a large supply of those things going to people. I think we’ve got better at regulating and managing those. We can’t have people on those things for ever, because that is not the point of those types of interventions.

Of course, the other results that we’ve got are that we’ve had a reduction in fires in the prison by three-quarters. You would expect that, right? That is good because when I arrived in the job I met a number of officers who have risked their own lives saving other people who had lit fires—you know, trying to get them out of a cell that was on fire. And what do you do with all the other prisoners? So to have that risk somewhat reduced I think has been a positive.

And the last point I’d make about it was something that I don’t think we planned for but has been a very good spin-off, and that is that far too many of our own staff smoked. And now in the health surveys we do of our own staff, I think we are one of the occupational groups that is actually now in the lead. So we have reversed that trend. I mean, our staff haven’t got time to get outside and have a smoke and come back in again.

Dean So they’ve got to go outside prison?

Smith Yes, they do.

Chauvel Do you have any way of monitoring how many people resume smoking after they leave prison?

Smith That is a very good question.

Chauvel Through the probation—

Smith Yeah. I think we need to do it. All I have is an anecdotal. I have talked to some probation staff who said to me that they thought about 10 percent of the people actually sustained the issue of not carrying on smoking.

Chauvel So a 90 percent reversion rate?
Smith: Well, I think it is relative. We see a lot of people who come out and they’ve got an opportunity to do what they choose to do. They re-join families who are smoking.

Chauvel: I wanted to ask you about media reports today about the way in which criminal records are sent to employers. Obviously, there is the case reported from October where the criminal records of one offender were sent to the wrong business by fax. I mean, what’s going on? Why on earth is this sort of antiquated technology being used to send this sort of information around when there is such an obvious possibility for error?

Smith: Yes, well, first of all, whenever we make a mistake like that, that is regrettable, and I am not happy that that happens. But I am realistic about it as well. Perhaps I will just answer this in the round and then come back to the specific. Privacy is a really important issue for all Government agencies, and it has been highlighted this year. We’ve got 7,500 people. They need to communicate with people every day. Whether they do that by fax or email, by telephone, by putting something in an envelope, by using a courier, there are many parts of those systems that are fallible. I guess what I try to impress on my people is that I want them to work in an organisation where if they make a mistake, they tell us. In this case, I don’t think anyone knew. So if they knew—we’ve had cases where someone sent a fax, they’ve realised it’s gone to the wrong place because someone has rung up, which is what I would expect the person to do who received it.

Chauvel: What I understand happened in this case, whether you were told or not.

Smith: Yeah, has made contact and then the information has been retrieved and we learnt from that, and no damage is done. The reality on this is that it is a very large system, and I think we have to be sensible about it. I could stop everyone from faxing everything everywhere. We have put a lot more restrictions on the prison service in that regard. I am just a little worried that with everyone we are dealing with—for 25 years we have been sending faxes; this is not new—if we stop it, will we cause more problems than if we just see whether there is a better way to do it?

One thing I thought I might do off the back of this is talk to front-line staff about how they feel about it, and whether they think there is a better way to do this. An email can be just as risky because, as you know, you can send it to the wrong place.

Chauvel: Well, if you do it with an email, though, and send it to the wrong address, it just bounces, whereas if you misdial a fax number, it goes to somebody else. It is not as if this is an isolated case. I mean, this sort of thing seems to happen with reasonable regularity. I mean, don’t you think it’s a good idea just to have a good, hard look at this?
Smith  No, we will. There has only been a couple this year that I'm aware of. I would point out, too, that at the base on the header of every fax, like most companies in New Zealand, we have a note that says “If you receive this and you weren’t supposed to get it, you are prohibited from sending it anywhere else or copying it, and you need to contact us so we can get it back.” Lots of companies and organisations in New Zealand send faxes to people, and all of us probably in our careers will have received something from somewhere that we weren’t supposed to get. So my issue about this is that all—

Chauvel  Sorry, but the problem with that is I have the fax here and it doesn’t have that information on it. It doesn’t say—

Smith  Well, that’s not good enough.

Chauvel  —what you’ve said that it should. And that comes from Community Probation and Psychological Services in Waitakere. So I do think you have to look at this.

Smith  Well, we can fix that. We can fix that. There is a standard fax header, and if that isn’t being used across the organisation, I can fix that. I think we should do that, because all of us have a responsibility to manage privacy and to bring it to people’s attention when something goes wrong or there’s a mistake. So, you know, sometimes my people are going to make a mistake. I don’t want them to be scared of doing their job because they might make a mistake. But if we haven’t used the right fax header, we can fix that, and I think the second thing is that if there is a better way to communicate this information that is safer, absolutely I would want to do that.

Mitchell  Can I just get a sense of the problem here, though. At the end of the day, I take Mr Chauvel’s point, but at the end of the day, faxing is still part of technology that we use. We all use it. I have a fax number in my office and it gets used, right? So if someone requests or the only way you can get information to them is by fax, I don’t think we should be removing that option. The other thing with faxing is actually with information like that, you can’t always control—unfortunately, a downside of it is—all the data that is going through. So just because there is no header showing doesn’t actually mean that the header might not have been involved in the original send.

The other thing that I want to know is with the amount of information, you must have millions of pieces of information going out from the department annually. How big is the— I just want to get a feeling for the size of the problem.
Smith  To my knowledge there have only been a few privacy breaches that have occurred this year. What has happened is we notify the Privacy Commissioner. On a couple of occasions we put people in cars and within an hour we were round and retrieved the information. Most people are really good. They get something they’re not supposed to have, they ring us up, and we respond immediately and go and get the information back. That is about the best we can do. That is what I expect people to do. There have not been, to my knowledge, any widespread issues. A number of people complain about privacy-related issues. If you look in the Privacy Commissioner’s report, there are two very important pages. Often, only one page of that report gets talked about publicly. So, for example, 57 people made complaints about privacy, or those cases were considered by the Privacy Commissioner. Only 14 of those were actually considered to have any merit. So a number of the privacy-related issues that are talked about for the department—it’s not that we don’t make mistakes—are related to people being unhappy about the fact that they wanted more information than we were prepared to give.

So in a general sense I would like to give the committee some assurance about this. We have undertaken a review and are continuing to review our entire system, not because of one or two incidents but because we want to be certain that we are doing the best we can. So we have looked at all of our information systems. We have had meetings with a cross-section of staff from across the organisation to ask them about privacy, and we are doing two things to strengthen our system more broadly. Between now and Christmas we are putting together a good check sheet and some tips for all staff—from me down—about making sure we look after people’s information.

Then the second thing between Christmas and May will be a strengthening of our system of the management of personal information. So I don’t think we’re struggling in this area, but I think we run the risks that any large organisation faces that from time to time someone will make a mistake, or perhaps won’t treat a bit of information as seriously as they could have. So I just want to give you some assurance that we want to do better on this, just like every Government agency.

Chauvel  Just to run off, do you accept, though, Ray—you’ve talked about trying to do your best, and you’ve explained that you deal with a lot of information. I think everybody accepts that. But you must see that faxing four pages of somebody’s criminal record to the wrong number can have absolutely catastrophic effects for that individual. So I think it is a little bit more here as far as our expectation is concerned than you are doing your best. I think you do need to have a serious look at, despite what Mr Mitchell says, the appropriateness of faxing this sort of thing. As I say, this isn’t ordinary information; it’s about as personal as it gets.
Smith Just know that I accept that these things can always be strengthened. But 7,500 people get up every day and go to work in this department because they want to do a good job for people. So nobody wants to get it wrong. I am not going to go after people when they make a mistake. It’s not my leadership style.

Chauvel I don’t want you to do that. I just want to be sure that when we have you here next time, we’ve got some assurances that this has been addressed.

Smith Well, we will look at that matter. But I guess the other thing I don’t want to do in the back end of this is rule out doing something that actually helps move offenders along. A lot of people ask for information from us in order to help their clients. So whether they are lawyers or other people who are seeking information from us in order to advance their client’s status, I don’t want to be a department that is really difficult about it because we’re scared of making one or two mistakes. So I absolutely take on board what you’ve said, and we will absolutely look at this and try to strengthen our practice around it, but I don’t want to be a department that is too scared to release information to people because it might make a mistake.

Dean Ray, I know you have been with the department for a couple of years, and fax machines have been used by the department for 25 years. Are you aware that this is a new problem, or do you have some understanding that there have been breaches over, perhaps, the last 10 or 20 years? I mean, what is your sense of timelines?

Smith I’m sure there have been. There must have been. But I think the issue has a degree of prominence at the moment. And I think that is right. That is fine. I am aware of two cases this year where we sent a fax to the wrong address. I am aware that as soon as we knew that had happened, the people who received it were really good about it. So they rang us up and said “We don’t think we’re supposed to have it.” We went around and got the information. So I think everyone acted properly in that circumstance. In the case that we’re talking about, I don’t have the information.

Mitchell Just a quick supp, I haven’t seen the document, but it appears to me like some of it has been blacked out. Is there any effort made to actually—when you send these documents via fax, you sometimes actually black out the person’s details? How does it work?

Smith I don’t think we’ve done that.

Chauvel I think to help, I am happy to make this available to you, because I would like you to address it. The blacking out has occurred to protect the identity of both the offender and the innocent recipient. I don’t think that was done by the department.
I am interested in the question of risk assessment, the risk of reoffending, recidivism. You currently use the “rock and roll” system, as I think of it. You’ve got this report commissioned by you, I think, from some Canadian and American academics earlier this year. They came in very strongly in favour of what they call a dynamic assessment, rather than a more traditional static mechanism. They are quite scathing of the historic so-called static method, and suggest that, hypothetically, up to 30 percent of offenders could have a higher risk assigned to them than is appropriate. So I’d be interested to know what your response to that is. Have you taken that on board? Are you actively responding?

We certainly take on board the comments from Professor John _____ What we’ve actually introduced is the DRAOR, which is a dynamic risk assessment. It is completed by probation officers. So as part of the improvement and change programme within the probation service, for the last 3 years we have been training and applying the DRAOR, which is the dynamic risk assessment. So probation officers complete a dynamic risk assessment on offenders every time they see them. So that means they’re updating in a continuous sense on the basis of the offender’s presentation today, the fact that they did something yesterday that might change their risk, or they get other information from partners or family or programme providers that on a day-to-day basis changes their risk assessment. So probation officers have been applying that. We now also apply it with case managers within the prison environment. So case managers are also being trained in dynamic risk assessment. What they’ll do is they’ll use that information alongside static risk information to ask whether this is risk-changing for this particular prisoner. So they might have completed a treatment programme or they might have done something less positive and got into trouble within the prison environment. That then gets reflected in their dynamic risk assessment.

So I think if you put those two together—it’s kind of like trying to predict the weather—you’ll get it right most of the time, but this is a tool that helps the professionalism of our staff. It doesn’t replace our staff’s responsibility or their final kind of discretion on what offenders do.
Clendon Just a quick supp here, the report also suggests that some of the people using these tools were—well, it quite bluntly said—they might need to refresh their skills. Are you satisfied that your training programmes and your upskilling of your staff who are applying these tools is sufficient and that it has happened fast enough?

Anstiss Yep. What we’ve done with the probation officers we’ve now rolled out to the case managers as well. The training is particularly relevant for the dynamic tools where staff need to apply discretion and judgment about a particular risk factor and what impact does that make with the offender that is sitting in front of me today.

The training is robust and straightforward for the static risk prediction, so that is fully computerised. It trawls through your criminal history and your age and a whole range of other factors, and gives a score, and that score is converted into a low/medium/high type risk category. The training is robust.

What we are doing is enhancing the training for case managers so that they can put this information together, and that is really where the crux of it comes, is how do you weigh up sometimes contradictory information and come up with an accurate risk assessment? So with the analogy of the weather, it might be sunny right now, but the wind might be blowing, so what is it going to be like this afternoon, and how do you put those two pieces of information together? The offender might be quite compliant in front of you today, but yesterday when they saw the psychologist or someone else, they were a bit aggrieved. And how do you put that information together? That is really the key for the training and the upskilling of our staff across the board.

McKelvie So I take it this same kind of analysis is applied to community work schemes and PD and all that sort of stuff. So you’re doing that with your everyday people as well?

Smith Absolutely.

McKelvie I just want to very quickly comment that there has been a huge upgrading in the way Corrections deals with community work schemes and how you pick them up. You don’t pick them up on the corner by the dairy any more. I think it is really quite impressive the way you’ve dealt with that. One of the things that I think happens to these people, and we do see them in our offices quite frequently, is that if they are treated, and now I’m getting a bit funny here—the treatment of them on the Saturday morning has a lot of impact on how they respond to the sort of risk stuff you are talking about. Is that a big factor for your team?
Smith  Well, when you meet with community work supervisors, they are kind of “salt of the earth” people. They have to be. So they will be out there with eight or 10 people on their own. This whole system largely works off a relationship, whether you’re talking about corrections officers and a prisoner, or you’re talking about a community work supervisor out somewhere in the country with a group of guys working with them. Their relationship skills, they are often, in my experience, guys with a bit more experience. They are mostly male, but not all. I think they have a really strong relationship. They encourage these guys into other things. They sit down with a cup of tea and listen to their personal problems, and all the kinds of things that go on in people’s lives. I have been hugely impressed. I have been out to see those kinds of groups working. I mean, there are always a few people on those gangs, or work groups, who kind of keep to themselves, or they are a bit more high risk. I think they balance all of that really, really, well, actually.

McKelvie  Do you want to comment on the community relationship with those groups too, because I think—and about someone in a Taskforce Green and all that sort of stuff as well here, because it is quite a significant issue for communities.

Smith  Well, they do a vast amount of work, whether it is—I think in Queenstown we did a lot of work with those community work teams on the cycle track. So I don’t think—

Dean  Good job.

Smith  Yes. I don’t think we were the centrepiece of the conversation. I think we did do a lot of work around that. I think around the country you see mostly men doing this work. They do work on maraes, they do a lot of stuff around towns, and, actually, I think what we all need to do is encourage people to create opportunities for these guys. When you talk to them, the things they will often say to me is that they want to do things that are meaningful. So they quickly get over the fact that they’ve got to turn up and do their sentence and their hours. They want to actually look back and think they did something that was really worthwhile in their community. Sometimes I think they feel like the work they are doing is doing more of that, and sometimes they think it is doing less of that.

Anstiss  I think it is fair to say that the practical nature of community works appeals to many of the people that we have. So more than 3 million hours of free labour last year was provided to community groups, so, like Ray says, that is your local marae, that is the playground, it is that reserve that was looking a bit shabby that the grass is cut now and the rubbish that is cleaned up, it’s the side of the motorway. So they’re out there delivering a community good.
I think the other part that Ray was probably just about to go on to as well is that we also within the community work scheme have an option of delivering basic work and living skills training to the people on community work. So as well as going out and doing some payback, we also want them to know how to cook a meal. So if we’re cooking morning tea for them, then that is an opportunity for us to take these 10 guys and kind of show them how to cook a low-cost healthy meal. We can teach them how to use the basic things like how to use the washing machine. So just delivering those basic work and living skills at the same time as making a contribution back to the community that we think is going to make a real difference for offenders’ skills and, ultimately, them staying out of trouble.

Tisch

Mine’s a new question, too, Ray. You’ve made remarkable progress in reducing drugs in prisons. And I note, and this is question No. 22 and your answer on appendix 10, that of the 19 prisons, 13 have had huge reductions. What is the strategy here to identify drugs? Is it at the gate when visitors visit? Is that where you’re capturing these, or is it on searches within the prison? What is the strategy that you’re actually doing? Has the reduction come about because your methodologies now are far more robust than what they may have been in the past? Can you give us an update on that?

Smith

I think it is all of those things, actually, to get to 4 percent. Our colleagues across the Tasman are particularly good in a range of things that we can learn from, but we are so far in front of them in terms of reducing drug intake into our prisons. So if you start right on the outside, the drug dogs do a great job, and I think profiling that in the TV show that runs is actually quite helpful, because it shows that we take it really seriously, even very minor matters. So we’ve increased the number of drug dogs, because that’s been a very good programme. It is not easy to increase those drug dog teams, actually, because the limiting factor is not staffing but dogs, and having them trained to a level where you can actually deploy them. But there are 15 of those now across the country.

The strengthening over the years of the procedures—if you go into a prison, I think most of you have been through one way or another the metal detectors and the full range of responses there. So there is a lot put right up front to make sure that people can’t enter with drugs. There is the regular searching that goes on, and the drug dogs will be used, but just our staff generally will go through and search cell blocks. That is regular but not always known to prisoners, obviously. So that is a lot of that surprise. In some of our more top-end parts of the jails we do this more regularly to make sure that we keep contraband under control. Then there is the searching that goes on individually with prisoners as well. So that is probably the least pleasant aspect of things.
But one of the risks that we run for drugs coming into the environment is the positive things we do about getting people outside the wire on release-to-work programmes obviously exposes them to more opportunity to bring contraband back in. So the searching procedures we do are to make sure that that doesn’t happen. The department has, I think, over the years continued to lift its game in this area, and I suspect that we are probably at the top end internationally in terms of what we’ve achieved on this particular area.

Prosser Just a supplementary to Lindsay’s question, some time ago I made a suggestion that there are a number of body scanners being phased out of European airports and that they’d be coming on to the market as available units. Was that suggestion ever taken seriously, looked at? Is it something you would look at as a potential for—

Smith We would take anything you said seriously.

Prosser Thank you very much. —getting better technology into prisons at the coalface, giving us a better ability to detect all sorts of contraband.

Smith Yes. There is an advancement, yes.

Anstiss Yes. There is quite a sophisticated advancement. We have now what is called a BOSS chair, which technically stands for Body Orifice Search with another “S” on the end. So with that chair you effectively sit on it, and you can also stand and it can scan your mouth cavity. What that does is it detects some forms of contraband that you may have internally hidden. One of the challenges with drugs, and depending on the types of drugs, is they’re not kind of easily detected. So it doesn’t detect everything, but it detects if you’ve got a package internally hidden. So we use that in Auckland Prison and also at Mt Eden Corrections Facility. That is very effective. You don’t want to put everyone through that. It can be quite an invasive procedure. So that’s not the answer for every situation. Where we suspect that people are internally concealing, we can also hold them in dry cells, so that is kind of a less pleasant regime, but sometimes it just takes time for some of these things to eventuate and pass.

Prosser No, I was aware of the BOSS chair but also the fact that the BOSS only picks up metal items, whereas the full body scanner picks up plastic and so forth as well. I was suggesting that the body scanners be used in addition to the BOSS chair and other search techniques and so on that were being employed. It is simply a case of taking advantage of an opportunity that may well not present itself again in the future.

Smith Yeah, so a more advanced technology than what we are currently using.

Prosser And being more available at a low cost because they’ve got a number to dispose of—several hundred they’re getting rid of.
Smith  Yes. Actually, one of the things I spoke to my colleagues about—so there are eight chief executives across the jurisdiction, or commissioners of corrections across the jurisdictions in Australia, and we met last week, and one of the things we’ve commissioned across all of our states and New Zealand is to get a presentation early next year on the full range of available technologies that do all of these things in prisons. I think the technology moves so quickly. I think every jurisdiction struggles to work out which is the next best one to buy in to, because there are a whole range of things that are available now that can actually make the job of our staff a lot more possible. But I’ll pick up and follow on that one.

Ross  Mt Eden Corrections Facility—I note within your annual report that you talk about and you highlight the fact that you’ve been working with Serco to improve their performance. Can you talk to us about the work that’s being done there to improve their performance and how it is working out?

Stevenson  I think it is fair to say that Serco had a slightly tough year first year in, and they made about half of their performance targets. This year, year to date, they are making over 95 percent, so we’re seeing a big improvement. They’ve done a range of things. They’ve put in a deputy prison director, so a bit more personnel. They’ve brought in some additional staff from the UK who are particularly experienced in running rehabilitation programmes, so that is something that we’re putting a lot of emphasis in to. We have assisted them with some of their reporting. New Zealand is a different environment from where they’ve worked in the past, so we have some particular expertise which we’ve shared with them.

Ross  So through the process of helping them lift their performance, what learnings, what new ideas, have you taken on board that will assist you going forward in the future?

Stevenson  They’ve done some things very well that we are seriously looking at and in fact implementing. So they have a unit they call CSI, which takes care of prisoners with very high needs. That’s been very successful. That is something that we’re looking at putting into several of our prisons too. Their visits facility is very child-friendly. They’ve got little playgrounds, they provide kiddie packs for visiting children, and they have parenting programme advisers on hand when children come to visit their fathers. This is something we’ve introduced to Christchurch Men’s Prison, and we’re looking at putting it into other prisons. Those are probably two of the key things off the top of my head.
Smith One of the other things, too, I think, is that, you know, there are ups and downs. It has been a tough first year, but we are seeing a good level of performance now. Bringing some international people to New Zealand in this way gives us an opportunity to draw on their expertise. In the area of staff safety, they have done quite well internationally, and one of their people based here in New Zealand, their most senior representative here in New Zealand, is on our expert panel. He has run prisons in Scotland as well as Australia. He has dealt with this issue in quite extreme environments and has managed to reduce violence in prisons quite substantially. We are lucky to have that person available to give us a hand. I would like to think that we will get through the second year and do a good job in running the prison with Serco, and then I think into the third year we start to see some of the real gains biting further in the rehabilitation area.

Ross So it is fair to say that not only do we gain from a financial perspective in the long term but also we gain a whole lot more new ideas and improvements that we can implement across the rest of the corrections facilities?

Smith I think that is the real opportunity as I see it. It takes a while for these things to settle. So from my perspective the opportunity I’m looking for is the chance for my staff to have access to people who have other experiences in other jurisdictions that can help us lift our own performance levels in areas where perhaps we are relying on our own knowledge here in New Zealand.

Ross Ninety-five percent sounds fairly well settled, so congratulations.

Smith Yes, but it is a prison, so it will have its moments. But, yes, they’ve had a good first part of the year.

Chauvel So at what point will there be a publicly available set of league tables by which we can compare the performance of publicly owned and administered prisons with the performance of Serco? You see, the difficulty we have when you make claims like “Serco are doing quite well now.” is that, clearly, firstly, they come from a very low base, given the problems they’ve had in their establishment. Secondly, I think I’ve got five more prisons to visit around the country, but I’ve knocked off the majority in the year that I’ve been spokesperson. Those public institutions seem to me to be doing a very good job, and I think you would acknowledge that. So how are we to compare, and how is the public to compare, given the claims that are made for privately run prisons and given their cost?

Stevenson I would say a couple of things to that. We will look to have a league table in place early next year—just exactly when, I am not sure. It is quite a tricky thing to do. As you’ll know by visiting our prisons, they’re all a bit different. So you have Rolleston Prison, which is low security, does not even have a fence, through to Auckland, which is maximum security.

Chauvel Given the reporting obligations that you set up, for example, for Serco, it must be possible to distil some basic obligations by which each prison management should be reporting against.
Stevenson: It is and we will be doing that.

Smith: It is absolutely being worked on. Early next year we should be able to release that. What we haven’t wanted to do, actually—the issue has been more about across the public prison system rather than Mt Eden. As Christine said, because the facilities have a range of responses and difficulty to deal with, we haven’t wanted to publish a league table that suddenly disadvantages someone over a minor matter. So it is very different running Spring Hill Prison with 1,000 prisoners than running Invercargill with 160. So we just wanted to get that right. So you’re absolutely right—there needs to be a league table. It is coming. We just want to make sure that when we publish it, we don’t have to keep going back and changing the measures in it.

Chauvel: We all have difficulty with league tables.

Dean: Interested that you’re so keen on them.

Chauvel: That’ll be the headline, Jacqui.

Clendon: We often hear this refrain that the private prisons are a resource in terms of innovation, new ideas, new experience. I’m sure I’m right in that two of your senior officers at ______ have experience in the UK system. They have some very progressive ideas. Why is it that the public sector, corrections themselves, cannot import ideas, innovation, people with experiences elsewhere? Why do we have to rely on a private operator? I just don’t see the disconnect. What prevents you from putting it out there that you want to employ people who have these experiences, innovations, these ideas?

Smith: I think we’re doing both. I’ve just appointed a new chief custodial officer, so that’s, if you like, the head of profession for all front-line corrections officers. It is a really important position and you’ll get to meet him, I would think, over the course of time in various matters here. He came to New Zealand from the UK. He practised in the UK prisons, ran a maximum security jail. He will come and be our top person in the chief custodial role. We are doing it with the people we have brought out here.
I think my observation of this arrangement is that there is another whole management team from a great, big organisation that brings ideas that is different to my management team here and down through the structure. They definitely do. They bring a different idea from a different bias about how to get the job done and what might make a difference. And they have prisons operating in three or four countries. So they just naturally gather up different sets of ideas and things that we can’t hope to do, even with just importing people into New Zealand. I think it is quite a good challenge. I think the real challenge with this to make it most successful is that both parties need to come up. They need to learn from us, and they get a lot out of being here in New Zealand and looking at the things we do. But I think we get a lot as well out of what they bring internationally. And, increasingly, Christine has spent a lot of time driving the team in Mt Eden to achieve the levels that you would want to see us achieve with that contract, and that has resulted in that company bringing better people to New Zealand to help us improve that part of the system. So I think about it as a couple of management teams rather than you just relying on us to have all of the ideas and bring it all here. If we can get to that level of maturity, I mean, my hope is that all of the New Zealanders who are in these systems do better at the end of it. That is my objective.

McKelvie I just want to return to Charles’ obsession with league tables. I’m interested in the cost per prisoner. Has that got a value? Has establishing a reliance cost per prisoner across the country got a value to your department when it comes to the management of prisons or not? I guess I’m talking about the daily cost.

Smith Well, to be frank, we don’t organise off that cost factor. I mean, the reality is this year it looks higher because we were required under accounting standards to revalue our assets. So that means the cost goes up relative to the revaluation. Nothing has really changed other than those assets are worth more. The other significant variable that impacts it is obviously cost of living. So wage adjustments and the cost of all of the things that prisoners consume drive the cost up. So unless you can shed facilities or you can drive prisoner numbers down, your cost per prisoner, I think, inevitably must continue to rise. So I think the thing that will make the biggest difference is prisoner numbers over time. Otherwise you should expect to see the cost per prisoner slowly increase.

Perhaps the other thing that drives that in terms of direct costs is that if you look over the years the organisation and its various reorganisations has continued to lift the percentage of staff dedicated to front-line services. So there is less and less overhead. I think it has shifted by just under 1 percent again. It continues to shift on that gradient. So cost per prisoner, I guess, is an interesting measure. What it costs to deliver for a prisoner in Tongariro as opposed to a maximum security jail is actually not the same thing. You know, you’ve got four people shifting some of our most difficult prisoners in the maximum security jail.

McKelvie You’ve clarified my mind.
An unfortunate rise in the number of serious assaults on staff. I acknowledge you’ve said that one is too many, obviously. It has gone up quite dramatically. I noted you’ve got these various strategies—the tactical _________ and the pepper spray, and you’ve appointed two officers to oversee these. You also reference in the report that you’re looking at internationally other means, other tools, and mechanisms. Could you just elaborate on that? What are these tools and particularly what are the preventative tools rather than these others, which are largely reactive, aren’t they?

Smith

Well, we’re with you on that. Prevention is really the key. You don’t want to have to default to these use-of-force situations. We want to make that less frequent rather than more frequent. So we had a small team—front-line prison manager and staff—go to Australia, did a bit of a study tour for a couple of weeks. They came back with a range of ideas.

Some of the things that I think can make a difference, that I think are a bit missing in our system are—I don’t think, first of all, we’d made clear right up front that there is a zero tolerance for violence in prisons. If you make that very clear, then you’ve got to follow through on that. So what are the consequences if people start to exhibit violence? Do we tolerate it for a while? Or are there consequences for people making those choices? So we haven’t built in a strong incentive scheme that says to people “If you do all the right things, then you have access to all of the programmes, and you might have access to more things: more visits with family members and so on that kind of reflect that you’re working well within the system.” The system is a bit flatter than that, so I don’t think there is enough in the way of an incentive arrangement at the base of our system to discourage people from some of the behaviours we don’t want. So I think that is quite foundational. People picked up on that and I think we could do something about that. I think the rehabilitation focus actually probably takes us the furthest distance on that. Getting people engaged in things that they feel are productive and that make a difference in their lives will make a big difference to how they behave in prison.
And you take that all the way through to things that worry me. The biggest worry for me is a staff member being hurt. I have had to visit some in hospital and talk to their families. It is the last thing any of us want to have to do. I want to drive that down. I do worry that sometimes our assessment of situations we head into when we think we need to resolve them could be better. So, you know, often you will read about prisoners fighting, and my staff bravely get in the middle and break those things up. That is a great thing to do. I would rather they weren’t doing that on their own. I don’t want them putting themselves at risk and creating another injury. So these are the kind of conversations that are starting to take place that are really around, first of all, have we got the incentive structures right? Have we been clear that there is zero tolerance and there are consequences for acting up and behaving in a way that is abusive or violent towards our staff? Are our staff assessing situations they’re going into well? If they find themselves in the middle of a situation, which is often the case, where someone moves towards them and decides to take them on, can they manage that situation? If they can’t communicate their way out of it, can they tactically exit in other ways? You know, if someone grabs hold of them, can they break free of that hold? It is those types of things. And right at the end of the system is the use of force.

So what I’m very keen to make sure we don’t do in New Zealand is move away from the system I think we’re quite proud of, where we don’t have our staff all walking around with batons and pepper spray and all those kinds of things. I don’t think that’s the system we want in New Zealand, because I don’t think it fundamentally promotes good communication between our staff and prisoners. But right at the very end of the system when we do have to use force, then I want those things to be available to people but in a very planned way. That is where I would like us to end up.

Two of the people on the international panel are very, very experienced commissioners of corrections services. One has headed the South Australian department for 10 years, who has the lowest recidivism rate across Australia and has dropped assault rates there to almost zero serious assaults. He is now in charge of the New South Wales corrections system, which has had a zero serious assault rate reported over the last couple of years. The head in Queensland similarly has achieved some phenomenal results and has worked across the system. I think those two men will bring a lot to us in terms of intelligence about what we might be able to do in our own system.

Having heard all that, clearly, you want a better performance from your officers. Would you accept a criticism that perhaps our entry criteria for those positions and our training are inadequate? I think internationally the period of training is dramatically less than any other country, and, indeed, our entry criteria equally are arguably well below par.
Smith  Maybe on the entry criteria. One of the things we have done here is we’ve strengthened the checking regime we put in place before we employ people, so what we’re really looking at here is integrity issues. So the kinds of checks we run on people before they get to be employed by us now are much more stringent than they used to be, including drug testing for all new employees. So that takes us beyond some of our colleagues across the way. You’re right to say we run a 6-week intensive initial training programme. Some of the states in Australia run programmes up to 9 and 12 weeks. We have already made some adjustments to our programme to include more elements, and I think that is something that in this review we need to have a serious look at. You know, are we doing enough up front and enough follow-up? But I just would say on the matters of integrity, which I think are critical to these jobs, we have done a lot to shore up the people that we’re employing.

Faafoi  I’m just looking at the table in question 149 about where these serious assaults happened. So you’ve gone from the previous financial year from 11 serious assaults to 18 for the current year, which I think is quite a significant increase.

Smith  Yes.

Faafoi  Have you looked at it as to why locally these assaults might be happening? Is there something going on in Christchurch, in Northland, and Rimutaka, because these ones seem to be the ones that have the problems?

Smith  Yes, I think it’s a good point.

Chauvel  I just wonder, Ray, whether there’s a particular issue at Rimutaka. I’m just going by media reports, but, you know, we’ve had recent reports of the king hit incident on the prisoner officer by an inmate. We’ve had the prison officer who resigned over getting the pizza for the prisoner. We’ve had a guard forgetting about a prisoner and the prisoner’s visitor. Is there some problem here?

Smith  Yes. So some of those are disappointing and some of them were situations, I think, where people were legitimately caught out in the course of their duties and had done nothing wrong. They were trying to do the right thing and they were caught by surprise. If I just put Rimutaka into context, Rimutaka is a prison that grew by about 80 percent over the last half a dozen years. So it was a smaller to mid-sized prison that grew dramatically with the rise in the prison population. So we employed a lot of people over a relatively short period of time, and the prison has grown quite dramatically.
One of the things that we have resolved to do, because we too are concerned about just the incidents that continue to occur—and what is largely a good-performing prison, it does a lot of things, that prison, really well, and we are very proud of what they do out there—but I think we need to strengthen the management response. One of the things we are doing, which is a bit copying the model that’s happening in Mt Eden, we’re going to put in a deputy prison manager, because I think we’re asking a lot for that one prison manager to be responsible for nearly 550 staff and to cover all of the issues in what is one of New Zealand’s largest prisons.

So, I think there’s been a growth factor. I think we need to strengthen the management. There are a range of other things we’re going to do there too to intensify our efforts to try and lift our performance out of that prison. But I wouldn’t want you left either thinking that good things didn’t happen in that place. Those people are incredibly committed. You know, we’re opening a high dependency unit, which we’ve never had before, for some of our ageing prisoners, those with ill health, and someone will open that this month. That’s a good thing to do. A violence prevention unit and various other key units that operate for the whole country operate out of Rimutaka. So I think they deal with some of our more difficult prisoners. I think we can support them better to do it, and I’d like to think when we’re sitting here in a year’s time we’d all feel a lot happier about the overall level of performance that we see there.

Chauvel What about the other two prisons that Kris referred you to? I mentioned Rimutaka, but I think Kris mentioned Christchurch and—what was the other one—

Clendon Northland.

Chauvel —Northland—do they have similar issues there?

Smith Well, I think Northland’s quite an outstanding prison, actually. It’s very impressive, but it doesn’t mean the people we deal with are easy, and from time to time they’ll do something that we didn’t expect. But I think Northland is quite an outstanding prison and achieves good results. It has a lot of activity for its prisoners—you’d have seen that, I’m sure—and the staff are very committed. Christchurch Men’s Prison, I think, has enjoyed a very good reputation. You know, it’s a prison where we have 60 people every day in trades training learning new skills. So I think some very good things are happening in these prisons, but there’s a randomness to the serious staff assaults, and it’s not always easily predictable—

Chauvel ___________ is the concern.

Smith That’s the concern.

Dean Ray, do you just want to finish off your sentence and then we’ll wrap up.
Smith Just to say, I would just want to assure you that I’m taking every step I can think of to make sure this workplace is safe. And it’s not just prisons. So, you know, every day we’ve got 2,500 probation staff out visiting people in their homes—the same people—and I worry about their safety as well and the state of some of our offices that need upgrading, so that people actually work in an environment that’s safer. Again, I’d like to think that in a year’s time we could feel that we had a much stronger staff safety action plan that saw a change in some of the violent incidents that we’re seeing.

Dean OK, thank you very much. I think that you can be assured that this committee will pick up on those issues, because I think those are issues that we all are very interested in, obviously. But thank you for taking time to come before us today and your colleagues—thank you—and thanks very much.

**conclusion of evidence**
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Crown Law Office

Recommendation

The Justice and Electoral Committee has conducted the financial review of the 2011/12 performance and current operations of the Crown Law Office and recommends that the House take note of its report.

Introduction

The Crown Law Office provides legal advice and representation to ensure the Government can lawfully achieve its objectives and discharge its constitutional duties, and is funded through Vote Attorney-General. The office has two main functions: providing legal advice and representation to the Crown and government departments and agencies, and supporting the principal law officers of the Crown—the Attorney-General and the Solicitor-General (who is also the chief executive of Crown Law).

Financial and service performance management

Crown Law’s total revenue for 2011/12 was $73.866 million, and its total expenditure was $71.858 million, resulting in a net operating surplus of $2.008 million (compared with a 2010/11 net surplus of $2.878 million).

Crown Law received a rating of “good” from the Office of the Auditor-General for its management control environment, (compared with a “very good” rating for 2010/11), “good” for its financial information systems and controls, and “needs improvement” for its service performance information and associated systems and controls. We note that 2011/12 has been a transitional year of changes in response to three external reviews completed and published in 2011/12. We will monitor the results of these changes.

Refining core purpose

Crown Law has delivered a new set of draft directions for the conduct of Crown legal business to Cabinet for approval. These directions clarify and refine the understanding of the core work of the office: providing legal advice relating to revenue, supervising the enforcement of criminal law, constitutional matters including Treaty of Waitangi issues, law officer matters, legal services regarding the lawfulness of the exercise of government power, and Crown litigation. Crown Law told us that it will no longer be directing resources into work with Crown entities and public organisations, unless there are major implications for the Crown or cross-government implications. These organisations will be free to seek private service providers for commercial legal work (such as contractual disputes or employment or lease issues). We will follow the implementation of these new directions with interest.

New funding model for Crown solicitors

The Crown Solicitors Funding Project was set up in response to an external review, to develop a sustainable long-term funding model for the Crown solicitors network. It has established an interim funding model to ensure services continue to be delivered within reduced funding. There is a general downward trend in the number of indictable trials in
the District Court and High Court, particularly high-cost trials, although the number of bail applications has increased significantly.

We heard that there remained pronounced inconsistency between the costs charged by Crown solicitors. Crown Law told us that there were no obvious reasons, such as location, to explain the variability in costs across solicitors. We heard that, although a large centre such as Auckland has more cases, the proportions of different types of cases are similar. Crown Law told us that determining the drivers of costs is a high priority for the office, and that, although one size is unlikely ever to fit all, they are confident that the degree of variation observed is unlikely to be justified. We will continue to monitor the Crown Solicitors Funding Project with interest.

**Defence of the judiciary**

As part of ensuring a trusted justice system, Crown Law supports the principal officers of the Crown. We note that its 2011/12 annual report states that one of the ways in which it provides this support is by protecting the judiciary from improper or unfair public criticism. Crown Law told us that it believes it provides this protection largely by doing its job effectively. The office is also involved in consultation on and administration of judicial appointments. Crown Law does not make media statements defending the judiciary or explaining the reasons for particular judgements, but it does provide information to the media explaining the processes. The Solicitor-General told us that he thought New Zealand’s judicial system encountered difficulties because no public explanation is given of decisions made by judges and juries. We consider it would be useful for Crown Law to issue more public information, and encourage the office to explore ways of providing such a service.

We note that a number of recent high-profile cases have attracted a great deal of attention from lobby groups and strong attacks on the judiciary. We consider that a public response from the Attorney-General or from Crown Law, defending judicial independence and explaining some of the factors in controversial judgments, may be warranted. The Solicitor-General told us that he wanted to explore ways for the Solicitor-General to work with the Attorney-General to address this issue. We agree that it would be useful for the principal law officers to have this discussion.
Appendix

Approach to financial review
We met on 15 November and 6 December 2012 to consider the financial review of the Crown Law Office. Evidence was heard from Crown Law and advice received from the Office of the Auditor-General.

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

Evidence and advice received
The Crown Law Office, responses to additional financial review questions, 3 December 2012.
Organisation briefing paper, prepared by committee staff, dated 15 November 2012.
2011/12 financial review of the Ministry for Culture and Heritage

Report of the Government Administration Committee

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Ministry for Culture and Heritage

Recommendation

The Government Administration Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry for Culture and Heritage, and recommends that the House take note of its report.

Introduction

The Ministry for Culture and Heritage is the Government's lead adviser on investment in the arts, heritage, broadcasting, and sport and recreation. The ministry is funded through Vote Arts, Culture and Heritage and Vote Sport and Recreation. In 2011/12 its income was $29.036 million. The ministry spent $27.516 million, resulting in a net surplus of $1.520 million.

Philanthropic and private giving

The funding environment for arts and cultural organisations is challenging at present, with limited government money, low box-office takings, and constrained corporate sponsorship. Increasing private and philanthropic giving to arts and cultural institutions is one of the ministry’s key targets. The ministry currently invests $350,000 per annum in the Creative Giving initiative, which seeks to build the fund-raising capability of the cultural sector. It has also supported the establishment of a unit in Creative New Zealand to improve the capacity of agencies to seek private and philanthropic donations. Agencies that receive funding from Vote Arts, Culture and Heritage have increased their revenue from non-government sources by 11 percent since 2006/07. The ministry has also established a Cultural Philanthropy Steering Group to help increase private giving.

We commend the ministry for its work in this area.

First World War centenary commemorations

The ministry is responsible for leading New Zealand’s commemoration of the First World War Centenary. The ministry is undertaking a number of commemoration projects, including the development of Memorial Park in Wellington and the creation of a series of commemorative articles. We were told that there will be full programme of activities, many of which will be organised by communities with assistance and coordination from the ministry. A task force has also been established to help organise and coordinate the centennial.

We are particularly interested in plans to mark the commemoration of ANZAC Day in 1916, and especially a Petone service which was attended by the Prime Minister of the time and a number of government officials. The ministry said that there are no plans to mark this service in particular, as the main priority is to commemorate the Gallipoli campaign.

Canterbury earthquake recovery

The ministry has been leading the development of an Arts and Culture Recovery Programme, which seeks an appropriate balance between retaining heritage buildings and places and ensuring the earthquake recovery proceeds quickly and within available funding.
A draft document for the programme was published in May 2012. We were told that the programme was almost finalised, and would be published after a final round of community consultation at the end of January.

**Heritage sector reform**

Legislation to replace the Historic Places Trust with a new agency, Heritage New Zealand, has caused unease amongst members of the trust and the public. The ministry told us that the trust has had a branding challenge—the “trust” label has encouraged some of its members and the public to expect it to have a strong advocacy role, but it is a Crown agency with an important regulatory and advisory role regarding built heritage. The ministry hopes that the new legislation will help to clarify the role of the agency, leaving the direct advocacy role to other grassroots organisations. We are concerned that these changes have not been communicated adequately to members of the trust or to the public.

**Orchestral funding**

The Professional Orchestra Sector Review is currently examining the efficacy of the structure of professional orchestras in New Zealand. We were told that to date progress of the review had been slow. About 3,000 public submissions were received on a discussion document, almost all from lovers of orchestral music. A number of themes have dominated the submissions, including the role of orchestra in New Zealand society, access to orchestral performances, and funding of the orchestral sector. We understand that a report on the review will be submitted to the Minister for Arts, Culture and Heritage in early 2013.

**Sistema Aotearoa**

We asked for an update on this orchestral programme, which provides orchestral tuition to students from low-decile schools in Otara. A recent review of the programme indicated that it remains in very high demand, and has provided many benefits to students and their families. The only issue is how to provide funding to sustain and expand the programme. We encourage the ministry to work with stakeholders to ensure that this programme continues to thrive in Otara, and to examine how it might be expanded to children of other low-decile schools in New Zealand.
Appendix

Approach to financial review
We met on 12 December 2012 and 30 January 2013 to consider the financial review of the Ministry for Culture and Heritage. Evidence was heard from Ministry for Culture and Heritage and advice received from the Office of the Auditor-General.

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

Evidence and advice received
Ministry for Culture and Heritage, Responses to written questions, received on 12 December 2012.

Ministry for Culture and Heritage, Responses to additional questions, received on 14 January 2013.

Office of the Auditor-General, Briefing on the Ministry for Culture and Heritage, dated 12 December 2012.

Organisation briefing paper, prepared by committee staff, dated 12 November 2012.
2011/12 financial review of the Ministry of Defence and the New Zealand Defence Force

Report of the Foreign Affairs, Defence and Trade Committee

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Ministry of Defence and the New Zealand Defence Force

Recommendation

The Foreign Affairs, Defence and Trade Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Defence and the New Zealand Defence Force, and recommends that the House take note of its report.

Introduction

We have divided our report into two parts to reflect the separate operations of the two entities being reviewed. We report on the 2011/12 performance of the Ministry of Defence in Part A, and in Part B we focus on the performance of the New Zealand Defence Force for the same period.

Part A: Ministry of Defence

The Ministry of Defence is responsible for advising the Government on the defence of New Zealand and its interests, the acquisition of defence equipment, and assessing and auditing the performance of the New Zealand Defence Force. In 2011/12 the ministry’s total income was $11.171 million, and its total expenditure was $11.119 million, resulting in a surplus of $52,000.

Financial and service performance

For 2011/12 the ministry received a grade of “very good” from the Office of the Auditor-General for its management control environment and its financial information systems and controls. The grade for financial information systems and controls has risen to “very good” from “good” this year, any deficiencies raised then having been resolved.

The ministry’s service performance and associated systems and controls were assessed as needing improvement, as they were in 2010/11. We note however that the matters raised as needing improvement in 2010/11 have been partly resolved, and encourage the ministry to continue its improvements in 2012/13.

Defence review

The ministry told us that it has been focussing largely on implementing the Defence White Paper 2010 during this period, and a capability management board is now operating. The Defence Amendment Bill, which came about as a result of the White Paper, has been reported to the House, and is awaiting its second reading.

We asked about the ministry’s priorities in response to the Performance Improvement Framework report, and heard that the framework indicates some weaknesses in the organisational performance of the ministry and sets out improvements to be made over the next four years.

Acquisition projects

We heard that key acquisition projects have been largely completed, with the delivery of five Augusta Westland A109 helicopters and a simulator, and the first four of eight NH90
helicopters. The upgrading of the P-3K Orion maritime patrol aircraft and the C-130H Hercules transport aircraft is progressing. A single-unit bridge system for crossing gaps such as waterways or anti-vehicle ditches has been procured in collaboration with the UK.

**Part B: New Zealand Defence Force**

The New Zealand Defence Force is the sole provider of armed forces to the Government, and the Chief of the Defence Force is the Government’s primary advisor on military policy. Its purpose is to secure New Zealand against external threat, to protect New Zealand’s sovereign interests including its exclusive economic zone, and to be ready to meet threats in New Zealand’s areas of strategic interest. In 2011/12 the force’s total income was $2.193 billion, and its total expenditure was $2.162 billion, resulting in a surplus of $31 million.

We acknowledge that the NZDF has had an extremely difficult year, with deaths in action and disruption from organisational change.

**Financial and service performance**

The Office of the Auditor-General gave the NZDF a “needs improvement” grade for its financial information systems and controls, down from “good” in the previous year. We were pleased to note that the grade for service performance and associated systems and controls improved on the previous year, and we encourage the NZDF to make similar progress on its financial information systems and controls.

**Reform programme**

We heard that the NZDF reform programme is prioritising the following: maintaining front-line capabilities, retaining personnel through competitive remuneration, acquisition and utilisation of new military capabilities, investment to drive further efficiency gains, and meeting operating costs.

The savings target of $350–400 million is progressing well. The target for this financial period was $130–$150 million in savings, of which $143 million has already been achieved. These savings have allowed NZDF to inject $45 million into remuneration and $40 million into a one-off buy-back or buy-out of entitlements and conditions of service that are being phased out.

Costs are also being driven down in the growing use of simulation for training and in IT advances, which save on the costs of equipment and personnel for training and for operations.

**Morale and attrition**

The NZDF said that one of the effects of the funds injection is the slowing of attrition and the stabilising of morale. We heard that although the numbers in question are not yet statistically significant, the indications are good; attrition had been affected by recent “civilisation”, but this effect was now fading.

The force’s attrition rate for the year was 21 percent, and overall personnel dropped by over 1,000 in the year under review. We asked if the NZDF were aiming for a set number of regular-force personnel, and were told that there is a target of roughly 500 to 700 below present numbers, in a structure that is still being decided.

When asked about the implications for capability, the NZDF said that there has been no effect on immediate capability, and all operational targets had been met. The potential
sustainability of capability, however, is of concern. The preparedness of inshore patrol vessels, in particular, is of concern, but the vessels have so far been able to meet all targets.

**Pay rates and review**

We asked the NZDF how it settled on the four key areas it believed needed work: pay and benefits (particularly pay, which was the subject of a recent review), workload, leadership, and managing the impact of change. The inclusion of and emphasis on remuneration seemed at odds with the Minister’s statement to us during the 2012/13 Estimates hearing that pay rates do not affect attrition or morale.

The NZDF believes that the four priorities are those that any organisation would have. Regarding pay rates specifically, there is a responsibility to service personnel to pay adequately, but also to the taxpayer to pay reasonably. It is accepted that pay is not generally an attraction for personnel, but the NZDF recognises that equally it should not drive personnel out. The pay review was undertaken to ensure that the middle ground was maintained, in an area that is always of concern to the NZDF.

**Vehicles in Afghanistan**

We asked what efforts have been made to obtain mine-resistant ambush-protected vehicles (MRAPs) for use in Afghanistan, noting that the United States does not send troops out in Humvees anymore because of the risks, but this is how New Zealand sustained most of its casualties.

We were told that vehicles in Afghanistan needed to be able to cope with mountainous terrain, survive blasts, and fight off ambushes. There were no suitable vehicles available for release that met all three requirements, as the United States MRAPs had, by an Act of Congress, to go to their troops before coalition units.

We heard that the troops were as well protected as they could be under the circumstances, in light armoured vehicles in potentially dangerous situations, and Humvees where the situation is judged to be less dangerous. Patrols are no longer conducted in the more dangerous north-eastern area.

**Digitisation and acquisitions**

To maintain modern defence capability, the NZDF is updating its equipment, replacing the current manual and paper-based system and obsolete automation with a modern command and control tool. This will provide timely awareness of situations, and allow interoperability with likely coalition partners.

We learnt that this process is still in its early stages, and that the NZDF believes it should work with Australia in this area. As this is rapidly changing technology, caution should be exercised in adopting new developments.

The NZDF reported that not only was new equipment coming in, but operating money is available to implement it. We were pleased to hear that this is seen as a success, and is set to continue.

**Relationship with United States military**

The committee was told that the New Zealand and United States relationship seemed to have improved over the last ten years, and we wanted to know what the NZDF thought had been going right, and if there were any more top level exercises likely to occur.
NZDF said that New Zealand now has an engagement strategy where the defence force plans the exercises it will be involved in. Officials said that the relationship has improved as the United States favourably viewed New Zealand involvement in Afghanistan, considering the size of New Zealand.

The lifting of restrictions by the Washington and Wellington agreements allows New Zealand to build on amphibious capability, which is something the Americans do very well. They were of the view that it would be mutually beneficial for the Americans to have New Zealand able to handle situations in our area.

28th Māori Battalion National Association

We asked who has taken over the former role of the 28th Māori Battalion National Association now it has been wound up. We heard that the Defence Force as a whole has taken on much of this responsibility, providing ceremonial support to the Government, and educating personnel about Treaty requirements and marae protocol.

Solomon Islands

The NZDF told us that the Regional Assistance Mission to Solomon Islands had decided to withdraw the military from the Solomon Islands, where it was providing third-level of policing there, the first and second being provided by the local police and other participating police forces. The first and second levels are coping with current violence; and although the military is technically participating, with headquarters and communication staff there until April 2013, the NZDF accepts that the military presence may have only deferred the need to address the underlying causes of the conflict.
Appendix

Approach to financial review

We met on 6 December 2012 and 31 January 2013 to consider the financial reviews of the Ministry of Defence and the New Zealand Defence Force. Evidence was heard from the Ministry of Defence and the New Zealand Defence Force 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
Iain Lees-Galloway was a substitute member for this item of business.

Evidence and advice received


Ministry of Defence, responses to written questions, received 3 December 2012.

New Zealand Defence Force, responses to written questions, received 3 December 2012.
2011/12 financial review of the Ministry of Economic Development and of the non-departmental appropriations for Vote Communications, Vote Economic Development, Vote Energy, and Vote Tourism

Report of the Commerce Committee

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Ministry of Economic Development and non-departmental appropriations for Vote Communications, Vote Economic Development, Vote Energy, and Vote Tourism

Recommendation
The Commerce Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Economic Development, and reviewed the reports of the non-departmental appropriations for Vote Communications, Vote Economic Development, Vote Energy, and Vote Tourism, and recommends that the House take note of its report.

Introduction
Until its recent merger with several other departments, the Ministry of Economic Development advised the Government on improving economic performance, and advised and implemented policy on economic issues, primarily from a business perspective. The ministry administered six votes (Commerce, Communications, Consumer Affairs, Economic Development, Energy, and Tourism) and supported ten ministerial portfolios. It was responsible for monitoring ten Crown entities and two Crown companies (New Zealand Venture Investment Fund Limited and Crown Fibre Holdings Limited), and delivered various services to businesses.

David Smol was the chief executive, and was responsible for services supplied to the relevant vote ministers.

The ministry’s deficit increased from $9.239 million in 2010/11 to $9.901 million in 2011/12, considerably exceeding the budgeted deficit of $320,000. We will continue to monitor the ministry’s deficit situation and look forward to further reporting in next year’s review, taking into account the merged ministries’ preceding obligations. Total revenue was $134.324 million, down from $141.916 million in 2010/11. This comprised just over $80 million from the Crown (reduced from $85.003 million in 2010/11) and $54.32 million from other sources such as fees, levies, and sales (also slightly reduced from 2010/11). We heard that in order to account for appropriations the ministry committed itself to delivering specified outputs, which are publicly documented and reported on at the end of the year.

On 1 July 2012, the ministry was transferred into the newly-established Ministry of Business, Innovation and Employment, which consolidates the functions of four government agencies: the Ministry of Economic Development, the Ministry of Science and Innovation, the Department of Building and Housing, and the Department of Labour. We were told that no functions of the former ministry were ceased, curtailed, or added. David Smol was selected to become the chief executive of the ministry.

We asked what was being done to develop a culture in the new ministry emphasising services to business in the public sector. The ministry pointed out that the new ministry’s integrated structure had been operating only since 19 November 2012, but it had taken
steps to facilitate collaboration, such as common web portals for related areas of work. It had also worked to ensure engagement with businesses and understanding of their circumstances, and to remove unnecessary bureaucracy.

**Review of reports of non-departmental appropriations**

This report also includes our review of certain non-departmental actual spends in 2011/12 of $17.074 million for Vote Communications, $123.763 million for Vote Economic Development, $2.924 million for Vote Energy, and $28.895 million for Vote Tourism. Those reported for Vote Communications include the output expense classes Broadband Investment (Rural Supply) and Telecommunications Development Levy Funded Procurement—Non Urban Infrastructure. The non-departmental appropriations reported for Vote Economic Development include the following output expense classes:

- Establishment and operation of the Food Innovation Network New Zealand
- Large Budget Screen Production Fund
- Promotion of New Zealand associated with the America’s Cup
- Major Events Development Fund
- Rugby World Cup Leverage and Legacy Programmes

The non-departmental appropriations reported for Vote Energy include the output expense classes Acquisition of Petroleum Exploration Data and Maintenance and Operation of Whirinaki. The non-departmental appropriations reported for Vote Tourism included the output expense class The National Cycleway Fund.

**Responses to written questions**

We wrote to the ministry to express concern, and seeking further clarification, because some of its responses to written questions seemed unsatisfactory. We reminded the ministry that it is under an obligation to respond fully and factually to select committee financial review questions. We stressed to the ministry the limited time available to committees for financial reviews, and the importance of having the fullest information available in time for hearings in order to undertake full parliamentary scrutiny. In order to ensure this, the committee required the ministry to return for a further 30-minute hearing.

For example, some of us were concerned that the ministry had referred the committee to the Official Information Act 1982 in response to a committee question. We considered it unacceptable to have questions referred to the Official Information Act. Clarification was subsequently received during the hearing that this was not the intention, but that answers would be subject to the principles of the Official Information Act. Some of us note, however, that no information had been provided by the ministry in response to the committee’s initial questions.

In addition, some of the written questions asked how much time was spent on specific tasks. The ministry responded with measured outputs rather than numbers of hours spent in these areas, but upon questioning proved able to comment on outputs and whether targets were achieved. The ministry was also able to obtain the information needed from other Government departments to answer some questions, although it had not done so in its initial responses.
2011/12 Financial Review of the Ministry of Economic Development

The ministry assured us that it took its responses to written financial review questions very seriously, and accepted that some of its answers were not well worded. We asked why we did not receive full answers initially. It undertook to reflect on the process and build the results into its systems as the new ministry develops.

Some of us hope the quality of the ministry’s responses to written committee questions will improve next time, and do not expect to have to recall the ministry on future occasions.

Official Information Act Responses

The ministry told us that its reported 100-percent response to Official Information Act requests within the legislated response timeframe included those on which it had been granted extensions. We learnt that of the 280 requests received in 2011/12, ten departmental requests and six ministerial requests had needed extensions, which was an improvement on results in the two preceding reporting periods. The reasons for extensions included the complexity of requests, waiting for information from a third party, and waiting for the release of documents to include more information or specificity. We were assured that the ministry had not received any instruction from the Minister for Economic Development to delay responses to Official Information Act requests in 2011/12.

New Zealand National Party View

At the request of the Labour members, we received a report from the ministry on their responses to Official Information Act requests, which showed consistent and timely responses to those requests.

Major Events

We noted that the Ministry of Economic Development allocated significant sums to large-scale events, and asked what contribution the Rugby World Cup had made to the local economy.

The ministry said it had produced a full report analysing the effects of the tournament, and said that the numbers of related visits by tourists and business people and of business connections made, and the scale of related international coverage of New Zealand, were considerable. It hoped that The Hobbit film series, the Cricket World Cup, and the FIFA Under-20 Rugby World Cup 2015 would have similar effects.

We asked the ministry whether it was its normal practice to evaluate several options when considering bids involving major events funding. The ministry had confirmed to one of us that its normal process was to complete due diligence “on a minimum of at least the two top venues”. However, in a written answer to the committee, the ministry confirmed that in respect of the V8 Supercars event it had performed due diligence on only the applicant’s preferred venue, Pukekohe Raceway. This occurred after the applicant had performed its own due diligence process in reviewing alternative venues. The ministry confirmed in answer to our supplementary questions that “the choice of location for the V8 Supercars event was an operational decision made by the event organisers”.

The ministry told us in response to our questions that there are “no criteria for venue selection and no departmental guidelines which require multiple venue options”. However, a document released by the ministry under the Official Information Act stated that “the ministry’s recommendation would be to complete this process on as many of the suitable venues as possible (and a minimum of at least the top two venues)”. This communication
was sent following discussions with the Prime Minister’s office. However, we were informed that the Prime Minister’s office was not involved in the substantive decision.

Some of us remain concerned that relying upon the applicant’s decisions rather than conducting its own due diligence may have weakened the ministry’s oversight, and consider multiple-bid evaluations to be a necessary practice.

**SkyCity Casino**

We questioned the ministry over its initial refusal to release to the committee details of its meetings between its officials and SkyCity Casino, including dates, job titles of the officials concerned, and purposes and outcomes of the meetings and correspondence.

Following further requests by the committee, the ministry confirmed that 23 meetings had occurred between SkyCity Casino and ministry officials between June 2011 and July 2012, and 33 exchanges of correspondence had occurred between them during this time.

We expect full and frank responses by departments to its questions. Labour members remain concerned that the timing and level of the information received did not meet normal parliamentary expectations.

**New Zealand Labour Party minority view**

Labour members consider that in respect of the ministry’s responses to written questions, its performance in the hearings, and in Official Information Act requests on related issues, there has been an unfortunate pattern of denial of legitimate information to members of Parliament and the Commerce Committee by this ministry. In addition, Labour members of the committee have been denied timely and accurate information in response to written parliamentary questions and Official Information Act requests by the ministry and Minister on the issues covered by the committee’s questions.

On this occasion the Commerce Committee felt the need to recall the ministry for a special hearing to require full and frank responses to written select committee questions. While further information has been provided prior and subsequent to the second hearing, Labour members remain very concerned by the difficulty of requiring information that should have been readily provided to the committee in the first instance. Labour members do not wish to see a repeat of this process in next year’s hearing.

**Review of sectors of the economy**

To fulfil the Government’s Business Growth Agenda, the ministry has been gathering information on specific sectors of the economy, which will be published early next year. We heard that some departments review their key sectors continuously, but approaches differ with dynamic or diverse sectors. The ministry had not specifically set out to determine in which sectors jobs would be created; it believed that the Government’s job forecasts were probably based on modelling of the whole economy. Some of us expressed concern that there was no analysis undertaken by the ministry at a sector level of the potential for job creation, in particular regarding the creation of 170,000 jobs by 2015 in the Government’s 2011 Budget projection.

We asked whether the ministry planned to review spending in the petroleum and mineral sector. The ministry said it regularly reviewed the effectiveness of spending on support in particular sectors. The petroleum and mineral sector sometimes requires long periods for the purchasing, exploration, and testing required before the development of resources can begin.
Innovation

The ministry works with New Zealand Trade and Enterprise and intends to work with the newly created Callaghan Innovation to strengthen connections between businesses and science and research institutions, and to support the international expansion of businesses. We heard that the New Zealand business presence in Asia and Australia showed the biggest growth, and grew substantially in South America.

Intellectual property

We asked whether the ministry considered New Zealand’s intellectual property to be a sector of the economy worth analysing, given the substantial work being undertaken on this in other economies. We heard that the ministry did not consider intellectual property to be a sector in itself and had undertaken no analysis.

We heard that the ministry instead modelled the effect on the economy of any changes to intellectual property law required by trade agreements under negotiation. The ministry told us that a fine balance is needed between supporting the rapid spread of ideas and ensuring that firms retain the right to make money from their innovations. The new Ministry of Business, Innovation and Employment brought together the team working on laws and regulations with that working on innovation policy, to pool their understanding of the issues. Productivity growth was a key indicator for measuring a business’s performance in innovation.

We asked whether the ministry focused on importing knowledge from overseas or fostering the development of knowledge within New Zealand. It replied that innovation often occurred in international partnerships, so it was important to have a system to foster such partnerships and to ensure that businesses could adopt innovation effectively from overseas. The ministry explained that as New Zealand businesses often used knowledge from overseas, it was important to recognise the pertinent international intellectual property obligations. We asked what the ministry had done to foster new business models to reduce intellectual property infringement. The ministry said it was generally working to encourage innovation and the creation of new intellectual property. It was too soon to assess the effect on innovation of legislation such as the Copyright (Infringing File Sharing) Amendment Act 2011.

Ease of doing business

We observed that the ministry had developed tools to facilitate doing business, and asked how it measured their impact. The ministry said it had conducted a joint survey with Business New Zealand to establish measures of the cost of doing business and the effectiveness of the Government compared with the private sector. The results of the survey were intended to be available in February or March 2013. In the same area, the ministry was leading joint research with the Inland Revenue Department and Statistics New Zealand on ways to consolidate compliance processes.

Manufacturing

We asked what feedback the ministry had received from the manufacturing sector about barriers to domestic and export performance. The ministry said it focused its discussions with businesses on areas in which the ministry has some influence; the exchange rate was a concern raised consistently by this sector, businesses generally expressing preference for a
lower, more stable exchange rate. It said that hedging against exchange rate fluctuations comes up regularly in discussions with businesses seeking greater stability.

**Regulatory reform legislation**

The ministry contributed to changes to legislation arising from the Regulatory Reform Bill. We asked whose idea it had been to repeal a number of Acts. The ministry told us a number of departments had contributed jointly to the reform process, with the aim of removing regulation and legislation that was no longer in use. The aim was to make legislation more accessible and reduce the amount of legislation with which businesses needed to check their compliance. The legislation was enacted in August 2012.

**Small business**

We asked about the ministry’s work regarding small businesses. The ministry said much of its work was aimed at improving the environment for all business, but it recognised that the regulatory burden was disproportionately large for smaller businesses. The ministry welcomed our suggestion that it consider seconding personnel for a short time to small businesses to obtain a first-hand understanding of compliance costs.

**Broadband**

The ministry recognised information and communications technology as a key sector for innovation, in which all businesses contribute to and enable intellectual property development. Ultra-fast broadband and rural broadband are critical economic infrastructure, particularly for enabling innovation throughout the economy, so the rates of usage of broadband infrastructure were a key indicator for success in this sector.

We asked about the rollout of ultra-fast broadband and how uptake compared with that in other countries. The ministry believed uptake rates in New Zealand were ahead of those for a similar project in Australia. It expected to have 40 to 45 percent of internet users using ultra-fast broadband by 2019, residential users making up about 38 percent of that total. The ministry said it does not have a yearly target for uptake of ultra-fast broadband services, as it was too difficult to forecast the trajectory.

The ministry did not believe that near-saturation of the market with slower broadband services would reduce uptake of ultra-fast services, but was unsure about the potential effect of reduced copper prices, and was undertaking analysis of this. We asked whether services could be provided specifically to stimulate demand. The ministry told us it was providing advice on the Network for Learning initiative under the Ministry of Education, and tele-health initiatives under the Ministry of Health.

The ministry had analysed the strategic risk to New Zealand of maintaining a single international internet connection. It explained that it was hard to make the case for the Government to fund a second cable, but it had provided support to companies investigating doing so.

**Complaints and feedback**

We asked how the ministry processed complaints from external sources. The ministry said it did not have a formal collection process for complaint data, but intended to set one up in January 2013. It received feedback and complaints from time to time via many interfaces with external bodies, but a comprehensive report was not available. To measure satisfaction it participated in a number of surveys, and some departments had specific measures for engagement with external bodies—for example, the Companies Office received feedback
and interacted with customers via a Twitter account. The ministry reported on various customer responsiveness measures in its annual report.

**Petroleum and minerals**

We asked for an update on the Crown Minerals review and its effect on the oil and gas sector. The first block offer allocating petroleum exploration permits was made in 2012. In that process 41 iwi and 70 councils had been consulted, marking a large increase in engagement with these groups. The ministry believed it had made much progress in relationship-building with communities, particularly in Taranaki and on the East Coast.

We asked whether the block offer was premature given that regulations under the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012 had not yet been finalised. The ministry believed that companies were aware of the progress of the legislation.

**Spectrum licensing**

We were interested in the radio spectrum allocation auction, and asked what advice the ministry was giving regarding any delays. The ministry said the spectrum would be available for use from December 2013, and it was confident that there was time for the allocation process and for interested companies to make the necessary investments. It could not estimate precisely when the time available for this process would become insufficient.

**Māori economic development**

The ministry engaged with several areas of Māori economic development, including tourism, petroleum, minerals, and the Māori Economic Development Panel. The ministry had interactions with pan-Māori groups and individual iwi. It was creating a Māori effectiveness unit to lead support for the delivery of the panel’s action plan for Māori development.

**Procurement**

We heard that over the last three years, 77 percent of Government procurement contracts had gone to New Zealand businesses. Policy work was being undertaken to establish the economic benefits of local versus international procurement. No work had been requested or undertaken on the benefits of local versus overseas building of railway carriages.

**Food Innovation Network**

We heard that the Food Bowl in Manukau was established and running. The current main challenge for the New Zealand Food Innovation Network was in establishing an effective working relationship with Callaghan Innovation. The ministry was working with the Minister for Economic Development and Minister of Science and Innovation on this.
Appendix A

Approach to financial review

We met on 6 and 12 December 2012 and 31 January 2013 to consider the financial reviews of the Ministry of Economic Development and of the non-departmental appropriations for Vote Communications, Vote Economic Development, Vote Energy, and Vote Tourism. Evidence was heard from the Ministry of Economic Development and advice received from the Office of the Auditor-General.

Committee members

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

Evidence and advice received

Ministry of Economic Development, Major Events Development Fund Criteria, received 21 December 2012


—— Responses (revised) to written questions, received 10 December 2012

—— Responses to additional oral questions, received 25 January 2013

—— Responses to additional questions 159–173, received 25 January 2013

—— Responses to oral questions, received 21 December 2012

—— Responses to written questions 1–115, received 3 December 2012

—— Responses to written questions 116–158, received 3 December 2012


Organisation briefing paper, prepared by committee staff, dated 3 December 2012.
Appendix B

Corrected transcript of hearing of evidence 6 December 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Chester Borrows
Hon Clayton Cosgrove
Clare Curran
Gareth Hughes
Colin King
Peseta Sam Lotu-Iiga
Mark Mitchell

Witnesses
David Smol, Chief Executive
Mark Steel
Adrienne Meikle
Bradley Ward
Greg Patchell
David Binnie
Len Starling

Young: Welcome, Mr Smol, and to the officials who support MBIE. I appreciate your time here today. We have 90 minutes with you, sir.

Smol: I beg your pardon?

Young: We have 90 minutes with you, and no doubt you want to present to the committee, then we’ll have a series of questions, obviously. So away you go, sir.

Smol: Thank you. I’ll just introduce my colleague Mark Steel and we have also various people with us who can hopefully answer your questions. If we don’t have the right person we’ll come back as quickly as we can—

Cosgrove: Sorry, I missed the last bit.

Smol: I said if we can’t answer any of your questions now, obviously we’ll come back in writing subsequently.

Cosgrove: You might want to advise them of our decision.

Young: That’s all right. We’ll not do that now. Thank you. Away you go, sir.

Smol: Thank you. As you know the Ministry of Economic Development ceased to be on 30 June and became part of the new Ministry of Business, Innovation and Employment, which came into being on 1 July. In deciding to create MBIE, Ministers were looking to strengthen the Government’s contribution
to the economy, and to streamline government’s interface with business. If as the new ministry we do our job well, we believe we can add value through joining up related areas of policy advice, joining up related areas of service delivery, achieving consistently good practice in the design and the implementation of regulatory systems, being a magnet for attracting and retaining talented people, building a strong and integrated evidence base to underpin all our work, lower the cost and increase the quality of the back-office support that we get, and be flexible in allocating resource to ever-shifting priorities.

There are a number of a bit more specific opportunities for MBIE to add value in supporting the portfolios that were formerly the responsibility of the Ministry of Economic Development. They include more effective leadership of the Business Growth Agenda amongst officials, both the overall agenda and the areas for which we have specific responsibilities, which include innovation, skilled and safe workplaces, and building capital markets. Similarly, we can be more effective in our leadership of the business-facing services part of Better Public Services. We are now responsible for a significant part of the Government’s interface with business, although we would need to continue to work with departments such as the Inland Revenue Department and Statistics New Zealand.

We will be able to integrate policy work across the related areas of economic development, science and innovation, and skills and employment to work more effectively with the Crown entities with whom we partner—for example, New Zealand Trade and Enterprise and Callaghan Innovation. They will both be involved in supporting the innovation and internationalisation of New Zealand businesses.

We can more effectively contribute to New Zealand’s international connections through people links, particularly through Immigration New Zealand, the role of science, and through access to capital—all of which can support stronger export performance by our businesses. We can be effective in supporting the recovery in Canterbury across the related areas of housing, skills, procurement, economic recovery, and science and innovation. Similarly, we can be more joined up in supporting better outcomes for Māori, across those same areas.

Our role as the Government lead on procurement will be important as we work with the building and construction sector to try to improve productivity in that area. We will have an increased critical mass in our infrastructure-related work, with housing responsibilities being added to our existing energy and ICT role. And we can be a centre of excellence for the design and implementation of regulatory regimes, of which we will be responsible for a large number, spanning, for example, the commerce, consumer affairs, and labour portfolios.

We moved as a ministry to our integrated organisational structure on 19 November. We are working proactively with stakeholders to make sure they know who to contact as we move from the previously federated way of working to the integrated structure, and have looked to ensure that we
retain institutional knowledge and continuity of people, wherever possible, and where we need to build new relationships that we do that quickly.

Briefly, over the past year some of the key projects we’ve worked on include our work in support of the Business Growth Agenda, our work in support of Better Public Services, and of whole-of-Government procurement, the roll-out of the Ultra-fast Broadband Initiative and Rural Broadband Initiative. We have also worked actively with the security agencies to make sure we’re well placed to deal with cyber-security risks. We’ve worked to bed in the electricity reforms, which at this stage seem to be working well. We’ve progressed improvements of the Crown minerals regime, including better integration with the health and safety and environmental protection regimes, and progressed block offer 2012. We’ve progressed a major law reform, including in the areas of consumer law and the Financial Markets Conduct Bill. We continue to work with the tourism sector—for example, to strengthen air linkages that can underpin higher volume and value from tourism. We continue to support the Ministry of Foreign Affairs and Trade-led market access negotiations, which, as you know, include the TPP negotiation. We’ve worked to further improve our business services—for example, with the completion of a successful business transformation process at the Intellectual Property Office. And although it seems a long time ago, it was within the last financial year that we completed our work in support of the Rugby World Cup.

That is all I wanted to say by way of introductory comment. We would be very pleased, obviously, to answer your questions.

Young

Thanks very much. Can I just start off before we come to other members. The change of culture for departments to be MBIE, with particular emphasis on business-facing services in the public sector, I think is a major emphasis that’s happening with MBIE. Can you just talk to that and how that is going, what measures are being put in place to build that culture.

Smol

We’ve tried first to organise in a way that brings together related areas of our work with business, and that creates the opportunity to make access to those services easier for business through integration, through accessing via common web portals—those sorts of things. In terms of the culture of the organisation, we will look to make sure that we are deeply engaged with business, that we have a well-based understanding of the practical challenges and opportunities that they face, and to make sure that all our interactions with them are responsive, so that we do not create unnecessary bureaucracy. Very early days in that respect. As I said, we’ve only moved to our integrated structure on 19 November. We’ve already had a number of interactions with business groups, including Business New Zealand where we’ve been talking with them about the opportunities and how we can organise to be as effective as possible in support of business, as we build in the organisation.

Young

I think in your annual report you talk about ease of doing business—page 13. You’ve launched a number of initiatives—B-CAL, Mobile Business Toolbox, Searchlight, etc. What’s the uptake on these initiatives?
I don’t know if I’ve got anyone who knows the details of this.

They are quite new initiatives (inaudible).

Right. Yeah. Because I notice that, as an aside, Forbes lists New Zealand is one of the best countries for business in the world. So having this business-facing environment contributes to that, no doubt.

Yeah, it does. Although we have achieved good results in these international surveys over the years, we can’t stand still. So we are looking continually to improve our contribution to making the environment for business as effective as it can be.

Mr Smol, firstly, I want to question you on your responses to the committee, because at least some of us are quite disturbed by the responses, or lack of response, that you’ve given. A charitable person could say “pressure”; an uncharitable person could say “contempt of the committee”. You were issued with these questions 1 to 115 on 25 October. You were subsequently issued with questions 116 and 158 2 weeks ago. And you provided us answers, according to the clerk, on Monday. Some of those answers were wholly unacceptable, and I’ll point to them in a moment. I refer at reference to the OIA questions, which, basically, I believe you do have the information for. I will illustrate that in a moment.

You were subsequently contacted by the clerk last evening, and the reason for that was because the committee met yesterday and that was the earliest opportunity, as I understand it, to contact your office. As I understand it, we’ve had a verbal response from a representative of your office that you may provide us with information today. I want to signal to you that having done a number of these, and recently on another committee the IRD, I find your set of responses to a number of questions compared with, for instance, Inland Revenue wholly inadequate.

I’m going to start by asking you this: as to question 126, which simply asked you a question around remuneration, when these questions are asked, and I think you’ve been around the track long enough to realise, they are generally standard questions that are asked of all agencies. They generally give fulsome replies, but, obviously, replies that protect the confidentiality and integrity of individual salary and wage earners within the department, which is appropriate. In response to the question, your answer was—this question is 126—“The question is best directed to the State Services Commissioner, who collects the data on an annual basis, as at 30 June each year.” Well, that’s great. But we didn’t ask the States Services Commissioner; we asked your department. And my question is this: how did the SSC compile those figures if they weren’t provided by your entity, which made the payments?

Well, first of all, we take the answering of the questions that you ask very, very seriously. We can only base our answers on the information that we have, and at times we will make a judgment because of, for example, privacy considerations, as you mentioned, as to how to present the information. But wherever we get requests for follow-up we will follow those through and provide whatever further information we can.
Cosgrove  With respect, Mr Smol, this is a committee of Parliament. If other agencies that are under budgetary and time pressure, like yourselves, can come up with adequate answers to basic questions that are canvassed across all agencies, then why can’t you?

Smol  Well, I think we have for the vast majority, and we are working through the ones where you’ve requested additional information.

Cosgrove  OK, could you answer my question—how did the SSC compile those figures if the information wasn’t provided by yourselves?

Smol  The question, as I understand question 126, is about the median hourly remuneration for the ministry compared with the median public sector salary. We have commented in question 125 on the median for the ministry, and obviously we collect that data and we provide that data to SSC. What we don’t have and we don’t collect is data for the rest of the public sector to enable a comparison. SSC, as you know, is responsible for the whole system, so they do a lot of data collection and analysis across the system as a whole that does enable comparisons between departments and so on.

So with that question we can, if you would like us to, go to SSC, request the information from them, and then forward it to you.

Cosgrove  Well, that was the whole point of the question, so we could make judgments and a comparison.

Smol  Well, as I say we are happy to follow up with SSC if you would like us to.

Cosgrove  Yes, I would.

Young  I think in the past, Mr Smol, what’s been presented is through, for example, a department, bands of salaries and the number of people within those bands.

Smol  At the ministry itself we have done that, but we, as I say, just don’t have data across the whole system. We don’t collect that.

Cosgrove  Can I turn you, then, to question 134, regarding the dates that ministry employees met or corresponded with representatives of Skycity. Without getting into the detail of that first, you have simply—your answer is “The information sought on this question would require substantial investigation collation, and its release would also be subject to the consideration in accordance with the Official Information Act.” That’s, I take it, is factually true. But this is a committee of Parliament. This committee shouldn’t have to put in an Official Information Act request.

Smol  No, no, no, I—

Cosgrove  And, secondly, sir, I would note for the record that media and other members of Parliament and others have put in a large number of Official Information Act requests, I am advised, to your department—I think one earlier this year. And I am advised that in one Official Information Act request you replied that you would have to consult, and the consultation on whether you would action that request would take till 4 February.
I am not familiar with that specific example, but I accept this answer is not well worded. What we meant there was that in working out how to provide the information we would take into account the principles around privacy, confidentiality, commercially sensitive information that are embodied in the privacy laws and the Official Information Act. We’re not suggesting for a moment that you should be utilising the Official Information Act yourselves, and we can come back to you with information about number of meetings and look at what else we can provide. But, as you say, we can’t compromise in terms of the subject matter if it’s an ongoing commercial negotiation.

Well, with respect, sir, the first part of that question asks you for dates—and dates of correspondence. Well, if you could’ve provided that to us, you’ve had 2 weeks to provide that to us—no, sorry, you’ve had, I think, longer than that to provide that to us. If you look at the principles of the OIA, it specifically references the importance of Parliament’s financial reviews. So if you could have provided that to us—you just said you can—it’s not good enough to say it’s too much work and it’s too hard. I’d be grateful if—Forgive me, the reason I’m sort of peppering you is because we are in a position where we get 90 minutes a year with you guys, in terms of the financial review, if we’re lucky. We ask questions in advance, we then go away and do some work on those questions, because they lead to other questions, and when you refuse to answer, or abrogate an answer, that’s not good enough. That doesn’t provide us with appropriate time or information for appropriate parliamentary scrutiny.

Thank you, Mr Smol, and thank you for your responses. I think the vast bulk of them have been answered well. Unlike my colleague, I don’t question your integrity or the responses—

I never questioned his integrity.

You’ve had your go—and you’ve received the letter from the committee. 136 to 138 talks about staff hours dedicated to certain tasks, and I know these things are difficult. You’re not measuring these things. Can you just affirm for us that some of these measures that you’ve answered you don’t report? Would that be fair to say?

Yeah, that is basically right. We had not used a time-recording system.

Yeah, OK. So you’ve answered these to the best of your ability—

Yeah, and any response to these kinds of questions would be guesses, and we don’t think it’s appropriate to give you information if it’s not robust.

Yeah, OK. So, you know, to the best of your abilities, the answers have been accurate. Would that be fair to say?

Yes, that’s right. Yes.

OK. Thank you.
Cosgrove: Well, I’ll carry on. On that score, I’d point to 124. We asked you some basic questions about your salary. We’re not asking for information we haven’t asked IRD or others. And we get again this reference to the State Services Commission. So we’re sort of in a position today, Mr Smol, where we’re asking for a series of questions and you’re going to come back to us at a later date. We’re in a position where we may or may not see you again in order to follow up those questions.

Young: Although, can I just supp to that, or not so much a supp as a comment. I believe in the past what we have done is what I said to you before, Mr Smol, in terms of remuneration bands and number of people within them. I don’t think that we’ve ever asked those questions of a chief executive personally.

Cosgrove: That’s not correct.

Smol: I think we have got the data, haven’t we, on the bands somewhere in our information. But the issue with chief executives is that they’re not employed by the ministry in this case. I wasn’t employed by the Ministry of Economic Development; I was employed by the State Services Commission, so they have the chief executive data, which they do publish pretty comprehensively each year.

Curran: Thank you. Just a supp on that, Mr Smol. On questions, essentially, 131 through to 133, around the number of hours it’s taken to accomplish various tasks, whether it’s responding to a request for information under the OIA, or whether it was related to tasks associated with preparing briefings or reports for the Minister for Economic Development. You basically have said that you don’t collect that information, and yet you appropriate $14 million for policy advice. So it would seem to me that if on the one hand you’ve got an appropriation for advice, but you don’t calculate how much time you’re actually putting into that advice. So how do you measure that up?

Smol: As you say, we have money appropriated for each of the outputs that we commit to delivering, and that’s portfolio by portfolio. So at that level we can say we’ve had this much X million dollars appropriated for the purpose of supporting the economic development portfolio. Then we’ll have a certain number of people employed directly in work supporting that portfolio, and a number of people who support various portfolios—for example, in the legal services area. The team supporting the Minister will do a variety of work directly for the Minister in preparing reports, but they’ll also work with stakeholders or do research. There’s a whole range of activities that go on in support of each portfolio.

Curran: And I absolutely accept that, but, surely, when it comes to an appropriation, there needs to be an accounting for how that appropriation is actually allocated and spent, so that it can be measured on a year by year basis or whatever against—so, you know, what was the output from that area? I accept that some of it is subjective, but it’s an appropriation that you have. So, therefore, the responses to those questions where you say we don’t collect this information. Well, on the one hand, we collect a bunch of
money for it, but we don’t actually measure what we’re doing or actually have any accounting for it. Again, that’s another set of questions that have come back with a nil response, virtually, which have left us to question, well—

Smol As you say, the way the system works, we commit to delivering some specified outputs. So our output plan, which is a public document, specifies what we’ll deliver, and we have money appropriated for the purpose of delivering those outputs. Then we report at the end of the year on whether we have been effective in delivering those outputs. We also obviously get audited financial accounts that check that we have spent the money appropriated, for example, for work on economic development on economic development; we’re not using money appropriated for purpose A on purpose B.

Curran Well, are you able to come back to us with a response around those questions that gives us an explanation of how that appropriated—

Smol We can certainly set out how we organise and how we track both the money that we spend, ensuring it’s spent appropriately, and the outputs that we deliver for the money. What we don’t have is a sort of an activity-based system that says we spent X on this report and Y on this Official Information Act request.

Young It’s actually an output-based system rather than an activity-based system.

Smol Yeah, that’s right.

Mitchell I just wanted to say thanks for your answers, because you’ve actually answered them very well and put some good context around some of the queries from my colleagues. But I was wondering what are the key findings of the sector reviews that you’ve already undertaken with the formation of MBIE?

Smol The sector reviews—do you mean sectors of the economy?

Mitchell Yes.

Smol We do a range of work with a variety of sectors across the economy, and with the creation of MBIE we can bring together some of that work into a more integrated form. We work extensively, for example, with the tourism sector on an ongoing basis. A sector that we at the Ministry of Economic Development hadn’t previously worked for—sorry, where there’s the building and construction sector - which we are now working with, it’s a major part of the economy that has low productivity. So there’s an opportunity there to build on the work that the former Department of Building and Housing had done to support higher productivity.

Steel I just would like to add that as part of the Government’s Business Growth Agenda, the ministry has been actually gathering together information on a whole range of sectors across the economy, and that will be published as a consolidated report some time early next year.

Hughes Thanks very much. What is the process to review what sectors you do look at? Is that annual?
It partly depends on the way the system is organised—for example, we have a Ministry for Primary Industries that they work on an ongoing basis with the key sectors within the primary industry part of our economy. We have a tourism portfolio, and we have a team that supports the Minister of Tourism in ongoing engagement with that sector. We have a petroleum and minerals group that works with that sector.

With some of the other sectors that are quite dynamic or diverse—for example, like manufacturing or like digital—the approach we take has varied through time, and we try to ensure that we organise from a sector perspective to be effective in supporting the approach of the Government of the day.

Hughes I guess I ask because all the petroleum and mineral sector studies will be reviewing the focus of area in this work, given that in your answers to questions, a long list of all the money we’re spending promoting oil around the world, the stakeholders engagement posting summits, giving seismic survey data to these companies for free. But these companies are surrendering their permits—the big ones, I’m meaning. They’re not coming to New Zealand. Will you be reviewing this sector?

Smol We do look regularly to review the effectiveness of money that’s spent in support of economic activity in particular areas. One of the challenges in that sector is there are long lead times—for example, from the acquiring of some acreage within which to explore, the shooting of seismic and potentially the drilling of an exploratory well, and then, depending on the outcome of that, moving to production. That can take 5, 10, 15 years, so it’s quite hard to measure cause and effect in any precise way, but we do advise Ministers on whether there’s a case for spending more, whether there’s evidence to suggest we should be spending less because there are other higher priorities—for example, in that sector, the oil and gas prices are obviously major influences of the economic viability of activities. So if the oil price doubled or halved, we’d reflect that in the advice that went to Ministers.

Curran Two quick supps on that. As part of the sector reviews are you undertaking work to identify in each of those sectors how many jobs can be created to fit the 170,000 jobs that the Government has promised will be created?

Smol No, is the answer to that. As you know, the economy is a very dynamic thing, and jobs are being created and disappearing on an ongoing basis. The way we approach it in our advice to Ministers is to recommend a focus on sectors where there is growth potential, for example, because international demand is increasing and where it’s plausible that New Zealand can be internationally competitive.

Curran So has there been any work done on the potential for job creation in a quantifiable way within any of the sectors that you’re reviewing?

Smol We don’t try to do forecasts of job creation on a sector by sector basis.

Curran Well, where did that 170,000 jobs come from?
Smol: I don’t know the precise answer to that, but I suspect what happened is there was some economy-wide modelling done somewhere that made an assumption about a relationship between rate of growth of GDP and levels of employment. But it’s an imprecise science.

Curran: So if it came from Treasury, there hasn’t been any communication between you and Treasury around how that could be realised?

Smol: The approach we take, and I think that they take too—they have a responsibility for macroeconomic matters, which includes advising the Government on fiscal policy and the framework for monetary policy.

Curran: And you’re economic development.

Smol: Well, we tend to be more microeconomic and focused on specific sectors. We do work with Treasury around, as I was saying before, where might Government intervene. And recognising, ultimately, it’s businesses that succeed or fail in competitive markets—Where is there a role where Government can make a difference that will support stronger economic performance, more jobs, better-paid jobs? For example, is it the tourism sector, is it some of the high-tech innovation sectors, is it the service sectors? Because Government, as you know, is very cash constrained, so making sure that the support that there is is allocated effectively is a key part of our work.

Bakshi: Going back to the energy sector, my question is that there was new offer of blocks in 2011-12. How did it go?

Binnie: The results will be announced next week (inaudible) so that’s confidential at the moment (inaudible).

Lotu-Iiga: Just coming back to the sectors you’re referring to, and I know you’re supporting the Government’s Business Growth Agenda, in your annual report you do talk about six sectors. High-value-added manufacturing, ICT, tourism, mining, and petroleum construction. Those are some commercial services you’re looking at in terms of economic performance. I suppose in my local patch we’ve got these types of companies, like Buckley Systems, like the compact sorting equipment that has won innovation awards and engineering awards, which I was at last Friday. Firstly, what are you doing with those types of companies to promote those types of industries in our country? What’s the level of that economic performance indicator? Just give us a feel. You don’t need to get into the detail about how you measure their success—not just jobs, but export dollars, that type of thing.

Smol: In terms of support for those sorts of high-tech companies that are either actual or potential exporters, we work in partnership with New Zealand Trade and Enterprise and, increasingly, with the new Callaghan Innovation organisation that will start operating on 1 February. In terms of what can Government do, the areas that we focus on are support around innovation itself, trying to strengthen connections between those kinds of businesses and our science and research institutions. We look to ensure that our capital markets are as effective as they can be in enabling these kinds of businesses that may not have a lot of physical collateral but are intellectual property-
based business—that they have access to capital as they look to grow. And, in particular, through New Zealand Trade and Enterprise, we look to support them in internationalisation—for example, utilising Trade and Enterprise and MFAT’s offshore networks, to help them with introductions, to building networks, identifying distribution and retail partners.

Lotu-Iiga OK, let’s just talk about those markets, because, you know, obviously, it’s well known that China, Asia—I spoke to a couple of exporters in my area. They’re looking at South America as well—the Brazilian office, obviously. Are we seeing a movement to diversify those markets, or are we seeing a ramping up inside this sort of Asian area? Have you got those types of trends—overall trends?

Smol Broadly speaking, the centre of gravity of New Zealand Trade and Enterprise’s offshore network is moving towards Asia. They’ve significantly increased their presence in China. As ever it’s a judgment about how to allocate scarce resource to greatest effect, and, as you say, South America is also a growth area. Just on a simple population basis it’s clearly nothing like as big as Asia, nor is it geographically quite as close, but maybe some of the cultural challenges are slightly less. So working with Trade and Enterprise and MFAT I think the aim is to maintain a balance. There’s no part of the world that we’re going to completely withdraw from but to shift the level of resource to those markets where there’s greatest growth and where we in the businesses that we talk with see greatest potential in China is the most obvious example.

Steel If we look at our export statistics, the most notable aspects of that are the very strong growth that two markets are experiencing over the last few years, and they are China and Australia. So NZTE’s response has been to concentrate resources where exporters are identifying opportunities. We always have to, as much as possible, be there to respond to where businesses see the opportunities. About a quarter of NZTE’s footprint is in China now. So there has been a significant shift in resources in the direction of Asia, but those two real standout areas of growth are Australia and China.

Young Just following up on that, with those different sectors that Sam asked about and also the integrated work programmes, obviously, you’re working to support all of those particular industries in conjunction with the NZTE. Can you give me an update on the New Zealand Food Innovation Network and the development of that and where that’s at at the moment.

Steel Yes, Chairman. As you may recall, we talked about the Food Innovation Network last time we were before this committee. It comprises a network organisation that actually pools together the work of four hubs, and the hubs are located in Manukau, in Waikato, in Palmerston North, and in Canterbury. The hub that’s farthest along is the operation known as the Food Bowl. That’s up in Manukau. That’s up and running now. The main challenge that the Food Innovation Network faces at the moment is how we get it to work effectively with the new Callaghan institute, and we are at
the moment working with the Minister for Economic Development and the Minister of Science and Innovation to ensure that there’s a good partnership there, and we’re still working on exactly what form that might take.

Young Right. OK. Thanks very much.

Curran In the context of the sectors again, does the ministry consider intellectual property to be a sector?

Smol Not as such, no. The way I’ve thought about it there aren’t firms that sell intellectual property. It’s an underpinning of—

Curran Why not? I guess my question is in the context of what you said at the beginning about the TPP. When you’re looking at those negotiations, the United States, which has done quite a lot of work on quantifying and describing intellectual property as a sector, and has identified 75 industries that are associated with it, $5 trillion in value-added products, services, etc., 40 million jobs—27.1 million of which are direct jobs associated with intellectual property, and equating to 35 percent of GDP. Obviously, the comparisons with little old New Zealand are not going to be like that, but in the context of, I guess, this important negotiation and the fact that IP is being talked about as being an important part of that underlying, etc. Surely there would be some work within the ministry around quantifying and describing and being able to—and I accept that this is a fairly new way of conceptualising and looking at it. Are you thinking about doing that; and if not, why not?

Smol I’ll start. In advising Ministers on the terms of any potential trade deal, we do look to do economic modelling of the effect of any particular arrangements that are contemplated within that trade deal. So the approach we would take is to try to work out the incremental effect on the economy of changes to, for example, our intellectual property laws that might be required as part of a trade negotiation. So in that sense we’re looking at the effect of agreeing that were we to sign it on economic activity, compared with a circumstance without that agreement taking effect. It’s hard modelling to do, but we do do it as best we can.

On the wider point about what does IP contribute to our economy—as we think about our legal regime, we are trying to achieve settings that are optimal for economic performance, recognising the tension between giving firms the right to make money from their innovation, on the one hand, and trying to support the rapid spreading of ideas, on the other. New Zealand, as you know, is a big importer of knowledge, and that’s certainly one of the factors that we take into account.

Curran But we’re fostering an innovation economy. That’s, you know, partly what this restructure has been about, so one would think that part of that fostering of the innovation economy would be able to articulate what that innovation equals in economic terms, and part of that is the intellectual property, especially if you’re looking at technology.
Smol: Certainly, in terms of an economy that has a strong knowledge base to it, an increasing number of firms are growing more quickly that are based on ideas and knowledge, rather than, for example, extraction of resources. We try to create an environment that will support the development and growth of those firms. The way they choose to make money from their idea, sometimes it will involve formally applying for patent rights or equivalent. Sometimes it’s licensing arrangements, sometimes it’s commercial secrets, but those are judgments for the firms to make. But for the part of the regime we’re responsible for—the legal regime—we do try to optimise it for a country with our characteristics, as I say, as an importer of knowledge, but recognising also that we do have various obligations through partnership with other countries around the world that are a relevant consideration.

Curran: I’m just trying to get this straight in my head, you see the intellectual property debate as being around importing of knowledge rather than fostering the development?

Smol: No, it’s a balance. If we had—

Curran: Well, if there is a balance, where is the piece of work that is about developing there and articulating? If not you, then who, I suppose?

Smol: There’s been quite a bit of work done over the years to try to quantify these things as best one can. You might want to comment on that?

Steel: I think just to go back to the beginning of your question—one of the challenges in economic development is always what channel do you choose to work through? Do you choose to work through a sector, do you choose to work through a location—like, say, Auckland—or do you choose to work through an issue like intellectual property? And one of our challenges is to find a way of weaving all of that together. In the case of intellectual property, I think one of the real gains that we’ll see from the creation of the Ministry of Business, Innovation and Employment is we’ve brought together the group of people who are working on the laws and the regulations, as David says, and the group of people who are working on innovation policy who were formerly in the Ministry of Science and Innovation. You can see the outlines of how we think about that in the report that the Government published on innovation, which was one of the Business Growth Agenda work streams. And that does try to link together the experiences that specific firms and sectors are having with developments in the overall support of intellectual property.

It is both, as you say, about fostering innovation here but also being very effective in adopting innovation from overseas. Most intellectual property nowadays is actually developed by more than one firm or more than one person. It’s frequently done in partnerships that are cross-country partnerships, and so we need an innovation system that actually fosters those partnerships, which inevitably means you talk about international cooperation.
We have some excellent IP in New Zealand, but the majority of our IP is going to be imported, so we do need businesses and sectors that are really, really good at spotting it and adopting it.

Lotu-Iiga Just on IP being a sector—I mean, I think ICT is the sector which you’ve identified in your report. Recently, we’ve obviously done some work legislatively on that area. So it’s not intellectual property; it’s information and communications technology. So it’s a wide sector. But it’s another sector that you’ve identified that you’ve got economic performance indicators. Can you just sort of walk through some of those, rather than focusing on that particular IP? Because we have had—Clare and I have hosted a bunch of ICT providers here, New Zealand - owned providers that are part of that sector, and they have an export focus. So I suppose it’s, firstly, how you relate to those types of providers that are out there innovating, that are providing services, not just getting them overseas. So how do you measure their performance? What are the indicators that we’re looking for at that sort of micro level that you referred to earlier?

Steel One of my colleagues can talk specifically about ICT, but can I make a general comment first that the most important thing about the performance of any sector is its productivity. That is the case whether it’s a domestic sector like, say, building and construction mostly is, or whether it’s a more export-oriented sector like parts of ICT are.

So, yes, exports are a very important measure of the progress of a lot of sectors, but in the end what we are looking for in any sector is the growth of productivity in that sector. In some cases, we’ll be looking to take a sector like, say, tourism, where there’s quite a wide dispersion of productivity at the moment, and move it up in productivity. But Brad may want to outline specifics about ICT.

Lotu-Iiga Sorry, if I could just qualify. Their assertion, I suppose, was that they were the third-biggest industry in this country, so, I mean, that’s just a bit of background.

Curran Software—this is software development.

Smol There is a point there about how we define the ICT sector.

Young Just a supp to that—for example, there might be in that sector services that come through their IP rather than actually selling their IP. So if you could elaborate maybe on the mix of that as well.

Ward Further to what Mark has talked about, the other indicators that we obviously look at around the ICT—and they are all contributors and enablers of IP—are the availability of infrastructure. Obviously, with UFB and RBI, that is a big policy area, so we continue to measure that, and that is seen as critical infrastructure for the economy—critical infrastructure not only for the ICT sector but to enable intellectual property and patents and innovation happen across the wider economy, whether it be farming, tourism, dairy, other high-value manufacturing areas. So that is a key area of work and measurement. Also, there are a number of indicators around usage. That is collected, obviously in relation to infrastructure but also in
relation to just ICT usage from general firms, through the business operation surveys that are done every 2 years, I think, and also the household usage survey, which is done every 2 years. From the household usage survey, for example, we know that households are increasingly using internet for day-to-day business, and we are actually probably getting saturation in terms of internet usage in New Zealand.

We also measure within the stats surveys what the ISPs are doing in terms of their products and services, and what they will be selling to businesses, and therefore how businesses can potentially use those products and services to create more productivity and other intellectual property rights in the country as well.

Hughes  I guess if we are nearing saturation of internet services, is this a risk to the significant investment in the ultra-fast broadband?

Ward  No, not at all. I think you have to look at the internet services that are currently available today, and you’d say there’s high usage of those. Is that internet infrastructure going to be suitable for the future? By no means.

Hughes  Do you think cheaper current copper prices is a risk to this significant investment, as a result of the recent Commerce Commission decision?

Ward  Well, as the Minister has said publicly, she’s asking officials to look at that decision. That’s only come out on Monday. We’re looking at that and trying to understand the impact.

Hughes  What work have officials done in new business models that the internet allows—for example, in entertainment—given we’ve got the copyright infringing and file sharing Act failing to take a single case to the tribunal at the moment? What work has MoBIE done to try to attract new business models that help reduce online infringing, if at all?

Ward  Well, I think you have to answer that from a more general point of view, which is, what is MBIE doing around economic development to actually help firms innovate and create new intellectual property. We’ve answered that. And I think that’s how you make sure that you—

Young  As a supp to that, the entertainment sector probably hasn’t got any data at this point in time in terms of, for example, increased sales or change of behaviour that that legislation may have created.

Ward  That’s fair to say.

Young  Yeah, fair to say. Also, regarding broadband take-up, I understand from the last figures I’ve seen that we’re slightly ahead of Australia in terms of people taking up broadband per hundred. How do we compare with them in regard to the roll-out of their ultra-fast broadband?

Ward  I don’t have the exact figures for NBN as of today, but I do know that as at the end of June we were 76,000 premises passed them by way of UFB, and I’m pretty sure NBN hadn’t exceeded 50,000 premises at that time. So we’re ahead of the game there.

Curran  But the take-up is around 2,000.
Ward: Two-and-a-half thousand, as at the end of September for us.

Curran: Do you have take-up targets for next year and the year after?

Ward: No, we don’t have take-up targets for year on year end. We do, and I think the Minister has said publicly, we’re expecting about 40 to 45 percent usage of UFB at the end of the build period into 2019, and of that percentage expecting around 38 percent residential uptake.

Curran: So you don’t have a year on year take-up target rate?

Ward: No.

Curran: Why is that?

Ward: Because at the end of the day we’re measuring take-up at the end of the build period.

Cosgrove: Wouldn’t you want to track that?

Ward: And I think we’re dealing here with—you know, it’s—we’re confident about reaching those targets at the end of the build period. To be able to actually project an uptake trajectory is very difficult to do. No colleague, no country overseas, has been able to do it.

Smol: These things are matters of choice, and we decided, or a decision was made some time ago, to do it that way. What we do do, though, and we’re very alert to are there barriers to uptake and are there any policy changes that might be needed to remove such barriers? But, as you know, this is lots of people making individual choices, and different people will make those choices over different time frames. It’s hard to predict.

Young: I think the Minister replied to a question in the House actually, to you, Clare, saying that internationally it’s usually when the build is halfway through that the uptake starts to—

Ward: Singapore, for example, is 18 percent uptake 3½ years into its build. I mean, it’s an easier build. They have only got 18 percent once they’ve reached 60 percent build.

Curran: Who made the decision to not do a year on year uptake target? Was that made by the ministry or by—

Ward: There’s never been a formal—there’s never been a request to do it, so there’s never been a decision taken on it.

Cosgrove: But didn’t your chief executive say that—

Smol: What I was saying was in, for example, coming to the commercial arrangements that Crown Fibre Holdings negotiated with the providers, there was a discussion around what do we target and what do we not target, and they came up with a set of commitments by the providers, and targets that we do monitor. This wasn’t one of them. I don’t think there’s any particular reason for that. That’s just the way we worked through a process, and that was the outcome.

Curran: And, ultimately, as, I think, you’ve acknowledged, the take-up is going to rely on demand, and that will rely on what services are being offered that
people want. Gareth asked about services around entertainment provision, etc. What about around other services that can be provided across fibre or across copper that can stimulate demand, greater bandwidth, etc., and the demand for more services? What work are you specifically doing on that, and in what areas?

Ward Yeah, well, we're doing, under the Government's five-point plan, MBIE is working very closely with other agencies. So in the education space, we're working very closely with the Ministry of Education and Network for Learning. The Network for Learning Company has got a procurement process under way, with which to choose a network provider to be able to provide access for all schools, internet access over fibre build.

Curran Are you providing advice to the Ministry of Education on how to establish the Network for Learning and what work it could be doing around the provision of services?

Ward We have provided advice to them when requested, just as Treasury, the State Services Commission, and the Department of Internal Affairs would.

Curran Do you have a budget allocation attached to that?

Ward Not a dedicated budget allocation. It's within general policy work within Vote Communications.

Young Sam—

Curran Well, he hadn't finished answering the question, because I asked which other areas.

Ward So the other sectors we're dealing with—

Cosgrove I wouldn't mind a go at some point. I did signal I had a question about 10 minutes ago. Do you want to finish the answer?

Ward Yes, I'll finish that, that's fine. We're also working with the Ministry of Health—in particular, the national health IT board on, obviously, tele-health initiatives.

Curran Is there a budget allocation attached to that?

Smol There will be in the Ministry of Health, but not—

Ward All this work I'm talking about comes under the policy vote allocation within Vote Communications.

Curran But you're not allocating actual funds to the development of this work?

Ward No, but I am allocating resource.

Smol It's the Ministry of Health that's doing the work. We are—

Curran Could you provide the committee with the breakdown—just to make it quicker—of which areas you are providing advice on, and quantify what is involved in that?

Ward Well, it's actually publicly available. It's in the Government's five-point plan.
Smol: We'll send you through the information that we have, and then if that answers your questions; if not, you can—

Cosgrove: In your annual report you talk about analysis of economic performance across the sectors, particularly high-value manufacturing. Can you outline for us any initial feedback you’re getting from the manufacturing sector, particularly, in terms of barriers to domestic performance and export performance.

Smol: One of the areas, as you’ll be very well aware, that is of particular concern to manufacturers is the exchange rate. That probably is the dominant theme when we discuss these issues with them. We focus in our discussion on those areas of relevance to them over which we have some influence, or Government has some influence. We’re not involved at all in the debate around monetary policy and its linkages or not to exchange rates.

Cosgrove: On the exchange rate issue, what feedback have you had from manufacturers?

Smol: Well, basically, they would prefer a lower exchange rate and a more stable exchange rate.

Cosgrove: And have they suggested or recommended to you any remedies around those issues?

Smol: As I said before, that’s not an area of policy for which we have responsibility. I think they have been in dialogue with representatives of Treasury and the Reserve Bank, who do have policy responsibility in that area. They have got some thoughts, and, as you know, there’s a lively debate going on about monetary policy settings in light of the global financial crisis.

Cosgrove: So what are their thoughts?

Smol: The manufacturers? I don’t know the detail of those.

Steel: I’d like to start by just noting that when you talk of manufacturers, their interests are actually very, very diverse. While generally there is some concern about the exchange rate, how much depends on what market you’re doing business in. If you’re doing business with Australia, then things look rather different to if you’re doing business with the US. So there’s a wide variety of points of view. Obviously, those manufacturers are under exchange rate pressure, so they would like the Government to take more active steps to help bring it down. But they’re not experts in monetary policy, of course, so they themselves can’t describe exactly how the Government or the Reserve Bank might do that.

Cosgrove: Well, yes, but they’re also pretty smart people. So they have made no recommendations to you—and I know it’s not your policy area, but you are interacting with them, you are in the process of writing a report on them. Are you telling us that they have not suggested any policy proposals or potential remedies to a volatile and high exchange rate, which, if lowered or if stabilised, might assist them in export markets other than Australia?

Smol: Well, you probably know as much or more about this than we do.
Cosgrove I’m not asking for your response; I’m asking for what you got from them.

Smol Well, we tend not to talk about it, because they know that we don’t have responsibility. So from their point of view, it’s not a very fruitful discussion. But a lot of it seems to revolve around what set of objectives the Reserve Bank is given, and that is an area over which we have absolutely no influence at all.

Cosgrove And have they suggested, for instance—it’s a bit like pulling teeth but I didn’t want to lead you, I was hoping for some responses from you—that in terms of monetary policy the Act should well be changed to take into account not just inflation volatility but exchange rate volatility?

Smol Well, as I say, we really don’t talk about these things in any detail. I mean, they tend to come up in passing. We see what they say in the media and so on, but—

Cosgrove Well, that’s strange, because—and that may be the case, I accept it, but that’s rather strange given that for those exporting to countries other than Australia this is almost the No. 1 issue for them. That’s the feedback that’s been in the media. So you’ve talked with them, and you’re trying to get from them what would enhance their business, and they haven’t—they sort of raise it in passing?

Smol Well, I think, you’re right, it is their No. 1 issue. And they might say to us “This is our No. 1 issue.”, and we’ll say “We understand that, but we have no influence.”, so we talk about those things—

Cosgrove So in your report you won’t be reflecting their passing comments about their No. 1 issue to you?

Smol I’m not sure exactly what we’ll be saying, but, as you know, it’s very well known that the high exchange rate isn’t helping.

Lotu-Iiga Just a quick sup—in those discussions, and I talk to a lot of these manufacturers, and I’m sure Clayton does—they do say the exchange rate is an issue. You’re right around whether it’s Australian denominated contracts or US dollar denominated contracts. Has anything come up—given the volatility that my colleague here has referred to—around using a Treasury-type function, hedging instruments, that type of work that goes in, making an investment in those types of services in order to flatten out the risk around the exchange rate? Have you had any of those types of—

Smol Do you mean the Government might provide a form of hedge that firms could buy?

Lotu-Iiga No, sorry, I’m not talking about Treasury.

Smol Businesses themselves?

Lotu-Iiga Yes.

Smol Yeah, yeah. Well, as you know, there is a market for hedging over limited time frames—and it’s not cheap, so it’s not a cure-all at all. But they do have a number of ways to manage that risk to a degree, but it won’t
fundamentally change the fact that the exchange rate is higher than they would like, apart from Australia.

Steel But the answer is, yes, that comes up regularly in discussions. Businesses are always looking at the quality of their hedging work and whether they can improve it, whether they can get stability over a longer time or not.

Lotu-Iiga Sure.

Smol Some aspects of our capital markets.

Cosgrove So how many manufacturers to date have you interacted with as a basis for your analysis?

Smol I don’t know.

Cosgrove Could you provide that to us?

Smol Yes, we can see what—

Cosgrove And I presume there’s some confidentiality, I won’t ask for names, but could you provide also some indications as to the scale and capacity of those manufacturers—big end of town as opposed to—

Smol We’ll see what we can do, and New Zealand Trade and Enterprise—I mean, this is their core business, so they’re interacting with manufacturing businesses all the time.

Cosgrove I accept that. There are a lot of departments interacting with businesses. You’ve cited the fact that you are in the process of writing analysis in respect of this. I’d like to know what that’s based on—not Trade and Enterprise; you guys.

Smol Fair enough.

Curran Another barrier that manufacturers identify is issues to do with procurement. This is a big part of your report. Can you tell us what percentage of procurement has been undertaken locally, with local companies, of the procurement that you’ve undertaken this year.

Patchell I can give you a figure since the programme started, over the last 3 years, of which we’re in the third year at the moment. As at December, 77 percent of the contracts let under the procurement reform programme—

Curran How much?

Patchell Seventy-seven percent are to New Zealand businesses. The remainder are the likes of the Toyota or Mitsubishi.

Curran Can you tell me has the ministry undertaken any work with regards to the wider economic benefits of local procurement, as opposed to offshore procurement?

Patchell From a specific Government procurement perspective, the broader policy work is actually under way at the moment on that.

Curran So there is a piece of work on that?
Patchell: In terms of reviewing the broad collection of policy and process and procedure around Government, there is work under way at the moment to look at those 35 pieces—

Curran: Are there any specific pieces of work that are under way or have been requested around, for instance, a local build of railway carriages, as opposed to an offshore build?

Patchell: Not specifically on that, no.

Curran: So you’ve never been requested to perform a piece of work around that?

Patchell: For that specific example, no.

Smol: As you know, that was a State-owned enterprise making a procurement choice.

Curran: Yes, but the State-owned enterprise has told us that it’s not their job to actually undertake that kind of work; it’s the job of Government, or the ministry, to undertake a piece of work that would relate in a policy decision and would enable a comparison to be made between, you know, the flow-on effect to the local economy, the life of the whole project, the quality issues, all of that sort of thing, as opposed to an offshore procurement. We’ve been specifically told that that is not the job of the SOE.

Smol: No, that’s fair. Our job is to try to ensure that the procurement framework, the rules and procedures and so forth, gives due weight to things like of whole of life cost to the procurer, availability of support, and that will tend to favour firms that have a presence on the ground, which is typically more often New Zealand firms.

Curran: Do you think it’s a good idea to undertake that sort of work?

Smol: I think it’s a very good principle to try to do all Government procurements in a way that delivers greatest whole-of-life value to Government and to New Zealand through that procurement.

Curran: But you haven’t been asked to undertake a piece of work for the railway carriages?

Smol: No.

Lotu-Iiga: Just changing tack, in terms of major events, in the last financial year we’ve had probably one of the biggest events, not just globally but certainly in our history. Since 2005 you spent just under $58 million around 120 events. So, just reflecting now on what happened with the Rugby World Cup, what have you seen in terms of what it contributed to our local economy? Then, looking forward, we’ve got the Cricket World Cup, the World Under-20 Rugby Tournament, which is a massive tournament again. What else is on the horizon in terms of what these events actually boost within our economy?

Smol: Well, on the Rugby World Cup, I think the country report that we’ve completed following the end of the tournament will give as full an analysis as is possible of the economic benefits, and, as you know, they were considerable in terms of the large number of tourists who came here, the
number of business people who came, the number of connections that were made, the extent of the international coverage that New Zealand achieved. We’re obviously doing something similar right now with *The Hobbit* film. I think work’s progressing in preparing for the Cricket World Cup and the FIFA Under-20 Football World Cup in 2015. I don’t know whether Adrienne would want to add any further detail.

**Lotu-Iiga** And what else is sort of bubbling away?

**Smol** Other tournaments that are coming, other events?

**Meikle** Just you were talking about the contribution to the economy. We’re just undertaking an evaluation at the moment. It’s going to be looking at the extent of the contribution that’s been made in terms of the net benefit but also community benefit and jobs, and those things arising. Events that are coming up, the two that you’ve mentioned, we tend to fund into the future but not too far into the future. But the big ones that are on the horizon are the two that you’ve mentioned, which is the Cricket World Cup and the FIFA Under-20.

**Hughes** I’d like to go back to the broadband, if I may.

**Smol** To broadband, yes.

**Hughes** My question is has MoBIE done any work on the strategic risk to New Zealand’s economy or to the broadband investment of having a single internet cable?

**Smol** You mean a single international connection? Yes, we have looked at that. It’s physically a figure of 8, so it’s effectively two physical cables. So there is redundancy, and links to Australia and then Australia’s links to the rest of the world are further reassurance. When we’ve looked at the economics of the physical resilience, it’s very hard to make the case that Government might part fund another cable for that purpose alone.

**Hughes** Did you provide any support to Pacific Fibre or any other companies investigating this?

**Smol** Brad will give you the detail, but Government through REANNZ, the Research and Education Advanced Network New Zealand, did commit to a level of demand, so that was a guaranteed revenue stream for that project that they could put into their business plan as they sought to raise capital.

**Ward** So the Government made a financial commitment to Pacific Fibre through REANNZ as a foundation customer to the total of $91 million. Included in that was an offer of a $15 million grant up front.

**Curran** Which would have been part of the previous Government’s appropriation for such purpose?

**Ward** That’s right.

**Cosgrove** Just a supp on that. Noting that interesting character Mr Dotcom has made a number of musings—I’m not sure whether it was aided and abetted by his mate Mr Banks—in terms of a second cable. Are you guys, have you
communicated with the Minister for Small Business or anybody else to perhaps look at the offer?

Smol I think if he’s willing to pay for one and no laws get broken along the way, that would be a great thing.

Cosgrove Could I just change tack. On the small business space, could you detail for us your outputs in respect of the small business portfolio—legislatively, regulatory, and also in the compliance cost space.

Smol Yeah, we will. A lot of the work we do is aimed at improving the environment for all business, so any simplification of a regulatory system will hopefully benefit all businesses that interact with that system. But often, as you know, the regulatory burden is disproportionately large for small businesses, and we do take a particular small business focus.

Cosgrove Presumably you were the authors of the regulatory reform bill that’s before the House at the moment—or you assisted in that?

Smol We certainly contribute.

Cosgrove That was sponsored by the Minister for Small Business.

Starling It was sponsored by the Minister for Small Business—he was dealing with as Associate Minister of Commerce rather than with his small business ministerial portfolio hat on.

Cosgrove So you cover that as well.

Starling Yes, we do.

Cosgrove So did you guys have input on that groundbreaking piece of legislation?

Starling Yes, we did. However, that’s not my—

Meikle This is the omnibus bill?

Cosgrove Please come up. I’m interested in this.

Meikle The Ministry of Economic Development contributed to some changes within the bill in areas that relate to the legislation it administers. It originally had the role of shepherding the legislation through the House, but that role’s now been taken over by Treasury.

Cosgrove So the large majority of changes in that legislation—presumably you’ll be aware—as sponsored by Mr Banks, was to expunge, I believe, 31 Acts, which in technical terms I think have expired, but in layman’s terms the Clerk of the House tells me they don’t exist. So it’s sort of repealing or disposing of 31 Acts which don’t exist. Was that a recommendation from your department, or was that a piece of inspiration which was injected from the Minister himself?

Mitchell A point of order on that—

Smol We’re always keen to support Parliament in simplifying the body of legislation wherever possible. Do you know the detail on that?
Meikle Yeah. So originally the proposal for a regulatory reform repeals bill was for a separate bill, but those bills have now been brought together. It was part of a wider project for regulatory reform.

Cosgrove I accept all that. Whose recommendation was it to expunge 31 Acts which don’t exist?

Meikle I’m not sure exactly whose recommendation it was, but it was part of a process of assessment of existing regulation and legislation on the books, and it came from a combination of departments identifying which pieces of legislation—

Young So the process you’re talking about is scanning through redundant pieces of legislation in order to remove clutter. So 31 is really just, I guess, the tip of a further, longer process that’s part of an ongoing commitment to remove regulation that’s unnecessary, that could be further—?

Meikle Regulation that is no longer in use. There’s quite an extensive exercise to go through to ensure that the legislation is no longer in use and no longer applies. A lot of the pieces of legislation that end up there are themselves repeal Acts, so they don’t contain a significant amount of legislation, so there’s an irony—

Cosgrove Isn’t it correct, and I have this from the Clerk, Mary Harris, that the 31 Acts—it’s not a matter of characterisation with respect to the chair that we’re somehow removing a regulatory noodle bowl around business; these are 31 Acts which have no compliance or other economic, social, or any effect on the commercial sector or any other player. So if you left them on the books, they would have no effect; if you remove them from the books, they have no effect.

Meikle That’s right. There’s an issue around the accessibility of legislation, which is something that Government works on more broadly, particularly with the Parliamentary Counsel Office, but the idea is that it is in a sense removing the clutter of legislation that businesses wouldn’t have to work through. They would find it otherwise in the system and think about whether or not it might apply. But it is removing and repealing those ones from the—

Cosgrove My question originally was whose recommendation was it—was it the Minister’s, his personal staff, or the then department—to include that in the bill? Other than that, I think, apart from video labelling and one or two other items, there is virtually nothing in that piece of legislation.

Meikle That’s right. There’s an issue around the accessibility of legislation, which is something that Government works on more broadly, particularly with the Parliamentary Counsel Office, but the idea is that it is in a sense removing the clutter of legislation that businesses wouldn’t have to work through. They would find it otherwise in the system and think about whether or not it might apply. But it is removing and repealing those ones from the—

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Meikle It was originally—there were two separate bills to begin with. So there is a regulatory reform bill that had a significant number of amendments across the statute book, right across government, and a separate regulatory repeals bill. Those have been brought together. The bills were introduced under the name of the Minister for Regulatory Reform at that time.

Cosgrove Could I ask you about video labelling. The video labelling, as I understand it, because the bill has not come back to the Parliament for a significant period of time—but I am advised by, loosely put, the “movie sector”, if you will, those who are involved with this, that this is costing them for every day that that bill is not processed, and it’s not a controversial issue, that it’s
costing around $50,000 a week. In fact, it may be more than that, but that’s, from my memory, what I’m advised. Have you made any recommendations to the Minister to sort of kick it up the chain and get it put through, given that that’s really about the only substantive change that the legislation makes?

Meikle Yeah, as I mentioned, the responsibility for the bill has passed to our colleagues at Treasury. We can certainly engage with them and mention that these costs have been raised. I think you’re talking about the sticking-over issue to do with—

Cosgrove Yeah. A really boring, sort of mundane issue that has no parliamentary opposition at all, but is costing 50 grand a week.

Meikle We can find out for you what the legislative time frame is for the bill to be brought back to the House from our colleagues.

Mitchell Firstly, I want to say I don’t agree at all with, Clayton, your aspersion that this legislation doesn’t even exist. It does exist. That’s why we’ve got the regulatory reform bill.

Cosgrove As I said, it has no effect.

Mitchell I just want to highlight I think you made a very good point that, in actual fact, by removing them it means that small business or business doesn’t have to worry about it, or actually it’s removing another compliance layer for them.

Young A good question to ask is do you ever sweep out your house? Because that’s essentially what’s happened.

Meikle Yes, it’s a clean-up.

Young I know we can’t get information around the block offer, but we know that there’s been a new process put in place. We know that there’s been a very long and extensive consultation with the sector and with the public about the Crown Minerals review, and there is a bill before this committee. I just wonder whether, Mr Binnie, you could, through the chief executive, give us an update on how progress through that whole process and what we can expect to see in terms of streamlining, efficiency, and responsiveness to this oil and gas sector.

Binnie Yeah, so block offer 2012 was the first year of block offer, and we’re now halfway through the 2013 process. The 2012 process will conclude next week, with the successful bidders. During that process that enabled us through the year to consult with, in 2012, 41 iwi, different iwi, 70 different councils, through that process. So much more streamlined in terms of engagement with them. Most of them submitted, so the richness of the submission was powerful as well. And we’re hopeful—still to conclude—that the results of that will mean more activity for many companies this year and into the next 5 years of that exploration programme.

Young In terms of relationship building in communities, it’s an area of—?
Absolutely. I think onshore we’ve made significant progress, in my personal view, in Taranaki and on the East Coast. Those are the main areas of—Taranaki is the main area of operation at the moment, but if you look forward, the East Coast is the most prospective onshore, and the rest is really offshore. So that’s a broader church of conversations, but I think we’ve made significant progress. There’s still a lot more to do in public engagement and iwi engagement—still a lot to do. But Taranaki and the East Coast I’m feeling pretty positive about.

Very good.

Quick supp—isn’t the block offer a bit premature, given the Minister for the Environment is still deciding on the regulations for the EEZ Act, and we still don’t know if drilling in the deep water will be prohibited, permitted, discretionary—or have you made the decision already that it will be an allowable activity?

No. No, I think companies are well aware of where the legislation is sitting at the moment. I mean, realistically, the block offer, the first deep-water well from the current block offer, will be 3 or 4 years ahead of us, so we’re pretty confident that the legislation will be in place by that time.

Do you have an opinion if it should be a permitted activity?

No, I don’t have a personal opinion, no.

No opinion?

My question is about spectrum. Really, I want to know, given that there’s a clear hold-up happening in the allocation of spectrum and the auction, which I know the Minister says will still take place early next year and that they’re still on track to meet the deadline, etc., etc. The industry is saying otherwise now. I note that the comments that are coming out of the Waitangi Tribunal from claimants are that it will be the Government’s fault if there’s a hold-up, and the impact on 4G and its roll-out. I don’t expect you to be commenting to me about what’s going on inside the tribunal, unless you feel moved to do so, but my concern is around what advice you’re giving at the moment around the impact on 4G roll-out and the impact on technology development in our country. As you know, this will affect ultra-fast broadband take-up as well, because the telcos are unable to develop services. There is a domino effect that is in danger of occurring. I am keen to know what piece of work or what advice you’re providing around this, and whether or not this is publicly available.

The first thing to say is that the spectrum will become available from December next year, and the work in terms of the switch-over to digital television is well under way, with the turning off of analogue services already happened on the West Coast of the South Island and in the Hawke’s Bay area. So that project is well under way, and the changes in the other regions are scheduled and the programming is locked in now. So the date when the spectrum becomes available is December next year. We are confident that there is enough time to run an allocation process and for the companies to make their investments so that we can have 4G services.
At what point will you become not confident that you will be able to meet that deadline?

I don’t think I can give you a specific date.

I think you need to be able to give us a date, or an indication, around at what point. This has been going on for 6 months, at least, in terms of this delay. And the same message is coming out: “Oh, there won’t be any impact, there won’t be any impact.” Well, clearly, as we get closer and closer to the fact that we still don’t have a clear vision about whether there’s going to be an option and how that process is going to be undertaken, there has to be a lot of work done to prepare for that. Then the auction takes place, and then there’s a lot of other work that goes beyond it. It’s all being pushed up. So at what point—is it like January, February?

We can have a look at the various steps that need to be taken, as you say, before we get to the outcome, and come back to you on by when it starts to look infeasible to work through that process.

I think it would be really helpful for the committee here today, because I am a spokesperson in this area, and the sector talks to me about these issues. They are increasingly concerned, as I’m sure you know. You must have provided advice to the Government on this. What advice have you given?

We have given advice to the Minister in terms of the sort of timing of the next steps in the allocation process, yes.

Well, can you give this committee an idea of what that advice is as to at what point you won’t be able to meet the deadline?

I think we’d have to go back and check with the Minister as to what she is comfortable for us to disclose. That was, obviously, advice from officials to a Minister in a normal way, and we can check with her as to what she’s comfortable with—it’s really for her to decide what information she wants to have released publicly, when, and how.

Can you give the committee an indication of the level of your concern around the ability to meet those deadlines?

At the moment it’s still eminently doable.

So not concerned?

At the moment it’s eminently doable. As you say, there must come a point where that starts to change, and that’s the issue that we’d need to come back to you on, subject to the views of the Minister.

Can I put that request, please?

Of course.

Can I ask a question about an area of our economy that is, I think, emerging and becoming very strong, which is the Māori economy, in terms of the Māori Economic Development Panel has reported and has an action plan. I think the economy sits around about $37 billion. I am a member of the Māori Affairs Committee as well. There tends to be discussions around the
cultural approach of doing things. In terms of the partnership working with MBIE, in terms of your approach working in the Māori economy to develop that, how are you looking at that, and what sort of, I guess, implications does all of that create for MBIE?

Smol: We work with Māori across a number of areas for which we are responsible. For example, there is a strong Māori tourism element to the work across the tourism portfolio. Mr Binnie has already talked about our engagement with Māori in the context of petroleum and minerals. Over the past year or so we’ve been with Te Puni Kōkiri supporting the Māori Economic Development Panel that recently made recommendations for a Māori economic development plan to Ministers. That was accepted and publicly released. For us the next step is to organise to support the delivery of the actions contained in that plan, which are quite broad-ranging, for example, across education, employment, skills, application of science and innovation, and direct support to business. To better position us to play our part to the full, we are creating a Māori effectiveness unit within the ministry that will lead that work. But to be effective it’s got to be work that the whole ministry is committed to supporting, because it spans many areas for which we are responsible.

Young: So in terms of working with businesses, but iwi groups as well, is there engagement there?

Smol: Yeah, we do have interactions with both pan-Māori groups and with individual iwi. We have signed agreements of various kinds, memorandums of understanding and the like, with a number of iwi. Some of these flow from Treaty settlements. Others are because an iwi approaches us keen to work with us on an area of particular importance to them.

Lotu-Iiga: Turning to ease of doing business in your report—I know you’ve done some great work around streamlining processes and interactions between Government and SMEs, and I know you deal with the Small Business Advisory Group. You have introduced B-CAL, Mobile Business Toolbox, Searchlight. I know this might be difficult, but how do you—and when I talk to these SMEs out there, they say that their No. 1 priority, and I’m sure Clayton does too, is around red tape, bureaucracy, and getting through their interactions while they’re still trying to make money in their business and employ people. Given the initiatives that you’ve already done, is there any way of measuring the impact of some of these changes on these companies or organisations? I know that’s difficult.

But also, looking forward, what are the types of—we talked about the regulatory reform bill, but we’ve still got to keep going in terms of putting better processes in place for how they deal with Government.

Cosgrove: The regulatory reform bill.

Lotu-Iiga: Yeah, including the regulatory reform bill. But the website business.govt.nz is, I think, a great tool, resource. Can you answer those two questions? How do you measure it, and what else are we doing, looking forward?
Smol Through Better Public Services, one of the 10 results that the Ministers have publicly committed to, is really a step change in the effectiveness of Government’s interface with business. They have made some specific commitments, and Greg is leading the work on how we measure, because it’s not a simple thing, as you say, to measure, and then what steps we can take to seek to achieve the target that Ministers have set us.

Patchell In terms of measurements, very recently we conducted a joint survey with Business New Zealand in terms of trying to establish two measures. It’s publicly available information now, it’s been released on result 9, which targets two measures around cost imposts at a gross level to business for interaction with Government.

Lotu-Iiga Say that again—cost impost?

Patchell Total cost, which is measured in multiple ways but an aggregate of cost. The second measure is how effective Government interactions are relative to private sector. Advice is going up to the Minister shortly around how to set those baselines. The expectation is they’ll be published publicly in February/March of this coming year. It is quite difficult to get a genuine measure, because businesses are so broad in their experiences.

To the second part of your question, as part of this result exercise, MBIE leads a joint agency initiative, including agencies, and particularly noting IRD and Statistics New Zealand, which has intentions to amplify the work we’ve done with the likes of business.govt so far. For example, we’re currently researching the fact that to start a business in this country there are nine sort of registration processes that an organisation has to go through, irrespective of what their size is, and what we might do about that. And, again, the expectation is that the Minister will talk publicly about possible plans in that same February/March time frame this coming year.

Young Mr Smol, we’ve got only about a minute or so left. I know you’ve got to head off. We are going to come back to you regarding those further questions—the further questions we sent in an email to you yesterday. So we will come back to you about that. I think we have got one final question.

Cosgrove I have just got a supp to Sam, then just one other final question. In terms of small business, have you ever considered having any of your personnel embed within a small business for a short period of time as, say, Statistics did under a previous Government—embed them in a small business for a week or whatever, just to get a real-life taste of the compliance costs and difficulties they have?

Smol That’s a good idea.

Cosgrove Groundbreaking. I was Minister of Statistics at the time—I asked them to do it.

Smol Under this current programme of work, which started in the last few months, no, that hasn’t occurred yet.

Cosgrove I’d invite you to. There’s nothing better than real-world experience. My final question is around OIAs, and you may not be able to answer it today. I
would like a detailed time line as to the length of time it’s taking you folks to
deal with OIAs, broken down in terms of an example I used, which is,
I’m told, 2 months to consult before you actually determine whether you’ll
consider or action the OIA—as one agency or entity, I’ve been told, has
been advised. How many, and the processing time, please.

Smol We’ll give you all the data we can.

Cosgrove Well, you’ll have all that data, because that’s how you process OIAs.

Smol We have data on the OIAs received and how we’ve responded. Actually, no,
we don’t track how much time is spent on each and every one of them, but
we’ll give you the relevant data.

Cosgrove If you don’t track how much time, how do you meet your statutory
obligations for the 20 working days, if you don’t track how long—

Smol Oh, we track them in a time elapsed sense, absolutely. We have a system
that registers when they come in and when they need to go over to—

Cosgrove How many people do you have dedicated to dealing with OIA?

Smol We have many people who touch the OIA as a small part of what they do
across the organisation.

Cosgrove But dedicated persons?

Smol I don’t know. Do we have any?

Meikle Within the Ministry of Economic Development there’s just the one lucky
person that tracks them coming in, and then they get fired out across the
ministry. It depends on the issue—

Smol We can come back to you on that, but because we cover such a wide range
of areas, each OIA goes out to the tourism team or the petroleum and
minerals team or wherever.

Cosgrove I suppose the reason why I ask is if you’re not tracking it, how do you deal
with, if you will, customer satisfaction? You’ve got a statutory requirement.
In the case that I’ve alluded to, it just seems that “life will go on”—2
months to consult on it is rather bizarre.

Smol We do track how many we respond to within the statutory time frames. I
don’t think we’ve ever done a customer satisfaction survey in respect of our
performance on OIAs.

Cosgrove Don’t ask, don’t tell.

Curran I’d be interested to know—

Cosgrove We may be seeing you again, so we might take that point up with you.

Young Thank you very much, Mr Smol. We appreciate you and your team for
being here today.

conclusion of evidence
Corrected transcript of hearing of evidence 12 December 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Todd McClay
Mark Mitchell
Dr Jian Yang

Witnesses
David Smol
Adrienne Meikle

Young  Mr Smol, thank you very much. I appreciated very much getting the answers on Monday, as well, to those questions. We have 30 minutes with you. Essentially, we’re going to start off going through those, as questions will come from committee members. It might branch out, of course, as they want to ask other questions around those as well. So we just thank you very much for the work that you and your team did to get those to us. So we’ll start off with questions.

Cosgrove  I’ve just got one procedural question before I pass to a colleague. Could you just tell us—and thank you for the revised questions—why did it take us to haul you back in to get full answers to questions you should’ve provided us from the kick-off.

Smol  Sorry, was that about a particular question?

Cosgrove  No, about the lot. We asked these questions just for the context, you’ll be aware—

Smol  We answered them—

Cosgrove  Hang on, hang on, hang on.

Smol  Sorry.

Cosgrove  We asked these some weeks ago. We didn’t get full answers. We had you in here last week and now we have full answers for a second go but it’s taken us a second go to get you in here to get full answers to these questions. The question’s quite simple: why couldn’t we have got these fulsome answers when we asked a first time?

Smol  We try to answer them. We get a whole lot of questions, as you know, and we try and answer each of them appropriately. At times we do get feedback
from a committee they’d like more or a different approach to a question. We will do our best always to give as good an answer as we can.

Cosgrove Has any learning taken place in your department given that other departments on a first cut seem to be able to answer these questions appropriately? Have you given any instructions now on how questions from a select committee should be dealt with? Actually answered?

Smol We will continue to endeavour to answer the questions that we get—

Cosgrove No, no, my question was—

Smol —as effectively as we can, and we will.

Cosgrove No, no, my question was—don’t dodge the question. I asked you, had you given any instructions?

Smol I haven’t given any formal instructions, no. But we will reflect at the end of this process—and we’re doing four select committees, or I am this year—and any learnings and make sure we build those into the systems at MB, as a new organisation develops, so it effectively supports select committees in the future.

Cosgrove With respect MB as an entity, in its totality, may be a new organisation, but the entities within it have around a lot of years, likewise the senior executive, likewise your good self, and your deputy. So, with respect, bureaucratic answers that bounce around—every other entity knows how to answer select committee questions. Sometimes there is genuine confusion. Sometimes there is pressure of time. None of those things applied to these questions or your entity. I might like to invite you, if it could be instructed perhaps, to have an informal chat with our clerk through the Chair at some point to get some feedback if there’s any question about how committee questions should be dealt with.

Smol That would be very helpful. We do liaise with the clerk and we will continue to. We will learn from this and we will do our very best in the future.

Curran Can I ask a question Mr Smol around question 133, which was the issue to do with permanent staff hours dedicated to tasks associated with preparing briefings or reports, and, essentially, your answer goes to the preparation of OIA requests. I’m pretty interested in this because there’s certainly anecdotal evidence and evidence from people sitting on this side of the table that OIA responses from the ministry take quite a long time to come out, but they’re often extended. I suppose I think that the answer to the question, it doesn’t really give a great deal of detail around that sort of information. For instance you say: “In 2010/11 we responded to 684 OIA request (100% within the legislative timeframe)”. I suppose that would include extensions. Would that be correct?

Smol Yeah, that would be right.

Curran So there’s no information for how many—

Smol How many we sought extension—
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Curran – OIA requests you might receive. For instance, I’ve got my own data which says that none of the OIA requests made by me to MED, as it was then, were actually responded to within the 20 days, the evidence (inaudible) is that was extended, so I suppose that’s one of the issues which it would be quite good to expand on. You say that you do have a tracking system in place. So presumably you would be collecting that sort of information.

Smol You mean the number for which we seek extension?

Curran Well the number for which you seek extensions, the–

? Do we have that information?

Smol Yes, we’ll check exactly how much detail we’ve got on that.

Curran I think it would be useful to know, because I think from this side of the table what would be useful for us to know is how many OIAs is it, and then be able to have the discussion about is it the complexity of the OIAs or is it the difficulty that is requiring them to be extended, especially on such a regular basis? Now, as I said, I’ve got my own data. I think I’ve seen data from a couple of other of my colleagues that almost every single one gets extended, so are you able to comment on that, on reasons for extensions? Are you seeing a growing trend towards extensions, and if so why do you think that’s taking place?

Smol I haven’t seen any data on that. OIAs vary enormously in terms of their scope. I can’t comment on the scope of the requests you’ve made. But we can look back through our records and come back to the committee if you–

Young I think Mr Smol, you also made comment that when you have a substantial request it takes a fair bit of time and effort to collate that. There is some dialogue and–

Smol Yeah, that’s right, on the issue of costs. We don’t charge without prior warning and a prior discussion, and an option for the requestor to narrow the scope if they so wish.

Curran Supplementary on that. Can I just record publically that the majority of the quite large number of OIA requests submitted by me and my office were not responded within the 20-day timeframe. So I’d like a split out please, the number of OIAs responded to by the timeframe, the number of days, as well as those for which an extension was sought and which it was not. My strong suspicion is that you will find that there is a tendency to go to the outside of the legislative envelope, including extensions, and I wonder whether that’s a matter of policy rather than a matter of administration. Do you have any comment on that?

Smol It’s definitely not a matter of policy to stretch things out. From our point of view the quicker we can turn these things around and get them back out the better.

Cunliffe We would be very grateful for that information.

Cosgrove Two points. Firstly, are there any occasions—presumably you liaise with the Ministers about a number of OIAs where pertinent, presumably, correct?
Smol I beg your pardon?

Cosgrove *(Inaudible)* practice?

Smol Where appropriate we liaise with Ministers’ offices, yes.

Cosgrove Have there been any times when Ministers have requested that you extend the period of processing?

Smol I’m not aware of any such requests, but I don’t–

Cosgrove Never a request to delay—a legitimate request to extend the period?

Smol I’m not aware of any, but I tend not to get involved in the specific OIAs personally.

Cosgrove Could you come back to us if it has occurred—it may not have, in fairness—with the number, if any, of occasions where Ministers have requested that an extension be put in place and the OIA be delayed?

Smol We can have a look. I don’t know whether we keep those sorts of records, but we’ll look at what information we do have.

Cosgrove Well, hang on, with respect, if a Minister requests something you have a file note of it. So you will have a record.

Smol We will look through.

Cosgrove If a Minister requests something and you do not take note of it I’d be very surprised.

Smol We will look through our records and see what we’ve got.

Bakshi When you receive an OIA request and a third party is involved or some commercial information is involved, what is your criteria to reply to those OIAs?

Smol As you know there are a number of provisions in the Act that are specified as grounds for withholding information, such as commercial sensitivity or personal privacy. What we do generally, though, if a third party is addressed in some way, then as a matter of due process and a courtesy we would check with them as to whether they have any concern about the information that we’re proposing to release. Obviously, at times that can add to the time required to process these things.

Cunliffe I’ve got a number of substantive issues I would like pick up on, but firstly following on from Mr Cosgrove’s question, the first version of your responses to these written questions—were they sent to the Minister’s office for consultation before they came to the committee? The Minister’s office had a look the previous questions?

Smol I think we do normally send them over as a–

Cunliffe Were any amendments made by the Minister’s office to the previous version?

Smol I don’t know whether we have any records of that, but we can find out.

Cunliffe Could you, please?
Cosgrove  Sorry, sorry to interrupt. With respect Mr Smol, your answers are vague. You don’t know whether questions went over to a Minister, you don’t know if any changes were made, and you don’t know if any file notes would’ve been kept of changes. That’s illogical. If a Minister said–

Mitchell  Point of order, Mr Chair.

Cosgrove  If a Minister said–

Young  Point of order, please.

Mitchell  Point of order.

Young  Point of order.

Mitchell  It’s unfair, actually, to expect that information, because he didn’t know what the line of questioning was going to be today and yet you’re getting into a lot of detail.

Cosgrove  That’s not a point of order, but just making a point. Having been a Minister, when a Minister asks officials to do something officials are very diligent in taking a note of that. It’s custom and practice. It’s procedure. It always happens because they have to follow-up, and a Minister may ask them: “What did you do?”. So it’s not unfair. I’m asking about the procedures.

Mitchell  But to reply to the response to that–

Cunliffe  Speaking to the point of order—speaking to the point of order if I might.

Mitchell  No, but in response to what Clayton just said–

Young  Hang on, let David speak to the point of order.

Cunliffe  We’re queued for this. I mean I would add to Mr Cosgrove’s point by noting that in fact these are particularly diligent officials, because I have been their Minister and I’m familiar with the processes that we used in those days. I find it kind of difficult to believe that select committee questions wouldn’t in all cases be referred to the Minister’s office, and if they were not that would be a surprise and a change of process. If they were, I would’ve expected it absolutely, particularly as the chief executive has now been called in specifically to answer follow-up questions on these questions. The chief executive would have briefed himself on whether the Minister had had anything to say about the last version and if not, why not.

Cosgrove  These are debating points. They aren’t points of order, with respect. 

(Inaudible) Standing Order?

Young  Yeah, yeah. Look if I could say that last week when Mr Smol answered some questions there was obviously misunderstandings from members of this committee with what Mr Smol was saying. And so the answers–

Cosgrove  Do you have a crystal ball? Or are you clairvoyant?

Young  I’ve read–

Cosgrove  Or is there a séance happening that we didn’t know about?

Young  No, no I have read the transcript–
Cosgrove That’s your interpretation of it. We weren’t confused. Maybe you were.

Cunliffe Mr Chair, I think what’s important given that we haven’t got a whole lot of time left is that we move–

Young No, no. That was the case. Because Mr Cosgrove said to Mr Smol—he is saying that you are saying that we have to go and get an official information request to get this information. Mr Smol corrected him to say no, that is not the case, but the case was that there are considerations around all of that regarding privacy and commercial interests–

Cosgrove Yeah we know all that. It’s in the Act.

Young –which need to be considered. So what I’m saying–

Cunliffe Mr Cosgrove’s point, with respect, was a more narrow one I think, which was in respect of the OIA–

Cosgrove My point was simply this, if a Minister asks you to do something or requests you to do something you’ll have a file note of it, you’ll have a procedure, or do you just go OK and hope he’ll have a shopping list? So to say to us: “I’m not sure whether they asked.”, that’s fair enough because you have to check. But to say you’re not sure whether we would keep a record of any ministerial request is bunkum, is it not? Are you saying you don’t keep records of ministerial requests?

Mitchell (Inaudible) Mr Chair?

Young Mark.

Mitchell I just want to respond to what Clayton was saying before is that we’ve called them back, but you’re getting–

Cosgrove Is this a point of order?

Mitchell Well, hang on, you had a chance to say what you wanted to say, so–

Young However, you’ve already asked this question to Mr Smol, probably about 5 minutes ago, about any record or record keeping, so I’m not sure why you’re litigating this further.

Mitchell Exactly.

Cosgrove I’d like an answer.

Mitchell He’s answered.

Cunliffe Well, isn’t the answer that the chief executive is going to come back with a detailed list of which questions the Minister’s office expressed a view on, and we will have that information in hard copy.

Smol We’ll get the question and answer it as best we can using the information that we have.

Cunliffe I think the question was quite a specific one and to avoid detaining the committee, the chief executive is happy to come back in writing with an answer to which of the prior questions from this committee the Minister’s office expressed a view on that would be a helpful start.
Turning to the substance, Chairman, a couple of key things, why in response to questions 124 and 126 was the committee referred to the State Services Commission for remuneration details when the State Services Commission would have had to have got that information from your ministry, and it would be the normal practice for the ministry to respond to select committee with the information that you’ve now, on the second go, provided? Why was there an unusual reference to a third party?

Smol The approach we have taken in the past is if it’s our information then we provide it to the committee. In the case of employees of the ministry that is our information. Information that relates to the Public Service as a whole is collected by and best understood by the State Services Commission. In the case of chief executives, as you know, they are employees of the State Services Commission, not of the ministry, so they–

Cunliffe But the ministry holds information on its chief executive’s salary. Not wishing to make this personal to yourself at all, but that information’s obviously held by the ministry.

Smol Our payroll people–I think is that–chief executives get paid by SSC, so nobody in the ministry, and I can check this but I’m pretty sure it’s the case, has information on chief executives’ remuneration.

Cunliffe Even though it’s been in the Dominion Post?

Smol SSC release information publically and we have reproduced that information in these answers. But that’s their information which they collate based on employment contracts that they write.

Cunliffe In relation to question 134, chief executive, on Skycity Casino, the initial response was that the information sought in the question would require substantial investigation and therefore was beyond the scope of a normal select committee question. Then, admirably, with about a 24 or a 48-hour turn-round you were able to provide pretty detailed information which covers a couple of pages including the dates of file notes, briefings etc. and correspondence to and from Skycity. Why, if you could do it with a bit of focus and a couple of days’ turn-round when we specifically followed up, could it not have been done properly the first time? Because it clearly was within the ministry’s resources. It’s clearly within scope of the select committee review.

Smol We think of it in terms of the context. If we got 150 questions then we’d do our best to answer all 150 reasonably well. If any of them require going into a great deal of detail and it’s not clear that that great deal of detail is going to add any particular insight then we won’t always do that in the first instance, because we are operating with constrained resource. In this case–

Young I think Mr Smol that’s a fair enough answer and we did raise this last week–

Smol –you followed-up, we have devoted significant resource to trawling through files on this question. We’re very happy to do that, and we’ll continue to.

Cunliffe What is unusual about this in relation to a question, a formal question from a select committee, which is on behalf of the whole committee, is that your
initial response was to refer the committee to the Official Information Act. Now don’t you think that’s a little unusual?

Smol Yeah that was clumsily worded. I have explained that. What we meant by that, and it was clumsy, was that we would use principles and things like the Official Information Act and the Privacy Act in order to determine what information we could appropriately release, which in effect is to make public. So–

Cunliffe Which is perfectly fair, but–

Smol –in this case it’s the dates of meetings rather than the subject matter for example.

Cunliffe Right, which we would appreciate. As I say, in the event you’ve come forward with that information. Would you be happy–presumably you would be happy to update that for the next financial review because it would be very interesting given the frequency of correspondence we see in our papers here, formal correspondence to and from Skycity on a weekly and sometimes daily basis. I imagine that that’s continued since the close off of 26 June?

Smol I don’t know the frequency, but if you make this request for the next year then we will collate the same data.

Cunliffe We of course may get an opportunity to look further at that in the estimates, which will be prospective.

In response to the V8 Supercars races at Pukekohe there was a question around whether–145–“Did the Ministry depart from its usual operational guidelines to process any request made to the major events fund; if so, what is a summary of the request, why were usual operational guidelines departed from, and was part or all of the request approved?” The answer that we got back first time round was no, no departure was made, and yet under an Official Information Act request to my office you’ve released an email of 19 December 2011 which indicates a desire to shorten the process and to do due diligence on only one venue. Without first off going to the substance of that decision, why was that—which appears to be directly contrary to your first answer to 145–why was that information not provided?

Meikle Sorry I don’t have the OIA request in front of me, but it is within normal guidelines and not unusual for the stage one and stage two processes of an application for a major event to be pulled into one stage to be considered. That’s normally driven by timeframe, either on the bid that’s being made for the event or in relation to the event coming up.

Cunliffe But with respect this issue, Chair, doesn’t go to the staging. It goes to MED’s requirement in annex D of the OIA release, which requires: “a minimum of two potential venues to be considered by the major events funding,” and that in fact in this case was overridden to fast track the application from V8 Supercars Australia following discussions with the Prime Minister’s office. So a bit like Skycity, there seems to evidence in the OIA of the Prime Minister’s office overriding the process to speed it up, select only one venue for analysis, a bit like the Skycity debacle, which the
Auditor-General will soon report on I understand. The question then is, that having been the case why did you not just tell the committee that in the case of the V8 Supercars the Prime Minister’s office had intervened and you had not had the minimum of two venues under consideration, you only had one? Or is the OIA that you’ve released to me incorrect?

Meikle I haven’t obviously got the information in front of me, but—

Cunliffe Well, sorry, excuse me, point of order—

Meikle —the application that was a made was for one event.

Cunliffe Look, I don’t want to be belligerent here, but why haven’t you got that information, because we’ve come back to you specifically on this question with—

Meikle Sorry, I haven’t got the OIA in front of me; the wording of the OIA—

Cunliffe Again it’s odd that you wouldn’t have, because we’ve specifically come back to you on this question. In fact, we named in our follow-up to you the V8 races at Pukekohe. Can’t be any more transparent; it’s not an ambush.

Meikle I know the information about Pukekohe. I mean the specific detail—

Smol We have a large file on the—

Meikle —around the two events. So the application related only to one event.

Cunliffe But the—

Young Let her finish.

Meikle That’s not unusual for an application to relate to one event. In fact, that’s perfectly normal. There’s hasn’t been a departure from normal guidelines. Due diligence was applied.

Cunliffe Is it not true that your normal guidelines require at least two venue options to be considered for major events?

Curran Were there two venue options?

Meikle Two venue options were not put to us in terms of the application.

Cunliffe But is it not true that your normal requirements require an analysis—

Meikle They don’t—

Cunliffe Quoting from your OIA “a minimum of two potential venues”? So there is no dispute that you considered only one, correct? And that may or may not have been the right thing to do, that is not my question. My question is: is it not the fact that your normal procedures require a minimum of two potential—I’m reading it off your OIA—a minimum of two potential venues to be considered, correct? You normally consider more than one, and that’s in your guidelines.

Meikle No, we don’t normally consider more than one.

Cunliffe So you don’t normally follow your own guidelines?

Meikle No, that’s—
Young Struggling to find out how many race tracks are in the country here, David.
Smol Perhaps what we could do is--
Cunliffe This is very, very unusual--
Meikle We can certainly--
Smol --relate our guidelines--
Cunliffe --because it appears, Mr Chairman, on the process--
Cosgrove Hang on, hang on, let’s just hear the answer.
Cunliffe It appears--
Cosgrove Hang on, can we just let them finish.
Cunliffe Well hang on, let me just--
Cosgrove Well, they were halfway through an answer.
Cunliffe Yeah, well, I’m just talking to the Chair about the process here. We’ve got a
question here where, without going to the substance of it, the committee
might, on the face of it, appear to have been misled.
Young But, I don’t think so.
Cunliffe So I’m just going to the issue of the process.
Meikle Certainly the committee’s not being misled. The application did relate to
one venue. Your question around whether two venues are required to be
applied, I’m not in the detail at that level. That’s not my understanding of
how the criteria is applied. So I think it might be easiest if we were to
provide the committee with a copy of our standard criteria in order that you
can see. But I can assure the member that due diligence was followed and
there was nothing unusual around the process that was applied in relation to
this particular event.
McClay Indeed, actually you’ve just answered it. I was going to ask if we could have
look at the criteria, but--
Meikle Sure.
McClay —the answer you’ve given now was useful to me. And I would just say, Mr
Chairman, when we ask questions, I think if we give submitters an
opportunity to answer we might get--
Young We might get the answers.
McClay —closer to the answer we’re after.
Cunliffe You may wish to have regard to annex D of the OIA release that you
released to my office in respect of the V8 Supercars, and in particular you
might want to have a look at Kylie Archer’s email to Rachael Dacey of
Monday, 19 December 2011, which refers to annex D showing the MED
requires a minimum of two potential venues. So I think there’s both a
substantive issue--
Smol We will check that.
Cunliffe –what is the requirement–

Meikle It does seem an unusual when an event normally relates to one venue, so we’ll certainly have a look at it.

Bakshi How many venues did apply for this fund on V8 cars? Was it only Pukekohe, or any other venue was there?

Meikle No, the application was made to the major events fund in relation to the Pukekohe venue.

Bakshi Only one?

Meikle Yes, only Pukekohe.

Bakshi So what happens when you don’t have the second one? Do you go and call for another venue to option for it?

Meikle That’s not how the allocation–

Cunliffe But you might do analysis if it’s a best option.

Meikle –of funds under the major events fund work. So an application is made to us in relation to an event, which would be at a specific venue. I’d need to have a good look at this reference here to the second venue, because I’m not at all sure what that’s doing. So we can look to clarify that, absolutely.

Cunliffe OK finally on that point, if you are looking at that can you come back to us on what input you received from the Prime Minister’s office on that particular issue, Pukekohe.

Meikle The Prime Minister’s office weren’t—

Smol We can check.

Meikle –involved in the decision.

Curran I’d like to turn to question 142— how many complaints were received by the ministry from external businesses etc. Your first response said you didn’t have access to this data, which implied that some data possibly existed, but now you’re telling us that you do not have this data because you don’t categorise feedback by reduction in service delivery quality. But then you say that you’re actually putting in place a tool from January next year to enable categorisation of feedback. I suppose my question is, do you receive feedback from external businesses or complaints from external businesses? First of all, do you?

Smol Yeah, we do from time to time.

Curran And how do you collect that information?

Smol Well, it varies because we have wide range of points of intersection. So the Intellectual Property Office will have interaction with its customers, Insolvency and Trustee Service with its customers, the Companies Office, the Personal Property Securities Register, and so on, so each of them will process information. Some of it’ll be like an email: “Can you change a field in a web–
Curran: Do you, as the chief executive, receive a report from parts of your ministry on complaints from external businesses?

Smol: I don’t get a holistic report on complaints, no. We report various performance measures in our annual report which you may have seen, in terms of our customer responsiveness. And there are some complaints where the responsible manager will feel it necessary to brief me, so I will become involved it it’s a significant matter. Some come in directly to me, and then I’ll divert them to the person who has responsibility for the area. They’re relatively infrequent.

Curran: Most organisations collect data on customers and their relation to stakeholders—feedback and complaints; DHBs etc.—and have extensive reporting requirements and facilities in place to do that. What I’m trying to understand is do you have one of those—

Smol: Not a—no.

Curran: —in order for you as an organisation and you as the chief executive to ascertain what the relationships are like with external businesses, whether they’re getting better, whether they’re getting worse, whether there are particular issues, whether there are particular parts of the organisation that receive more complaints than others etc. So you don’t collect any of that information?

Smol: We have a number of ways of assessing what you’re talking about. For example, we participate in a number of surveys, the Kiwis Count survey that the State Services Commission runs is one. We’re part of a number of international benchmarking comparisons where, for example, as you may know, our Companies Office typically does very well. We do stakeholder engagement surveys. So we send a questionnaire to our stakeholders and ask them for feedback on the sorts of services that we’re providing. In the case of something like the Companies Office, which is part of an online community, they have Twitter and real time interaction. So someone who’s dealing with the website might say: “Hey, there’s something here that could easily be improved, what about it?”, and we’ll go back and if we can, and with due control, we’ll change it. It depends a lot on the circumstances. I think the point about putting in a tool for January next year is we will move to a more systematic way of collecting and analysing feedback.

Curran: Why have you decided to do that? Are you dissatisfied with the measures that are in place at the moment?

Smol: I think it’s just part of an on-going, continuous improvement endeavour.

Young: Thank you very much, Mr Smol, for your time today, and your staff members. Time’s up, we’ve got other business we need to get through. So we appreciate your appearance, thank you.

*conclusion of evidence*
2011/12 financial review of the Ministry of Education

Report of the Education and Science Committee

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Appendix 6
Ministry of Education

Recommendation

The Education and Science Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Education and recommends that the House take note of its report.

Introduction

The Ministry of Education is the Government’s lead advisor on the New Zealand education system. We heard that during the 2011/12 financial year, the ministry recorded improvements in early childhood education participation, with 95 percent of all children having attended some form of early childhood education before entering school, and an increase in Māori and Pasifika participation. We were also told that the ministry has made progress in embedding national standards, with schools reporting annually on progress against the targets in the standards. We heard the ministry is seeking to make sure the education system is working well for all students, particularly Māori and Pasifika learners, and learners from communities with social and economic challenges. The Secretary for Education during the year was Lesley Longstone; she resigned in December 2012, after the hearing of evidence for this financial review took place.

Novopay

We asked about the rollout of the Novopay schools’ payroll system, because of recent issues with the accuracy of payments. We were told that, because it was not possible to have one person on two payroll systems simultaneously, and there are a large number of staff who work in more than one school, the ministry’s plan to trial the system in a selection of schools was abandoned. The ministry also considered rolling out the payroll system to the South Island first. However, delays in implementation, and the cessation of technical support for the previous system, meant that the ministry felt the introduction of the new system should not be delayed further. We heard that the ministry instead tested the new system by taking whole payrolls for particular periods of time, and running them through first the old Datacom system and then the new Novopay system; this generally produced very similar outcomes. The ministry then investigated any differences between the results; where results were not similar, the ministry was able to identify what the issues were and what it needed to do to resolve them.

Some of us asked why the ministry continued with the rollout, when surveys before implementation indicated that 63 percent of users did not think the new system would work. The ministry disputed this figure, saying that less than 30 percent of users were concerned about the new system. We were told that it is normal for users to feel some lack of confidence at the “go live” point of a major IT project, and that the ministry was confident it had enough additional support to proceed. We heard that the ministry monitored schools to ensure that they were all taking part in the payroll training, and sent out specialist users to help schools that were not confident of the system. When particular problems had emerged after the rollout, the ministry ran online seminar sessions to help schools resolve the issues. The ministry said it is planning an independent post-
implementation review, which will look at the roles of both the ministry and the payroll system provider, Talent2. We were told that the ministry’s contract with Talent2 includes penalties, but they cannot be disclosed because of commercial sensitivity.

We heard that the ministry’s payroll system is the most complex in Australasia, because of the size of the system, the number of different collective agreements, and the presence of various legacy arrangements. Up to 400 different allowances may be paid, and as many as 10,000 combinations of terms and conditions are possible.

We heard that individual employees will be compensated for any financial disadvantage, including bank charges, resulting from Novopay errors. We also heard that any underpayment or missed payments can be covered out of a school’s operational grant, which will then be repaid by the ministry. Where affected employees work for a number of schools, none of which believes it is responsible for paying such an advance, then the ministry will make a direct payment to the employee. We heard that the ministry has made 52 payments to such individuals where schools could not make such payments.

We were told that in the early stages of the rollout, schools were receiving inaccurate reports of activity in their bank accounts. This misreporting will complicate the audits that are due at the end of the year. The ministry has held discussions with the Office of the Auditor-General about potential ways of making the audit process easier for schools. The ministry will meet any additional audit costs resulting from Novopay errors.

We understand that there are still errors in the payroll system, and that Talent2 and the ministry are working to identify and correct them. It is likely that the committee will revisit this matter at the next financial review.

**Partnership schools**

We heard that the partnership schools model is being developed so as to target students who are under-served by the current system, and it is hoped that partnership schools will foster innovation. In the ministry’s view it has not adopted a model used overseas, but has instead developed a New Zealand model, taking account of what has and has not worked well elsewhere.

We heard that the ministry has not yet decided where the partnership schools will be, but that there will always be an alternative non-partnership school available; no child will be required to attend a partnership school against their wishes. Partnership schools will be subject to the same transport provisions as public schools, but, unlike public schools, will not have enrolment zones.

We heard from the ministry that the accountability regime for partnership schools will be the same as that for state schools, which includes compliance with national standards and undergoing Education Review Office visits. We also learnt that the standard-form contract with sponsors of partnership schools will be publicly available, and that specific contract information regarding particular schools will be held by the Minister of Education and the Ministry of Education, so will be subject to the Official Information Act 1982. However, we heard the ministry’s rationale for partnership schools not being subject to the Official Information Act. They will be private institutions and will operate in a way that is similar to early childhood education centres (also exempt from the Official Information Act). The ministry said that teachers at partnership schools will not have to be registered, but that parents can be assured of the safety of their children as the teachers will have to undergo the same background checks as all teachers.
We explored the role of sponsors of partnership schools. We learnt that the ministry envisions that the key role of sponsors will be to provide a point of accountability for the principal, the way the board of trustees does in state schools; but the precise role of sponsors is still being decided upon. We heard that sponsors will not be required to assist the schools financially. The ministry is hoping that sponsors will come from a range of different backgrounds, such as community organisations or the business sector.

**Christchurch schools restructuring**

On 13 September initial renewal plans for Christchurch schools were released, in which a number of schools were marked for closure or merger. Some schools questioned the accuracy of the information in the original proposals. The ministry explained that it had investigated the issues raised by schools and found that there were very few actual errors; most were matters of interpretation, such as whether a room that could be divided by a folding door should be recorded as one room or two. We were told that in three or four instances, errors were introduced when information was transferred incorrectly from a spreadsheet into the information packs for schools; when these errors were identified the information was updated, but this did not materially affect the proposal that had been presented. We heard that some schools questioned the financial information provided by the ministry, which detailed the cost of repairs to earthquake damage; the ministry sent the schools the engineers’ reports, and arranged meetings between the schools and the engineers to discuss the costs of the repairs and clarify how they were calculated.

We asked whether the ministry felt it had adequate demographic information with which to decide which schools to close. We heard that the ministry has based its decisions on actual enrolments as no systematic study has been made of where the future population of Christchurch is likely to live. The ministry has also been working with Statistics New Zealand, the Canterbury Earthquake Recovery Authority, and the Christchurch City Council to ensure that decisions about the location of schools are in line with forecasts of housing developments; but it admitted that no-one can be sure of the eventual geographic configuration of the rebuild. The ministry said it needs to ensure its approach is flexible so that it can respond to demographic shifts. We heard that there were 5,000 surplus school places on Christchurch school rolls before the earthquakes, and that an additional 4,300 places resulted from a post-earthquake exodus of students. We heard that even after removing some enrolment places, as proposed in the consolidation plan unveiled on 13 September, there will still be adequate spare capacity in the system. We also heard that the rebuild presents a “fantastic opportunity” for the communities in Christchurch to build “learning clusters” to take best advantage of learning resources.

We asked why schools with rolls of less than 150 students were “red-marked” for potential closure. The ministry emphasised that small schools are necessary in some cases, but that it has to balance the needs of a small-roll school community with the need for a return on investment, and the size of a school will affect the value for money it provides. The ministry is still committed to building smaller schools in communities where it is necessary, and said there is no blanket policy against small schools.

We are aware that when the ministry announced changes to the Christchurch schools plan, the representatives from the schools were given coloured badges according to the proposed outcome for their school. This approach was not well received, and we asked why the ministry had used it. The ministry explained it had considered various ways to disseminate information to schools as to which schools would be restored, merged, or
closed. It had considered meeting with schools individually, but as the proposals for the schools were interrelated, the news was likely to spread to schools that had not yet received their briefing from the ministry. The ministry decided that it would therefore be best if the affected schools were all told the plans at the same time. It then tried to ensure that the schools that would be receiving good news were not seen to be celebrating in front of those that had just been told they were due to close or merge. The ministry felt that the different groups needed to be given the news directly, and decided on coloured badges as the easiest way to distinguish the schools’ representatives. The ministry accepts that this was a crude solution, but maintains that the intention behind it was good.

Class sizes and budget estimates

Earlier this year, the Minister of Education announced that an investment in postgraduate teacher training to improve teaching quality and professional leadership would be funded from savings made by increasing class sizes. The Minister subsequently cancelled the proposed increase in class sizes. We heard that the ministry has been working with providers on improving postgraduate qualifications, and that, due to the cancellation of the class size proposal, any further expenditure required to bring about this improvement will be picked up in Budget 2013. We heard that the budget figures included a contingency to allow the ministry to phase in any changes over time, but the ministry admitted there is still a “hole” in its baseline, which will be covered in Budget 2013.

Early childhood education funding

We asked about the working party on early childhood education, which was examining different funding models for the sector. We heard that the ministry is working through the recommendations of the committee and advising ministers, who will take the recommendations to Cabinet in due course. We will be interested in seeing the results of this work.

English for speakers of other languages

We are aware that the current model for funding English resources for speakers of other languages is based on a five-year funding programme. We asked if the model is being reviewed, and whether moving to a literacy-outcome model might work better for Pasifika students requiring language assistance. We heard that the ministry has released a Pasifika Education Plan, updating the work that is being done in that area, but that there is no specific piece of work considering Pasifika literacy.

Achieving educational success as Māori

We asked the ministry to expand on one of its major priorities, as set out in its annual review: “Māori achieving educational success as Māori.” The ministry described this approach as one where schools reach out to families and whānau, rather than expecting families and whānau to come to them. It also requires schools to engage with family and whānau in ways that are culturally appropriate, by adopting the culture of the learner, and reflecting it back in the school. We heard that the ministry is making a commitment to support boards of trustees and schools in implementing this vision. We will be interested to see the effects of this approach.
Appendix

Approach to financial review
We met on 28 November 2012 and 30 January 2013 to consider the 2011/12 financial review of the Ministry of Education. Evidence was heard from the Ministry of Education and advice received from the Office of the Auditor-General.

Committee members
Nikki Kaye (Chairperson)
Catherine Delahunty
Hon Jo Goodhew
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O’Connor
Scott Simpson
Dr Megan Woods

Evidence and advice received
Ministry of Education, responses to written questions 1 to 133, received 27 November 2012.

Ministry of Education, responses to written questions 134 to 173, received 17 December 2012.


Organisation briefing paper, prepared by committee staff, dated 26 November 2012.
2011/12 financial review of the Education Review Office

Report of the Education and Science Committee

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Recommendation

The Education and Science Committee has conducted the financial review of the 2011/12 performance and current operations of the Education Review Office, and recommends that the House take note of its report.

Introduction

The Education Review Office is a government department responsible for providing assurance regarding the quality and effectiveness of schools and early childhood services. In the year under review, it conducted 798 school reviews and 1,333 reviews of early childhood education centres, as well as a number of special reviews. The office said that 94 percent of the schools that responded to its post-review questionnaire had found the reviews useful. The office also conducts national evaluations and reports on performance and practice in the education sector.

We were interested to hear that during the year under review the OECD released a report that found that New Zealand is the country that has gone farthest towards a collaborative school evaluation model. The report notes that ERO works on the principle that a school's self-review should be so embedded in its daily practice that the visit of an external body is neither disruptive nor unwelcome. The report states that ERO is at the leading edge internationally, and its approach is exemplary.

Reporting cycles

The office has implemented differentiated review cycles, where high-trust schools are reviewed on a four- or five-year cycle, while some schools are reviewed every one or two years. We heard that between 15 to 20 percent of schools are on a four- to five-year return, another 15 to 20 percent are on one- to two-year returns, and the remaining schools are on the standard three-year cycle. We heard that capacity issues in lower decile schools, in areas such as school governance, can mean they are more likely to be represented in the one- to two-year returns. However, there are many examples of high-decile schools on short returns, and of low-decile schools on four- to five-year returns.

Christchurch renewal

We heard that the office is writing a series of case studies on schools in post-earthquake Christchurch, and it believes that the good practice stories will be very encouraging for the Christchurch community, and may have a wider value. The office told us that it has not been involved in drawing up the proposals to consolidate, merge, or rejuvenate schools in Christchurch, but its regular reviews will have been considered in developing the plan. We were glad to learn that the office has been sensitive in its approach to reviewing schools in Christchurch.

Early childhood education

We heard about research the office has been conducting into how early childhood centres develop their curriculum, and their knowledge of its intended outcomes and their performance against them. We were interested to hear that the office does not have a
precise definition of “outcome” in the context of early childhood education services; it is expected that the office’s current work will contribute to an understanding of this issue. The office expected the report on this work to go to the Minister within a month of our hearing, and we look forward to seeing the ultimate effects of this work.

**National standards**

We heard that the introduction of national standards has meant that primary schools have more information about student performance that they can share with the office, changing the way they interact. We also heard that the office believes that consistency of assessment both within each school and between schools will improve gradually. We were told that it had taken a long time for secondary schools to reach an appropriate degree of consistency, and the primary sector is expected to also take a long time.

**Building parental engagement**

We asked what the office was doing to foster parents’ engagement with schools. The office explained that it has changed the nature of its reports, with parents in mind, reducing them from 12 pages to four, eliminating jargon, and generally focusing on making them easier for parents to read. The office has also recently produced a pamphlet for parents, which suggests questions they might usefully ask of the school. The office has had requests from some schools to provide a copy of the pamphlet to every parent of their students. The office intends to continue to produce the pamphlet, to translate it into te reo Māori, and to consider printing it in other languages (subject to constraints of demand and cost).

**Professional development**

We heard that the office’s independence means it is in a position to make recommendations to the Ministry of Education on matters such as professional learning and development. Some of us asked if the national standards narrowed the scope of professional learning and development in schools, focusing it for example on numeracy and literacy. We heard that exemplary schools can prioritise their professional learning and development to cover the curriculum, rather than focusing on specific areas of teaching. The office told us if it finds gaps in professional knowledge or expertise, they are noted in its reports. The office highlighted its recommendations in a recent report about improving professional learning and development for science teaching in primary schools.

We are also aware of the importance of professional development for boards of trustees. The office said it is working to improve boards’ understanding of students’ achievement and of reporting by principals to boards of trustees. We heard that the office is developing a pamphlet for boards on questioning and setting targets, with suggested questions for their principals and teaching staff.
Appendix

Approach to financial review
We met on 28 November 2012 and 30 January 2013 to consider the 2011/12 financial review of the Education Review Office. Evidence was heard from the Education Review Office and advice received from the Office of the Auditor-General.

Committee members
Nikki Kaye (Chairperson)
Catherine Delahunty
Hon Jo Goodhew
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O’Connor
Scott Simpson
Dr Megan Woods

Evidence and advice received
Education Review Office, responses to written questions 1 to 115, received 26 November 2012.

Education Review Office, responses to written questions 116 to 120, received 6 December 2012.


Organisation briefing paper, prepared by committee staff, dated 26 November 2012.
2011/12 financial review of the Ministry for the Environment and of the non-departmental appropriations for Vote Climate Change and Vote Environment

Report of the Local Government and Environment Committee

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Ministry for the Environment and of the non-departmental appropriations for Vote Climate Change and Vote Environment

Recommendation
The Local Government and Environment Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry for the Environment and reviewed the reports of the non-departmental appropriations for Vote Climate Change and Vote Environment, and recommends that the House take note of its report.

Introduction
The Ministry for the Environment is the Government’s primary adviser on environmental matters. The ministry administers the Resource Management Act 1991, which sets out how the environment should be managed, covering air, water, soil, biodiversity, coastal areas, noise, subdivision, and land-use planning in general. It also prepares national policy statements, and national environmental standards, and reports on the state of the environment, and gives national direction to central and local government agencies with responsibility for environmental management.

Financial and service performance management
The ministry’s revenue for 2011/12 was $50.639 million, and its total expenditure was $50.638 million, resulting in a net surplus of $1,000 for its continuing activities.

The Vote Climate Change non-departmental output classes Allocation of New Zealand Units and Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative showed net surpluses of $1,224.727 million and $7.645 million respectively.

The Vote Environment non-departmental output classes Contestable Waste Minimisation Fund, Fresh Start for Fresh Water: New Initiatives, Fresh Start for Fresh Water: Waikato River Clean-up Fund, Protecting Lake Taupo Programme, and Waste Disposal Levy Disbursements to Territorial Local Authorities showed net surpluses of $2.525 million, $570,000, $127,000, $3.671 million, and $806,000 respectively.

In 2011/12 the annual appropriation and actual expenditure for Vote Environment output classes Fresh Start for Fresh Water: Rotorua Lakes Restoration Programme, Tui Mine Remediation, and Waikato River Co-management was $4.1 million, $10 million, and $2.632 million.

The Office of the Auditor-General issued an unmodified audit opinion on the ministry’s financial statements, giving a “good” rating to its management control environment, as it did in 2010/11. Financial systems and controls, and service performance information and associated systems and controls received the highest rating of “very good”, an improvement on 2010/11’s “good” rating. We note that the ministry was only one of two departments to receive this rating for service performance information.
Funding community projects

The Mackenzie Sustainable Futures Trust was established to mediate between farmers and environmentalists regarding projects in the Mackenzie Basin and Waitaki Valley. Concern has been expressed about funding the trust received. We heard that the ministry had briefed the responsible Minister on the matter, but was still awaiting the final report, which we look forward to seeing.

The ministry said it was looking at funding processes in general, and thought it important to ensure that “vehicles” were in place before funding was granted. We believe that this work will improve the funding of community projects.

We were pleased to learn that in the 2011/12 financial year 28 projects were funded through the Waste Minimisation Fund, with the result that 25,000 tonnes of waste and about 125,000 litres of hazardous substances were diverted from landfill. The ministry told us that it needs to determine whether some community groups, particularly small ones, have sufficient access to the fund, and this will be covered in its 2014 review of the waste levy.

Water

Under section 32 of the Resource Management Act various plans, regulations, standards, and statements—including local authority water plans—must be evaluated. Proposed changes to such instruments must also be evaluated. Some of us are pleased that the ministry is examining the quality of these “section 32 reports”, as changes to water plans can significantly affect farmers generally and intensive farmers in particular. We agree that a collaborative approach in developing water plans can benefit the process and the plan.

The ministry is currently developing policy following the findings of the Land and Water Forum. It did not wish to go into details, but pointed out that issues regarding water are complicated, and should be looked at in their totality. We look forward to seeing the results of its policy work.

Environmental reporting

Some of us queried the decision not to produce the intended 2012 state of the environment report. We heard that, although the ministry would not be producing a consolidated report, its indicator reports would continue to appear from time to time. The ministry also pointed out that this information is updated regularly on its website. It explained that it wanted to be able to debate the issues, not the veracity of the data. The ministry produced report cards on three of a core set of 22 national environmental indicators in 2011/12.

We note that there is legislation before the House to amend section 360 of the Resource Management Act which would allow the responsible Minister to make regulations requiring local authorities to monitor the environment according to specific priorities and methodologies; and that this is approximately half of the recommendations proposed in the 2011/12 environmental reporting consultation document.

While there are international models for environmental reporting, we note Dr Reynolds’ belief that New Zealand needs to establish its own model.
Appendix

Approach to financial reviews
We met on 6 December 2012 and 31 January 2013 to consider the financial reviews of the Ministry for the Environment and the non-departmental appropriations for Vote Climate change and Vote Environment. Evidence was heard from the Ministry for the Environment and advice received from the Office of the Auditor-General.

Committee members
Nicky Wagner (Chairperson)
Maggie Barry
Jacqui Dean
Paul Goldsmith
Gareth Hughes
Raymond Huo
Nikki Kaye
Hon Annette King
Moana Mackey
Eugenie Sage
Hon Dr Nick Smith
Andrew Williams

Evidence and advice received
Ministry for the Environment, Responses to written questions, received 4 December 2012.
Ministry for the Environment, Responses to additional written questions, received 18 January 2013.
Organisation briefing papers, prepared by committee staff, dated 5 December 2012.
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Ministry of Foreign Affairs and Trade and non-departmental appropriations for Vote Official Development Assistance

Recommendation
The Foreign Affairs, Defence and Trade Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Foreign Affairs and Trade and the non-departmental appropriations for Vote Official Development Assistance and recommends that the House take note of its report.

Introduction
The Ministry of Foreign Affairs and Trade is responsible for protecting and promoting New Zealand’s interests overseas. It provides advice on international relations, works to advance and protect New Zealand’s security and trade interests, administers New Zealand’s overseas aid programme, and provides consular support for New Zealanders overseas. It is also the Government’s official channel for communications with other countries and international organisations.

In 2011/12 the ministry’s total income was $389.111 million and its total expenditure was $360.83 million. The surplus primarily reflects savings in travel costs, lower costs associated with overseas posts, staff vacancies, and a lack of movement in the remuneration market, using fewer contractors and consultants than budgeted, and under-spending by corporate units.

In the 2011/12 year the ministry also incurred non-departmental expenditure and capital expenditure against appropriations in Vote Official Development Assistance of $510 million.

The ministry has 1,363 staff: 684 in New Zealand and 679 (seconded and locally employed) working in 53 overseas posts.

Financial management and service performance
The ministry received an unmodified audit opinion from the Office of the Auditor-General. The management control environment and the service performance information along with related systems and controls were assessed as good, as they were last year. The office commended the ministry for maintaining an effective control environment during a period of considerable change.

Organisational change and personnel
The ministry underwent extensive reform in 2011/12—according to the Auditor-General the biggest in its history—and has substantially completed the implementation of changes to processes. The ministry could not tell us how many heads of mission had left its employment for reasons other than retirement under the current chief executive; we were aware of suggestions that as many as forty had left in the last two years, in response to the ministry’s restructuring. The ministry said it was aiming to achieve a balance of experienced
and more junior staff. It expressed confidence that it has talented staff to be proud of at all levels of seniority.

We asked about the ministry’s staff attrition rate, which has nearly trebled in three years, and an employee engagement survey which found that 60 percent of employees were ambivalent and 25.5 percent disengaged. The ministry responded that these figures were historical, and significant change has happened since; employees were responding positively to the new leadership style, priorities, and capabilities. The attrition was also comparable with that throughout the public sector, and tended to be in specialist support areas like information technology and human resources. The ministry said that staff numbers had increased dramatically in the 2008/09 financial year due to the “step change” initiative of the previous Government; the new structure will return staffing to the previous level.

In response to questions about new rates of remuneration and allowances for dependants, the ministry said that some employees were now paid more and some less. Dependants were discussed in the consultation process, and the ministry believes it recognises the costs entailed for employees with dependants overseas.

The ministry noted that employees in hardship posts have received increases in allowances. It said remuneration rates sought to balance New Zealand and overseas remuneration, and had not resulted in difficulty getting employees to work overseas. Some employees’ conditions and salaries have improved.

The chief executive, asked about the appropriateness of his pay increase of $40,000 a year, replied that he does not set his pay, the State Services Commission does. The increase was the result of a performance review.

We are aware that the ministry has undergone extensive change, and look forward to seeing positive results.

Official Information Act requests

The Office of the Auditor-General has reported that 60 percent of Official Information Act 1982 requests are not being responded to within the target time of four weeks, and 20 percent did not receive a response within eight weeks. We are not aware of any other department failing to meet this particular legal responsibility so conspicuously. The ministry replied that it has set up a new team to coordinate processes, and its response would improve as a result; adequate staffing was not the issue.

New technology and models of representation

We asked the ministry about changes to the way it delivers overseas representation. The ministry explained that it needs to diversify its representation model, taking advantage of emerging opportunities, and increasing or establishing presence as required. The cost of representation according to the traditional model has been high; the ministry now recognises that not every post needs the full investment associated with the presence of an ambassador.

The ministry suggested that new technology makes a lower-cost approach possible, with more flexibility and responsiveness to opportunities. The new global document management system, for example, is intended to foster collaboration and make it easier to share information.
Climate change and the Emissions Trading Scheme

We expressed concern that New Zealand’s reputation might be at risk, since in the United Nations Greenhouse Gas Inventory for 1990 until 2010, out of 37 Annex B countries, New Zealand recorded the second-worst percentage increase in total gross emissions. The ministry replied that New Zealand has more renewable sources of energy than some other countries. New Zealand’s unusual gas emissions profile, especially high in methane and nitrous oxide because of our heavy pastoral use of land, can produce anomalous results; and New Zealand also has a growing population, where the comparators’ populations are generally static or dwindling. The global research alliance, a forum for countries with agriculture-based economies to discuss ways to reduce emissions, has benefited New Zealand’s reputation, and the unique factors that apply are better understood.

We disagreed, noting that we had heard that European countries feel let down by New Zealand’s position. The ministry claimed that the explanation offered had mitigated disappointment in the recent policy choice to withdraw from the Kyoto Protocol.

Scholarships

We asked whether an appointment had been made to manage scholarship programmes funded by official development assistance. The ministry replied that scholarship management is still being finalised. We understand an Australian firm was given an interim contract while scholarship management is being finalised. Some of us were concerned that a conflict of interest might develop to New Zealand’s disadvantage if this were the case. We look forward to final confirmation of who has been contracted to manage these programmes in due course, and will be concerned to establish that the new arrangements are working effectively.

Aid to Burma

We asked the ministry about the recently announced provision of $7 million of aid to Burma, and asked how it was going to be delivered. The ministry did not have the information to hand, but has subsequently provided it. We understand the Prime Minister was advised on his recent visit that aid was most needed in Burma for rural reform; the ministry agreed that New Zealand can make the most difference in this area. We are concerned about the future of the UnionAID programme and support its continuation.

We asked whether the concentration of aid to Burma on agricultural reform was related to Fonterra’s access to that market, and suggested a better focus might be basics like health and education. The ministry responded that the key to eliminating poverty is developing skills that enable people to become self-sufficient. Agriculture is an area in which New Zealand can offer particular capabilities; this does not amount to neglecting health or education. We consider that New Zealand’s securing access for its own multinational company, when many other multinationals are vying for access to Burma, might not benefit our reputation.

The ministry said that it is considering the possibility of representation in Burma, via the embassy in Bangkok.

Development assistance in the Pacific

We asked about the priority the ministry had given to the development of Pacific Island nations, to which we believe that we have a responsibility. The ministry concurred, saying that its activity has been focused on building economic capability, so that reliance on
official development assistance is reduced over time. Measures have included investment in business mentoring, training programmes, and fisheries management and development, and the establishment of a recognised seasonal employer’s scheme, providing Pacific people with opportunities for income, education, and skills development.

The ministry also believes energy and water quality are important. It is supporting the development of renewable energy sources, to reduce dependence on costly diesel.

We asked about opportunities for cooperation with other aid donor nations to get greater value for money. The ministry gave examples of collaboration with Australia, the European Union, and most strikingly, China. It suggested that the challenge for the Pacific is not the availability of money but the capacity of local economies to absorb aid initiatives.

We asked the ministry to comment on the last rotation deployed from New Zealand to the Regional Assistance Mission to the Solomon Islands. The ministry believes that it demonstrates a strength of New Zealand’s military personnel—an understanding of post-conflict rebuilding. The ministry suggested that the military and the police as well as the diplomats involved should be proud of the work done in the Solomon Islands. A New Zealand police presence will continue.

**Diplomats’ partners’ employment rights**

We asked about the right of common-law partners of ambassadors or high commissioners to work in New Zealand. The ministry explained that the arrangement works by reciprocity, so depending on what rights New Zealanders in similar positions have in the corresponding country, the same rights are afforded to their representatives here. We were told that any unilateral departure from the convention on New Zealand’s part would risk not keeping the issue alive for our diplomats overseas who encounter the same problem.

**Consultants and contractors**

We expressed concern about the way tenders for contractors and consultants were handled recently, and asked the ministry for an update on progress. Our concern centred on practices of rehiring contractors and consultants without opening the positions to other suitable candidates. The ministry has conducted a review, and believes it has been recruiting the appropriate people with the right skills, especially in specialised areas and for providing high-level advice. It is also establishing a panel of preferred suppliers. While the scarcity of experienced knowledgeable people may well result in rehiring the same people, our concern is one of principle; there should be an automatic tender process, and we would like this to be required in future. Such a scarcity should not be assumed.

**Relations with the United States**

We asked the ministry to describe New Zealand’s relationship with the United States over the year in question. The ministry believes it continues to progress positively, with some significant milestones reached this year, including the signing of the Washington and Wellington declarations and the visit of Secretary of Defense Leon Panetta. Negotiations toward the Trans-Pacific Partnership Agreement have continued to maintain momentum.

The ministry suggested that improving relations has practical benefits for our understanding of issues on the international stage, and effective cooperation with the US in aid areas, responses to humanitarian crises, and military deployment.

The ministry said it considered the renewed interest by the US in the South Pacific helpful in terms of defence and maritime surveillance. It cited Secretary of State Hillary Clinton’s
attendance at the Pacific Islands Forum meeting as conferring symbolic benefit. Practical benefits include US capability for fisheries surveillance and relief assignments, and assistance by the US military with removal of unexploded devices in the Pacific.

Rights of New Zealanders living in Australia

We talked with the ministry about limitations on the rights of non-resident New Zealanders living in Australia, and the lack of reciprocity with the rights of Australians living in New Zealand. We consider it discriminatory that people who have been living and paying taxes in Australia for years cannot get assistance when they need it. The ministry said that this issue is recognised, and work is being done on both sides of the Tasman to rectify it. The ministry asked that we bear in mind the complexities of this issue, and consider it in the context of New Zealanders enjoying freedoms of exchange and movement between the countries. When we pressed the ministry for precisely what is being done, it agreed to provide a more specific response subsequently.
Appendix

Approach to financial review
We met on the 29 November 2012 and 31 January 2013 to consider the financial reviews of the Ministry of Foreign Affairs and Trade and the non-departmental appropriations for Vote Official Development Assistance. Evidence was heard from 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
Maryan Street was a substitute member for this item of business.

Evidence and advice received
Ministry of Foreign Affairs and Trade, responses to written questions, received 26 November 2012.

Office of the Auditor-General, Briefing on the Ministry of Foreign Affairs and Trade, dated 29 November 2012.

Ministry of Foreign Affairs and Trade, supplementary responses to written questions, received 11 December 2012.
The Intelligence and Security Committee has conducted the financial review of the 2011/12 performance of the Government Communications Security Bureau, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Rt Hon John Key
Prime Minister
Chairperson
2011/12 financial review of the Ministry of Health and the non-departmental appropriations for Vote Health

Report of the Health Committee

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**Ministry of Health and non-departmental appropriations for Vote Health**

**Recommendation**

The Health Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Health and reviewed the report on the 2011/12 non-departmental appropriations for Vote Health, and recommends that the House take note of its report.

**Introduction**

The Ministry of Health is the Government’s principal advisor on health and disability policy. The ministry has overall responsibility for the management and development of the health and disability system, and is a funder, purchaser, and regulator of health and disability services. The ministry monitors and seeks to improve the performance of health-sector Crown entities, including the district health boards (DHBs), administers and monitors services agreements and payments for health benefits, and administers health legislation and regulations.

**Financial performance**

The ministry administers Vote Health, the second largest vote in the Budget and the largest in terms of services. Approximately three quarters of the vote goes to funding health services provided by DHBs. During 2011/12 the ministry’s total departmental revenue was $204.952 million, and total expenditure was $189.703 million, resulting in a net surplus of $15.249 million. The Office of the Auditor-General rates the ministry’s management control environment and its financial information systems and controls as “good”.

**Non-departmental appropriations for Vote Health**

The non-departmental appropriations administered by the ministry under Vote Health, apart from appropriations for DHBs, amount to about $2.3 billion. These appropriations are used to fund a wide variety of advisory and support services provided by various organisations in the health and disability sector.

The non-departmental appropriations explain service performance, and comment on any variance between the actual amounts spent and the amounts budgeted for each appropriation. We would like to see financial information and quality of performance covered in greater detail in the report, to enhance public accountability for Vote Health.

**Service performance reporting**

The Office of the Auditor-General gave the ministry a rating of “good” for its service performance information and associated systems and controls, an improvement on the “needs improvement” rating received the previous year. The Office of the Auditor-General noted that the ministry has significantly improved its output performance measures, but suggested targets could be more challenging, and the cost-effectiveness measure needs to be developed further.
Sector leadership

There have been a number of structural changes to the health system in recent years, with the establishment of new and reconstituted health sector bodies, including the Information Technology Health Board, the National Health Board, the National Health Committee, Health Workforce New Zealand, and Health Benefits Limited. These bodies are expected to lead improvement in the system’s capability and infrastructure.

We asked what the ministry was doing to avoid fragmentation resulting from specialisation of leadership. The ministry told us that they are making much progress on ensuring strategic alignment across the sector; the Health Sector Forum brings senior leaders together quarterly to discuss issues of common interest, and promote consistency.

Performance and delivery

We were concerned about the ministry’s capacity for delivering projects and meeting output targets, as reflected in a 7.6 percent reduction in operating costs, and the 21 project delays that occurred in 2011/12. We note that almost half of these delays were because of staff vacancies and redundancies. The ministry said it is considering strengthening its policy team, and is tracking its performance against targets monthly. We expect to see improvements in this area. On the other hand, achieving a net surplus of $15.24 million is an achievement considering there are so many demands on the ministry.

We asked what the ministry was doing to create a sustainable workforce, and were told that Health Workforce New Zealand is working to develop and maximise the potential of the workforce. The ministry said such activity has been consolidated to use resources better, and funding has been refocused.

Privacy

We asked about the security of the ministry’s shared information technology systems, and were assured that the ministry recognises and values the importance of privacy. We were pleased to hear that its systems are protected by independent oversight, a security forum, and a privacy officer.

Heart and diabetes checks

We are concerned that the uptake of free heart and diabetes checks has declined during the last two quarters, and local diabetes support clinics are closing. We recognise that diabetes and cardiovascular disease are two of the four biggest killers, and strokes are the biggest cause of disability in old age, so adequate prevention and treatment measures are crucial. We note the new heart and diabetes targets, with the aim that 90 percent of the eligible population will have had their cardiovascular risk assessed in the last five years to be achieved in stages by July 2014. The first stage is to achieve 60 percent by July 2012, and 75 percent by July 2013.

We are disappointed that many DHBs are not on track to achieving the new target for heart and diabetes checks, with Whanganui reporting a particularly low performance. This is worrying, given Whanganui’s high Māori and Pacific population. We would like to see the ministry help DHBs lift their performance towards this target. The ministry admitted that there is scope for better management in this area, and said it is working with all the DHBs and Primary Health Organisations to bring about progressive improvement.
We asked if the ministry is applying the needed urgency to these major health issues, as the Government has ceased funding the healthy eating guidelines in schools. The ministry assured us they recognise the need for urgency and are going to provide free fruit in some schools. We look forward to seeing progress in this area.

**Optimal intervention**

We recognise that non-communicable diseases have been a challenge to the health sector for several decades, and asked about optimal intervention. We heard that no country has yet achieved a reduction in the prevalence of obesity. However countries with a strong primary care system and integrated specialist care, including New Zealand, are best placed to deliver the necessary continuity of healthcare and support. New Zealand has recorded a large reduction in cardiovascular disease in recent years.

**Food labelling**

We asked about the ministry’s view of the use of food labelling to assist the self-management of nutrition, to reduce the early onset of diabetes. The ministry told us that multiple strategies are required to improve the population’s nutrition, and accurate, easily understood food labelling has the potential to make it easier for consumers to make healthier dietary choices. The ministry also told us that front-of-pack labelling may also encourage development of healthier products. We will follow progress in this area with interest.

**Procurement and contracting**

The Office of the Auditor-General advised us that although the ministry has a good overall policy framework, it has been struggling for many years now to achieve consistent day-to-day policy application. In 2011/12 the ministry commissioned an external review of national services purchasing, non-departmental expenditure, contract management, and contract preparation. The review resulted in a number of recommendations regarding procurement, contract management, and value for money. We expect the ministry to respond to these recommendations to bring about the culture change needed for consistent policy application.

**Sustainability**

We are aware that health spending has been outstripping the growth in New Zealand’s gross domestic product for some time now, and asked what efforts have been made to reduce spending. The ministry is aware of the tremendous challenge the current fiscal situation places on the sector, and has imposed constraints in areas such as staff numbers and travel costs. We were told that Health Benefits Limited is tasked with achieving savings in DHBs of $700 million in its first five years. The company’s first major project is to implement a single finance, procurement, and supply chain system for all DHBs. We are pleased with the commendable reduction in the number of contractors employed by the ministry, and we welcome the efforts being made in this area.

**Mental health**

We are impressed with the recent electronic initiatives to target mental health issues in youth and adults, such as the “Low Down” website and the Echat tablet-based mental health assessment tool, designed for use in hospitals and schools. We asked why mental health is not a criterion by which the public can judge the performance of the health system. The ministry said that although it is not a health target, mental health is a
significant priority. A developmental plan for mental health and a suicide prevention action plan are being drawn up. We will monitor developments in this area with interest.

We heard that some mental health patients have “fallen through cracks” in the mental health system, and are living in the community without the specialist care they need. The ministry was not aware of this; and it told us that in the current environment of tight fiscal constraint, resources are limited. The ministry also emphasised that it was using the available resources more efficiently, and are continuing to invest in specialist mental health care facilities.

**Oral health**

We are aware that some dental therapists are highly remunerated in private practice, and asked whether the ministry has undertaken any workforce planning to avoid a potential shortage of dental therapists. We were told that Health Workforce NZ will be carrying out a clinician-led workforce service forecast for the entire oral health workforce in 2013.

**Ehealth vision**

The Ehealth vision aims to provide New Zealanders and their treatment providers, regardless of the setting, with electronic access to a core set of personal health information by 2014. This is intended to allow electronic prescribing and medicines reconciliation, and integrated care initiatives for long-term conditions, maternity and emergency services, and primary care. We understand that the vision will bring numerous benefits for continuity of care, and patients will be able to see a summary of their treatment and lab results, and have conversations with their general practitioner online. We were informed that over 5000 records have already been transferred and 14 DHBs are electronically providing a referral service from general practice.

**Elective surgery**

We are pleased with the large improvements recorded in waiting times for elective surgery, but we asked about the rate of post-operative complications, which compares poorly internationally. The ministry replied that there is no causal relationship between these rates and the recent improvements in waiting times, and attributed the recorded rates partially to the emphasis on open reporting. We were assured that the Health Quality and Safety Commission is working to reduce complications, and promotes hand-washing, and measures to avoid surgical-site infection.

**North Shore Hospital elective surgery unit**

We understand that North Shore Hospital is building a $39-million elective surgery unit, which is due for completion mid-2013. Proposed financial modelling for the unit is controversial. We understand that payment is expected on a fee-per-procedure basis. There have been estimates that surgeons working at the unit could be paid up to $10,000 per day. The ministry emphasised that the principles behind the unit are quality of care, value for money, and positive outcomes. We will follow developments in this area.
Appendix

Approach to financial review

We met on 28 November and 12 December 2012 to consider the financial review of the Ministry of Health and the non-departmental appropriations for Vote Health. Evidence was heard from the Ministry of Health and advice received from the Office of the Auditor-General.

Committee members

Dr Paul Hutchison (Chairperson)
Shane Ardern
Dr Jackie Blue
Dr Cam Calder
Kevin Hague
Iain Lees-Galloway
Andrew Little
Barbara Stewart
Hon Maryan Street
Dr Jian Yang

Evidence and advice received

2011/12 non-departmental appropriations for Vote Health.


Ministry of Health, responses to committee questions, received 23 November 2012.

Ministry of Health, responses to additional committee questions, received 10 December 2012.


Organisation briefing paper on Ministry of Health, prepared by committee staff, dated 24 October 2012.

Organisation briefing paper on non-departmental appropriations for Vote Health, prepared by committee staff, dated 1 November 2012.
2011/12 financial review of the Inland Revenue Department

Report of the Finance and Expenditure Committee

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Inland Revenue Department

Recommendation
The Finance and Expenditure Committee has conducted the financial review of the 2011/12 performance and current operations of the Inland Revenue Department, and recommends that the House take note of its report.

Introduction
The Inland Revenue Department (IRD) manages New Zealand’s tax system, collecting about 80 percent of core Crown revenue. It also administers several Government programmes, including KiwiSaver, student loans, Working for Families tax credits and kick-start payments, child support, and paid parental leave.¹ The Commissioner of Inland Revenue is Naomi Ferguson, who took up the role in July 2012.

The department’s output expenses in 2011/12 totalled $665.9 million, an increase of 4 percent over the previous year. After other expenses of $6.2 million related to the write-down of fittings in its Christchurch premises after the earthquakes, the department reported a net deficit of $878,000, an improvement on the $2.6-million deficit in 2010/11.

Service performance
The situation in Christchurch continued to disrupt IRD’s services during 2011/12, as it struggled to catch up with a backlog of work after the earthquakes. It also faced operating challenges from its ageing computer systems, and from funding constraints during a major business transformation programme. These pressures caused the department’s service performance, particularly timeliness, to suffer in 2011/12. It achieved only 38 of its 55 performance standards for the year (69 percent), a decline from the previous year when it achieved 84 percent.

We agree with the department that these results are disappointing, if understandable given the disruption and additional work caused by the earthquakes. We hope to see the timeliness of the department’s work improve over the coming year, and will continue in particular to look for progress in reducing older debt, which we discuss further below. In general, however, we note that the department ranks among the most efficient tax administrations in the OECD, and achieves good customer satisfaction ratings.

Business transformation
IRD is embarked on a very large business transformation programme to improve its capacity to meet the needs and expectations of the Government and the public. A key priority in this is the redevelopment of the department’s ageing computer system, which pre-dates the internet and has had many new demands placed on it with the advent of student loans and KiwiSaver. We were assured that the system remains reliable and continues to deliver, but the department acknowledged that it cannot readily implement

¹ IRD jointly administers the student loan scheme with the Ministry of Education and StudyLink (a part of the Ministry of Social Development).
new tax policies until the system is upgraded, and it faces an increasing risk of constraints on its ability to collect and disburse money.

The department has worked over the past year with its contractor, Capgemini, to develop plans for improving its business practices and upgrading the computer system. It expects to submit proposals in February 2013 for Cabinet’s consideration, outlining a work programme to be implemented over 10 years. The department envisages the first stage of the programme, covering the next three or four years, to be firmed up in the Budget 2013 process.

We will follow with interest the business transformation plans as they evolve. It is clearly a massive project—with an “early ball-park” estimate of $1–1.5 billion over 10 years—and vital for the department’s service delivery. We were pleased to note that in the meantime IRD is modernising services where it can do so economically, for example launching a mobile phone application this year to allow customers to access some of its online services by smartphone. We were told that 28,000 customers had already downloaded the free app by the end of June.

**Capgemini**

We are aware of reports in UK media that Capgemini paid only 1 percent in tax on the revenue it earned from work for the British government. We asked the commissioner to comment on whether she considers it important that those employed by the department are seen to be good citizens and to pay their fair share of tax. The commissioner said she could not comment on unconfirmed reports about a firm’s activities overseas; the important thing is what it does in New Zealand. As to whether information had been sought from Capgemini about the issue, she said it was not appropriate to discuss individual companies or specific commercial arrangements.

Speaking more broadly, the commissioner agreed that a culture of compliance requires everyone to be seen to be paying their fair share of tax. The issue, she said, is determining the fair share; while the department accepts that there is legitimate tax minimisation, it is firm in the view that all avoidance is non-compliance. Any entity will be taxed on the profits made from activities undertaken in New Zealand, and the department tries to ensure through its procurement and employment arrangements that any company it works with complies with New Zealand law.

**Staffing**

The department employed 5,301 full-time-equivalent staff at year-end, 6 percent less than the year before. It is working to build in-house skills in areas such as digital technologies, data matching, change management, and lean methodologies, but considers it appropriate to use specialist contractors to help with the business transformation programme.

**Redundancy payments**

We are concerned by the size of some redundancy payments made by the department in the past year. Over $9 million was paid in total for 155 payments, with four payments in excess of $250,000. The commissioner explained that much of its restructuring over the past year involved senior staff with long service, so the payments were exceptionally large. To the best of her knowledge, no staff made redundant had subsequently been re-employed by the department. She subsequently provided us with more information about the redundancy provisions in the department’s standard contracts.
Regional distribution of staff

We note that the department’s staff numbers have been reduced in most regions over the past five years, yet those in the Wellington region and Hamilton have remained steady. We were told this is part of a deliberate strategy to improve efficiency by centralising jobs that do not require face-to-face contact. Such work is being moved to the department’s two existing call processing centres at Upper Hutt, and at Te Rapa in Hamilton.

Some of us are disappointed to see the department contributing to job losses in provincial centres, especially in the South Island where only 15 percent of its staff are now located, and consider that analysis for such decisions by Government agencies should consider demographic factors such as the depopulation of regional areas, and Wellington’s higher cost compared with smaller centres.

The department told us it undertakes a lot of risk analysis in deciding its footprint. Decisions also took into account the need to focus its compliance work in Auckland, where many businesses are located, and its established processing centre in Upper Hutt. It added that staff numbers in Christchurch had dipped after the earthquakes because it was hard to find facilities, but said it is committed to restoring its staffing there to pre-earthquake levels when it can.

Managing debt and compliance

The department has had some success over the past year with its strategy of early intervention, working with customers to prevent them from getting into debt, which it sees as the best way to improve compliance. Debt under two years old was reduced by 16 percent ($432 million) in 2011/12. Despite these efforts, however, total overdue debt increased by $394 million (7 percent, the same rate as in 2010/11), to $5.9 billion. This included a 26-percent increase in non-collectable debt.

Debt more than two years old now forms 61 percent of total debt, and continues to mount because of penalties and interest, which make up nearly half of the overdue total. We are aware that debt becomes increasingly difficult and expensive to collect as time passes, but hope to see progress with the help of funding provided in Budget 2012.

The department has strengthened its intelligence-gathering and analysis capability in recent years, helping it to find over $1.2 billion in discrepancies between the liabilities it calculated and taxpayers’ self-assessments in 2011/12, a return on investment 9.6 percent above target. The IRD also continued to tackle non-compliance in the hidden economy and property market, meeting or exceeding its targets, and expects to make further progress in improving compliance.

Privacy breaches

There were 32 breaches of privacy by the department in the year to October 2012, affecting 638 individual customers. The commissioner told us the department takes all breaches seriously, contacting each person or organisation affected to discuss the harm caused and what remedial action might be taken, and in each case it conducts an internal investigation. Most of the breaches arose from human error rather than any systems failure, often through mistakes such as putting paper into the wrong envelope or wrongly addressing an email.

We agree with the department that any breach of privacy is a matter for concern. We also acknowledge that occasional human error is inevitable when dealing with some 25 million
transactions annually. We were assured that there is no indication such breaches are increasing, and that the organisation has a strong culture of protecting privacy.

**Data matching**

Under the Better Public Services agenda, the department is working with other agencies such as the New Zealand Customs Service to improve the accuracy of information recorded about citizens, and to avoid duplication. We asked how its data tallied with the electoral rolls, as there appear to be far more individuals recorded as having IRD numbers than there are people registered to vote.

At 31 March 2013, the Inland Revenue Department had 4,866,850 individual customers aged 18 or over. We learned that several factors explain why this differs from the number of registered voters. IRD’s customers include New Zealanders living overseas who still have tax affairs in New Zealand; overseas workers who worked in New Zealand on a seasonal or temporary basis; and customers who have died but whose tax affairs have not yet been settled. There may also be many individuals who are voters but not current IRD customers, such as homemakers with no income. IRD has not set up any data matches against the electoral roll.

**Online purchasing**

We sought the department’s view on the growth of online purchasing from overseas, as such imports can mean retailers and the Government miss out on revenue. The department agreed this is an international issue of increasing importance and concern. It is working with its counterparts in Australia and the OECD, and with local agencies such as the New Zealand Customs Service, but there are no simple solutions. At least three approaches were possible: to collect tax revenue at the point of pick-up; to collect through the payments system; or to register overseas suppliers for GST. Each presents formidable implementation challenges.

**Foreign trusts**

We asked what information the Inland Revenue Department seeks about the identity of the beneficiaries of foreign trusts registered in New Zealand, in the light of international concern that overseas trusts can be a means of tax avoidance. We were told that the department requires contact details but does not record information about the ultimate beneficiaries. Its aim is to keep compliance costs low for people setting up a trust, while obtaining enough information to allow it to make enquiries on behalf of a foreign administration if asked to do so. The department added that it seeks to balance the open exchange of information with other governments against the need to protect individual privacy by ensuring that the information is genuinely sought for tax reasons only.

**Additional information**

We have sought additional clarification on some of the questions we submitted to the department at our hearing. Due to the parliamentary deadline for this item of business, we were unable to obtain the answers prior to reporting to the House.
Appendix A

Approach to financial review
We met on 5 December 2012 and 30 January 2013 to consider the financial review of the Inland Revenue Department. We heard evidence from the Inland Revenue Department and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Inland Revenue Department, Response to written questions, dated 3 December 2012.
Inland Revenue Department, Response to additional questions, dated 7 January 2013.
Office of the Auditor-General, Briefing on Inland Revenue Department, dated 5 December 2012.
Organisation briefing paper, prepared by committee staff, dated 3 December 2012.
Appendix B

Corrected transcript of hearing of evidence 5 December 2012

Members
Paul Goldsmith (Acting Chairperson)
Maggie Barry
David Bennett
Hon Clayton Cosgrove
John Hayes
Dr Russel Norman
Hon David Parker
Hon Dr Nick Smith

Witnesses
Naomi Ferguson, Commissioner and Chief Executive
Arlene White, Deputy Commissioner (Service Delivery)
Struan Little, Deputy Commissioner (Policy)

Goldsmith Welcome. We’ve got the best part of 50 minutes, so if you could just give us a summary of the big issues and leave plenty of time for us to ask some questions, we’d be grateful.

Ferguson Thank you very much, Mr Chairman. My name is Naomi Ferguson, and I am the Commissioner of Inland Revenue. I would like to firstly introduce my colleagues: Struan Little, who is our Deputy Commissioner of Policy Advice, and Arlene White, who is our Deputy Commissioner of Service Delivery. Before talking briefly about the department and its performance, I’d also like to acknowledge my predecessor, Mr Bob Russell, for the leadership he provided to the department since 2007 and his contribution over a number of years as the department changed and developed.

It’s clear to me, in arriving in the post in July, both from our annual report—and the audit report that accompanies it—and previous reviews, such as our PIF review, that the department is well run and well managed. Last year we delivered $49 billion in tax to the Government, as well as some $780 million in student loan payments and $426 million in child support payments from paying parents. We also, of course, disbursed significant sums of money through KiwiSaver to scheme providers, child support, family assistance, and paid parental leave. But we live in challenging times, and our department is no more exempt from those challenging times than any other organisation. Our performance this year overall was disappointing in some areas, and we achieved 38 out of our 55 targets—our output targets. We had continued issues around maintaining and prioritising work
in the light of the Christchurch earthquakes and the flow-on of work over from 2011, and that contributed to our poor performance in some areas.

Overall, though, I would like to highlight some things that I think went well for the department. Our service on phones was strong. We received 4 million telephone calls and we answered 90 percent of those. We also had over 15 million self-help contacts through our digital channels.

Barry
Fifteen?

Ferguson
Fifteen million. I think it’s worth noting that our customer satisfaction overall is 85 percent, but, actually, with our digital channels it is at 95 percent. We continue to invest in digital and new channels, having introduced voice identification this year to help speed up the process for people coming through to our call centres, and also introduced a mobile app, our first venture into the world of smartphones. It has proved successful, with a lot of interest from customers.

On compliance, we achieved our targets for audit, delivering over $1.2 billion to Government in terms of identified discrepancies and, in particular, we were successful with some of the newer work that we started there under Budget 2010, such as work in the hidden economy. We also made good progress with debt in terms of taking early and proactive intervention on debt, and our debt book for debt under 2 years old has decreased by 16 percent. But we know that we have not yet made the progress we would like to see in terms of our tackling of older debt, and that continues to be a focus for this year, including the active use of our 2012 Budget funding.

So, overall, some strong performance and still some areas for improvement. We do, of course, live in times that are financially stringent, and we continue to look to maximise the efficiency and the effectiveness of the organisation using modern management techniques such as Lean and Active Operations Management, and, indeed, working with others across the Government and other departments on better public services. Our particular focus has been on result 9 and result 10, and ensuring that Inland Revenue contributes to those.

Finally, I would just like to mention that, obviously, we are also doing a significant amount of planning and work to think about the Inland Revenue for the future, and to think about what we need to ensure that we can continue to deliver for New Zealand in 10 years, or 15 years, or 20 years. That work under our business transformation programme has continued during this year, and we have a strong platform from which we can build and work with Ministers to decide on the choices that we need to make for investments for going forward. So, overall, a good year in many ways, and I would like, of course, to thank the staff of the department, because it is only through them that we actually deliver those results and deliver the $49 billion for the Government as a whole. Thank you.

Parker
Could I just ask you a few questions about your redundancy costs, for a start. In the answers to the questions from the select committee, it said that there has been $9.3 million spent on redundancies this year, excluding $3.3
million additional for a transitional team. In addition to that, there is
another $6.5 million of redundancy costs referred to on the following page.
Could I ask, for a start, are those additional or is the $6.5 million included in
the $9 million?

Ferguson I am not sure of that in terms of the total. Giles, can you help?

Parker Perhaps you could come back to us on that. In respect of those costs, the
individual amount of redundancy payments set out on page 66—I am
surprised at the level of redundancy costs, or the individual amounts. We’ve
got four amounts of redundancy payments that are over $250,000 per
person. It’s the first time that this has ever happened in the IRD, looking at
the historic figures. I am somewhat surprised that there are redundancy
payments that high being made. Can you explain why that is?

Ferguson In general, a lot of our restructuring in the past year has included senior-
level changes and a number of our staff also have very long service. When
you take both the level of seniority and the level of service, the redundancy
payments can be significant.

Parker Well, I still find those amounts very, very surprising—more than a quarter
of a million dollars per person seems a heck of a lot of a redundancy
payment to me. Can you provide us with the contractual terms that are
standard in your terms of contract as to what your redundancy terms are?

Ferguson Yes, I can provide that.

Parker Can I also ask you about the employment patterns throughout the country.
I’ve had a look at page 43 of the answers, and it seems to me that the
pattern overall is that you have declining employment in the regions and
you’re maintaining employment levels in Wellington. Can I ask you, for a
start there, it seems there’s been a change in classification. You used to have
a national office classification plus a Wellington region, which you have
now combined. Is that right, in your stats?

Ferguson I believe so. I’m just looking at the stats—

Parker Is my reading correct—

Ferguson Yes.

Parker —that as that as the end of—

Goldsmith Sorry, what page is this?

Parker Pages 43 and 44. And, as at this year, the latest year that we’ve got stats for,
which is 2011-12, there are 1,729 people, including full time and part time,
in the Wellington region, which is pretty static from where it was 4 or 5
years ago, yet just about everywhere else seems to be declining in numbers.
So could you please tell me why, when you make efficiencies within the
organisation that reduce staff, why you always—well, not always, but why
you seem to concentrate them in Wellington, rather than in your other
offices?

Ferguson I’m very happy to talk about some of the changes that we’ve made to our
staffing overall. One significant factor that comes through in terms of our
regional footprint is, of course, Christchurch, where we have got fewer numbers of staff at the moment as we have managed the office accommodation and changes post the quakes. That is a specific issue. Outside of that, we have been looking at our footprint across the country as a whole with the aim of doing two things: firstly, ensuring that we are as efficient and effective as possible. So where work does not need to be done locally and there is more value to be got by that being centralised, we have sought to centralise that.

Parker: But why always centralised to Wellington, which seems to be—

Ferguson: It’s not always centralised in Wellington.

Parker: Well, can you show me a centre other than Wellington that’s maintained its staff numbers, because I can’t see any here.

Ferguson: Hamilton and Auckland also have significant staff numbers, and those are centres that we would—

Parker: Auckland has gone down by 10 percent, and Hamilton has gone down—well, actually Hamilton has stayed static, actually. But could you tell me what analysis has been done as to what the employment costs are in Wellington, including occupancy costs, compared with costs in the regions?

Ferguson: I’ll let Arlene come in more specifically on the work that’s being done to develop the service delivery footprint. It includes the work also to think about what we need in local communities, and to ensure that we actually have—

Parker: That’s a different question. No one is arguing that you shouldn’t move to more efficient practices. I agree with that. I am just questioning whether, as you move to more efficient practices and you use more technology and fewer people—which is an inevitable direction, it seems at the moment—they should all be located in Wellington. It seems to me that you should have some analysis as to what are the costs of location and employing people in more expensive centres, compared with smaller centres.

Ferguson: Certainly. Arlene, do you want to come in on that?

White: Certainly. One of our main thrusts for moving to centralisation was to create centres of expertise for where there is no face-to-face work. We were using our existing facilities to move people there. Currently we have two processing centres, one in Upper Hutt, which I believe would be included in the Wellington stats. So we were moving all of our what we call transactional work, or non-face to face. The work was centralised there, as well as at our site in Takapuna, which is in Hamilton. So that is where we will continue to get further efficiencies. As Naomi mentioned, our Active Operations Management is also ensuring that we deliver efficiencies and savings in those sites as we centralise those non-face-to-face workloads.

Parker: Fifteen percent of all of your staff now are in the South Island, which means that 85 percent of them are in the North Island. It seems to me—and I come from regional area. We’ve got depopulation in our regional areas, we’ve got ageing populations, and we’re seeing centralisation of
services by the Government to Wellington. Have you taken into account any of those factors?

White  Absolutely. When we—

Parker  Then how do you get to this answer?

White  Our footprint showed—or the analysis that we did when we were looking at our footprint, was moving people to where our highest risk areas were. Clearly, we know that a lot of our activity in terms of the compliance area is in Auckland. I think we all know, intuitively, that that’s where business is and that’s where our highest risk areas are. Certainly, in the South Island, as Naomi mentioned, we did have the issue in Christchurch and finding facilities for all of the people that were there. We are and will continue to move back to our original plans for Christchurch, and making sure that our employment will be as stable as it was prior to the quakes. The other areas in the South Island, we have done extensive demographic analysis as to where our highest risk areas area, and that is our regional and national risk model and our compliance model that moves the people there.

Parker  Thank you for that. My question really wasn’t where your demographic risk is. It’s just like we seem to be forever concentrating resource in our two main centres, and the rest of New Zealand, on that basis, doesn’t get anything. It seems to me that the way you are investing—if I could use that term—reinforces those trends, rather than fairly distribute the value of the amount that’s spent by taxpayers on your staff and services, in fewer and fewer areas. How can that be right?

White  I appreciate that, but certainly the fact that we were able to bring in an extra $1.2 billion in audit files over the past year I think clearly demonstrates that our risk is working. So where we invest our resources is in order to make sure that we get the highest compliance.

Parker  I can understand that in respect of audit. In terms of your processing functions, is there a business case that was prepared in respect of the centralisation of those services?

White  Our processing functions already existed in Upper Hutt, and, as I mentioned earlier, that is where we had our staff and our facilities already, centralised in that area.

Parker  The functions that have been withdrawn from places like Invercargill and other small centres presumably have been centralised somewhere else. Where have they been centralised to?

White  The transactional functions were centralised in Takapuna and Upper Hutt, and the other—that’s the non-face-to-face paper workloads. I’m sorry, Te Rapa and Upper Hutt. I apologise for that.

Parker  That’s OK. I have one other separate line of questions, if I may. In terms of these data-matching things that we’re getting across government now, including Customs and the like, increasingly using the advantages of information technology to match information from IRD against Customs and things, it seems to me to be sensible. I’m wondering if you know how
many people now—how many real people, as in actual people—who are over the age of, say, 18, have an IRD number. Would you be able to tell us that—not necessarily now?

Ferguson Yes, we will be able to get you some stats around the number of people who have IRD numbers. I’m not sure if we can do it by age, is the only reason why I’m hesitating. But we will get you some information on that.

Parker And do you collect data as to—do you know whether the people are nationals or not? The reason I’m asking is it seems to me that we’ve got duplicate systems still in different parts of government, including in the electoral system, yet you guys have got IRD numbers for far more people than we’ve got records for people who can vote.

Ferguson It’s certainly something under the Better Public Services agenda that we’re talking with the Department of Internal Affairs, Customs, MSD, and others to actually understand how we can provide a more joined-up or, indeed, a single source of identification for some of those key details. We have people who have IRD numbers, but it’s worth remembering that you can have more than one registration with us, so you can be registered as an individual and then registered as an employer, and so on.

Parker But you can’t be registered more than once as an individual, can you?

Ferguson No.

Parker Could you provide us with whatever reports you’ve had, in particular in relation to this data-matching, for the purposes of electoral rolls?

Ferguson I’m not sure that we’ve specifically looked at electoral rolls, but certainly we’ll provide you some information on what we have looked at.

Parker Thank you.

Norman Welcome to your new job. My question is about Capgemini and the use of these kinds of consulting firms. I guess my question is: do you think that when you employ these kinds of firms they need to be good corporate citizens? Is there some kind of health check as to whether they’re good corporate citizens?

Ferguson I’m not sure what you mean by “good corporate citizens”.

Norman OK. For example, is it important that they pay their tax?

Ferguson Certainly we would want to ensure that our suppliers meet tax obligations, and we do consider, for staff and suppliers, whether or not that is the case.

Norman I don’t know whether you’ve seen the story in the United Kingdom at the moment. Capgemini have been found to be paying less than 1 percent tax on their profits. So less than 1 percent of their profits they’re paying in tax. It’s obviously a big issue over there, because we’ve got big global problems with tax avoidance by these kinds of companies—Google, Facebook come to mind. If Capgemini were found—if these stories turn out to be true—to be paying less than 1 percent of their profits in tax in the United Kingdom, would you consider that to be an issue for your future employment of Capgemini?
Ferguson I think what’s important is what they do in New Zealand, they or any other entity. Tax is a tax on residence and a tax on the profits that you make in a country. How Capgemini operate internationally is not something I am privy to.

Norman So, just to be clear on that, you’re saying, if this is accurate, that Capgemini are paying less than 1 percent of their profits in tax in the United Kingdom, that’s not a concern of yours?

Ferguson What I’m saying is I have no information by which to judge whether or not that is accurate or fair. That would be something for the UK revenue department to consider, within the context of their laws.

Norman So implicitly what you’re saying, then, is what they do in New Zealand is of interest to you. Have you run checks to make sure that Capgemini are paying their share of tax in New Zealand, because, clearly, they’re earning money in New Zealand—from you, for example?

Ferguson Absolutely. As part of our standard procurement process and our employment processes, we consider the tax position of our suppliers and our staff.

Norman So since you started engaging with Capgemini, have you monitored how much tax they’re paying, to make sure they are paying their tax?

Ferguson We will be looking at the tax risk of all large companies.

Norman So if it came to pass that Capgemini were paying less than 1 percent of their profits in tax in New Zealand, would you continue to employ them?

Ferguson I think what’s important is that we understand that large companies—every business is due to pay tax on the income generated from activities in New Zealand, and we would be seeking to ensure that that is applied to any company, and using the full range of our tools, be they the transfer-pricing rules, thin cap, or our anti-avoidance rules, to ensure that that’s the case.

Norman The Minister of Revenue has recently spoken about legitimate tax avoidance. Do you believe there is legitimate tax avoidance?

Ferguson We have seen that, you know, there is legitimate tax minimisation. A great example is the PIE—we all look at that and recognise it—

Norman Sorry, my question is really quite specific: do you think there is such a thing as legitimate tax avoidance, which is what Mr Dunne spoke of?

Ferguson All avoidance—

Bennett That’s not really in order.

Norman Are you raising a point of order, Mr Bennett? You can raise it with the Chair. What is it?

Bennett I raise a point of order, Mr Chair. That’s nothing to do with what we’re doing here, a review of Inland Revenue’s policies.

Goldsmith It’s relevant, but she’s not responsible for the Minister’s—
Norman: My question is, does she agree that there is such a thing as legitimate tax avoidance.

Goldsmith: You can ask that question.

Norman: The question is: do you believe there is such a thing as legitimate tax avoidance?

Ferguson: We have a view that all avoidance is non-compliance, and that view has been upheld in the courts in various decisions that the department has won through the courts.

Norman: So do you agree with the proposition that if tax is to be paid, we need a culture of compliance, effectively—

Ferguson: Absolutely.

Norman: —and for a culture of compliance to work, everyone needs to be seen to be paying their fair share?

Ferguson: That's very much our philosophy. I think what's important to understand is what is their fair share.

Norman: Do you believe that if a company you were contracting was found to be paying less than 1 percent of its profits in tax, that would be seen as them paying their fair share?

Ferguson: I think what’s important is that people pay the tax—whether they’re large companies, small companies, or individuals—that’s due, and we would look to use all of the powers that we have available, including our anti-avoidance rule, to tackle it if we thought they were not.

Goldsmith: I've got a supplementary on that, but do you want to keep going?

Norman: Sorry, I don’t wish to dominate the time. My question is: can you understand that, from the point of view of an ordinary PAYE taxpayer, who has no opportunity to have legitimate tax avoidance, that they themselves end up paying much higher rates than 1 percent on their salaries, so it really does undermine their confidence in a culture of compliance if they see large corporations paying less than 1 percent of their profits in tax?

Ferguson: I think what we need to understand is the basis on which large corporations are taxed. Whether they are New Zealand resident or they are non-resident, they will be taxed if they are non-resident on the tax that is due for the profits that they make from activities undertaken in New Zealand.

Goldsmith: Mr Norman has raised the issue of international taxation. We’re seeing massive changes in the behaviour of people in terms of purchasing items, you know, from the States online and bringing them in, which will, presumably, have impacts on GST over time. I'm interested in, taking a 10-year view, how do you think you’re going to respond to that very significant change in the way that people buy things and the internationalisation of consumerism, really, and some of your ideas about how you’re going to respond to that and maintain the base and keep the basic equity for local retailers and taxpayers.
Ferguson  That’s a very fair point, and I’ll ask Struan to come in. It is something that
we’re thinking about, but not thinking about alone. I think it’s important
that we recognise that we need to work with partners across the OECD in
particular to deal with the changing world that we’re living in. Struan?

Little  Yes, exactly what Ms Ferguson’s saying. This is an international issue, but
you’re absolutely right, it’s of increasing importance and increasing concern
internationally. We are working closely with our international partners,
particularly through the OECD, which is where most of the tax thinking
design gets done. We’re actively engaged in that, particularly on this issue
and other similar issues. We’re also working closely with the Australians to
see how they’re thinking about things. You would have seen some recent
statements and work from them. We’re also discussing internally with other
agencies, including the Customs department, about what we might
effectively do in this area. The short answer is that there’s nothing simple.
You know, there are some avenues that are possible internationally, but
none of them are silver bullets, and it’s going to take some considerable
time to find a lasting solution.

Goldsmith  Right. You can’t give us any more guidance there?

Little  If it helps—a bit of detail. There are at least three avenues I think you can
go down. One is that you can look to collect your revenue at the point of
supply, the point of pick-up. A second one is you could seek to use the
payments system, and get your revenue as it’s being paid. A third is you
could seek to register offshore parties for GST. But each of those has quite
formidable issues on the way through that need to be worked through.

Norman  Sorry to go back to Capgemini, but it does seem to me an important issue.
Do you think that you have a particular responsibility, because you’re the
IRD and because you’re trying to maintain, if you like, a confidence that the
tax system is fair, that the contractors you use should not only pay their fair
share but be seen to pay their fair share?

Ferguson  I think I can ensure that they pay their fair share according to the laws of
the land, and that’s what we seek to do.

Norman  And so you’re not concerned that if your current major contractor on this
big project—and I know it’s only the first part of it—was found to be
paying less than 1 percent of their profits in tax in the United Kingdom,
that could impact on a culture of compliance and a fair-share culture?

Ferguson  I can’t speak about the individual company’s affairs or what their right
amount of tax may or may not be in another jurisdiction. That’s for the
company in that jurisdiction. I am concerned, and I am sure that we will
always ensure, that companies that we work with are compliant with the
laws of New Zealand.

Cosgrove  Just before I start a line of questioning, wouldn’t Dr Norman’s proposition
be similar to this: that it would be rather strange if the Inland Revenue was
to employ an individual, say, who had a track record of, hypothetically, tax
evasion or tax avoidance in another jurisdiction? Could I put it to you:
would it be likely you would employ that person?
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Ferguson We may have no information to understand that.

Cosgrove If you had information?

Ferguson We look at—

Cosgrove If it was in the public arena?

Ferguson If that had been proven in the public arena, then, yes, I would believe that we would take that into account. We have no information at the moment in the public arena in the sorts of instances that our colleague is talking about.

Cosgrove Are you seeking any information from that entity to which Dr Norman refers?

Ferguson We have the ability to seek information—

Cosgrove No, I didn’t say that. I said have you sought any information from that entity to which Dr Norman refers?

Ferguson It is part of our standard process to look at the tax position of our suppliers.

Cosgrove So that’s not an answer. Have you sought information? I’m not asking for your policy; I’m saying you’ve had a number of issues raised by Dr Norman that are in the public arena. Have you sought any information from your contractor about those issues?

Bennett Point of order.

Goldsmith It’s a simple question.

Bennett I think the question isn’t a simple question.

Cosgrove Maybe not for you.

Bennett Do you want to just be quiet? The IRD have responsibilities around confidentiality and other things like that, and you can see from the line of questioning that you got a very strong answer to Russel Norman’s last question that they gave in response.

Cosgrove That’s not a point of order; that’s a debating issue.

Bennett And there’s been a question on, and it’s not fair on the—

Goldsmith OK, I’ve got the gist of it. The Commissioner is capable of formulating an answer, I think, just quickly.

Ferguson It is not appropriate for me to talk about individual companies or specific commercial arrangements.

Goldsmith That’s fine.

Barry I wanted to talk about your business plan, which is one of the key issues here—the business transformation programme. Certainly when you look at your ICT issues, which have been a big issue for a long period of time, what’s the time frame—and you can’t have one without the other. You’d probably need to formulate your business transformation plan, and I wonder about the time line and where you expect some resolution to that, so that you could, therefore, tailor your ICT needs to fit the bill for your business plan.
We’ve been working a lot over the past year with CAP and also with their partner, Tensing, to look and understand what our issues are.

Sorry, I can’t hear, there’s a lot of background chatter.

We’ve been working over the past year to get under the skin of the issues and to understand what is actually happening both with our IT and with modern business practice and the opportunities, and, indeed, challenges that that presents. Our expectation is that we will be providing advice to Ministers in the new calendar year, and that advice will cover what we think we should do and how we should go about it over a 10-year period.

If you’re going to make that submission or formulate that in February or so, is that when there’s something going to Cabinet around that?

That’s the current anticipated time line.

Sure. Because your business transformation programme is extensive, but it isn’t particularly specific. When do you think that that will be, you know, really firmed up?

We would envisage that as part of this budget process we will be talking with Ministers about the first tranche of that programme and the work that we would undertake in the next 3 to 4 years.

Do you feel that your ICT issues, which have plagued the IRD for some years now, prior to your tenure in July of this year, are part of the problem? As you said, you had hit only 38 of your 55 targets, which, as you admitted, is a little on the disappointing side. How much of that is to do with a pretty grinding, creaky old ICT system?

It is an old IT system, but it is actually still delivering, and I think it’s important that we remember that. It’s not going to fall over, and it delivers every day for us. We do have a number of manual work-rounds, and what it finds challenging is new things. So some of the new business processes that we’re bringing in aren’t ones that were even thought about whenever FIRST was created. Our challenge is to ensure that it stays stable and it continues to deliver but that we can also meet new customer needs with things like mobile apps at the same time. That is part of our challenge in the short term.

My additional question was around the mobile applications, and the fact that you have had some success with those and quite a lot of interest from your customers. Have you quantified that?

We had around 28,000 customers using the mobile app by June of this year. That interest continues to grow, and everything that we hear from customers says that that is the sort of service that they would like to see going forward.

And these are smartphone applications, yes?

Yes.
Barry: So 28,000. I guess the level of investment that you make in an application for a smartphone compared with an ICT redevelopment is quite insignificant?

Ferguson: It certainly was.

Barry: So is this an area you'll grow?

Ferguson: As part of our future we'll be looking at ensuring that we use modern technologies, and we certainly see smartphones as part of our future. They're something that every New Zealander, it would appear, is starting to use, and they're used by many people in ways that even ICT has never been traditionally used, so they'll definitely be part of our future.

Barry: Are they free downloads—just to clarify that?

Ferguson: Yes.

Cosgrove: Before I ask you some questions about privacy, I'd just like to revisit the last question I asked you in a supplementary, and I'd invite you to reconsider your answer, because I was not asking in any way, shape, or form for you to divulge, actually, any information, contractual or otherwise. My question was analogous to similar questions that have been put to the Minister of Education, or the Ministry of Education, regarding Novopay, and their performance, and their track record. In no way has the Ministry of Education claimed—or presumably released—contractual private information. I simply put to you whether you, on the basis of public information my colleague had raised, had sought advice from that entity in relation to that information. I don't see—I'm not asking you for that information, because that may cross a line; I'm simply asking you whether you have been proactive enough to seek information. So I would invite you, if you wish, to revisit your answer.

Bennett: I raise a point of order, Mr Chairman. The IRD has given a very clear answer. The member is just rephrasing his question, and not in any way making a new point, at all. I think that that line of question that is being indulged by the Greens and Labour has had a very good response—

Cosgrove: None of this is a point of order. It's unfair.

Goldsmith: Sorry, what's the point of order?

Bennett: Well, you can't ask them to discuss an individual taxpayer. The IRD has made very clear their response.

Cosgrove: They're not a taxpayer; they're a contractor.

Bennett: And they're just rephrasing questions for the last 10 minutes around the same thing.

Cosgrove: That's not a point of order; that's a debating point. Point to a Standing Order.

Bennett: No, it is. It is an abuse of the process.

Goldsmith: Is there any other—
Cosgrove Excuse me, I would like an answer. That’s not a point of order.

Goldsmith Sure.

Cosgrove Thank you for your intervention, piffle though it was—sorry, Commissioner.

Goldsmith We’ll just get a simple—are you speaking to the point of order?

Cosgrove Commissioner?

Goldsmith You’ve asked this question, and we’ll get a clear answer.

Ferguson In terms of any of our procurement, we use standard procurement processes, in line with Government guidance, and we follow that and we will continue to do so.

Cosgrove Will you know—that’s irrelevant, that answer. But that’s your answer, I accept that. Will you now give us a commitment that you will seek advice from the entity for which Dr Norman has put questions to you about?

Ferguson I’m not going to comment on a specific procurement arrangement.

Cosgrove I’m not asking you that. I’m asking you, would you—

Bennett I raise a point of order. Once again that member is asking the same question. The IRD has said quite clearly that they cannot talk about an individual taxpayer’s circumstances. It is unfair on our submitters here for you to keep doing that questioning. You’ve got a very reasonable answer, and that’s the end of the matter.

Goldsmith Is the point of order about repetition?

Bennett No, the point of order is that that question is out of order.

Cosgrove On the basis of what?

Bennett Because that has been answered, and you cannot ask about individual taxpayers.

Norman It’s about a contractor.

Bennett You’re putting the IRD—just be quiet.

Goldsmith OK, you’ve made your point of order.

Bennett I haven’t, actually. You’re putting the IRD in a very difficult predicament. They’ve answered it clearly. Accept the answer given.

Cosgrove Could I speak to the point of order, please?

Goldsmith Yes.

Cosgrove Two points: one, this is not a matter of an individual taxpayer—

Bennett It is. Point of order: it is.

Cosgrove Excuse me, I am speaking to the point of order. Read your Standing Orders. You’ve had a crack. Firstly, this is not an individual taxpayer case. Secondly, as I understand it, the issues that Dr Norman has raised are in respect to a contractor, where there are issues in a foreign jurisdiction, and the questions lead simply to the IRD’s engagement of that contractor, based on a track
record or allegations of a track record in a different jurisdiction. I'll just make this clear: I've simply asked the Commissioner whether she has asked for any information. She has given an answer. I don’t accept it, but she has given an answer.

Goldsmith This is debating around it, but what is the point of order.

Cosgrove My point of order is this is not a point of order; it is a debating matter. Secondly, I asked her simply, based on what she’s heard, would she go and seek advice from that contractor.

Bennett I raise a point of order.

Goldsmith No, I think I've heard enough on this.

Bennett That was incorrect—

Goldsmith Mr Bennett, I’ve heard enough of it, please.

Bennett —because he was talking about an individual taxpayer, and that would be his question.

Goldsmith Yes, OK, I've heard enough of it. Thank you, he’s asked a question, we’ve heard an answer. He's asked a second question, and we've heard an answer. So we'll move on to a new question.

Cosgrove Hang on, I've got another—

Goldsmith You've got a new line of questioning?

Cosgrove Yes, I have.

Goldsmith Right. Let’s move on to that, thank you.

Cosgrove This is a great example of stonewalling by a chief executive. In terms of privacy—and I’d like a straight answer, if possible—have there been any privacy breaches in the IRD’s system in the last 12 months?

Ferguson Yes, there were 32 privacy breaches in the year to October 2012.

Cosgrove What action have you taken regarding those breaches? I’m not asking for an individual response.

Ferguson That’s fine. For every breach, we do a range of things. They include discussing that breach with the Privacy Commissioner, identifying people who have had harm and contacting those individuals and discussing what we need to do in response to that, and also an internal investigation to consider if there are any issues that need to be addressed, either in terms of employment or business process.

Cosgrove How many, to quote you, “have had harm”, and how many individual investigations have you conducted of those 32?

Ferguson Every incident will have a follow-up investigation, so every one of those 32—

Cosgrove How many of the 32 “have had harm”, to quote you?
In agreement with the Privacy Commissioner’s guidelines, I believe—my colleagues will just confirm if it’s right—it’s 638 individuals. Six hundred and thirty-eight individuals.

Ferguson: Six hundred and thirty-eight individuals.

Cosgrove: Sorry?

Ferguson: Six hundred and thirty-eight individuals.

Cosgrove: Have had breaches?

Ferguson: Yes.

Little: We’ve followed up 638 customers on a particular privacy breach.

Cosgrove: I see. So this is one breach, which has had a number of people attached to it?

Ferguson: Yes.

Cosgrove: Six hundred and thirty-eight?

Little: Not quite. We have a staged risk assessment that when a breach is notified to our internal privacy officer that triggers an escalation clause, which—there’s an assessment mechanism in line with the Privacy Commissioner’s guidelines as to what actions we should take. One of those actions we can take is contacting affected customers, if we think that they have been adversely affected. That number, across those 32 breaches—we have contacted 638 customers.

Cosgrove: Thank you. Of those breaches, how many have been negatively affected?

Little: If we’ve contacted them, we’re making an assumption that the breaches are at a level that the customer has the right and obligation to know that they may be adversely affected.

Cosgrove: Am I right: there have been 32 breaches, and your investigations have led to 638 potentially adversely affected individuals or entities?

Little: Yes. There’s a judgment call about it. Any privacy breach we take extremely seriously, if someone has been adversely affected, but the actions we take are graduated depending on the degree of harm.

Cosgrove: Can you characterise for us what is the nature of these breaches? Have they been technical failures on behalf of individuals, or systems failures, or computer systems failures?

Ferguson: The majority are human error—someone putting the wrong piece of paper in the wrong envelope before it leaves the building.

Cosgrove: And other examples? Could you list for us—one is putting the wrong piece of paper in the envelope. Are they faxes, emails?

Ferguson: Yes, we’ve had emails, faxes. Arlene, do you want to add some specifics?

White: As Ms Ferguson said, the majority is human error, mostly in putting things in the wrong envelope, perhaps just putting it in the wrong tray to go out via external. The email, there were two instances of emails being sent to the incorrect respondent. That is the bulk of our challenges.
Hayes In the context of a 12-month period, and you having 600-and-something examples of human error, that would be as a result of how many million transactions that you would have in the course of the year?

Ferguson Twenty-five million, roughly.

Hayes So it’s not a huge—

Ferguson No, it’s not, and I’m pleased that it’s not. I’m also pleased that we have good processes in place and that our staff notify us whenever they have had a breach. For me, that’s a sign of a strong culture that takes privacy seriously. Obviously, we take every incident seriously, but with 25 million transactions you are going to see incidents of human error.

Smith If I look at the Privacy Commissioner’s annual report to Parliament, they identify the level of privacy breaches across each of our Government agencies, and they have done so for the last 12 years. I note that the level from IRD has sat pretty consistently within the sort of 50 to 70 breaches per year. Is there any concern that you’ve got that there’s any change in the trend line around the number of privacy breaches that you’re getting from human error, which seem a little bit inevitable when you’re doing 20-odd million transactions per year?

Ferguson No. We maintain a high profile on this within the organisation, and it’s a conversation we have regularly with staff. So, as I say, I’m pleased that actually we do see people coming forward and reporting it. It’s a sign of a strong culture. With that large volume of transactions, then you are going to see incidents. We continue to take steps to think about whether or not there are business process changes that can also help that—simple things like reminding people to take a second look before they put the piece of paper in the out tray.

Norman This is about foreign trusts, which have had a bit of publicity lately. I just want to confirm a few things about that, because it’s kind of been a little bit blurry. In relation to foreign trusts, there is no way if I’m a foreign Government that I can know, looking at the information that’s publicly available, who the actual foreign settlers are for a New Zealand-based foreign trust. So I don’t know from the outside who are the beneficiaries of a New Zealand-based foreign trust, is that right?

Little That would be correct. The principle we’re trying to get at here is to have low compliance costs for people who are setting up foreign trusts in New Zealand, but enough information that if a foreign Government wishes to follow up a particular trust, they can do so. So our registration requirements provide those contact details. A foreign administration will contact us to follow up on their behalf.

Norman But, just to be clear, the details we have are the name or other identifier of the trust, as the form says—and I always wonder what this “other identifier” might be, but, anyway, we know the name of the trust. We know the New Zealand trusts, that is information you have; but it is not known who the foreign beneficiaries of the trust are in terms of there’s no public visibility as to who the foreign beneficiaries of the trust are.
Little: Yeah, we’re not recording that information on registration.

Norman: So if I’m a foreign Government concerned about tax avoidance by one of my citizens, and I’m concerned that they’re using some foreign trust in another jurisdiction somewhere in the world, there’s no way really for me to know that they’re using a New Zealand foreign trust to avoid paying their tax, is there, based on the information you have?

Little: It would depend on whether they can accurately identify the individual and the individual trust that they wish us to investigate.

Norman: But there’s no way for them to know the individual is actually associated with the trust, because there is no public record that says “Such-and-such a trust is associated with this foreign person, who is the beneficiary of the trust”?

Little: We’re not publishing that information, no.

Norman: The point I want to get at is that in terms of trying to crack down on global tax avoidance, it’s very difficult, then, for a foreign Government to know that one of their citizens is using one of our foreign trusts to avoid paying tax, because how do they know that that citizen is using the trust when there is no public record of it?

Little: There’s a bit of a balance there, too, in terms of the sort of information, in terms of international transfer of information, in terms of protecting the rights of individuals. You can think of circumstances in which foreign administrations may request a lot of data about their citizens using tax exchange agreements for purposes other than tax. So what we require—we’re very open to exchange of information, but what we require is enough detail about the person or persons they’re seeking and the tax reason they’re seeking that information for.

Hayes: If you don’t know, you don’t know, really.

Ferguson: We regularly look at skill gaps across the organisation. If I look forward, areas that I can see that we need to continue to grow our skills in are areas such as the use of digital technologies, the use of data-matching technologies, and, indeed, change management going forward.

Hayes: Have the gaps that you’ve identified been filled through the year?

Ferguson: It’s a constant matter of looking at our strategic workforce plan, so we have brought in expertise—for example, building a number of internal experts who understand Lean methodologies has been a change for the organisation. But it’s a continuing programme that we will be undertaking.

Hayes: Have you got gaps around the business transformation programme?

Ferguson: It’s certainly an area where there’s significant change going on, and therefore I do envisage that we will have to grow our capabilities in capacity terms as much as in capability. We’ll also continue to use specialist
contractors to add specialist resources that it would not be appropriate for me to put on the payroll. We get better value from them as a specialist contractor.

Parker I was wondering—and you won’t be able to do this now, but if you’d be able to come back and tell us—in the last 3 years, there’s been 307, then 98, then 155 redundancies, which you list. I was wondering if you were able to tell us how many, if any, of those people have been re-employed anywhere in the department or re-employed subsequently as consultants to the department?

Ferguson To the best of my knowledge, no one has. The way in which we re-employ, we would not envisage that anyone is coming back into the department having been through a redundancy process in the short term. The one case, you know, that it could occur is somebody goes to work for another firm and in due course that firm becomes a supplier or provider, but we’re not aware of anyone in that position.

Parker Right, and none of the redundancy payments were paid on occasion for people losing one role and acquiring another role? We’ve seen that in some of the other departments.

Ferguson No.

Goldsmith Thank you very much for coming in. It’s very much appreciated.

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Department of Internal Affairs

**Recommendation**
The Government Administration Committee has conducted the financial review of the 2011/12 performance and current operations of the Department of Internal Affairs and recommends that the House take note of its report.

**Introduction**
The Department of Internal Affairs operates in areas funded from eight votes—Community and Voluntary Sector, Emergency Management, Internal Affairs, Local Government, Ministerial Services, National Archives, National Library, and Racing. We note that from 2012/13 the department’s funding has been consolidated into a single Vote Internal Affairs. The department has integrated a number of Government agencies since February 2011, including Archives New Zealand and the National Library. On 1 July 2012, the department also took on board a number of the functions of the Charities Commission. Integration has also brought about structural change within the department, to create business units ordered by function rather than by subject focus.

The department’s total revenue for 2011/12 was $376.659 million and its total expenditure was $353.948 million, resulting in a surplus of $22.711 million.

**Government Chief Information Officer**
The position of Government Chief Information Officer (GCIO) was established to implement directions and priorities for government information communications technology (ICT) and to advise on the strategic direction for government use of ICT. The position is occupied by the departmental chief executive in addition to his role as the Secretary for Internal Affairs. The GCIO is assisted by the Office of the Government Chief Information Officer.

Government information technology failures are of considerable interest to us. Recent examples include, among others, the unauthorised accessing of confidential information via kiosks at Work and Income New Zealand, and irregularities in the payment of teachers’ wages or salaries through the Novopay system.

We were told that the Office of the GCIO was not involved during the establishment phase of the Novopay project, but was asked to examine its governance processes; it made a number of recommendations for improvement—all of which were implemented. The GCIO team has had no detailed involvement with Novopay subsequently. We asked whether the Novopay issues resulted from a failure in the project’s governance. The department would not comment on this issue specifically, reiterating that it had had no involvement with Novopay since its review, and noting that the GCIO does not have a monitoring function; this sits with the State Services Commission. It observed that ICT failures can occur for a number of reasons, and that ultimate accountability for projects lies with departmental chief executives. We consider that more needs to be done to alert chief executives and ministers to problems with Government ICT systems.
Passport Management System

The department’s Service Delivery and Operations branch houses the Passport Management System, which is being upgraded to meet higher demand since the validity of passports was reduced to five years. The full implementation of the new system has suffered delays caused by the contracted developer of the system. We were pleased to hear that the department received compensation from the contractor for the failure to deliver the system on time, resulting in the project coming in under budget. In November 2012 online passport renewals were introduced, and fees for issuing and renewing passports reduced. We have heard positive comment on the speed and standard of service of the new system, and we congratulate the department on these improvements.

Upgrading the system and integrating it with other department systems carries a number of risks, requiring stringent controls. The department is well aware of the risks and has ensured that its passport production processes are very robust. We were pleased to hear that New Zealand has one of the most secure passport systems in the world.

Canterbury earthquakes response and recovery costs

We commented on the department’s response to the Canterbury earthquakes in our report on the department’s 2010/11 financial performance. We note that responsibility for earthquake recovery costs was transferred from the department to the Canterbury Earthquake Recovery Authority in March 2012.

Christchurch Earthquake Appeal Fund

In the wake of the 22 February earthquake the Government established the Christchurch Earthquake Appeal Trust to administer the Christchurch Earthquake Appeal Fund. The fund represented the Government’s official fundraising for the earthquake recovery effort. The department provides secretarial services to the trust. The secretariat examines funding proposals and works with an advisory board based in Christchurch to make funding recommendations to the trustees. The Secretary of Internal Affairs is one of three trustees.

We were pleased to hear that the trust recently succeeded in recouping all the money pledged by donors. The total amount pledged stands at $100.73 million, from which the trust has allocated about $60 million to various recovery and reconstruction projects. The trust works with other recovery trusts and organisations to coordinate funding decisions and avoid duplication. The trustees are now examining options for the next phase of funding allocation, which will focus on reconstruction projects. We commend the trustees, the advisory board, and the secretariat for their work, and we look forward to hearing about allocation decisions.

Staff engagement

The department operates in a wide range of work areas all around the country. A survey undertaken in March 2012 indicated low staff engagement. The department has since been taking measures to lift morale and staff engagement. We look forward to seeing the benefits in future staff engagement surveys.
Appendix

Approach to financial review
We met on 28 November 2012 and 30 January 2013 to consider the financial review of the Department of Internal Affairs. Evidence was heard from the Department of Internal Affairs and advice received from the Office of the Auditor-General.

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

Evidence and advice received
Department of Internal Affairs, Responses to written questions, received 26 November 2012.

Department of Internal Affairs, Responses to additional questions, received 24 December 2012.

Office of the Auditor-General, Briefing on Department of Internal Affairs, dated 28 November 2012.

Organisation briefing paper, prepared by committee staff, dated 1 November 2012.
2011/12 financial review of the Ministry of Justice and of the non-departmental appropriations for Vote Courts and Vote Justice

Report of the Justice and Electoral Committee

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Ministry of Justice and non-departmental appropriations for Vote Courts and Vote Justice

Recommendation
The Justice and Electoral Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Justice and the non-departmental appropriations for Vote Courts and Vote Justice, and recommends that the House take note of its report.

Introduction
This report is divided into three parts: A, the 2011/12 performance of the Ministry of Justice; B, the performance of the non-departmental appropriations for Vote Courts for the same period; and C, the performance of the non-departmental appropriations for Vote Justice for the same period.

Part A: Ministry of Justice
The Ministry of Justice is the lead ministry for the justice sector and the only agency that operates in all three arms of government. The ministry administers three votes: Justice, Courts, and Treaty Negotiations. The Secretary for Justice and chief executive is Andrew Bridgman.

Financial management and service performance
The ministry’s total revenue for 2011/12 was $533.384 million, and its total expenditure was $532.612 million, resulting in a net operating surplus of $0.772 million (compared with a 2010/11 net surplus of $2.327 million).

The ministry received “good” ratings from the Office of the Auditor-General for its management control environment, its financial information systems and controls, and its service performance information and associated systems and controls.

External review
The Performance Information Framework Review of the Ministry of Justice was undertaken by Murray Horn and Paula Rebstock for the State Services Commission, Treasury, and the Department of the Prime Minister and Cabinet in 2011/12 and published in July 2012. This review noted the ministry’s strengths in delivering on a demanding legislative agenda, but said that it needed to strengthen its sector leadership to address drivers of crime, help people resolve issues without recourse to the courts, improve engagement with the judiciary and legal profession and thus the court system, contribute better to the development of the Crown-iwi relationship, and develop broader and more proactive policy functions less dominated by criminal justice. The review also found that the ministry needed to strengthen its internal leadership and management.

The Secretary for Justice acknowledged that mistakes had been made and that significant change was needed, particularly to improve engagement with the legal profession, the judiciary, regional staff, and non-governmental stakeholders. We appreciate his honesty and
willingness to address these issues and look forward to the ministry making progress in implementing the recommendations of the review.

**Auckland Service Delivery Programme**

The Auckland Service Delivery Programme, which treats the six district courts in Auckland as a single centralised system, has been operating since January 2012. We heard that implementing this programme was the biggest challenge that the ministry faced in 2011/12. The Secretary for Justice attributed difficulties to insufficient engagement between the design team and the managers implementing the changes, underestimated numbers of court users, underprepared staff, and insufficient engagement with the legal profession. The ministry told us that it has taken action to address these issues and is making good progress in reducing the backlog in these courts. We will continue to monitor this programme in future reviews.

**Service transformation**

The ministry is refocusing the justice system on the people who use its services, rather than the courthouse. It described how a number of services were being made “faster, understandable, and transparent” to reflect this new focus.

From 1 October 2012, the public has been able to lodge and pay for Disputes Tribunal hearings and applications online, apply for criminal records online, and apply for private security licences online. The ministry has also introduced a single system for collecting fines around the country, reducing the total amount of fines and reparations owing from $710 million in 2010 to $585 million in October 2012, with a $2-million reduction in administration costs.

In 2013, an electronic operating system will be implemented in courts, replacing the paper-based court record with a national electronic record, saving approximately 86,000 hours of Police and court staff time each year. In late 2013, the ministry plans to implement reforms to the Family Court, which are currently being considered in legislation before the Justice and Electoral Committee. Other services being developed in 2013 include online answers to frequently asked questions, an expansion of e-duty (an electronic process for Family Court decisions without notice applications), an expansion of audio-visual links to allow more prisoners to appear by video link, and the development of a multi-jurisdictional customer service base in the main Christchurch court complex.

We look forward to hearing about the implementation and success of these initiatives.

The ministry is moving to a system where services other than hearings are delivered in more modern ways. This means that nine smaller courts will become hearing-only courts. We note that the change to the status of the courthouse in Dargaville has been the subject of recent protest.

**Closure of courthouses due to seismic risk**

Following the Canterbury earthquakes, the ministry assessed the seismic risk of all its buildings. Courthouses in Fielding, Masterton, Upper Hutt, Rangiora, Oamaru, and Balclutha were temporarily closed, and the Dunedin court building was partially closed. Court services have been provided at nearby courts or at alternative venues. We were pleased to hear that the closures have not reduced the number of people turning up for scheduled appearances in court, and that the overall clearance rate of cases in these courts has improved.
Hutt Valley innovation project

The Hutt Valley innovation project is funded through the Justice Sector Fund. Its purpose is to improve the ministry’s understanding of front-line justice-sector services in the Hutt Valley, and particularly the connectedness of justice services provided by courts, youth teams, community teams, and prisons in the area; and to determine what practical problems affect front-line staff (such as police constables, court officers, and Child Youth and Family staff members). In March 2013, the ministry will meet with the project team to determine how it can address any issues discovered, with the goal of eventually expanding this project around the country. We consider this project to have potential and look forward to monitoring its progress.

Christchurch Youth Court

We heard that plans to relocate the youth court to Nga Hau e Wha Marae had been stalled as a result of concerns raised by the Principal Youth Court Judge on behalf of the local judiciary and the youth justice community. This position was confirmed by the Christchurch Earthquake Recovery Judicial Reference Group in late September. The concerns related to potential isolation, lack of infrastructure, the potential for mixing of adult and youth offenders, and the shifting patterns of where young offenders live. Further consultation is planned and we will watch with interest where the Youth Court is located both temporarily and permanently. A temporary location has the potential to leave a legacy in place for future community use.

New Beginnings Court

We were briefed on an excellent initiative, Te Kooti o Timatanga Hou Court, designed to reduce chronic and repeat public-space offending in Auckland’s inner city by those who are homeless and have on-going untreated mental illness or addictions. With a guilty plea, the person has access to a co-ordinated approach from a multi-disciplinary team made up of Probation, the New Zealand Police, Work and Income, Housing NZ, Odyssey House, the Auckland City Mission, Lifewise, the Waitemata District Health Board, and the Ministry of Justice, along with judicial monitoring to assess the person’s progress with their treatment plan. Key agencies have contributed to a Special Circumstances List Court co-ordinator for this initiative, who is employed by the Police. There has been some publicity about the uncertainty of funding for this critical person, but we were advised that the Ministry of Justice was not one of the funders, although they provided office space and office services. The ministry was very supportive of the initiative due to the positive outcomes.

Part B: Vote Courts

Vote Courts’ non-departmental appropriations provide for various mainly court-directed, demand-driven professional services.

Vote Courts includes the following non-departmental appropriations (actual expenditure for 2011/12):

- Children Young Persons and Their Families Professional Services ($8.450 million)
- Domestic Violence Professional Services ($7.453 million)
- Family Court Professional Services ($38.071 million)

The total actual expenditure for Vote Courts was $53.974 million.
Expenditure was lower than projected for each appropriation, reflecting fewer applications than expected, and fewer and shorter referrals to providers.

**Part C: Vote Justice**

Vote Justice includes the following non-departmental appropriations (actual expenditure for 2011/12):

- Community Law Centres ($10.941 million)
- Crime Prevention and Community Safety Programmes ($6.836 million)
- Legal Aid ($138.327 million)
- Support and Assistance provided by Victim Support to Victims of Crime ($7.078 million)
- Producing and Maintaining Electoral Rolls ($16.081 million)

The total actual expenditure for Vote Justice for 2011/12 was $179.263 million.

**Community law centres**

2011/12 is the first year that funding for community law centres has been provided through a non-departmental appropriation. Previously, funding was provided through the Legal Services Agency, which was integrated into the ministry from 1 July 2011. Community law centres are independent community organisations that provide free legal assistance to members of the public. Community Law Centres o Aotearoa is the national body coordinating and representing the interests of the 25 community law centres around the country.

The ministry has been investigating changes to the funding contracting model for community law centres, to ensure they can be funded adequately on a long-term basis. We heard that the ministry has consulted a working group led by Community Law Centres o Aotearoa on ways to provide this funding. The ministry said it is developing a policy options paper on this subject, which incorporates a proposal from Community Law Centres o Aotearoa, and expects it to be released soon. We look forward to seeing this paper and will monitor this matter with interest.

**Restorative justice programmes**

Restorative justice programmes are funded through the Crime Prevention and Community Safety Programmes non-departmental appropriation. The ministry has evaluated the success of these programmes and found restorative justice can reduce reoffending by up to 20 percent, and increase victims’ satisfaction to 80 percent. We were pleased to hear that the ministry is increasing funding for restorative justice from $3 million to $4 million.

We understand that the alcohol and other drug courts pilot launched in Auckland and Waitakere courts primarily provides therapeutic justice (alcohol and other drug dependency treatment and monitoring), but also makes use of restorative justice. The ministry told us that after five years the pilot will be evaluated, with a particular focus on recidivism. We will continue to monitor this programme and other restorative justice programmes with interest.
Legal aid reforms

The ministry told us that it has had difficulty implementing reforms to the legal aid system in 2011/12, which it has attributed largely to insufficient engagement with the legal profession, and a resulting mistrust of the ministry. The Secretary for Justice emphasised that improving engagement with the legal profession was a high priority. The ministry is holding workshops with representatives of the legal profession about how the ministry purchases legal aid services. We were pleased to hear that initial feedback on these workshops has been positive, and look forward to further progress on this matter.

The ministry released the 2012–22 Justice Sector Forecasts in October 2012. The forecasts project an overall trend of declining expenditure for the next five years. The ministry told us that this decline was the result of policy changes affecting family and criminal legal aid legislation, the introduction of fixed fees in family, criminal, and ACC cases, and the declining rate of police prosecutions under new policing policies.
Appendix

Approach to financial review

We met on 29 November 2012 and 31 January 2013 to consider the financial review of the Ministry of Justice and the non-departmental appropriations for Vote Courts and Vote Justice. Evidence was heard from the Ministry of Justice and advice received from the Office of the Auditor-General.

Committee members

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

Evidence and advice received


Ministry of Justice, response to standard and additional financial review questions, dated 29 November 2012.

Ministry of Justice, response to further financial review questions, dated 31 January 2013.

Minister of Justice, response to the non-departmental financial review questions for Vote Justice, dated 29 November 2012.

Minister of Justice, response to the additional non-departmental financial review questions for Vote Justice, dated 31 January 2013.

Office of the Auditor-General, Briefing on the Ministry of Justice, dated 29 November 2012.

Organisation briefing paper, prepared by committee staff, dated 29 November 2012.

Non-departmental appropriations briefing paper for Vote Courts, dated 29 November 2012.

Non-departmental appropriations briefing paper for Vote Justice, dated 29 November 2012.
2011/12 financial review of the Department of Labour

Report of the Transport and Industrial Relations Committee

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Department of Labour

Recommendation

The Transport and Industrial Relations Committee has conducted the financial review of the 2011/12 performance and current operations of the Department of Labour, and recommends that the House take note of its report.

Introduction

The Department of Labour was disestablished on 1 July 2012 and its functions transferred to the Labour Group in the new Ministry of Business, Innovation and Employment. This group has since been disbanded; immigration, labour and commercial environment, and safety and regulatory services are now separate elements of the new ministry. The department administered four votes (Labour, Immigration, Employment, and ACC) and supported the Ministers responsible for these votes. In the year under review it focused on responding to the Pike River tragedy, participating in the rebuilding of Christchurch, and preparing for the transfer of its functions to the new ministry. Officials from the new ministry appeared at our hearing of evidence on behalf of the former department.

Functions within the new ministry

We asked the department about the costs of restructuring up to the point of the new ministry’s formation, and were told that a series of “People Forum” meetings had been held in the year under review in Auckland, Wellington, and Dunedin. The costs of these meetings were attributable to the department and the other departments that were to form the new ministry, while similar meetings held in the current year in Hamilton and Christchurch were the responsibility of the new ministry and would be reported at the next financial review. The department considered that the per-person costs of the meetings, which brought together staff from the agencies to be combined, were low.

We noted that the Ombudsman had observed that reductions in public-sector staff numbers increase the potential for mistakes, and asked how staff reductions had affected services, priorities, and achievement of the outcomes set out in the statement of intent. We were told that the savings gained by moving functions to the new ministry have come mainly from rationalising senior management and reducing back-office support for corporate functions, not from cutting front-line staff. Redundancy costs were $2.6 million this year. We note these costs will negate some of these savings in the short term.

Health and safety

We questioned the department about the findings of the Royal Commission into the Pike River Coal Mine Tragedy, its recommendations and in particular the department’s expenditure on health and safety and the number of health and safety inspectors it employed.

Some of us expressed concern at the 18 percent turnover of health and safety inspectors in the year under review; the department said it had not analysed the reasons for it in detail but believed it was largely a demographic trend, with much of the turnover stemming from retirements.
We asked the department why the number of health and safety inspectors had not been increased in the year under review. We heard that a departmental review confirmed that the ratio of health and safety inspectors in New Zealand per 100,000 employees is 0.7, below the international benchmark of 1.0, and lagging behind Australia and the UK (at 1.2 and 1.4 per 100,000 respectively). On the basis of the review of this material, the department had made a case for more health and safety inspectors, and an additional $37 million to fund about 32 further inspectors will become available in the current year.

The department is also consulting its front-line health and safety staff about making their roles more specialised. We asked how this related to the recommendation from the Pike River inquiry for a stand-alone agency. The department considers that these changes will ease the transition to a stand-alone agency, should one be established.

We heard that the department had learned from the Pike River inquiry that it needs to improve its performance as a regulator. It is supporting the independent task force established by Government to examine whether the health and safety system remains in general fit for purpose, seeking to ensure that it regulates effectively, and examining ways to strengthen the roles of both employers and employees in the system. We note that the recommendations of the Pike River commission and the new health and safety standards for forestry have both been referred to the task force. The department is also undertaking a scoping exercise to examine whether its High Hazards Unit should oversee other hazard areas besides mining and petroleum. Areas that would be suitable are those where oversight of process safety will help to avoid events with a low probability of occurring, but serious consequences if they do.

We were told that the department has been working with the major participants in the rebuilding of Christchurch to establish good health and safety practices throughout what the department sees as a single massive construction project. It aims to emulate the example of the United Kingdom, where no fatalities occurred during the 62 million hours of construction associated with the London Olympics.

We asked about the practice of health and safety inspectors allowing lawyers representing employers to be present when the inspector is interviewing workers, and were told that, under current legislation, there is little that the department can do in this situation, other than ensure that employees are aware of their rights, and of potential conflicts of interest. The department has agreed with unions to notify the union if one of their members is to be interviewed, and has also adopted a protocol that anyone present during an interview is asked to identify him- or herself.

**Industrial relations**

We were told that the new policy of the department’s dispute resolution service, involving earlier intervention in industrial disputes, had been well received, and had contributed to a reduction in workplace stoppages.

The department has evaluated the operation of ninety-day trial periods for new employees, both when the scheme was available only to small employers, and following its expansion to all employers. The evaluation confirmed that the provision is popular with employers; we were told that the most recent survey showed that 60 percent of employers were using trial periods, and 80 percent of those initially employed for a trial period were still employed. Employers believe that trial periods enable them to offer more hours of work
overall, rather than merely widening the pool of those to whom the hours are offered. We note, however, that employees were not directly interviewed for the surveys.

We raised recent coverage on television news and current affairs programmes of exploitation of migrant workers. The department said that all of the issues raised had been investigated, and most of the breaches found were minor; they had been dealt with by informing employers what was required of them, and making follow-up checks. The few major breaches discovered, however, will take some time to investigate, and the department is seeking to speed up this process.

**Immigration**

We asked if the economic situation in Europe had provided opportunities to encourage highly-skilled people to migrate to New Zealand. The department confirmed that it has been working with export-earning sectors, and in key overseas markets, to attract highly-skilled people, particularly to contribute to the rebuilding of Christchurch.

For some years the department has focussed on managing immigration risks as far as possible from New Zealand’s physical border, investing in systems such as Advance Passenger Processing, and using information from the criminal and regional movement alert systems of partner countries. The department noted a 12 percent decrease in overstayers since 2006, despite an increase in border crossings. We were assured that its agreement with China Southern Airlines would not raise risks; health and character checks would still be required, and the department believes that the required two years of travel records will be a sufficient substitute for evidence of funds. We note that China Southern Airlines has been largely responsible for a 60 percent growth in visitor numbers from China in its first 19 months in the New Zealand market.

The department has embarked upon a four-year programme to develop and implement a new Immigration Global Management System, funded by a $75 million capital investment from the Government, and $5 million from the balance sheet of the former Department of Labour. The system will replace existing business applications that are almost 20 years old, and should be able to provide statistics such as the number of people seeking entry to New Zealand under the Investor Plus and Investor categories who have failed the good character test in a given year. The department has also worked on implementing and developing settlement support networks around New Zealand.

The department held a meeting to launch the Immigration Group’s Vision 2015, and we asked how the costs of such a meeting were justified. We were told that the Immigration Group holds a gathering in New Zealand of its overseas-based managers for planning and training purposes each year; in the year under review, this meeting was combined with other activities, including hearing from the new Minister of Immigration, launching the vision document, and liaising with sector organisations.
Appendix A

Approach to financial review
We met on 6 December 2012 and 31 January 2013 to consider the financial review of the Department of Labour. Evidence was heard from the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members
David Bennett (Chairperson)
Chris Auchinvole
Darien Fenton
Andrew Little
Simon O’Connor
Denise Roche
Jami-Lee Ross
Scott Simpson
Phil Twyford

Evidence and advice received
Department of Labour, Responses to questions, received 31 November 2012.
Office of the Auditor-General, Briefing on the Department of Labour, dated 6 December 2012.
Organisation briefing paper, prepared by committee staff, dated 27 November 2012.
Corrected transcript of hearing of evidence 6 December 2012

Members
Jami-Lee Ross (Chairperson)
Chris Auchinvole
Darien Fenton
John Hayes
Andrew Little
Simon O’Connor
Denise Roche
Phil Twyford

Witnesses
David Smol, Chief Executive, Ministry of Business, Innovation and Employment
Nigel Bickle, Deputy Chief Executive
Lesley Haines
Brett Murray
George Mason
Michael Papesch
Justin Strang

Ross
Greetings, and thank you, Nigel, Lesley, and David.

Bickle
This is Michael Papesch.

Ross
Michael, I’m sorry. Is David not joining us?

Bickle
I guess I’ll have to start with apologies, in that David Smol is expected to join us but I understand he is in front of the economic development financial review select committee right now, but is expected to be here as soon as he is able to.

Ross
We’ve got an hour with you. I understand you have a presentation. How long will your presentation take?

Bickle
I have a few brief opening remarks, because I’m conscious that you’ll want to explore a number of areas. So if I could just make some brief opening comments, and then we can get—

Ross
And when David arrives, we’ll give him a further few minutes to give a bit of an update from him as well. So, Nigel, feel free to firstly introduce your team, and kick off.

Bickle
Thanks very much. I’m Nigel Bickle, I was the Acting Chief Executive of the Department of Labour from December of last year through till June, when the Department of Labour ceased substantively. I’m the head of Immigration New Zealand and the deputy CE of immigration in the new Ministry of Business, Innovation and Employment. Lesley Haines, who is
the Deputy Chief Executive, health and safety, in the new ministry. Michael Papesch, who is basically the policy manager for immigration and labour policy. And behind me Steve Stuart, who has been the acting head of Immigration New Zealand. Brett Murray, who is the operations manager for health and safety, and particularly the high-hazards area. Todd Krieble, George Mason, and Justin Strang is the team that’s here today.

I’ll take the offer when David comes for him to talk about the context around the new ministry, so if I just focus some brief remarks about the year in review for the Department of Labour. Obviously, it was the last year for the department, after 121 years of a Department of Labour in New Zealand. It was a year where really there were three or four major areas of focus.

Clearly, the Pike River tragedy has been a big feature for the Department of Labour since that event. David’s on record—and I’m sure he would say, and I would like to reinforce—that we’ve offered our apologies to the families of the victims concerned. It raised some very big issues around our role as a regulator. We’ve been doing a lot of work since that time off the back of our own investigations, the responses in terms of the establishment of the High Hazards Unit, securing an additional sort of $37 million to strengthen our capacity and capability as a regulator, and quite a large change of programme in the health and safety area that Lesley can talk to in more detail. We’ve also been supporting the strategic task force that’s been established, and we’ll be making recommendations to Government in April of next year around their strategic review of the overall health and safety system in New Zealand.

There’s also been quite a strong focus, I think, more broadly. You know, Pike River could be a subset of some broader issues for us as a regulator, and how we’re sure that we regulate effectively. We’ve had a strong focus on, basically, workers in the labour market, with quite a strong focus on a number of areas: international students, ministerial inquiry into foreign chartered fishing vessels, some work in the dairy and age sector.

Christchurch has also been a really priority area of focus, where across the full Department of Labour functions, whether it’s policy, labour market information, immigration, or health and safety, we’ve been doing a lot of work around the successful rebuild and economic recovery of Christchurch, from working with CERA and agencies on the ground around forecasting the sort of future labour market and skills requirements, through to how do we ensure that we have a safe rebuild in Christchurch. Again, Lesley can talk in more detail there, because if we perform how we have historically, we will kill 20-plus New Zealanders in rebuilding Christchurch. So a strong focus on how we ensure a safe rebuild of Christchurch, through to the establishment, with a number of agencies, of the Christchurch employment and skills hub, to work with employers in Christchurch.

Finally, obviously, the transition of the end of the Department of Labour and the transfer of its functions into the new Ministry of Business,
Innovation and Employment, which started on 1 July this year. Those are my opening remarks, and I’m obviously happy to take questions.

Fenton I know it’s been a difficult year for you with restructuring—and I obviously want to ask some questions around that. But I wanted to start with health and safety, if I may, because that’s kind of top of mind. I was looking at the answers to questions that we had—answers from the department, and there seems to be a—well, first of all, not an increase in the numbers of health and safety inspectors, but also an 18 percent turnover, and also not an increase in expenditure on health and safety on the previous year. Can I ask you to comment on that. I’m looking at page 51, I think it is.

Bickle I’ll ask Lesley to comment on that in more detail. Obviously, a big focus over the last year was sort of working through, basically, our performance as a regulator in the health and safety space, acknowledging that when we look at international benchmarks around one measure of an effective regulator, it’s basically inspectors per 100,000 employees, and what we found was that the level of inspectors that we had was 0.7 against an international benchmark of 1, in comparison with countries we like to compare ourselves with, like Australia and the UK, that were sitting at, I think it was, 1.2 and 1.4 respectively. That was the basis on which we secured an additional $37 million worth of funding, which took effect from 1 July this year.

Fenton So that’s not showing up in this financial review?

Bickle But I’ll ask Lesley to talk in a little bit more detail around the additional funding and the turnover that you’ve raised.

Haines Perhaps to start with the point around the additional funding, just to clarify that the additional funding of $37 million that we received from the Government for extra health and safety resources at the front line takes effect from this financial year. We are planning to increase the number of inspectors so that by the end of this financial year we will have more inspectors than we did at the beginning. With that money, we have estimated that that will enable us to go up another 32 inspectors, to about 180. We won’t be at 180 by the end of the year. One of the things that we’re very keen to do is, alongside building an increased number of inspectors, to actually strengthen their capability.

You may have noticed in the media over the last few days, we are in the process of consulting our front-line staff around changes to their roles, which will create a whole set of more specialised roles, which will enable us to be more consistent, to do all the aspects of our work better, and will also enable us to put more of our resources into proactive activity, because we believe that proactive out there in the workplace—being present and visible—is going to be the thing that makes the biggest difference in terms of health and safety. So we’re strengthening our capability alongside our capacity.

In regards to your question around the 18 percent turnover, that turnover is up, as you note, from the previous couple of years. I don’t have detailed
analysis of why that is, but what I do know is that we have an ageing work force, and I do know, for example, that even in one office we had a number of retirements last year. So I'm expecting that what's actually going on there is largely a demographic trend, which is one we're going to have to deal with over the next few years.

Fenton How does the restructuring that you've mentioned fit in with the recommendations of the Pike River commission, the major recommendation of which was about having a stand-alone agency? So why would you start this now—you know, you might have been working on it for a couple of months, but why would you do it now?

Haines Just to go back to the briefings that we've provided to the select committee last year on this same topic, we talked about our health and safety change programme, which has been well under way for a year now. So this is phase two of the set of changes. We're going to have it in place by 1 July. We've talked extensively around “Well, why would you do this now?”. The frank answer is that what we are building is improved base capability. We want strengthened base capability so that when the function transfers over to a new agency, however separate that might be, it will be stronger than it would be otherwise. These things take time. As Nigel said, since Pike River happened we've been looking at what we need to do better and how we can do that. So we thought it was much better to actually full steam ahead, rather than to spend more time waiting.

Auchinvoile To carry on with that explanation, if I may, the initial question was how do you operate within the new structure, and you're base building at the moment towards the recommended restructure. So have you got a basic timetable for that?

Haines Ministers have already made commitments publicly to the fact that all the Pike River royal commission recommendations will be implemented by the end of the coming year.

Auchinvoile I believe there's a structured committee to overview it, of Ministers.

Haines Yes, they have established a committee of three Ministers, chaired by Minister Joyce, to oversee the work, to do that.

Fenton I'm sorry, but I thought there was a reservation on the main recommendation, which was about establishing a different agency.

Haines What they have done is they’ve asked—the royal commission has reported in the middle of the work of the task force on health and safety, the independent task force, which was established by the Government to have a look at the broad features of the health and safety system generally, whereas the commission was largely focused on mining. So what the Government has done is ask the independent task force to come back to it quickly with some advice around what form of entity should be created. Once they get that advice, we're expecting that they'll make a decision and announce their decision on that.

Fenton You haven't got a time frame, I suppose?
Haines I’d expect it to be early in the new year.

Auchinvole Early in the new year?

Bickle They’ve asked for the advice, though, from the strategic task force by 17 December.

Fenton Just an interesting thing on the task force: what’s happened to the Business Leaders’ Health and Safety Forum that was the be-all and end-all a couple of years ago, and now has been replaced by a task force?

Haines The Business Leaders’ Health and Safety Forum is still going really strong.

Fenton What do they do?

Haines Well, they’re focused on a number of different areas. One of their key areas this year that they want to work on is procurement, and how they can use—because many of their members are very big companies, so they’re looking at how they can use their supply chains to actually influence health and safety right through the system. They’re also very engaged with the work of the task force, so they’ve just done a very detailed and thoughtful submission to the task force as to how to improve health and safety from their perspective. They’re very active. They’re running a lot of peer learning events for different companies, so that one of the ideas there is that the senior people and the HR people who work for them in each of these organisations can go around and actually see what CentrePort is doing or what a really strong practice, a forestry company is doing, for example.

So they’re very active. To start with the department, now the ministry, provided the support for the forum. They’ve recently gone to a subscription base, which is really testing the mettle of the members, and they’ve established an independent executive director now. We clearly have a strong interest in working closely with the business leaders’ forum, but they’re now an independent entity, self-funding, and they’re extending their membership.

Fenton Just a quick one on that—just on forestry, because you mentioned that: what involvement did the department have in the health and safety standards for forestry that were released yesterday?

Haines The department led that work.

Fenton It led that work. So are you satisfied with the outcome of those, given that they seem to contravene some of the recommendations of the royal commission, particularly around employee participation?

Haines I think, just on employee participation, the royal commission made a recommendation around looking for ways to strengthen employee participation across the whole health and safety system. Like the recommendation around a separate entity, the Government has referred that to the task force for its advice on how you might do that in a general sense. So for the work that we in the department are doing now—in the ministry; apologies, David—what we are looking to do is make the most of current provisions. I think I’ve told this committee before that, in my view, we haven’t done that in the past. So we are both making sure that, with our
new inspector model that I talked about, our assessment inspectors who are out in the field will be touching base with employees as they do their routine work, as we are now in the high-hazard space.

So in terms of the forestry code of practice, we consulted widely. Employees and their representatives certainly had opportunities to provide input into that code of practice. And we do—inside that code of practice there is clear reference to all the employee participation provisions that employers need to give effect to under the current legislation. So what more might come from that, I think, needs to wait until next year, until the task force reports.

Bickle

And obviously we’re putting a lot of store on the strategic task force. I think if we take it back to the health and safety system overall—and we’ve probably had this conversation with the committee previously—and recognise that the whole principles on which the Health and Safety in Employment Act were founded on were around a strong and effective regulator, around employers, and around employees and employee participation. So a lot of the work that Lesley’s talked about today is the very hard things that we’re having to do that’s come out of Pike River and our own look at ourselves around lifting our performance as a regulator, and, clearly, looking for the strategic task force to give, basically, advice on the overall system and the ways that we can strengthen both the role of the employers in that system and employees.

Ross

David, welcome. We did start at 11.45. I understand that you’ve been doing the rounds of committees.

Smol

I apologise, I was next door.

Ross

Nigel did give us an introduction, he spoke for a few minutes, but we agreed that we’d give you a few minutes to speak, yourself, as well. Then we’ll go back to questions and answers from the committee.

Smol

I’ll be brief. You’re obviously aware that the department ceased to exist on 30 June and the work became part of MBIE’s work. In creating MBIE, Ministers were looking to strengthen Government’s contribution to the economy and to the related areas in which we work, such as health and safety. If we do our job well as leaders of MBIE, we believe we can add value through joining up related areas of policy advice, joining up related areas of service delivery, excellence in the design and implementation of regulatory systems, being a magnet for attracting and retaining talented people, building a strong and integrated evidence base to underpin all our work, to achieve a lower cost and increase the quality of the back-office support that we get by virtue of our scale, and be flexible in allocating resource consistent with the priorities of Government of the day.

There are a number of areas where there is opportunity for MBIE to add value for aspects of the portfolios previously the responsibility of the Department of Labour. They include our contribution to the Business Growth Agenda, where the department had a leadership role in the skilled and safe workplaces component of that agenda. MBIE as a whole has a
range of other leadership responsibilities: more effective contribution to business-facing services, simplifying the interface between Government and business, where, again, the department had a significant part to play and will now be integrated with MBIE’s other interactions with business.

There’s an opportunity to integrate policy work across the skills and employment area with the related areas of science and innovation and economic development; to strengthen the linkages between immigration and our work supporting innovative and internationalising firms in general, and the tourism sector in particular; to more effectively contribute to New Zealand’s international connectedness across all the relevant dimensions—people, through the work of immigration; ideas and science, through the science and innovation portfolio; and the free movement of capital, all of which can support stronger export performance by our businesses.

We’ve got an opportunity to join up the services, the support we provide to the Canterbury rebuild across, for example, housing, skills and employment, economic recovery, and Government procurement, and similarly better outcomes for Māori, which we will do through supporting the Māori Economic Development Panel, as part of a strategy that Ministers have recently committed to.

Skills work is a critical component of raising productivity in the building and construction sector, and, as I said, we will build a centre of excellence for the design and implementation of regulatory systems, and we’ll be responsible for a significant number, for example, across the labour, commerce, and consumer affairs portfolios.

We moved to our integrated organisational structure on 19 November, and we’ve been working proactively with stakeholders to make sure they know who are their primary points of contact. As we go through this time of change we’ve looked to retain institutional knowledge and continuity of people where we can, and where we need to build new relationships, we’ll look to do that quickly.

That’s all I wanted to say by way of introduction. You’ve talked already, have you, about the achievements of the department over the past 12 months?

Auchinvole I take it from the conversations we’ve been having thus far that you’ve got your basic capability growing, but at the same time you’re really being fairly careful on any systemic failures that may have contributed to the difficulties.

Haines I guess one thing that’s really clear is that, as a health and safety regulator, we are a small system which contributes to the performance of the big health and safety system, so we are taking a very systematic approach to thinking about that: what are the capabilities, what’s the data, what’s the guidance, what are the roles we need, etc., etc. I’m not sure that I’m getting to your question, but—

Auchinvole I think you are. If I could just be perhaps a little more precise: the High Hazards Unit is a key component. Is that limited to minerals mining and
those sorts of things, or will there be other high hazards—what constitutes a high hazard?

Haines One of the things that we’re looking at with lifting our game, our change programme, is, in fact, that very issue, which is we were very quick to move to set up a High Hazards Unit to focus on mining and petroleum. We at the time were aware that there are other hazardous activities that we think we need to bring inside that approach. We’re looking at that at the moment. I think, Brett, you might want to add some more on that.

Murray Yes. At the moment we’re doing a scoping exercise around major hazard facilities. It is a facility-based approach, which follows the UK’s COMAH model and models used in the Australian jurisdiction, particularly Victoria. We are looking at the scalability of that, and what sort of resource we’ll need to actually extend it to oversight of those major hazard facility areas. [inaudible].

Auchinvole Because there would be sort of interchangeable skills, wouldn’t there, once you establish that quality.

Murray Very much process safety oversights with oil and gas and mining, and we’re quite clear going forward that that’s a different approach to normal health and safety activity. It is low-probability, high-consequence events, which quite often have long latencies and not a lot of injuries, so they wouldn’t come under the construction and forestry remit, but, obviously, the high-consequence events such as Pike River and the Deepwater Horizon events in the US. There is a different approach internationally to regulating process safety in industries than general health and safety.

Auchinvole That answers that question nicely. One more, if I may: the Christchurch rebuild—you’re really beating stats, aren’t you? You’re hoping to beat statistics. You have calculated with that many people, with that many undertakings, there are going to be, I think you said, 20 potential losses of life?

Haines We’ve done some estimates around those numbers. Just thinking of what is a massive construction project, and we know, and you know, that construction is one of the sectors that we target, because it has high accident and injury rates. So we have done some estimates of what would be the case if we didn’t try and do things differently. So what we’re doing is, in fact, we’ve established an additional team of inspectors on the ground to actually have more presence, and a deterrent effect, if you like. We’re also working—and I’m really excited about this—with the big five construction companies and outfits like SCIRT and also CERA, our partner, at what we can do from the top down to drive good practice through the chain of contractors that is the construction sector. So I guess what we’re hoping to leave from there is a legacy. We’re hoping that this will contribute to a safer construction sector for the future for New Zealand, not just for Christchurch, and also to a more productive building sector, which, as you know, is also a key Government priority.
And, having come out of the last 5 months, and back in building and construction, I think it is exciting. What I’m seeing is industry leaders—and we were very fortunate to be able to connect the head of the UK health and safety service when she was in New Zealand with construction leaders, that this is entirely possible. The fact in the UK there was 62 million hours of construction associated with the Olympic infrastructure and building, and not a single fatality, and a major decrease in, you know, incidents of harm, has, I hope, got to be the aspiration and outcome that we actually strive for around what will be an estimated $30 billion construction activity in Christchurch over the rebuild period.

I understand the point you’re making about regulation that you’re looking at and that aspect of it. The other side you’ve acted on already, to some extent, is the infrastructure side of it. So you’ve got your High Hazards Unit, you’ve got your committee under way looking at things. That’s all a good start. I’m just acknowledging your point about the UK. Of course, if you look at their infrastructure, which is all about culture—and I think that is the prevailing feeling in the department today, and I don’t see anything in MBIE at the moment.

The point I want to touch on is the operational side of it. There are two aspects that concern me. One is the reduction over many years in the number of front-line inspectors and therefore investigators. Secondly, a practice issue, which is the practice of inspectors when they are conducting an investigation allowing lawyers representing employers to sit in on interviews of workers, which, for a criminal investigation, frankly, beggars belief. But I have seen—the department never acted on it, and I don’t see MBIE responding sensibly to that concern at all. So if I could just ask you to comment on the number of inspectors and that practice issue.

I'll make some introductory comments and then hand over to Lesley to talk in more detail. While you were out of the room we were talking about the additional sort of $37 million that has come into the department’s appropriation from this year, and that that is very much targeted at increasing the front-line inspectorate and getting that back up to what is an internationally recognised benchmark around an effective regulator in terms of number of inspectors per—is it 10,000 or 100,000 employees in the workforce? Secondly—and Lesley will talk to this in more detail—one of the major elements of the proposed change that we’re undertaking in the health and safety area is actually recognising and the need for a separate sort of approach to how we do the assessment and investigation processes, but I’ll ask Lesley to talk to that in a bit more detail.

In terms of reduction of front-line inspectors, we are looking to expand the number of front-line inspectors, but, as I’ve said before, we’re also looking to increase the capability of all our inspectors and to make sure that we’ve got a minimum standard, and to pay them more, in fact, than what they’re currently being paid, to recognise that.

In terms of investigations, so just generally on investigations, one of the proposals in our model is to create a part of the inspectorate that specialises
in investigations. We do some very good investigations. Some of our others
are a bit patchy. What we’re looking to do by specialising in investigations
and having senior investigating inspectors actually manage those staff is to
strengthen the quality of our investigations in all dimensions.

The particular issue that you raise around lawyers representing employers
being there with employees at interviews and investigations—I know, and
you will know, it came up particularly at Pike River. We worked through
that. Brett, I think you might have some more detail here, because you were
right there with the investigation. But our approach generally has been to
make sure that when employees are being interviewed they are aware of
their rights and they are aware of any potential conflict of interest.
Ultimately, it’s their choice who they have representing them.

Little You see, I think that’s wrong. That is totally wrong.

Haines Well, I think we did go back and—that was raised by Helen Kelly, and we
did talk to the Ombudsman, didn’t we, who did we talk to, though, the
Privacy—you did that work, didn’t you? Do you want to talk to it, George?

Mason Yes. The point here is that the interviews that are currently undertaken
around health and safety interviews are voluntary. It is—I appreciate the
point that you’re making, but, as the law currently stands, it’s a matter for
the employee to decide what support they might or might not have as part
of the agreement process. And you can appreciate that there is a real
potential for conflict in there. And where we’ve left that, really, is that’s a
conflict for the lawyers who are representing the employer to manage that
conflict. The way the legislation is currently framed, there’s very little that
the ministry can do to control—

Little I don’t want to dwell on that. I disagree with that. I think, with all due
respect, it’s an abdication of responsibility. It’s about recognising the reality
of the power relationship, and if inspectors don’t recognise that, then I
don’t see how they can discharge their responsibilities in that situation at all.

Murray Can I just say that, if we put the union members aside—and I spoke to Ged
O’Connell about this recently, about an agreement that if it was a union
member we would ensure that inspectors contacted the union officials so
that one of their members could make them aware that one of their
members—we were going to be interviewing one of their members, to
allow the union, obviously, the opportunity to have a representation there.

As you probably know, it became an issue early in the investigation phase at
Pike River, where interviews by ourselves and the police—initially, the
company wanted to have their company lawyers sitting in. That is
something that, as an investigator, is obviously not optimal to the
investigation. But, on a pure legal basis, if the person who’s being
interviewed and is there voluntarily, was comfortable with that person there,
there’s little legally we can do about it. But what we could do, and how we
were proactive in that, was when we adopted a protocol—and I can’t recall
the exact wording, but it was along the lines that we would ask all parties to
identify themselves. If there was a _____ [inaudible] in the room, we
would ask them who they were representing, who they were there to represent—the person we were interviewing or were they there to represent the company. Then, depending on the response, we would say to the person being interviewed that they needed to be aware that their interest may not be the same interests of the company. So we did our best to make them aware within the legal context that we could—

Little I think you could actually exclude people, if your inspectors really wanted to. They do have the power to do that. Because it’s about the integrity of the investigation. Look, it’s not just about Pike River. In my union role I dealt with it all the time, and as an MP it’s come to me as well. Workers being interviewed with an employer’s lawyer present is an absolute conflict of interest. No matter which way you look at it, the investigator controls the interview. They can decide who is there and who isn’t.

O’Connor Thanks for the annual report. Probably still within the area of conflict, but it’s around your whole dispute resolution and mediation process. When I went through the report, while it was not a big chunk of it, from looking at your stats it looked like your new process around disputes resolution and getting in earlier appears to be working. So you’ve been involved in more resolutions, and we’ve seen here a dropping in workplace stoppages. I’m thinking, when we look at a number of issues around workplace stoppages, the Ports of Auckland jump to mind, and so forth. This seems to me quite a success, that you’re intervening earlier, and we are seeing less workplace stoppages. I just wonder if you could give me some more information around that, and, I suppose, the philosophy and the approach, and so forth.

Haines Just to say that our rationale for early assistance is very much around that. So I guess one of the challenges we have is working out, with the 500,000 workplaces in New Zealand, where we put that resource. But clearly in the areas which are likely to have consequences for a large number of people, we’re particularly focused on early assistance. It isn’t a magic solution to everything, but that’s certainly our aim. We’re very proud of our resolution services. We’re very proud of the fact that we have good resolution rates and really good satisfaction from customers in the services that we provide.

O’Connor Obviously, with the result we’ve seen, you’ve been quite confident in what you have identified out of those 500,000. So your people are, you think, making the right choices?

Haines We obviously don’t have visibility of everywhere, and there’s also a lot of dispute resolution done by private sector practitioners. But we think that dispute resolution system is working well. It’s a relatively low-cost way of resolving disputes which might otherwise end up in the authority of the courts, and it’s an important part of the employment relations system.

O’Connor Just a final, if I can on that: do you find that it’s been well received that your disputes people are going in earlier, by employers and employees?

Haines That’s certainly what’s reported.

Roche Thank you for your full answers, I do appreciate it. Yesterday at one of the committees I was on the Ombudsman was reporting to the select
committee. One of the things that was really clear was that she was referring to the fact that the reduction in staff in the public sector means that there is the potential for more mistakes to be made. She listed some of those areas particularly—immigration and ACC, for example. With the changes that have happened with the MoBIE, the superministry, if you like, and looking at the statements of intent of the Department of Labour and how it’s all been kind of pulled in together, I note that there is about 1,700 people employed. I’m wondering how staff reductions are impacting on the amount of work and services that you’re providing, how that impacts on maintaining the priorities that you’ve set out and the outcomes that you’ve set out in the statements of intent. I’d like you to talk about that a bit. I might have a supplementary question.

Bickle That’s fine. If I talk specifically about front-line immigration and labour services, clearly we’re putting a lot more investment into boosting our front-line services in the health and safety area. In the immigration area there haven’t been large reductions in staff. That largely reflects that we’re predominantly funded through revenue other than what comes from the taxpayer, so the only Crown investment into immigration is for our policy function and for our international humanitarian sort of work. So we are able to—notwithstanding we’re constantly looking for more efficient ways of delivering our services—maintain our front-line workforce. Where the savings have predominantly come from, and certainly for me in terms of those functions moving into the new ministry, has been around rationalisation at a senior management level, and around reductions in our back-office supporting corporate functions. It hasn’t been about reduction of front-line staff.

So Immigration New Zealand transferred in its entirety to the new Ministry of Business, Innovation and Employment with no reductions in staff, and the health and safety functions moved across, with the additional $37 million, which is all about increasing the level of inspectorate resource going forward. David, you might want to talk more broadly around the ministry, but the reductions have certainly come around a rationalisation of senior management and the back-office supporting corporate functions, not front-line services.

Smol I think Nigel has made the key points.

Roche Just a supplementary. The Ombudsman had talked about the fact that there was more pressure on public servants to perform, given that there have been massive cutbacks. You’ve got 17,883 full-time jobs now. How does that compare? So the pressure was already there is the point I’m making.

Bickle Seventeen thousand—what was that number?

Roche It was 17,883 fulltime-equivalent staff.

Bickle So this would be in part of the—certainly not the Ministry of Business, Innovation and Employment. That has 3,600 staff, including—

Roche Sorry, that was just the Department of Labour, yes.

Bickle The Department of Labour had 1,700 sort of staff.
Roche: So how does that compare now?

Bickle: It’s very difficult to compare apples with apples. As I say, overall in the Ministry of Business, Innovation and Employment there has been a net reduction from bringing the four agencies together of 95 staff, and that is predominantly in the rationalisation of four senior teams, in the fact that you don’t need four chief financial officers and four chief information officers, and small reductions in some of the sort of corporate HR, communications, finance functions. There’s certainly been no reductions whatsoever in any of our front-line client-facing services.

Roche: Are you saying that it’s not going to have an impact on service really?

Bickle: I understand the point that the Ombudsman is raising. If I can talk to the immigration context, I think that the big focus over the last 3 years around actually addressing the recommendations that came out of numerous inquiries, including by the Office of the Auditor-General and the State Services Commission, that raised issues around needing to raise our game around how we—you know, consistency of our decision making, around our processes for managing complaints. That’s there. I mean, Immigration, by the nature of its functions, is one of the largest, I guess, clients, if you like, of the Ombudsman. That’s always there and going to be there with Immigration. But there has been no reduction in the resources either in terms of supporting our clients or doing that work.

Hayes: I have a supplementary, following on in the immigration area. When you look at how well the New Zealand economy is performing under the stewardship of John Key and Bill English and the Government, in the context of the European economies, there must be opportunities for us to be recruiting highly skilled people out of Europe who are no longer in employment. What steps is your service taking to target those opportunities?

Bickle: Well, obviously, immigration has always been a feature of our economy. The things that I hold on to are the facts that we know. We are the second-largest diaspora in the world after Ireland. We’ve always been a population that’s gone offshore. We have large inflows coming. Like most countries we like to compare ourselves with, we are an ageing population and we are competing for skills that are in scarce supply.

Hayes: The question is what steps are you taking to target those opportunities?

Bickle: Yep, so the steps that we are taking is we are obviously working pretty closely with sectors and export-earning sectors that are looking to attract highly skilled people. So we are working with sectors. We’re working in key offshore markets. Obviously, some of the focus around the rebuild of Christchurch, where we can’t—either through the investments that are going into the training and upskilling of the existing New Zealand workforce, we’re working pretty closely with sectors like the SCIRT alliance in Christchurch, in terms of the major five construction companies, where we do need to bring in skilled people, targeting particular markets, like the UK, Ireland, and the Philippines, where there are English-speaking, skilled
workers that we can attract to New Zealand, so that’s a very big feature of our work.

Hayes Could I perhaps ask the question in a slightly different way: what are you doing to ensure that we’re also maintaining the integrity of our systems, and what work are we doing to ensure the integrity of those that we are encouraging to immigrate?

Bickle Yes. So broadly around the integrity of the immigration system in managing risk and threats to sort of national interest, for quite a number of years now the focus has been on managing that risk as far away from New Zealand’s physical border as possible, so a lot of work with our international partners, a lot of investments in systems like Advance Passenger Processing, around information sharing with our partner countries around criminal and regional movement alert systems—and that’s all designed to try and manage the risk as far away from New Zealand’s borders as possible in terms of people that shouldn’t be coming to New Zealand. I think the evidence would suggest that, you know, we’ve had a 12 percent decrease in the number of overstayers since 2006, even though we’ve had more people coming across the New Zealand border. We do a lot of work in our own part of the world in terms of the Bali process and the work with the Pacific Immigration Directors’ Conference, and that is all designed around making sure that we’ve got the right, basically, settings in terms of managing risk.

In terms of the people that we are looking to attract and settle well in New Zealand, we had quite a big focus on not just attracting migrants here but helping them to settle well in New Zealand. So the settlement support network that was put in place, I think in 2005, where we have 18 settlement support networks around New Zealand, that is all designed around trying to assist migrants to settle as quickly as possible into New Zealand and into New Zealand work. Again, the evidence that’s based off the research that we do, particularly in the skilled migrant area, we know that 90 percent of skilled migrants who have come to New Zealand are very satisfied with life in New Zealand, that 95 percent of employers of skilled migrants are very satisfied with the migrants who have, basically, come to New Zealand, and that those skilled migrants at a very high level in terms of international benchmarks are working in jobs that are relevant to their skills and qualifications.

Fenton I’ve actually got a lot of questions. However, we’ll see how we go. I wanted to start with the costs of the Department of Labour and Immigration New Zealand in terms of the restructuring. It seems to have hit you pretty heavily. Redundancy costs have been $2.6 million this year, $1.7 million last year, and $1 million the year before. That is $6 million over 3 years. Yet you’re saying in your answers to our questions that there were no net savings from these cuts to staff. Can you justify that amount of money? Is that because redundancies are going to the higher level and they’re being paid at a higher level? How many of those were management positions, for example?
I'll have to come back on the absolute detail of that, but I think the context, obviously, for the last 3 to 5 years in the Department of Labour—obviously, it wasn't that long ago where serious questions were being asked about the Department of Labour, and when Chris Blake came in as chief executive, moves to deal with issues that had been raised had been from numerous inquiries, obviously looking to strengthen the corporate centre of the Department of Labour, basically bring silo policy functions together into one policy and research group, and the response to the range of inquiries into Immigration over 2006 and 2007. There was a major change programme in the Department of Labour, and those costs reflect the redundancies associated with those change programmes. The Department of Labour has transitioned fully into the new ministry, but, obviously, as we've gone through a process of now putting a fully integrated new ministry together, there has been a net reduction of 95 positions, and that is across senior management in the corporate areas that I talked about. Obviously, we will be reporting on the costs associated with that as part of the review of this year's financial performance.

I was also interested—I mean, the cost of restructuring it seems to have weighed pretty heavily on you. Contractors' costs have doubled in the last financial year. I was also interested in the people forums that you held that cost $26,538, which were about the character and the cost of the new organisation. Is that money well spent in a cash-strapped organisation—$26,000 on two seminars?

On that last one, the people forums, what we did early in the life of the new ministry was rent out a room in each of the towns in which we have significant numbers of people, so that people who work across what were the four departments but were now the one ministry could get together, meet one another, hear from me my perspective as the then acting chief executive, and start a process of talking about what kind of organisation did we want to build.

For an organisation with over 3,000 employees and offices spread all across the country—and we certainly didn't go offshore to any of the Immigration people who operate in other countries—I think it's a very, very, very low cost per person, and all it was was hiring of some rooms, laying on an afternoon tea, that kind of thing.

It was two seminars.

No, no, there were—

There were four. Because in that case the cost would double, because I couldn't make out from your answers. It seemed to be a duplicate—

Well, I don't know quite how the accounts have been done, because the costs would have been contributed to by the old Department of Labour, the old Ministry of Economic Development, the old Department of Building and Housing, and the old Ministry of Science and Innovation. But what we did was very early we had two in Wellington—they were big, because there's a lot of people in Wellington—down at the TSB Arena. We had two up in
Auckland. We had one in Hamilton, we had one in Christchurch, Dunedin—

Fenton I didn’t see that in your answers. All I saw was Auckland, Wellington—

Smol I think that’s because, as I say, we’re in this transition, so from around April to 30 June we knew the new ministry was coming, but we were sharing the costs of changes to enable the new ministry to operate across the four previous agencies. So you’ll see small sums of money in the final reports of each of the four agencies.

Fenton OK. So, just to be clear, then, it was $52,000-odd that was spent on Auckland and Wellington? Because I thought it was a duplicate answer.

Smol I’d have to come back to you on the precise costs, but that was what we were trying to achieve. That was what the money was spent on. As I say, on a per person basis, it was a very low number.

Fenton OK. Well, then there was $191,000 spent on a conference at Skycity Convention Centre, which was about the launch of the Vision 2015 document, which, to be frank, looks like a waste of time, like most Vision documents do. Can you justify to us the expenditure of $191,000?

Bickle Yes, I think I can. Immigration New Zealand does, obviously, a pretty large—

Fenton The Skycity Convention Centre?

Bickle I know the obvious inferences that will try to be drawn about Skycity. What we have done for a number of years—obviously, we are a large, global business. I think we have the largest offshore Government agency workforce now in the New Zealand Government. We have 71 New Zealanders seconded around the world, operating out of many countries and markets. What has been longstanding practice is we bring our offshore managers back together once a year in New Zealand for a combination of planning and training. What we took was the opportunity of those managers coming back onshore to combine it with the opportunity to hear from a new Minister of Immigration, for us to launch with our onshore managers that, combine it with training, and actually engage with a range of sectors that we support. So we had the tourism industry come in, we had international education come in—because it is about trying to make sure that the people that are out there running Immigration around the world are very clear around what our priorities are and that we’re well planned, and that they’re on the same page.

Auchinvole A very good idea.

Fenton I’m also a bit concerned about some of the things you couldn’t answer in my questions. One is around the Investor Plus and Investor categories. I asked some questions about how many people seeking the Investor Plus and Investor categories failed the good character test, and you said you couldn’t provide the information; and also how many had the good character test waived, and you couldn’t provide the information on that either. Why is that?
This gets to some of the limitations around our current, very old information technology systems, which we are looking to address with the new IGMS system. We would have to basically go back through every individual file in order to be able to answer that question, is the answer why we haven’t been able to provide that.

Two, two that qualified under the Investor Plus in the last year—surely you could have looked at them?

Well, we’re getting there. It is a matter of public record that one very high-profile Investor Plus who is often in the media did have a character waiver. We know that that’s applied in the case of Kim Dotcom, but, in terms of being able to answer the question around all of the other Investor and Investor Plus, which is hundreds, we would have to actually manually go back through all of the files to be able to answer that question.

It’s quite a matter of public interest, though, isn’t it, given the Kim Dotcom case and also that this is a sort of major platform of the Government’s immigration strategy to attract overseas investment? So I hope that we would get some answers in the future.

The other area that I was concerned about, too, was your lack of answers around migrant workers. There’s been a lot of publicity around that. You haven’t been able to answer questions about the numbers of inspections, the link between immigration and minimum wage breaches. There’s a whole range of questions that I’ve been asking about that all year, and also in this review. I do have to ask what have you been doing? What exactly have you been doing about the issue of migrant workers who are being exploited?

Well, I think a range of things. As we talked here at the last select committee, it’s an area where we know that we’ve got to do more work and we’ve got to get much more joined up with, obviously, health and safety and labour inspectors out in the field, because 25 percent of New Zealand’s workforce are migrants. What we have been doing, obviously, is focusing on a number of key sectors. In international education, we’ve been focusing very strongly there. We’ve just basically suspended four private training establishments in terms of granting any more visas. That’s part of an ongoing series of investigations into international education.

Yesterday a media release—and I would suggest that on Monday there’ll be a fair bit of coverage out of the Wellington District Court around the five employers that have been arrested and charged around migrant exploitation. We have done a lot of work in the dairy industry—a lot of that around the front-end stuff, with both the migrants and employers, around sort of strengthening up that. So we are doing a range of things in the integrity and compliance and enforcement area—sort of recognising that at the end of the day the brand value around New Zealand in terms of fairness and “You can come to this country and you won’t be exploited by dodgy private training establishments or employers that are looking to exploit you in the labour market.” is a fundamental part of our work. But we do acknowledge that it’s an area where we’re doing a range of things, but actually looking to continue to do better in that area in terms of getting joined up.
What was interesting was that TVNZ was able to find several breaches fairly quickly and have a programme on that, and then they did a follow-up programme showing that there had been no prosecutions with those particular employers. So what happened with those?

That Television One programme, where they got on to the Mandarin website? Yes, we investigated all of the job offers that looked pretty dodgy, etc., through there. We had Labour inspectors and Immigration officers, in fact, jointly doorknock on those premises and talk to the employers and to some of the workers—not all of them, obviously, a lot of those people are intermittent workers. The hospitality sector it was. We did identify a number of breaches. In many cases they were relatively minor breaches where employers literally just didn’t know what they were supposed to do. In those cases we do what we always do, which is, in fact, to provide them with information and go back and check that they have rectified things at an appropriate time later.

There were a few—and it is the minority—where there were more serious breaches, and we certainly are taking action in investigating stuff. That stuff takes a long time to do. The business of actually trawling through people’s wage records, and making sure you’ve got the natural justice processes, etc., that you have to go through in order to take things forward, in my view, I’d like to be able to see us do that quicker. It’s a deterrent to us being effective. But, rest assured, we take every allegation seriously. Quite a few of the allegations are not what they seem on the surface, but where there are serious issues we definitely do investigate and take action as we can.

I want to move to a slightly different area. Over the last couple days in select committee we’ve been hearing around the start-out wage. Associated with that has come up the 90-day probation period, or whatever—the best way to explain it. There has been a lot of discussion around that. From your guys’ side, what have you seen happening around the whole 90-day trial, the effects and so forth? Is there any indication of how it’s going—positively or not?

We have been monitoring the impact of the 90-day trials. An evaluation is under way at the moment, and Justin can speak more fully to that later on. What the Government is interested in here, in the combination of the starting-out wage and the trial periods, is creating an environment where the risk for employers in taking on young people with perhaps low or no skills, we’re able to create an opportunity where—

Transfer the risk is what you want to do.

Not transfer the risk but create an environment where actually it is possible and creates an incentive for employers to take on—

Limit the risk, I guess.

Limit the risk and manage the risk, yes. In terms of the specifics—Justin.

The department has carried out evaluations of the trial periods in both its original form, when it was for small employers, and more recently since it’s
been expanded to all employers. Those evaluations have found that provision very popular with employers. In the last survey, 60 percent of the employers surveyed—a survey of about 2,000 employers—said that they were using trial periods and of the 90-day trial periods, 80 percent of the employees were still in employment.

O’Connor So 80 percent?

Auchinvole Eighty percent.

O’Connor Sorry, this is a funny room for hearing, but, yes, OK, that’s pretty good.

Ross On a different subject again, could I just ask briefly about the IGM system? There is a high-profile system that is being implemented by another department that has had a few issues. You’re implementing a new system. What testing have you done, and what assurances can you give that the system will be up and running properly?

Bickle Well, we’re at the front end of this. Obviously, IGMS is in response to the existing business applications that Immigration run on are nearly 20 years old and in 2007 stopped working, and we had to invest over $30 million in back-office infrastructure and remedial stuff around that business application, just to make it continue to operate for a period of time. IGMS is a $75 million capital investment from Government and $5 million off the old Department of Labour’s balance sheet to basically introduce some new technology, which is trying to achieve a number of things. One is to open up some electronic channels through which we can do business, because at the moment we’re still very much a bricks-and-mortar, paper-based organisation, and, obviously, to support better consistency of decision making and, for our staff, to give them some better tools to do the job, because they’re having to operate off a very old business application and lots of linked databases, which makes it very difficult to have a single view of the client that you’re dealing with. So we are into the first year of what is a 4-year technology development and implementation programme. We’ve selected Datacom as our prime vendor, because it is a large Government IT project that’s got all of the normal governance around it in terms of subject to review from SSC, Treasury, gateway reviews. We’re in, as I say, the first year, where we’re doing a lot of the detailed planning and scoping, and we expect to roll out the first series of changes, which is basically the student services and some portals for employers and agents in education institutions at this time next year, which will be the first of a number of changes progressively over 3 years before it’s fully deployed in 2015.

Little I have a supplementary question to Simon O’Connor’s question. First of all, how many workers who have been terminated under the 90-day law have been interviewed in your assessments and evaluations? Secondly, what qualitative assessments have you made of employers in terms of the quality of their original recruitment decision and the quality of oversight, supervision, and management of workers who have been terminated under the 90-day law?
Strang: Well, the surveys did not interview employees directly. That’s the answer to the first part of your question. In terms of the second part of the question and the qualitative interviews that were part of those evaluations, we talked to employers. They asserted that trial periods provide an incentive for them to take on employees who had less skills, and that the fact that they had kept the vast majority of those on after the end of the trial periods to the employers spoke to the success in terms of the employees developing the skills necessary.

Little: So the qualitative aspect of that, then, would be what impact that has had on whether they would have employed somebody else had the law not been there. There’s that question. Because the department is trying to assert that this has added jobs, and that goes fundamentally against orthodox economics. So your qualitative assessment has to, say, measure and explore how exactly it has added a job that would not otherwise have been there—all they do is simply displace somebody else out of the workforce.

Strang: Well, the survey was based on what the employers were telling us in the qualitative interviews, and they reflected to us that, in fact, the trial periods helped them make a decision about whether to hire someone or not. So, as we’ve discussed with this committee before, there is a mix of some job displacement but also job creation as well.

Fenton: I have a very quick question about the China Southern Airlines deal. First of all, are you considering offering it to other airlines? Secondly, what does the intelligence and risk assessment actually say about that, and why would you be considering more, when they said it was considerably risky?

Bickle: Again, I’m going to start with the big picture. Obviously, China is of importance to New Zealand since the free-trade agreement was signed in 2008. China Southern Airlines came into the New Zealand market just over 18 months ago, and has been predominantly behind the 60 percent increase in tourism that we’ve seen out of China over that period of time. New Zealand, as much as we’ve had 60 percent growth, we basically get 200,000 Chinese visitors of 70 million foreign Chinese visits that are occurring out of that country, that are forecast to be 100 million in the next 5 years’ time. Our tourism industry strategy, that is around continuing to grow the flow of people and tourists from China, and increasingly the frequent independent traveller segment of that market.

In relation to the China Southern agreement facilitation that we’re doing with their silver club members, all the fundamental checks are still in place. They have to meet character, they have to meet health. All we’ve simply done is said, for the purposes of evidence of funds, which is another one of the requirements when granting a visitor visa, is that “We will have deemed you to meet those requirements because we’re getting 2 years’ worth of your travel records.” We’re going to monitor that monthly. And this is a very similar arrangement to what we already have in place in China with our approved destination scheme, which has been in place for a number of years, and it is also very similar to what the Australian immigration service...
do with China Southern Airlines, who came into the Australian market about 12 months before they came into the New Zealand market.

Ross  Thank you very much for your time, everybody. I appreciate that, David, Nigel, Lesley, and Michael. Thank you very much for your time.

*conclusion of evidence*
The Primary Production Committee has conducted the financial review of the 2011/12 performance and current operations of Land Information New Zealand, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Shane Ardern
Chairperson
2011/12 financial review of the Ministry of Maori Development

Report of the Māori Affairs Committee

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Recommendation

The Māori Affairs Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Maori Development and recommends that the House take note of its report.

Introduction

The Ministry of Maori Development (Te Puni Kōkiri) is the principal adviser to the Crown on Crown–Māori relationships. Te Puni Kōkiri aims to promote Māori development in key social and economic areas—education, training and employment, health, and economic resource development—and monitors and liaises with departments providing services to Māori.

The ministry is funded mainly through Vote Māori Affairs. For 2011/12 its total revenue was $61.78 million and total expenditure was $58.362 million, resulting in a net surplus of $3.418 million.

Whānau Ora

We asked the ministry how it was monitoring the spending of Whānau Ora funds to ensure that that its purpose of strengthening whānau was being achieved. We were told that strong monitoring systems have been set up, but they have been focused on processes, not outcomes, in the early stages of Whānau Ora. The ministry emphasised that Whānau Ora is a “slow build” and results cannot be expected immediately. As the programme progresses, attention is turning to monitoring outcomes. A network of 50 researchers is beginning to collect data and results from providers. The ministry, with Community Research New Zealand, is developing a public website showing data and telling whānau stories emerging from this research. The website is expected to be ready by mid-2013.

The ministry is also working to make better information technology available to Whānau Ora providers to improve their service provision and monitoring. It is pleased with progress on monitoring of Whānau Ora at this stage and with the results it has seen so far. A small survey of whānau has indicated satisfaction with their experiences working with Whānau Ora providers. When we asked about recent high-profile problems with the programme, the ministry responded that the problems became public precisely because Whānau Ora is monitored very transparently.

We asked if Whānau Ora could be compared with similar programmes for evaluation purposes, but the ministry said that Whānau Ora is unique in overall concept, and its execution is specifically tailored to the needs of each whānau. This means that monitoring, like the programmes provided, has to be developed in an organic, flexible way. The ministry is making quarterly reports tracking whānau outcomes available on its website.

We asked if Whānau Ora providers were operating at full capacity yet. The ministry expressed satisfaction with providers’ capacity so far, but believe that more government services can be supplied using the Whānau Ora approach. We also asked for a breakdown
of the ethnicity of individuals enrolled with Whānau Ora providers; the ministry suggested that this information was not necessarily useful for the provision of services to whānau.

Welfare reforms

We asked whether the ministry was researching the effects of welfare reforms on Māori, particularly women and specifically recipients of the domestic purposes benefit. The ministry could not provide an immediate answer, but we look forward to a response. It told us, however, about a programme it was providing for a small number of domestic purposes benefit recipients in South Auckland, Waikato, and Bay of Plenty, seeking to reengage them in education and training.

Commissioning agency

A report on the establishment of a stand-alone Whānau Ora commissioning agency was completed earlier in the year and is currently before ministers. The Minister for Whānau Ora also held a hui recently where the proposed agency was discussed, and announcements on the future direction of Whānau Ora are expected early next year.

Christchurch recovery

We asked the ministry about its involvement in the earthquake recovery process in Christchurch. It told us that it has engaged with officials from a number of government agencies, and with Te Rūnanga o Ngāi Tahu, and social–sector providers to respond to the event. Its role was increasingly “behind the scenes” as the recovery advances, offering support to frontline providers.

The ministry had worked hard to ensure Ngāi Tahu was integrated into the Canterbury Earthquake Recovery Authority legislation, establishing Ngāi Tahu as an “elevated” partner with the authority. The ministry also monitored the pertinent legislation to ensure it did not infringe Ngāi Tahu’s rights under its Treaty of Waitangi settlement.

The ministry is taking a lead in involving Māori in trades training to support the Christchurch rebuild. It has established a relationship with the Christchurch Polytechnic Institute of Technology to provide training and employment guidance for 200 Māori students, most of whom have since moved into further training, employment, or apprenticeships. Another 300 trainees are coming through the programme and are expected to find work upon completion. The ministry is also providing pastoral care to the younger students.

Māori economic growth

The ministry told us that the biggest challenge facing Māori in the near future is to improve average household incomes and the lives of those Māori doing less well economically. The Ministry’s principal instrument for addressing economic disparities is Whānau Ora, which is intended to support whānau in efforts to make the changes they want for themselves. Economic development projects are a priority, along with cultural projects. The ministry believes that in the absence of a single solution, all contributions are important.

We asked what areas of the economy are providing jobs for Māori, and heard that while various areas offer opportunities, a challenge is to upskill Māori workers to take advantage of them. The ministry also believes it is important to encourage more Māori to become involved in operating small to medium-sized businesses, and has been looking into ways that Māori assets can be used to provide economic opportunities. It is also working with
industry training organisations to train Māori for jobs in high growth industries, such as infrastructure, and partnering with large employers to provide cadetships for Māori youth.

We were pleased to hear that Māori economic growth has outstripped that of the mainstream in the last decade, and that some Māori trusts and corporations are leaders in economic growth. We suggested that such success stories do not get enough publicity, and would like to hear more about the gains being made by Māori.

**Public service capacity**

The ministry is focusing on the Better Public Services result areas set by the Government. It was involved in creating targets and action plans, and is now focussing on monitoring progress towards the targets as they relate to Māori.

We heard that public sector redundancies have not affected the ministry’s ability to engage, or that of other departments. Indeed the ministry is seeing growing interest in Māori engagement. The Ministry of Business, Innovation, and Employment, for example, is establishing a Māori-specific unit. The ministry suggested it is important for mainstream agencies to pick up Māori thinking and consider it in developing policy.

**Refocus working group**

The report of the ministry’s refocus working group is before the Minister, and a public response from the Government is expected shortly. We asked whether the refocus was expected to affect the ministry’s engagement in the regions. The ministry declined to speculate, but said the authors of the report strongly supported the ministry’s regional work.

**Natural resources**

We discussed Māori proprietary interests in natural resources with the ministry. It has been involved with water rights for some time through the Fresh Start for Fresh Water programme, and said it has given “strong advice” to the Minister and relevant agencies. The ministry said it was driven by the Government’s priorities and its main focus has been on ensuring there is a process for Māori to express their views on water rights to the Government. The ministry is comfortable that the political and legal processes have allowed this to happen.
Appendix

Approach to financial review

We met on 28 November and 5 December 2012 to consider the financial review of the Ministry of Maori Development. Evidence was heard from the Ministry of Maori Development and advice received from the Office of the Auditor-General.

Committee members

Hon Tau Henare (Chairperson)
Te Ururoa Flavell
Hone Harawira
Brendan Horan
Hon Parekura Horomia
Katrina Shanks
Rino Tirikatene
Metiria Turei
Louise Upston
Nicky Wagner
Louisa Wall
Jonathan Young

Evidence and advice received

Te Puni Kōkiri, Presentation on Ministry of Maori Development, dated 28 November 2012.

Te Puni Kōkiri, Responses to post-hearing questions on Ministry of Maori Development, dated 4 December 2012

Office of the Auditor-General, Briefing on Te Puni Kōkiri, dated 28 November 2012.

Organisation briefing paper, prepared by committee staff, dated 26 November 2012.
Te arotake pūtea o Te Puni Kōkiri mō te tau 2011/12

Te pūrongo a te Komiti Whirihiriri Take Māori

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Tūtohutanga
Kua whakahaere e te Komiti Whiriwhiri Take Māori te arotake pūtea o te whakatutukinga mahi me ngā mahi o te wā nei a Te Puni Kōkiri mō te tau 2011/12, ā, ka tūtohu kia arongia e te Whare tāna pūrongo.

Kupu Whakataki
Ko Te Puni Kōkiri te kaiwhakamaherehere matua ki te Karauna mō ngā hononga i waenganui i a ia-me ngā Māori. Ko te whakatairanga i te whakahiaotanga o ngāi Māori i ngā wāhi nui o te pāpori me te ōhanga – arā, te mātāuranga, te whakangungu me te whiwhi mahi, me hāwora, te whakahiaotau ōhanga – ā, aroturuki ai, takawaenga ai kūkū i te taha o ngā tānōi hoatu ratonga ki a ngāi Māori.

Heke atu ai te nuinga o ngā pūtea awhina ki te manatū mā roto i te Pōti Take Māori. E $61.78 miriona te katoa o tāna whiwhinga mō te tau 2011/12, ā, e $58.362 miriona te katoa o te whakapaunga. E $3.418 miriona te mutunga mai o te hemihemi more.

Whānau Ora
Ka pātai mātou ki te manatū i pēhea tāna aroturuki i te whakapaunga o ngā tahu Whānau Ora kia āta kīte ai i tētahi tāna pūtaki whakapakari whānau. Ko te kōrero ki a mātou, he pakari ngā punaha aroturuki kua whakatūria ēngari i ngā wāhangahau o Whānau Ora, ko ngā hātepe kē kua arotahinga kāpā ko ngāi huanga. I kaha kē te kē mai a te manatū he āhuatanga “pōturi ki te tipu” a Whānau Ora, ā, nā runga i tērā kaua e pōhēhē ka tere puta ngā hua. Ā, ka neke whakamua haere te hōtaka, ka huri haere te aronga ki te aroturuki huanga. Kei te tīmata haere tētahi kōtuituinga kairangahau e 50 ki te kohikohi rauranga, huanga hoki mai i ngā kaituku. Kei te whakawhanake te manatū me te Hapori Rangahau o Aotearoa i tētahi paie tukutuku mō te marea e whakaatu rauranga ana, e whakaatu kōrero ana hoki mō ngā whakapaunga. Pata ake ai ngā kōrero i te rangahau nei. Ko te tūmanako, ka reri mai te pae tukutuku nei, waenganui i te tau 2013.

Kei te mahi hoki te manatū ki te manatū Whānau Ora hei whakapai ake i tō rātou ōhoomai ratonga me tō rātou mahi aroturuki hoki. Ko te kōrero i tētahi tētahi tiro whānui pakupaku nei i te ngāta o ō rātou whakaaro mō te mahi i te taha o ngā kaituku o Whānau Ora. Ko tō mātou pātatanga kōrero mō ngā rauraruro teitei ana tō rongo hāia inā noa nei, ko kē mea te manatū, kē te aroturuki i te Whānau Ora e hunaia. Čāhia hoki, mārama hoki te mātou, kē te aroturuki e Whānau Ora me tēnā whānui tā te mātou tūturu me te mātou rongo hoi i te hōtaka kia hoatu, ā, me pīngore, me tūturu te huarahi kia whakahiaotia. Čāhia hoki, mārama hoki, te rongo hoi e Whānau Ora.

Ka pātai mātou mehe mea ngātake whakamātāuranga, ka taea a Whānau Ora te whakataurite ki ētahi atu hōtaka rite. Hoi anō, ko tā te manatū ki a mātou, nā tērā rerekētanga, he whakamahinga anō tō tēnā me tēnā whānau i te hōtaka kia tutuki ai ngā hiahiaotanga o tērā, o tēnā whānau. Ko te tikanga ia e pā ana ki te mahi aroturuki, ka rite anō ki ngā hōtaka ka hoatu, arā, me pīngore, me āhuia te huarahi kia whakamahinga. Čā
marama e whā, ka whakatakoto pūrongo whaihai haere te manatū i ngā huanga whānau e wātea mai ana i runga i tāna pae tukutuku.

Ka pātai mātou mehemea e mahi kē ana anō ngā kaituku Whānau Ora ki te taumata o ō rātou kahapupuri. Ka whakapuaki te manatū i tōna ngata ki te kahapupuri o ngā kaituku ki te wā nei ēngari, ki tōna whakapono arā noa atu ngā ratonga kāwanatanga ka kaha ki te hōmai ratonga mā te whakamahi i te ahungā Whānau Ora. Ka pātai hoki mātou mō tētahi wāwāhitanga mātāwaka mai o ngā tāngata takitahi kua whakauru hei kaituku Whānau Ora; ko tā te manatū ka mea ake, ēhara anake me te whai take o tēnei mō tōna mōhiohio hōmaitanga ratonga mā ngā whānau.

Whakahōunga o te toko i te ora

Ka pātai mātou mehemea e rangahautia e te manatū ngā tukinga o ngā whakahōunga o te toko i te ora ki runga i a ngāi Māori otorā, ki runga i a wāhine mā, i te hunga whiwhi takehu matua takitahi. Kihai te manatū i kaha ki te hōmai wawe i te whakautu ēngari, ki titiro whakamua atu mātou ki te wā e hōmai urupare ai. Heoi anō rā, ka kōrero mai mō tētahi hōtaka kei te hōmai e ia mō ētahi kaiwhiwhi ititi o te takehu matua takitahi nei i Ōtepoti-rau ki te Tonga, i Waikato, i Te Rōhe o Te Moana-ā-Toi, ērā e rapu ana ki te whakauru anō i a rātou i roto āhuatanga mātauranga, āhuatanga whakangungu hoki.

Pokapū rangatōpū

I oti i te ātutaanga o te tau nei he pūrongo e pā ana ki te whakatūranga o tētahi pokapū rangatōpū tū kotahi-anake a Whānau Ora, ā, i te wā nei kei mua i te aroaro mīnita. I whakatūria anōtia hoki inā noa e te Minita mō Whānau Ora he hui. I taua hui ki whakahua te pokapū, ka matapakia. Ko te tūmanako, ā te ātutaanga tonu o te tau e tū mai nei ngā pānuitanga mō te ahungā o Whānau Ora ā tōna wā wā ka whakaputaina.

Whakaoranga o Ōtautahi

Ka pātai mātou ki te manatū mō tōna wāhi i roto i te hātepe whakaoranga o Ōtautahi. Ko tāna ki a mātou, kua uru kē a i a i te taha o ngā āpīha no ngā pokapū kāwanatanga maha, ā, i te taha hoki o Te Rūnanga o Ngāi Tahu. Kua urupare mai hoki ngā kaituku o te rangai-pāpori ki te kaupapa. Kei te piki haere ake hoki tōna tūranga “mahi mai ki mūri”, ka māro haere ake ana ngā nekenga whakamua o te whakaoranga, tana hoatu tautoko hoki ki ngā kaituku i te mura o te ahi.

I kaha te mahi a te manatū ki te ātā titiro i whakakotahi atu a Ngāi Tahu i a ia ki roto i te hanganga ture mō Te Mana Whakaoranga Rū Whenua o Waitaha, ā, me te whakatū a i Ngāi Tahu he i hoa “whakatairangi” i roto i te mana. Ko tā te manatū hoki he aroturuki i te hanganga ture e āhei ana, kia tino kita e kihi ngā tika o Ngāi Tahi e takahia i raro i tōna whakataunga mō Te Tirito o Waitangi.

He tūranga ārahi tō te manatū ki te hoatu wāhi ki a ngāi Māori kia uru mai ai ki te whakangungu mō ngā mahi ā-rehe hei tautoko i te whakatū anō i a Ōtautahi. Kua whakautanga e ia he hononga ki Te Puna Wānaka Hangarau o Te Kuratini o Ōtautahi ki te hoatu whakangungu me te ārāhitanga whiwhi mahi mā ngā ākonga Māori e 200. Mai i taua wā kua neke te runga o rātou ki roto i ētahi atu māhia whakangungu, whiwhinga mahi, mahi pia rānei. E 300 ētahi atu kaiwhakangungu kei te haramai mā te hōtaka, ā, ko te tūmanako ia, ka kītea he mahi i tōna mutunga. Ka hoatu tiaki whakataoka hoki te manatū mō ngā tēina tamariki rawa atu.
Tupuranga o te ōhanga Māori

Ko tā te manatū ki a mātou, ko te tino wero nunui rawa atu kei mua i te aroaro o ngā Māori ā tōna wā tata tonu mai nei, arā, ko te whakapiki ake i te tau toharite o ngā whiwhinga o ia kāinga, me te āhua noho o aua Māori e tino pōhara ana. Ko Whānau Ora te taputapu matua a te Manatū ki te whai ake i ngā rerekētanga e pā ana ki ōhanga, ā, ko tōna whakamaunga atu, ko te tautoko whānau i roto i ō rātou whakapaunga kaha ki whakarerekē āhuatanga ka hīhiatia e rātou mō rātou ake. I te taha o ētahi atu pūtere ahurea, he mahi tuatahi te whakahiatō ōhanga. E āi ki te whakapono o te manatū, nā te kore o tētahi otinga kotahi, ko noho hei mea nui ngā rourou katoa.

Ka pātai mātou, ko ēhea wāhi o te ōhanga kei te hoatu mahi mā ngāi Māori, ā, ko tā mātou i rongo ake, ahakoa arā noa atu ngā momo wāhi e hōmai mea angitu ana, ko te whakapiki i ngā pūkenga o ngā kaimahi Māori kia whai painga ai i aua mea angitu kei te wero i te āhuatanga. Ko te whakapono anō hoki o te manatū, he mea nui te whakakenatena i te nui ake o ngāi Māori ki te whakauru atu me te whakahere kaipakihī āhua pakupaku tae atu ki ērā he nanakia tonu te rahi. Kua titiro huarahi ai hoki e taea ai ngā rātou Māori te whakamahi ki te whakatuwhera i ngā kua ki te ao ōhanga. Kei te mahi anō hoki te manatū i te taha o ngā rōpū whakahere whakangungu āhuamahi ki te whakangungu i te hunga Māori mō ngā mahi kei roto ahumahi tupe tere, pērā i ngā mahi whakatūranga toitū, ā, te mahi hei hoa i te taha o ngā kaituku māhia rahi ki te hōmai mahi pīatanga mā ngā tāiohī Māori.

I āhuareka mātou ki te rongo atu, kua neke kē atu te tupuranga o te ōhanga Māori i te ngahuru tau kātahi noa nei ka hīpa atu, ki tērā o te ao auraki, ā, ko ētahi poutiaki Māori, ētahi kaporeihana Māori hoki he kaiarataki i roto i te tupuranga o te ōhanga. Ko tā mātou ka mea ake, kāore aua momo paki angitu i te rongoa whānuitia i te motu huri noa. Nā runga i tērā, kei te hiahia rawa atu kia kaha mai te whakaputa i ngā painga kaitiaki i te kaha o te rōpū whakamahi ki te whakahiato mō rōpū o ngā rourou katoa.

Kahapupuri i roto tari kāwanatanga

Kei te arotahi te manatū i ngā wāhi whai hua nā te Kāwanatanga i whakatakoto i te kaupapa Ratonga Tari Kāwanatanga Pai Ake. I roto a ia i te mahi auaha keonga, auaha mahere hoki, ā, kei te arotahi i nāia nei i te aroturuki o te nekenga whakamua ki ngā keonga e tino hāngai tonu ana ki a ngāi Māori.

I rongo mātou, kāore ngā whakakorenga mahi i te rāngai tūmatanui i tukituki i te kaha o te manatū ki te māhia i te taha o ētahi atu tari me ētahi atu kia tērā i te māhia i te taha o ētahi atu. Oīrā, kei te kite te manatū i te tāru haere o te hīhiatia ki te māhia i te taha o ngāi Māori. Hei taurira, kei te whakatū Te Manatū Kaipakihī, Auahatanga, Whakawhīwhi Mahi i tētahi wāhanga hāngai-pū-ake Māori. Ka mea ake te manatū, he mea nui mā ngā pokapū auraki ki te kapo ake i tā te Māori whakatakoto whakaaro, ā, kia whakaaaroarohia hoki i roto i te māhia whakahiato kaupapahere.

Kohinga mahitahi arotahi anō

Kei mua i te aroaro o te Minita te pūrongo a te kohinga mahitahi arotahi anō a te manatū, ā, ko te tūmanako ā kō tonu ake nei, ka puta he urupare a te kāwanatanga ki te marea. Ka pātai mātou mehe mea ka tūpona tukia e te arotahi anō te mahingatahi o te manatū i ngā rohe. Kihai te manatū i hīhiakia ki te tūtouhau noa ēngari, e ai ki ngā kaitito o te pūrongo, he tino kaha te tautoke Te Puni Kōkiri i hīhiakia ki te tūtouhau noa, engari ko tāna i ki, he kaha te tautoke o ngā kaitito o te pūrongo i ngā māhia ā-rohe o te manatū.
Ngā rawa tūturu o te ao Māori

I matapaki mātou i ngā pānga pupuri whenua a ngāi Māori mō ngā rawa tūturu o te ao Māori i te taha o te manatū. Kua hia kē nei te roa o te wā i roto te manatū i ngā tika wai, nā te hōtaka Tīmatanga Hōu mō te Wai Hōu, me tana ki mai, he “whakamaherehere pakari tonu” tāna ki te Minita me ngā pokapū e hāngai ana. Ko tā te manatū i whakaputa mai, nā ngā mahi tuatahi a te Kāwanatanga te take i puta pērā ai te whakamaherehere, ā, nā te arotahi matua hoki kia āta kītea, he hātepe kei reira mō ngāi Māori ki te whakaputa i ō rātou whakaaro ki mua i te aroaro o te Kāwanatanga mō ngā tika wai. Ka noho hāneanea mai te manatū nā te mea kia tukua e ngā hātepe tōrangapū me ngā hātepe ture hoki tēnei kia tūpono.
Tāpiritanga

Ara ki te arotake pūtea
I hui mātou i te 28 o Whiringa-ā-rangi me te 5 o Hakihea i te tau 2012 ki te whakaaroaro i te arotake pūtea o Te Puni Kōkiri. I rongo taunakitanga mai i Te Puni Kōkiri me te whiwhi whakamaherehere mai i Te Tari o te Tumuaki o Te Mana Arotake.

Ko ngā mema o te komiti, ko
Hōnore Tau Hēnare (Heamana)
Te Ururoa Flavell
Hone Harawira
Brendan Horan
Hōnore Parekura Horomia
Katrina Shanks
Rino Tirikātene
Mētīria Tūrei
Louise Upston
Nicky Wagner
Louisa Wall
Jonathan Young

Taunakitanga me te whakamaherehere i whiwhi

He whakataktoranga mō Te Puni Kōkiri i te 28 o Whiringa-ā-rangi i te tau 2012, nāna anō. Ngā urupare ki ngā pātai whakawātanga-tōmuri mō Te Puni Kōkiri i te 4 o Hakihea i te tau 2012, nāna anō.

He whakatokoranga whakamaherehere mō Te Puni Kōkiri i te 28 o Whiringa-ā-rangi i te tau 2012, nā Te Tari o te Tumuaki o Te Mana Arotake.

He pepa whakataktoranga tohutohu mō te rōpū whakahaire, nā ngā kaimahi o te komiti i takatū i te 26 o Whiringa-ā-rangi i te tau 2012.
The Foreign Affairs, Defence and Trade Committee has conducted the financial review of the 2011/12 performance and current operations of the New Zealand Customs Service and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

John Hayes
Chairperson
# 2011/12 financial review of the New Zealand Police

Report of the Law and Order Committee

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New Zealand Police

**Recommendation**

The Law and Order Committee has conducted the financial review of the 2011/12 performance and current operations of the New Zealand Police and recommends that the House take note of its report.

**Introduction**

The New Zealand Police is the lead agency responsible for reducing crime and ensuring the safety of the community. It aims to be a world-class police service, working in partnership with communities to prevent crime and road trauma, enhance public safety, and maintain law and order. Revenue for the 2011/12 year was $1.474 billion and operating expenses were $1.471 billion, resulting in a net surplus of $3.564 million.

**Financial and service performance management**

The Office of the Auditor-General assessed the statements of the New Zealand Police, and found the Police’s management control environment “very good”, and their financial information systems and controls to be “good”. These assessments are the same as those for last year.

The office found the Police’s service performance information and associated systems and controls needed improvement for the second year running, and recommends that the Police make the necessary improvements at the earliest reasonable opportunity.

**Family violence**

In 2011/12, the number of family violence complaints or incidents that police attended rose to 89,000 from 88,000 in 2010/11 and 83,000 in 2009/10. Of those 89,000, 42,000 incidents involved a criminal offence, less than the 44,000 in 2010/11. We understand that the Police are changing the way they record such data, and we asked them to elaborate. We heard that, in addition to routine statistics already collected, they plan to record data such as the number of male-on-female assaults, and the type of dwelling in which assaults occur. They expect that over the next few years the development of a more sophisticated data set will keep them better informed. The new data set is being collected, and we intend to monitor its usefulness when it becomes available.

We heard that the number of reported complaints or incidents attended by police was increasing largely because reporting has increased. The Police credited campaigns by non-governmental organisations, such as the White Ribbon appeal, with raising awareness of the issue; the resultant reporting enables them to respond to the problem.

**Gangs and organised crime**

We are aware of suggestions that gang members may have attempted to infiltrate the police, and asked if they had any foundation. We heard that so far no gang member has succeeded in infiltrating the Police, who are confident that checks on applicants are sufficiently rigorous to make infiltration by a gang member unlikely.
Red Devils investigation

In October 2012, the High Court released a decision which ordered a stay of proceedings against the Nelson-based Red Devils Motorcycle Club, which was facing numerous charges, including being part of an organised criminal group. Allegedly, the Police falsified a prosecution against an undercover officer to boost his credibility within the gang. The Police have responded by initiating an inquiry into the approach to this investigation, and particularly the actions of the police officers involved in the falsification. The Police expect to complete this inquiry within months. The Crown Law Office has indicated its intention to lodge an appeal against the rationale of the High Court decision. We heard that the Police wholeheartedly support the appeal. We intend to follow this case with interest.

Prevention First strategy

The Prevention First strategy, which was launched in December 2011, aims to prevent crime, reduce the number of car crashes, give police more control over the criminal environment, and provide a better service to victims, making repeat victimisation less likely. It seeks a 13 per cent reduction in reported crime, and a 19 per cent reduction in the number of cases referred to the justice sector, by 2014/15. We heard that the strategy is on track against these targets. Since 2008/09, reported crime has been reduced by 10.9 per cent and the number of police apprehensions resolved by prosecution has decreased by 27.3 per cent. We are pleased to see the Police making progress on the prevention front.

Neighbourhood policing teams

As part of the strategy, the Police have placed 33 neighbourhood policing teams strategically throughout the country to work with their communities on local issues. We asked for an update on the scheme. We heard that these communities have seen improvements to the community dynamic as a result of police officers becoming more visible and better placed to interact with authorities that the community recognises. Youth Aid officers have proved valuable in smaller communities, working with schools and nearby neighbourhood policing teams. The hope is that the teams will drastically reduce crime in their neighbourhoods in three to five years.

Staff numbers

Redundancies

Total payments for redundancies rose to $1.749 million in 2011/12, compared with $180,980 in 2009/10, for 34 and six people respectively. We asked about the cause of this increase. The Police explained that 2009/10 saw their lowest attrition rate ever. In times of low attrition, restructuring incurred more redundancy payouts because re-deployment options are limited as there are fewer unfilled vacancies. Operational changes, such as centralising the national crime reporting line in Auckland, mean that the Police have had more redundancies than vacancies created by attrition. We heard that the average redundancy payment has been approximately $50,000.

Royal New Zealand Police College

The Police have decided to reduce the number of recruits in each wing at the Police College from 80 to 40, to make it easier to teach, integrate, and deliver the service. We asked whether the Police would hire fewer recruits as a result, and heard that the recruitment is based on attrition, which is monitored to judge when to establish a new
wing. We heard that overall constabulary numbers have been trending upwards in recent years, and have now begun to level out.

**Operations in Timor Leste and the Solomon Islands**

We congratulate the Police on their work in Timor Leste and the Solomon Islands. The New Zealand teams were highly regarded and respected, and showed strong commitment. We thank all the teams involved for their creditable performance.
Appendix A

Approach to financial review
We met on 5 December 2012 and 30 January 2013 to consider the financial review of the New Zealand Police. Evidence was heard from the New Zealand Police and advice received from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
David Clendon
Kris Faafoi
Hon Phil Goff
Ian McKelvie
Mark Mitchell
Richard Prosser
Jami-Lee Ross
Lindsay Tisch

Evidence and advice received
New Zealand Police, Responses to questions, received 30 November 2012.
New Zealand Police, Responses to additional questions, received 25 January 2013.
Office of the Auditor-General, Briefing on the New Zealand Police, dated 5 December 2012.
Organisation briefing paper, prepared by committee staff, dated 12 November 2012.
Appendix B

Corrected transcript of hearing of evidence 5 December 2012

Members
Jacqui Dean (Chairperson)
David Clendon
Kris Faafoi
Hon Phil Goff
Ian McKelvie
Mark Mitchell
Richard Prosser
Jami-Lee Ross
Lindsay Tisch

Witnesses
Peter Marshall, Commissioner
Viv Rickard, Deputy Commissioner
Mike Bush, Deputy Commissioner
John Bole, General Manager, Finance

Dean OK, Peter, thank you so much for coming along, and colleagues, to this financial review. It is 20 to 12. We'll run for an hour. If you would like to give us some introductory comments, and then we will open for questions.

Marshall Thank you, Madam Chair, members of the committee. Well, we have no drug dogs or gadgets, so, with your indulgence, I thought I would just go straight to some introductory comments for about 4 minutes or thereabouts. And right from the outset I would like to introduce my colleagues. [Introductions]

In police we focus on the basics of what we do—that is, crime and crash prevention, and crime and crash reduction. In the 2011-12 financial year recorded crime fell by 5.2 percent—21,800 fewer offences than in the previous financial year. Recorded offences were the lowest in two decades. The financial year saw 287 road deaths, 28 fewer than the previous year and the lowest financial year toll since records began. Statistics for the first 6 months of 2012 are very encouraging. Disappointingly, however, the road toll is running above last year’s, although several crashes have involved multiple fatalities.
We have received encouraging indications that we are moving in the right
direction as New Zealand Police. This year we were the subject of a robust
performance improvement framework review, known as a PIF, that placed
New Zealand Police in the top third of organisations reviewed. The fourth
phase review of the Commission of Inquiry into Police Conduct was
completed by PricewaterhouseCoopers for the period 2011, and there were
a number of comments, and I allude to a couple of those comments on
page 15, which said “New Zealand Police is commonly considered to be
one of the best-performing police services in the world.” And on page 18 of
that report it said “Public trust and confidence in police continued to
increase in 2011 in line with long-term trends. Taken together these
considerations paint a picture of an impartial, corruption-free, independent,
and high-performing police service. No police organisation will ever be
perfect”, it said, “just as nobody in society can ever be, but the record of
performance and the culture of new police are something of which New
Zealanders can be proud.” We welcomed that acknowledgement of
progress and the indications of where we can do more.

Levels of public satisfaction and trust remain at a high of 77 percent, and 82
percent are satisfied or very satisfied with the overall quality of police
service. Police were voted this year as being the most trusted Government
organisation for a third year in a row. And it is my respectful submission
that the country’s top berth in the annual Transparency International
corruption index is underpinned by a transparent, accountable, and trusted
police service.

Relations with overseas police services remain strong through our network
of liaison officers throughout Polynesia and Melanesia. We continue to
serve in mentoring roles, continuing the good work for which we are
known primarily in relation to community policing. And we expect our
police personnel to return from Afghanistan later this month.

On the home front we maintained a focus on the priority areas of youth,
family violence, drugs, organised crime, alcohol, and road policing. In
organised crime we continue to disrupt criminal activities, currently
forfeiting an estimated $18.5 million worth of items, with inquiries under
way into restrained assets worth an estimated $106 million. We have
continued with our programme of change, and in the past year we have
launched our Prevention First strategy and we have initiated a number of
Policing Excellence initiatives, and we have 33 neighbourhood policing
teams in strategically placed areas working with communities on local issues.
I could speak at length about Policing Excellence, but I won’t take up much
more time, suffice to say that one district commander succinctly summed it
up by saying “People tell us there seems to be more of us. There isn’t, we’ve
just organised ourselves better.”
Looking ahead we must continue to pursue reform while providing the expected levels of service with an unchanged financial baseline. We accept that. We continue to work with our Māori Pacific ethnic services, known as MPES, to further engage ethnic communities, many of whom are the most victimised in this country. MPES won two prestigious IPANZ awards in June of this year. We continue towards targeting the recruitment of ethnic minority groups, to ensure our composition better reflects our population as a whole.

We continue to collaborate with the justice sector to achieve joint aims and to improve public sector efficiency, and my membership of the justice sector leadership board underlines this commitment.

It is my submission that the police is in comparatively good heart at this stage, and the 2012 workplace survey revealed a large increase in terms of engagement, now comfortably above the State sector benchmark. There are hundreds of people wanting to join New Zealand Police, but we have a comparatively low attrition rate. We’re working very hard to improve upon our standards in these times of change.

Madam Chair, thank you very much, and I’m very willing to answer any questions, as are my two colleagues.

Dean

Thank you very much.

Mitchell

Commissioner and deputy commissioners, congratulations on the fantastic work that you and our police service are doing and the results that you are delivering for New Zealand. My question is actually around—you talked about seizing assets and I was just wondering in terms of the gangs and organised crime in New Zealand how much of those seized assets are related or tied back to gangs or organised criminal activity?

Marshall

A considerable amount of those seized assets do, in fact, relate back to gangs. They are very central to our disruption activities and they feature in every major inquiry in one form or another, and we have some very sophisticated operations which our staff are dealing with, and dealing with well.

Mitchell

This is somewhat related—the last time you were in front of the committee we were talking about using technology and you’d been able to keep staff out on the road so that they’re actually actively engaged with things like combating gangs and organised crime. Can you just tell me, or give us a little update on how that’s going, how the roll-out’s going, and is it having a difference, making a difference?

Marshall

The answer is it is certainly making a difference. It’s very well received by our staff. We have various trial areas and there are some developments occurring in the next number of months, but I’ll pass to deputy commissioner Mike Bush, who is right across those particular points.
Bush Thank you, commissioner. Just to add the mobility work stream under Policing Excellence is very much on track. It’s very positive. We hope to have it fully rolled out by the middle of next year, that is the aim, and we’re absolutely on track, positively received by all of our people, great support through our ICT and our Policing Excellence work streams.

Faafoi Good morning. Thanks for being here. You were mentioning gangs before, and earlier this year the Police Association President, Greg O’Connor, talked about attempts by gang members to try and infiltrate the police. He’s repeated it since in the magazines, so are you able to elaborate on whether this is actually a threat and, if so, what you’re doing to try and stop it?

Marshall Well, the answer is we have very clear and very definitive checks and balances. We don’t have any concerns about that infiltration. It hasn’t occurred, to my knowledge. We are certainly vigilant about that and it has no particular basis that I’m aware of, and, as I say, our checks and balances are very rigorous, but I will pass to deputy commissioner Viv Rickard, who has responsibility for HR.

Rickard I think the way we recruit is quite a well-tested model. We recruit between 300 and 500 people, depending on attrition, per year. If you look at the police service we’ve got now we’re not full of ex-gang members and criminals. I don’t expect that to change in the future. We’ll still have good New Zealanders representing their communities around the country.

Faafoi So that doesn’t say you don’t think there’s been any attempt.

Rickard Oh, I’m sure after that someone who has a history in some particular area might try and enter the New Zealand Police, but the chances of them getting past our rigorous processes is pretty low. I stand by my earlier comments that there are good people still coming in.

Faafoi Point 2.2, question 46 in the questionnaire which is around redundancies—In the year 2009-10 the total payments for redundancies was about $180,000 for six people, and in the current year you’ve got 30 people paid out and it’s close to $1.75 million. Can I get an idea of why that’s happening. Question 46, sorry, there’s a table there.

Rickard Occurring in which years?

Faafoi The years 2009-10, which has got the total payments at $180,000, and it’s crept its way up over the next subsequent years to $1.75 million.

Rickard Yes, 100 percent savings. Years 2009-10 the lowest attrition we’ve had in our history, so we had less people leaving the organisation, including police employees, when we do changes within the organisation. Sometimes that relates to redundancies. So you see in the later years that we’ve had more people having to take on redundancies rather than just deal with it by way of vacancies. The payments, on average, remain the same per member that we’ve made redundant—around the $50k mark or just over.
Faafoi If 2009-10 was one of the lowest attrition and I think I read somewhere within these questions that you’ve still got low attrition, how can it jump up by so much?

Rickard Well, it’s all to do with the changes that we’re making in the organisation, so at the moment we’re making changes to the way we do our business, so, for instance, one of them is the crime reporting line. We’ve got people that we’re going to have to centralise in Auckland. We’ve got people in other places around the country that have previously done that in a 12 district model. Now we’re having that centralised, so some of those people, if they can’t find jobs elsewhere, will be made redundant if they’re police employees.

Ross Just a supplementary question on staffing that Kris raises now. One of the key things that we feel as a Government is that New Zealanders need to see more police on the beat. Can you tell us how the numbers of constabulary staff members have been tracking over the last few years.

Rickard The numbers over the last decade basically have been going up in terms of police constabulary numbers, so there’s more police staff. I think we do want to highlight that numbers is only one piece of the equation. The most important piece for us is actually how we use those numbers, how we try and make them available to be more productive carrying out prevention work in our communities. So that’s the real call, and numbers is only one equation sometimes that we get mixed up in.

Ross But it has been tracking up quite a bit in recent years.

Rickard Yes, it’s still continued to track up. That’s levelled out now. Dealing with the last piece from the 2008 election promises about the 600, so we finished that in 2011.

Faafoi Can I go to question 123 in the questionnaire where it’s got a table of the districts and changes over the period 31.12.2011 and just at the bottom of the table at page 65 it’s got total minus 63. Does that mean there’s 63 less constabulary staff during that period.

Rickard Yes, this one is a point in time. So what happens with an organisation like ours, at any point in time you take our numbers, take it on 1 July there’ll be X amount, you take it on 1 August there’ll be a different figure. So if you compare one year to another year at a point in time on a particular day, you’ll have an X amount in terms of the figures. So that’s what this is about. This is just a straight point in time comparison, not in terms of FTEs, not in terms of the actual people that we’ve got over the whole year.

Tisch Before I ask my question, commissioner, just a comment. I had the privilege in July and August to be in Timor Leste, and also the Solomon Islands, where you have a police team along with the Defence Force, and I want to say how well respected was the commitment of the teams that were there. They were highly regarded, highly respected for their commitment, and the Kiwi insignia said it all. The local people were just so impressed by what your team was doing up in both those countries, so congratulations on that.
Marshall: Thank you very much, and I'll make sure the contingent commanders hear about your comments—appreciate it.

Tisch: And I met with the commanders and also police personnel while I was there.

My question relates to trends in crime in Christchurch. We had the Serious Fraud Office here recently, and they made the comment that they anticipate that there could be increased fraud as a consequence of what’s happened in Christchurch with the earthquakes. Are you seeing at this stage any trends in increased crime? Has crime changed in what the police force has to deal with in Christchurch?

Marshall: Well, certainly after the events of 22 February and the following months, crime went down, as you would expect. We have seen an increased reporting and increased number of offences, but it’s getting back slowly to where it was prior to the events of 22 February of last year. And we are finding, in terms of family dynamics, that is an issue in relation to associated offences there. In terms of the employment down there, it gets better with more employment. In relation to fraud-related matters, we certainly have spoken to the Serious Fraud Office. They have alerted us that this could be a looming problem in times to come, based on their international experience. So there’s been no huge increase, suffice to say that it has been a steady increase, getting back essentially to where it was prior to those tragic events, noting that after 22 February it fell away dramatically.

So we’re on top of it. We understand it and, just as an aside issue, we are emboldened by the fact that the new temporary police station will be occupied by our members next week in a collective manner with corrections personnel, and I think there’ll be a lot more sort of confidence and visibility out around the streets of Christchurch.

Faafoi: Just with the staffing around Christchurch, I was made aware of some research that basically says that about 18 to 24 months after a major disaster there can be some increased stress on the lives of first responders like police officers. Are you starting to see anything come through from your guys down there?

Marshall: Well, nothing particularly dramatic, although we are very, very conscious of it. We certainly have a lot of welfare infrastructure around it. We are monitoring it. Superintendent Gary Knowles, the district commander down there, and our assistant commissioner for the South Island are very cognisant of that. It has not manifested itself in any particular way now, but, I mean, they have been through 10,000 aftershocks. Homes haven’t been sorted yet for a lot of these police officers. They have issues that we can only sort of just begin to understand. All I can say is that as commissioner, I am acutely aware of it, my executive are acutely aware of it, and we will make it our business to make sure there is that wraparound.
Ross Prevention First—strategies are important, and it’s good to see that you have this strategy, but what is probably more important are cold, hard facts and measurable outcomes. Can you tell us what are the achievements in terms of reduction in crime that you are noticing and have measured through your Prevention First strategy.

Marshall Thank you for that. I'll ask deputy commissioner Bush to comment.

Bush Thank you, commissioner. As you know, through Policing Excellence and Prevention First we have targets of reaching a 13 percent crime reduction by the middle of 2014. I can say we are absolutely on track with that. Crime statistics came out earlier in the year which put us very much on track. We are currently 11 percent less crime than there was in 2008-09. Some of our other targets were to reduce the flow of cases into the justice system. That’s decreased considerably. In the previous fiscal year it was down by 22,000 prosecutions. So the targets that we’ve had set for ourselves we are completely on track with, but just to expand on the implementation, right across the country all of our staff are extremely focused on Prevention First. They all know their role in relation to it. We have a workforce of nearly 12,000 people who are absolutely focused on bringing safety to their communities.

Ross Probably the most visible part of the strategy is the neighbour policing teams. Can you give us an update on how they’re working out and plans for the future.

Bush Yes, so I think at the last update we said there were 33 teams in place. That hasn’t changed. We don’t have immediate plans to put any more in, although we will consider it. Their main aim is to reduce crime drastically in their neighbourhoods, but we have given them 3, 4, or 5 years to achieve that. The results that we’re seeing at the moment are extremely pleasing in relation to not just the reductions of crime but the feelings and perception of safety in those communities. And each one of those 33 communities includes probably at least 5,000 people in each one of those—it touches 5,000. We all make a point of visiting the neighbourhood policing teams and the communities that they work for when we travel around the country. The feedback we’re getting not just from the teams or from the senior community leaders but from people on the street really does endorse that it’s the right thing to do.

Ross You’ve got a number of them operating in my patch—Flatbush, where you were originally from before here, Mike. Can you give us a practical, real-life example of how having those neighbourhood policing teams in a community like Flatbush have changed things specifically for the community right there.
Absolutely. So if we talk about some of these communities, particularly in Auckland South, where they were first established, it was a new feeling for the communities to actually see police officers and identify with them on a daily basis, know who they were, and learn that they can rely on the same police officers being in their neighbourhood actually solving problems long term. They actually had immediate impacts within days of arrival, so the community could identify with particular ones. But now the communities are seeing a real change in the dynamics of their neighbourhoods. I would like to quote one example. It’s not in Auckland South; it’s in Canterbury, in Christchurch, where in one street, where one neighbourhood policing team work, there were five houses occupied by Mongrel Mob members. Nobody in that street felt safe or, in fact, did walk from one end of the street to the other. So working with the community, working with the Mongrel Mob members, those five houses are now unoccupied. Those Mongrel Mob members have moved to other parts, but separately. They have changed their behaviour. Everyone on that street now feels safe. You might ask is that displacement? No, they have gone to different parts of the country. They no longer have their power base. They no longer hold that neighbourhood to ransom, and the crimes that they were committing, the drugs they were dealing, are no longer occurring in that neighbourhood. That, for me, was quite a poignant example of how influential they are. They didn’t do it on their own, of course. They did it in partnership with the community.

Thanks for that. Just carrying on from that, in terms of the visibility of police in these circumstances and the safety and security feelings that people have about that, that feeling is enhanced in the reduction of crime, what are your feelings on general, visible arming of front-line police in relation to that? I know the Police Association continues to call for it. It tends to be resisted, I know, by senior police and by the Government, but what are your thoughts on that? Would that be a step forward or—

No, I’ve made it very clear that I don’t see any need at this time for the general arming of the New Zealand Police. Since I became commissioner, I have given them increased access—that is, the first responders and support staff—to the Taser, to the Glock, to the Bushmaster, and their ballistic armour. They are in the boots of each vehicle. I have also freed up their ability to be able to wear the Taser without going through a bureaucratic process. I was out with the late shift patrols in one of the Auckland suburbs recently. They actually wore the Taser for a particular incident, which was ideal. It diffused the situation. It was very appropriate. I do not see any need, at this time, for the general arming of the New Zealand Police, and I base that upon my time with the New Zealand Police and as a result of my observations of working for nearly 10 years overseas.

My supplementary question is slightly at the other end of the scale from Richard’s, but that’s not unusual. I was interested in the importance you placed on Youth Aid officers, particularly with respect to the smaller communities.
Marshall  Yes, the Youth Aid officers are central to our approach in relation to interacting with communities, and they work in very closely with neighbourhood policing teams, if they are in the same geographical location, so there’s a collective approach to it. But Youth Aid officers have always been central to the approach of police. The realisation that young people coming through the demographics of our country, it is absolutely central to get those young people who are vulnerable onside or sorted out. I’m not sure whether Mike might have any additional comments, but that is the approach that has been in place and will continue to be in place.

Bush  Only to reinforce your comments, commissioner, that it is an extremely important part of policing. It is a real focus. We have four groups of staff—well, five if you include the neighbourhood policing teams—focusing on youth. So we have some youth enforcement to ensure that young people are behaving themselves when they’re out and about, but we have our Youth Aid staff, we have youth development, and we have youth education. So we have got considerable resource in that place. We have got very good plans and partnerships when it comes to youth.

McKelvie  Thank you. I’m not about to tell you your job, commissioner, but I guess my observation would be that my community is made up of a whole lot of smaller communities—in other words, my biggest population is about 15,000, and I run along with 3,000 and 4,000-people towns with single schools. The Youth Aid officer, it would appear to me, are really the key to the success of the policing teams in those communities. I think your association with the schools is hugely valuable.

Marshall  Yes. No, they are, and it is a matter of spreading our resources to the appropriate schools who most need the attention of our Youth Aid officers in conjunction with other patrols and other initiatives that we have going within our police organisation. But we certainly recognise the priority and recognise the importance.

Mitchell  Just a supplementary question in relation to the White Paper on Vulnerable Children that Minister Bennett and the Department of Social Development were working on. Have the police been engaged on the development of that at all?

Marshall  Yes, I’ve been to several discussions, and we are fully supportive of the trials that are going to be convened in the Bay of Plenty and in Rotorua and Whangarei. We are committed to that. We see that as being positive, and we await its progression.

Clendon  You made the decision to stop counting family violence offences as such, the implication being that the reporting mechanism had degraded so much that they were no longer useful. There has been some concern, obviously, about that, but I wonder if you could elaborate a bit on that decision. Critically, too, you indicate you are developing a new data set, a new mechanism, for reporting, so I would be interested in the nature of that and what the timeline is for that.
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<tr>
<th>Marshall</th>
<th>Yes, thank you. We have certainly considered those issues over a lengthy period of time, and Mike Bush is the font on this matter.</th>
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<tr>
<td>Bush</td>
<td>I think we’re all a font, commissioner, on this one. Viv could come in at any stage.</td>
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<td>Rickard</td>
<td>You’re all right.</td>
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<td>Bush</td>
<td>The one thing that hasn’t changed—and this is probably what I see as the most important data set around family violence—is the number of complaints or incidents that are reported to us that we attend. We’ve tracked that ever since we started. We can go back 5 years with the data we have here. For example, last fiscal year we attended 89,000 family violence reports. Within that, we worked out exactly how many offences were inside or how many of those reports or incidents involved an offence, which I think was 45,000. So we know exactly how many incidents we attend. It was 2,000 more than the previous year, but the number of offences that upon investigation of those incidents were found to involve offences reduced slightly. So we can track absolutely the number of—</td>
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<td>Clendon</td>
<td>Sorry, just for clarity, then: there’s some shouting and banging and a neighbour’s concerned, rings up, and you attend, that’s attending a reported complaint—</td>
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<td>Bush</td>
<td>Absolutely, if someone reports their neighbours, they believe they are having a family violence or a domestic incident, they will report it to us. We absolutely encourage them to do so. Or if other family members are concerned about the potential for violence in the home, we encourage them to report. We attend as a matter of priority, as you know. Just tracking: last fiscal year, 89,000 incidents; the year before, 88,000; the year before, 83,000. But the number of those incidents that involved criminal offences actually decreased last year compared with the previous year. So, by example, of 88,000 reports last year, 44,000 involved crime. This year 89,000 reported incidents, 42,794 crimes within those. And we also continue to record data around male assaults female, dwelling-type assaults, which gives us also a view on the family violence picture, which, in cooperation with our many partners, we are determined to have an impact on.</td>
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<td>Clendon</td>
<td>Sorry, and the second part of that about the timeline for developing your new data set?</td>
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<td>Marshall</td>
<td>Yes, we’re still developing new data sets that bring us in line with international best practice. But deputy commissioner Rickard is probably the expert on that.</td>
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2011/12 FINANCIAL REVIEW OF THE NEW ZEALAND POLICE

Rickard: So we’re just in line with Australia and New Zealand offence classifications, so that is how we have aligned our reporting. So we’re reporting in line with Statistics New Zealand in terms of our tier one stats. We’re actually reporting on crime, not the incidents. So as deputy commissioner Bush has said, we’ve got a record of incidents, but we also note which ones are crimes, and that’s what our crime statistics are about, where offences have occurred. We’ve also implemented new software to help us determine the issue between victims, and we’re tracking that. Over the next few years we’ll have more sophisticated data to help us make better decisions. But this is only, from memory, this is stuff that’s occurred, and we’re trying to get in front of that. This is only one piece of the data set.

Bush: And the key to the data for us is to ensure that we’re having an impact in the right places. Every one of those 89,000 reports is shared with our key partner agencies, whether it’s Child, Youth and Family, if necessary, whether it’s the Women’s Refuge, NGOs, that we engage with to help the victims. We share that information.

Mitchell: So although we see a slight increase with the 89,000, do you think that could be attributed to the fact that you’re responding—the police—because you are getting more resources out in the front line, there’s no doubt about that. Talking with the area commander up in my area, the police are responding so quickly now to incidents. Do you think that it’s a combination of maybe the response is a bit faster, so that some of these incidents they might have dropped off and been resolved by a call back or something like that and may not have been recorded, and also the fact that police personnel now are being more vigilant in recording these things, and, therefore, although the actual crimes might have dropped off a bit, the amount of reporting has increased a bit?

Bush: Yes, I think that’s absolutely right. But we must give credit and cognisance to some of those campaigns that continue to be mounted by NGOs and other organisations—you know, the white ribbon appeal, etc.—to encourage people to change the culture around reporting. We want people to report so we can do something about it.

Faafoi: Can I touch on a recent high-profile case out of Nelson where some charges were dropped against some gang members, and just ask the commissioner your thoughts about what happened. I know that there’s potential that charges may get laid again, but considering the number of people involved in terms of the gang members, could I also get an idea of what that investigation may have cost, considering it fell over as far as it is concerned now.
Marshall Yes, there are two aspects to that particular operation. There was criticism from the High Court judge in terms of the actions of police officers who were trying to build up a cover—or more cover—for the undercover agent who was involved in an extremely dangerous environment involving gang members in that part of the country, and they were enthusiastic in terms of their approach, shall I say. That particular aspect is now the subject of inquiry to determine our processes, and that will be known in weeks or months to come.

The second aspect involved the High Court judge discharging the accused. That is interesting. It has been the subject of consideration by Crown Law, who have indicated that they are lodging an appeal against the rationale. All I can say is that the police wholeheartedly support the approach to appeal.

Faafoi It might be a bit too ambitious to ask if there is a cost of what that investigation or that case may have cost you.

Marshall I don’t know, but I’ll—I don’t know the answer to that, but I can certainly ask my colleagues very quickly whether they are any the wiser.

Bush We don’t put a costing—I mean, if we really needed to we could go and cost each investigation, but we don’t run a financial book next to investigations per se. We do keep account of some spending on the investigation—professional services or whatever—but I couldn’t give you an accurate cost as to the full cost of the operation.

Mitchell I fully endorse and support the fact that the Crown Law Office is going to try to change the decision on that. In terms of cost, though, with these types of operations, I mean you can put a cost associated with actually taking the case to court and getting a conviction, but haven’t you been able to actually gather a great deal of intelligence on these criminal groups and how they are operating? Isn’t that going to have, overall, a real benefit to the area as well?

Marshall There’s no question about that, the deployment of the undercover agent, the investigation around that prosecution, but we would still like to see these gang members put before the court in relation to some of the most serious offences on our statute book. But we respect the High Court judge’s decision, and we respect the decision of the Crown to appeal. As I say, police are very supportive of that stance.

Mitchell In terms of value to the community, there has already been huge value in terms of the amount of intelligence that has actually been gathered and that you are actually now in possession of in terms of continuing to fight crime. And, you know, these guys aren’t going to get off hook regardless. You’ve got the information that you need.

Bush Absolutely. I mean, any intervention by law enforcement disrupts their criminal behaviour. So it has already had an impact on their ability to offend further. That doesn’t mean they won’t, but it has impacted on their ability to impact themselves on the safety of the community. But we’re focused on dismantling, as opposed to just disrupting.
Clendon As you know, there has been a decision to close courts in some of the smaller communities, smaller towns, and to reduce services in others. Dargaville, for example, has become a hearings only court, only to hear scheduled hearings. That’s outside your control, I know, but is it likely that those decisions will impact in terms of costs on your budget, on officer time to take offenders to Whangarei for a bail hearing—transport costs and those sorts of things?

Marshall Well, we’re working very closely with the corrections department—and courts, in terms of the justice leadership board—in the context of prisoner transport as well. This is one of the initiatives. I want to get away from having police officers transporting prisoners between one location and another. We are hoping to minimise the cost. I also make the point that we worked in very closely during the decision-making time. There were no surprises from a police point of view. We spoke to the district commanders and the area commanders. If there had been any particular problem affecting our organisation, we would have had a voice, we would have been listened to. We accept the decisions in terms of justice, and we can live with the arrangements.

Ross I’d like to ask about the Rugby World Cup and your views on how that went. It was probably one of the biggest operations you’ll ever have to run in quite a few years. What assessment was done as to the police’s performance there, and what learnings have you taken out of the operation?

Marshall Well, that was a very successful operation from whatever angle you look at. The officer in charge of that Rugby World Cup was Superintendent O’Fee, who has now gone to be the Chief Police Officer in Tonga. It was the subject of 2 years of planning, and it was 2 years involving a range of central government and local body organisations. It worked extremely well. One of the big lessons there that we actually took from APEC in years gone by was to put a liaison officer alongside each team so they understood the nuances of New Zealand, they understood that if they had a particular issue that concerned them, whether it be security or whether it be a lost passport or whatever, they had a point of contact. It saved an awful lot of disquiet that could have occurred had there not been that liaison system. We worked it extremely well with the local councils, in particular, and it was the subject of considerable debrief.

Bush Yes, thanks, commissioner. That was debriefed with other agencies. We had our own in-house debriefs. Our findings were that it was extremely successful from everybody’s point of view, including ours. One of the learnings from us was there was a focus during the operation on how our police officers interacted with the public, whether it was en route to the venue or at the venue. The feedback that we got from that was very, very good. It just showed the importance of police officers not standing around playing Big Brother but actually interacting, being part of the community, making sure that people actually enjoyed themselves responsibly. That was one of the big learnings. It was an intended focus, and it was one that we saw brought great value. Also, the way we worked with other agencies and the private sector—great learnings for us.
And just to add a little bit of sense of occasion, I was down Queen Street with one of the deputy commissioners on the Friday, the first night. It was the time when there were transportation “issues”, shall we say. I saw the way, first hand, the police officers diffused, they set the scene, and they set the atmosphere. Any inappropriate or timely arrests could have sparked matters. Their interaction, exactly as deputy commissioner Bush has said, was pivotal in terms of just calming things down. I saw that all the way through that series of rugby events.

I guess one of the potential problems you always could have with big events like that is public drunkenness and alcohol-related problems. What specifically did you do to try to keep on top of that—I don’t think there was much in the way of it happening at all, and there could have been a lot, potentially—it happens—but obviously you guys kept a lid on it. What specifically did you do around alcohol to keep it under control?

Within the provinces, there were very sort of contained areas and it was able to be managed through a good enforcement approach. But I’ve got to tell you, down in Auckland, Queen Street, on the big nights, all around the Viaduct, it wasn’t the time for any enforcement. There were thousands and thousands of drunk individuals, and it required patience, it required tact. When arrests had to be made, they were made, but the cat was well and truly out of the bag in the context of the amount of alcohol around Auckland City, bearing in mind that the games were late in the evening, after a day where people have been encouraged to come into big cities, party atmosphere, party central. We were, I think—we did very well.

I guess the perception I have as a citizen was that it didn’t blow up in a way in which alcohol-related issues

I think that’s a testament to the culture that you’ve built in the police service, the way they deal with it.

Well, Superintendent O’Fee was like a broken record in terms of the mantra of the police interacting with the public, getting that in during the training periods, and it worked.

Can I just touch on a subject dear to my heart, which is the Royal New Zealand Police College in Porirua, and congratulate you for appointing John Price to head that, because I think that’s a master stroke in terms of our community. But can I just ask—I’m looking at question 119 in the standard questionnaire, where the last two wings have had 40 recruits in each—I just wanted to ask you about your medium and long-term plans in terms of sizes of wings over the next 2 or 3 years to see what the issue with the Police College is?

Yes, we welcomed Superintendent John Price to the Royal New Zealand Police College yesterday, had a ceremony for him. He will be very good for that.
Rickard: I think our approach going forward is really where we're keen to have wings of 40, it's probably more of a manageable number for the college in terms of how they like to have their wings. Even if we have to have two pretty close together, rather than having one wing of 80 as we've done in the past, we'd rather just stay with more a manageable, smaller number. It's a better way for them to teach, integrate, and deliver their service.

Faafoi: Just a supplementary question. So in terms of in a year, are you still looking to put out roughly the same number of recruits, or because of necessity will that mean you'll be putting fewer recruits out?

Rickard: It all depends on attrition. So we're making our decisions around recruitment based on our attrition. As we've done this year—this is a classic example—we planned to have two wings in January and February. We're looking at putting on another wing within this financial year, starting end of May-June. It's something that we'll do normally, because the attrition goes up and down. We just keep an eye on the numbers. What we do with those numbers—it's a normal thing for us to keep an eye on how we bring people in. So we'll pre-plan on some things, but we'll be flexible as well.

Faafoi: So with attrition forecast to stay low, you would expect the recruits going through the Police College to stay low as well? Is that your assumption?

Rickard: Yes, the lower the attrition, the lower the number of recruits.

Dean: OK. Well, I have no more questions on my list, so I want to thank you very much for coming today. Also, Viv and Mike, thank you for your answers as well. Peter, thank you for coming and providing good evidence to us. Thank you.

Conclusion of evidence
The Intelligence and Security Committee has conducted the financial review of the 2011/12 performance of the New Zealand Security Intelligence Service, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Rt Hon John Key
Prime Minister
Chairperson
2011/12 financial review of the Office of the Ombudsmen

Report of the Government Administration Committee

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Office of the Ombudsmen

Recommendation
The Government Administration Committee has conducted the financial review of the 2011/12 performance and current operations of the Office of the Ombudsmen, and recommends that the House take note of its report.

Introduction
The Office of the Ombudsmen provides Parliament and the New Zealand public with an independent and impartial check on the quality, fairness, and integrity of administrative and decision-making practices in the wider state sector. The office’s total income for 2011/12 was $8.868 million. It spent a total of $8.768 million, resulting in a surplus of $100,000. We note that this surplus consists almost entirely of funds returned to the office following an insurance pay-out on its Christchurch premises, in line with government accounting procedures, which was then transferred straight back to the Government. We understand that the actual surplus was very meagre.

Ombudsmen’s caseload
Last year we expressed concern at the considerable financial pressure on the office to meet a heavy caseload, which had increased markedly in recent years, and at the office’s assertion that it was in crisis. This year the pressure was described as “acute”. The number of cases received in 2011/12 increased by 22 percent on the previous year to 10,636. Although the office completed 13 percent more cases than it had done the previous year, the net result was a 28 percent increase in the number of cases on hand at 30 June 2012. The office considers this caseload to be a new norm.

In the 2010/11 financial review of the office, we suggested increasing the office’s funding. We are pleased to note that the Officers of Parliament Committee recently provided an increase to the office’s baseline funding, which is due to commence in 2014/15. We note that both the office and the Officers of Parliament Committee have recommended amending section 17 of the Ombudsmen Act 1975 to allow the office more discretion as to whether to investigate complaints. We support this recommendation and consider it necessary to help relieve caseload pressures.

Makeup of caseload
The Ombudsmen undertake their functions in accordance with six Acts of Parliament: the Ombudsmen Act 1975, the Official Information Act 1982, the Local Government Official Information and Meetings Act 1987, the Protected Disclosures Act 2000, the Crimes of Torture Act 1989, and the Land Transport Act 1998. In 2011/12 the Ombudsmen reported an increase in cases across the board. They noted in particular a large increase in Ombudsmen Act cases, and a sizeable increase in Official Information Act cases.

The office hopes to conduct research into the reasons for the increase in requests. We look forward to seeing its results.
Legislated obligations

The office is concerned at the apparently low awareness in some Government agencies and ministerial offices of their responsibilities under the Ombudsmen Act 1975 and the Official Information Act 1982. We share this concern. Some agencies and offices need to increase their knowledge of their obligations under these Acts, which are integral to transparent decision-making in Government.

The office is considering whether to launch an investigation into delays in responding to Official Information Act requests at some Government departments and ministerial offices.

We asked the office for a list of outstanding complaints for each Government department as at 30 June 2012 and 30 June 2008. We note a large increase over this period in the frequency of complaints relating to city, district, and regional councils, to the Earthquake Commission, and to the Ministry of Education. We are very interested in these results, and have asked the office for regular updates to build a better picture of which agencies are performing their obligations adequately and those which need to improve their performance.

Ambit of the Ombudsmen

Recent Government policy initiatives such as the mixed-ownership model for state-owned energy companies, the introduction of charter schools, and changes to the State Sector Act 1988 appear to diminish the ambit of the Ombudsmen. The Government has signalled that the Official Information Act and the Ombudsmen Act will not apply to mixed-ownership companies, and charter schools would not be subject to the Official Information Act. The office is worried about these intentions. We consider that these entities should be subject to the Acts in question.
Appendix

Approach to financial review

We met on 5 December 2012 and 30 January 2013 to consider the financial review of the Office of the Ombudsmen. We heard evidence from the Office of the Ombudsmen and received advice from the Office of the Auditor-General.

Committee members

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

Evidence and advice received

Office of the Ombudsmen, Responses to written questions, received 5 December 2012.

Office of the Ombudsmen, Responses to additional questions, received 30 December 2012.


Organisation briefing paper, prepared by committee staff, dated 28 November 2012.
2011/12 financial review of the Ministry of Pacific Island Affairs, the Office of the Clerk of the House of Representatives, Statistics New Zealand, and the State Services Commission

Report of the Government Administration Committee

The Government Administration Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Pacific Island Affairs, the Office of Clerk of the House of Representatives, Statistics New Zealand, and the State Services Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
The Local Government and Environment Committee has conducted the financial review of the 2011/12 performance and current operations of the Parliamentary Commissioner for the Environment, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Eugenie Sage
Deputy Chairperson
The Justice and Electoral Committee has conducted the financial review of the 2011/12 performance and current operations of the Parliamentary Counsel Office and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Tim Macindoe
Chairperson
2011/12 financial review of the Parliamentary Service
Report of the Government Administration Committee

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The Parliamentary Service

Recommendation

The Government Administration Committee has conducted the financial review of the 2011/12 performance and current operations of the Parliamentary Service, and recommends that the House take note of its report.

Introduction

The Parliamentary Service is responsible for providing administrative and support services to the House of Representatives and to members of Parliament, and for administering funding entitlements for parliamentary purposes. According to its statement of intent, the service’s mission is to “Help Parliament get on with the business of Parliament.” The service’s total revenue for 2011/12 was $72.484 million and total expenditure was $70.116 million, resulting in a surplus of $2.386 million. The service also administered non-departmental appropriations for depreciation on the Parliamentary complex and for support for members and parties and salaries, and a multi-year appropriation for the purchase or development of capital assets.

The service received an unqualified audit opinion on its financial statements, and its management control environment was assessed as good by the Office of the Auditor-General. Its financial information and service performance information and associated systems and controls were assessed as needing improvement.

Triennial review of appropriations

The Parliamentary Service Act 2000 requires a review in each parliamentary term of the funding to provide services to the House of Representatives and members of Parliament, and entitlements for parliamentary purposes. This review is conducted by the Appropriations Review Committee, which presents a report containing its findings and recommendations to the Speaker. This report is then considered by the Parliamentary Service Commission.

The fifth triennial review was recently completed, and is currently before the Parliamentary Service Commission for consideration. The report’s major recommendations include a requirement for the Parliamentary Service to find efficiency savings of $1.8 million per annum from the next financial year, a change in the allocation of hours for members’ support staff, a move to three-year budgets, and the promotion of information communications technology across the Parliamentary campus. It said that the service is already well on track to reaching the efficiency savings target. Changes to the allocation of hours for members’ support staff are not proposed to occur until after the 2014 election.

Use of contractors

The service contracts out some of its functions to private companies, including its ICT helpdesk and the cleaning of the complex. From time to time it also employs people on fixed-term contracts in its business units. We note that some staff employed by contractors are paid only slightly above the minimum wage. We heard that the General Manager of the Parliamentary Service was not responsible for the remuneration levels of contracted staff,
which are determined by the contracting firm. The service considers its agreements with contractors to be management not policy issues.

Some of us consider the remuneration of cleaning staff to be inadequate. We asked whether the Speaker could make a policy decision to increase their remuneration, which other ministers can do. We heard that although the provisions in the Parliamentary Service Act 2000 differed slightly in this area from comparable legislation affecting other remuneration, this was possible.

**Members’ satisfaction**

The organisation reports against targets for members’ satisfaction with its provision of services and support. Results were mixed for the 2011/12 financial year; although most specific services were rated favourably, in many cases the overall level of satisfaction was below target. The service believes that members are happy with its delivery of information communications technology and library services, but are not satisfied with the provision of financial services and support staff. It said that recent changes to its financial services and to the recruitment and management of members’ support staff should improve members’ satisfaction. Its annual report sets out what it is doing to improve performance in this area, and its intention to provide a more streamlined service to members. We encourage the service to continue to improve services to members, and we will continue to monitor its performance in this area.

**Transition between forty-ninth and fiftieth Parliaments**

The service cited the transition between Parliaments as one of its achievements for 2011/12. It said that this was accomplished through existing management and organisational structures, whereas previous transitions were managed through temporary election management structures. Members were surveyed to gauge their satisfaction with the support provided. Overall, they were satisfied, but members who were returning after their first term of Parliament were less likely to be satisfied. The organisation thought that these members probably expected a similar level of assistance to what they had received previously, whereas it was somewhat reduced, as the service provided extra support to new members. The service assured us that it had worked closely with members and looked after them.

**Purchase cards**

The service is piloting a new purchase card scheme for members and staff, under which a charge card similar to a credit card is used to purchase work-related goods and services. The associated management system sets controls on the way the cards are used, and ensures prompt payments to vendors. We are encouraged by the progress of the project to date and look forward to updates.
Appendix

Approach to financial review
We met on 5 December 2012 and 30 January 2013 to consider the financial review of the Parliamentary Service. We heard evidence from the Parliamentary Service and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Parliamentary Service, Responses to written questions, dated 5 December 2012.
Parliamentary Service, Responses to additional questions, dated 24 December 2012.
Organisation briefing paper, prepared by committee staff, dated 27 November 2012.
2011/12 financial review of the Ministry for Primary Industries and of the non-departmental appropriations for Vote Agriculture and Forestry, Vote Biosecurity, Vote Fisheries, and for Vote Food Safety

Report of the Primary Production Committee

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Ministry for Primary Industries, and non-departmental appropriations for Vote Agriculture and Forestry, Vote Biosecurity, Vote Fisheries, and for Vote Food Safety

Recommendation
The Primary Production Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry for Primary Industries, and has reviewed the reports on the 2011/12 non-departmental appropriations for Votes Agriculture and Forestry, Biosecurity, Fisheries and Food Safety; the committee recommends that the House take note of its report.

Introduction
The Ministry for Primary Industries works with New Zealand’s agriculture, fisheries, food, and forestry sectors among others to promote sustainable management of New Zealand’s agriculture, forestry, fisheries and biosecurity interests.

The ministry is an amalgamation of the Ministry of Agriculture and Forestry, the New Zealand Food Safety Authority, and the Ministry of Fisheries; it became the Ministry for Primary Industries on 30 April 2012.

Financial performance
In the 2011/12 financial year, the ministry was funded through Votes Agriculture and Forestry, Biosecurity, Fisheries and Food Safety. The ministry’s total revenue was $391.798 million and total expenditure was $377.556 million. The agriculture, food, forestry and fishing industries accounted for 12.6 percent of GDP in the year to 31 March 2012.

The Office of the Auditor-General rated the ministry’s management control environment and financial information systems and controls as “good”, but assessed its service performance information and associated systems and control as “needing improvement”. All the ratings achieved were the same as those in 2010/11.

Non-departmental appropriations
The Vote Agriculture and Forestry non-departmental appropriations expenditure was as follows:

- Afforestation Grant Scheme, $5.257 million.
- Climate change research, $7.993 million.
- Global Research Alliance on Agricultural Greenhouse Gases, $1.678 million.
Primary Growth Partnership, $37.161 million.

Sustainable Farming Fund, $8.104 million.

Water storage and investment proposals, $1.775 million.

The ministry's income from the management of Crown forestry assets was $115.194 million, against expenditure of $95.311 million.

The Vote Biosecurity non-departmental appropriation provides for the Crown’s contribution to the implementation of the Bovine Tuberculosis National Pest Management Strategy; and expenditure was $30.762 million against an appropriation of $30.762 million.

The Vote Fisheries non-departmental appropriation totalled $10.848 million. It provides for the Crown's obligations towards the implementation of the Maori Commercial Aquaculture Claims Settlement Act 2004 and the Maori Commercial Aquaculture Claims Settlement Amendment Act 2011. None of the appropriation was spent, and it has been carried forward to the 2012/13 financial year.

Non-departmental expenditure under Vote Food Safety was $2.086 million, which covered funding for reducing unnecessary barriers to trade; a system for developing and promulgating food standards; the adoption of food standards by the member states; and facilitating sharing of information.

**Performance since merger**

We asked for an update on progress with the merger, and any related issues. We heard that despite some turmoil caused by the large merger-related change programme, the ministry believed that with the merged resources, it is now on track. Since the merger the ministry has accomplished the following:

- A large increase in investment throughout the primary production sector, with a total of $567 million now co-funded under the Primary Growth Partnership.

- Commencement of Irrigation Acceleration Funding aimed at supporting regional-scale rural water infrastructure proposals.

- Delivery of the Government’s aquaculture strategy.


- Completion of a major biosecurity exercise, “Exercise Taurus”, which included an exchange of information with Australian counterparts.

- An effective response to the recent Australian fruit fly incursion.

- The Launch of NAIT (National Animal Identification and Tracing), with 88 percent of animals for processing now being tagged, and work continuing towards full tagging. Initial problems are being worked through, with encouragement for
those farmers reluctant to engage with the project and improvements to call centre operating procedures.

**Information technology**

We asked if the ministry was confident of its IT set-up, especially in view of the merger of three different systems into the new ministry. We observed that many IT programmes in the government sector were “over-promised and under-delivered”. The ministry said it believed that the contractor is delivering on its promises. We heard that the ministry’s goal was to merge HR, filing and finance systems, and to greatly improve the system overall. The ministry expects the remaining legacy upgrades to take some time, continuing through 2013.

The ministry is currently piloting the Joint Border Management System, a collaborative venture with the Customs Service. This $75-million project will commence operations in April or May 2013 and will provide better assistance for the Customs Service and traders.

**Information policy**

We asked what the ministry was doing to ensure that policy proposals are in the best interest of the primary industry sector. The ministry said that it in effect accounts for 70 percent of New Zealand exports, and so can represent the views of the industry energetically in debates about funding, economics, and the use of skills. The merged ministry can put forward primary industry perspectives on food, biosecurity, policy and other subjects with one voice, offering synergies and cost savings. The ministry assured us that it is putting a lot of resources into economic analysis to ensure that ministers received full and accurate information.

**Land management**

The ministry told us that it works with the Department of Conservation on policy matters regarding land tenure and management. National policy statements ensure that DOC, the Crown and regional councils remain reasonable land owners; and there is awareness in the ministry that all parties need to receive good advice on any issues affecting land tenants and regional councils.

**Aquaculture regulation**

The ministry has a role in assessing and regulating the impact of aquaculture projects on fisheries, and we asked how it carries out this role. We heard that the ministry regards aquaculture as a viable and sustainable industry. Recent law reforms have streamlined the assessment process. Previously, if the likely impact was assessed to be too high, an aquaculture project would not proceed; but under new regulations, there is an opportunity to reach agreement with affected parties, and an arbitration service is available.

**Biosecurity and border incursions**

The ministry told us that it aims to prevent border incursions, but accepts it needs to be prepared when some threats inevitably escape detection. It works with industry to determine where biosecurity risks are likely to come from, and sets up systems at the border to deal with them. The Government Industry Agreement for Biosecurity Readiness and Response sets out categories of response to various types of incursions. The agreement
provides an opportunity for industry groups to identify the biosecurity risks of greatest concern to them, and to jointly invest with government to better manage those risks through preparedness and response activities. We were told that despite the initial reluctance of industry to sign agreements with the ministry, more industry groups were now seeing the benefits of cooperation.

We heard that if a potential risk is not causing problems overseas, it is hard to decide what specific type of response is likely to be effective in New Zealand. If the threat escapes detection at the border, the ministry has generic response systems that prepare it to react swiftly. The extra resources afforded by the merger are sufficient, but the ministry acknowledges it now needs to develop its expertise. Cooperation with AsureQuality offers the ministry the resources to act faster and more efficiently against incursions than, for example, it was able to do against the recent Australian Fruit fly incursion. Exercise Taurus provided an important opportunity to learn from other agencies such as the Police, the Customs Service, and Australian counterparts.

We learned that since the merger the ministry is multi-training compliance staff members so that they can operate as NAIT, fisheries, biosecurity, and animal welfare officers.

Milk industry regulations

We asked what suppliers thought about recent changes to the milk industry regulations, and we were told that there had been a very mixed response. The ministry’s view, however, was that the right balance had been struck. All the companies in the industry were investing in growth, indicating confidence in its future.

Irrigation

We asked the ministry about the challenges arising from the aspirations of the Irrigation Acceleration Fund and the Fresh Start for Water programme. We were told that water was the ministry’s second priority after biosecurity, and that a lot of its resources were allocated to water issues. Expert analysis took into account the full economic impact of decisions in this area. The fund’s primary purpose is to support regional-scale rural water infrastructure proposals. A number of regional councils are working with the ministry on these economic analyses, seeking to secure a sustainable water supply and to maintain biodiversity. The ministry considers the reforms being undertaken essential to productivity, and industry and councils are increasingly aware of their own responsibilities in this area, as evidenced, for example, by the dairy industry’s sustainability strategy.

We suggested that a survey carried out three years ago on rural and urban views on water issues should be repeated in order to ascertain points of real conflict or areas of vulnerability. The ministry agreed that several issues such as water resources, pollution from farms, public recreation areas and water quality remained unresolved and a new survey in 2013 would be a good idea. Before the Irrigation Acceleration Fund offers support to irrigation schemes, the ministry must engage in community consultation and undertake commercial analysis. Well-designed schemes that take account of nutrient issues and public recreation values and are soundly engineered help to reduce rural and urban differences over water management. Discussions between the ministry, regional councils and the public will in future help to ensure that all stakeholders understand the economic impacts of irrigation schemes, and fully understand any issues surrounding these projects.
Greenhouse gas emissions

We asked for an update on greenhouse gas emissions from agriculture in New Zealand, and suggested that there was much public misapprehension and ill-informed opinion on this issue, which risked devaluing agricultural production at home and internationally. We heard that reporting greenhouse gas emissions is a ministry responsibility under the Kyoto protocol, on the basis of information supplied by the Emissions Trading Scheme and the agricultural sector. The science is clear on the issue of greenhouse gas emission measurement and we were told that the New Zealand measuring model is the best in the world. New Zealand is also a leading player in the Global Greenhouse Gas Research Alliance and other countries are well aware of New Zealand’s leadership in this field.
Appendix

Approach to this financial review
We met on 29 November 2012 and 31 January 2013 to consider the financial review of the Ministry for Primary Industries and of non-departmental appropriations for Votes Agriculture and Forestry, Biosecurity, Fisheries, and Food Safety. Evidence was heard from 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
Minister for Food Safety, Response to committee questions, received 12 December 2012.

Minister for Primary Industries, Response to committee questions, received 18 December 2012.

Ministry for Primary Industries, Responses to additional questions, received 21 December 2012.

Ministry for Primary Industries, Responses to questions, received 26 November 2012.

Office of the Auditor-General, Briefing on the Ministry for Primary Industries, and on the non-departmental appropriations for Votes Agriculture and Forestry, Biosecurity, Fisheries, and Food Safety, dated 29 November 2012.

Organisation briefing paper, prepared by committee staff, dated 26 November 2012.

Vote briefing paper on the non-departmental appropriation for Vote Agriculture and Forestry, prepared by committee staff, dated 26 November 2012.

Vote briefing paper on the non-departmental appropriation for Vote Biosecurity, prepared by committee staff, dated 26 November 2012.

Vote briefing paper on the non-departmental appropriation for Vote Fisheries, prepared by committee staff, dated 26 November 2012.

Vote briefing paper on the non-departmental appropriation for Vote Food Safety, prepared by committee staff, dated 26 November 2012.
2011/12 financial review of the Department of the Prime Minister and Cabinet

Report of the Government Administration Committee

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Department of the Prime Minister and Cabinet

Recommendation

The Government Administration Committee has conducted the financial review of the 2011/12 performance and current operations of the Department of the Prime Minister and Cabinet (DPMC), and recommends that the House take note of its report.

Introduction

The Department of the Prime Minister and Cabinet’s core role is the provision of impartial advice and support to the Executive (the Prime Minister, the Governor-General, and the Cabinet). It also is one of three central agencies responsible for coordinating and managing public sector performance, with a key role in coordinating New Zealand’s intelligence system, national security priorities, and crisis management.

The department is funded through Vote Prime Minister and Cabinet. Total revenue in 2011/12 was $17.566 million and total expenditure was $17.175 million, resulting in a surplus of $391,000.

Central Agencies Shared Services

Central Agencies Shared Services (CASS) was established in March 2012. It provides back-office corporate services to the three central agencies—DPMC, the State Services Commission, and the Treasury. CASS seeks to reduce duplication between the three agencies, strengthen performance, increase resilience across specialist roles, and make some efficiency improvements.

DPMC now pays more for back-office services than it did before the advent of CASS, but expects to see efficiency gains across the sector in the near future. We were told that these services were more robust and better than what was available previously.

Leadership of the intelligence community

The department’s Intelligence Coordination Group coordinates and leads the New Zealand intelligence community, which includes the three central intelligence agencies—the New Zealand Security Intelligence Service, the Government Communications Security Bureau, and the National Assessments Bureau—and the intelligence branches of the defence force, police, and customs service. The department provides overall governance of the intelligence sector and is responsible for setting budgets and priorities and shepherding shared services in the intelligence community, but is not responsible for the operations of the individual agencies or branches.

In the light of recent events involving Kim Dotcom, we asked about the department’s responsibility for briefing the Prime Minister on intelligence matters. We heard that the directors of the pertinent individual agencies were responsible for conducting briefings. The chief executive of the department attends these briefings on occasion, but they are more usually attended by an agency director and the Prime Minister. The department was not aware of the issues related to Kim Dotcom until after the police raided his home. We were told that this did not represent a system-level failure, as it would be inappropriate for the department to be involved with agencies at the operational level.
Ministerial conduct

The Cabinet Office, located within the department, provides secretarial services and advice to the Prime Minister and to Cabinet. The Cabinet Manual sets out guidance on ministerial conduct, and ministers ultimately have to retain the confidence of the Prime Minister. We asked how the Cabinet Office responds when a Minister is suspected of violating the high standards expected of those in this position. We heard that the Cabinet Office’s role would be to remind the Prime Minister of the guidance set out in the Cabinet Manual, but that it would be up to the Prime Minister to decide whether a minister should retain his or her warrant.

We asked whether anyone in the department had read the police report on its inquiry into the conduct of the Hon John Banks. We were told that the department was certain that nobody in the Cabinet Office or the wider department had read it, because it referred to his conduct before Mr Banks was issued with a ministerial warrant.

Better Public Services

Although one of the department’s core objectives in recent years has been to improve state-sector performance, this objective was not included in the department’s most recent statement of intent. We asked whether this omission signalled a change in emphasis. We were told that improving state sector performance still formed part of the department’s core role and was a priority.

The three central agencies jointly lead the implementation of Better Public Services, an initiative to improve public-sector performance. The Better Public Services Advisory Group Report, published in November 2011, made a number of recommendations to improve results, deliver better services and value for money, and strengthen leadership.

In March 2012 the Government announced 10 Better Public Services results for New Zealanders. We asked the department for an update on progress towards these goals to date. We heard that Treasury and the State Services Commission have supported legislative reform to align the law with Government priorities. Cabinet has designated three “functional leads”: one chief executive responsible for Government procurement, one for Government property, and one for Government information and communications technology. The department reported that it was already seeing efficiency gains in procurement and Government property, although there have been issues in the information communications technology arena. It said that some services are now more contestable, which has resulted in better value for money. We are pleased with progress to date on this initiative.

Gender balance

The department has a good overall ratio of male to female staff. However, female staff are overrepresented in administration, information management roles, and domestic staff at Government House, and are under-represented at the managerial level and also in the intelligence analyst role. The department undertook a pay equity review, which found no gender pay gap in roles undertaken by both male and female staff. The department said that ideally it would like the gender profile in all roles to reflect the general population more accurately, particularly the intelligence analyst role, but that all appointments were made on merit.
Appendix

Approach to financial review
We met on 12 December 2012 and 30 January 2013 to consider the financial review of the Department of the Prime Minister and Cabinet. We heard evidence from the Department of the Prime Minister and Cabinet and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Department of the Prime Minister and Cabinet, Responses to written questions, received 12 December 2012.
Department of the Prime Minister and Cabinet, Responses to additional questions, received 24 December 2012.
Office of the Auditor-General, Briefing on the Department of the Prime Minister and Cabinet, dated 5 December 2012.
Organisation briefing paper, prepared by committee staff, dated 26 November 2012.
2011/12 financial review of the Ministry of Science and Innovation

Report of the Education and Science Committee

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Appendix 5
Ministry of Science and Innovation

Recomendation

The Education and Science Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Science and Innovation, and recommends that the House take note of its report.

Introduction

The Ministry of Science and Innovation was established on 1 November 2010, integrating the Ministry of Research, Science and Technology and the Foundation for Research, Science and Technology. The new ministry began operations on 1 February 2011. It invested nearly $720 million dollars of non-departmental expenditure during the year under review. It also focussed on projects reflecting the innovation aspect of the business growth agenda, and in particular on the development of Callaghan Innovation.

The ministry was disestablished on 30 June 2012, and its functions were incorporated into the newly-established Ministry of Business, Innovation and Employment from 1 July 2012. In conducting this financial review, we heard evidence from the chief executive of the new ministry.

Callaghan Innovation

One of the key policy operations of the Ministry of Science and Innovation was to establish a new advanced technology institute, Callaghan Innovation. The functions of Industrial Research Limited have been incorporated into this new organisation, which is intended as a one-stop shop for businesses hoping to conduct research with government assistance with the intention of developing commercial products. We heard that the new ministry wants to ensure that the institute undertakes its intended role as an intermediary, rather than as a provider of primary research. This is a key difference between Callaghan Innovation and the Crown Research Institutes. Industrial Research Limited is being moved into Callaghan Innovation, and we heard that the new ministry is taking steps to ensure that there is no resultant loss of research capacity. Once Callaghan Innovation has been fully established, a review will determine which parts of Industrial Research Limited will serve the purposes of Callaghan Innovation, and which parts should be moved into universities or Crown Research Institutes where they will fit more naturally.

The new ministry was confident that Callaghan Innovation will be ready to launch from 1 February 2013, but it cautioned that people should be realistic about what the institute will be able to offer immediately. We were assured that the institute would be able to meet the needs of businesses as it matures; but it was pointed out that while Callaghan Innovation offers support to businesses, it is ultimately the businesses’ responsibility to commercialise resulting products.

We heard that Callaghan Innovation will not be responsible for the administration of science funding, which will remain with the Ministry of Business, Innovation and Employment. Callaghan Innovation will be responsible for business research and development funding, but this is separate from its science funding role, and we were told that Crown Research Institutes currently perform a similar role, administering funding and
deciding whether to subcontract research. We were told that Callaghan Innovation will be transparent in its funding.

**Interaction with business**

We heard that the new ministry was established to help streamline the Government’s interface with business. Upon its establishment, it conducted a first-principles review of all the research and development programmes offered by the ministry to business, exploring ways to increase leverage from business investment. The review found that the technology transfer voucher system, which is targeted at businesses in high-value manufacturing and services, was not achieving the expected application rate. The ministry sought to simplify the onerous application process, which it found had discouraged some firms from applying. We were told that these improvements, along with a reduction in the required level of co-funding, resulted in an increase in applications.

**National science challenges**

The Government launched the National Science Challenges in Budget 2012, allocating $60 million of new funding over four years, to determine which issues are most important to New Zealand; the Government will take a targeted, cross-government approach to addressing them. The ministry is conducting a public engagement process to involve New Zealanders in considering these challenges, and to raise awareness of the contribution science makes to the economy. The ministry has also held workshops throughout the science sector to establish what the challenges should be, attracting over 500 participants. What the National Science Challenges will be is due to be decided in April 2013, after which a timeline will be drafted for the research. The ministry is already considering how the National Science Challenges can be incorporated into the research being conducted by the various Crown Research Institutes.

**Building science capability**

We asked what the new ministry was doing to continue the former ministry’s work to attract and retain world-class scientists, particularly those embarking on their research. Some of us expressed concern about the continuing scarcity of early-career post-doctoral funding and sought further information from officials. The new ministry has been trying to encourage scientists to conduct research in New Zealand by targeting the Rutherford Discovery Fellowships to meet their needs. The fellowships were introduced to fill a gap in the funding of research conducted by researchers in the early years of their career. Such researchers had found it difficult to win contestable funding against established researchers, so the separate funding pool was established, and the fellowships targeted at researchers who were three to eight years into their careers. The ministry found that this change has had the desired effect, with more researchers in the early years of their careers picking up Rutherford Fellowships in the latest round of funding. The fellowships provide a flexible system, that allows for both investigator-led and project-led research. We heard that the fellowships have also been helpful in winning back scientists from overseas.

**Impact goal**

The new ministry told us it is working to ensure the Government meets its target of doubling the value of outcomes to the economy attributable to science and innovation over five years. We heard that this target was intended to be aspirational, and progress will be measured by a performance framework to be established by mid-2013. The ministry intends to establish a system for reviewing the economic contribution from different
angles, for example by institution, by sector, or by theme, and also examining matters such as capability. The ministry hopes to make this information available online.
Appendix

Approach to financial review
We met on 12 December 2012 and 30 January 2013 to consider the financial review of the Ministry of Science and Innovation. Evidence was heard from the Ministry of Business, Innovation and Employment and advice received from the Office of the Auditor-General.

Committee members
Nikki Kaye (Chairperson)
Catherine Delahunty
Hon Jo Goodhew
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O’Connor
Scott Simpson
Dr Megan Woods

Evidence and advice received
Ministry of Business, Innovation and Employment, responses to written questions 1 to 115, received 7 December 2012.

Ministry of Business, Innovation and Employment, responses to written questions 116 to 120, received 16 January 2013.

Office of the Auditor-General, Briefing on the Ministry of Science and Innovation, dated 12 December 2012.

Organisation briefing paper, prepared by committee staff, dated 12 December 2012.
2011/12 financial review of the Serious Fraud Office

Report of the Law and Order Committee

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Serious Fraud Office

Recommendation

The Law and Order Committee has conducted the financial review of the 2011/12 performance and current operations of the Serious Fraud Office and recommends that the House take note of its report.

Introduction

The Serious Fraud Office was established as an operational department by the Serious Fraud Office Act 1990. It is a specialist law enforcement agency whose purpose is to detect, investigate, and prosecute cases of serious and complex financial crime.

Revenue for the 2011/12 year was $7.59 million, and expenditure was $7.89 million, resulting in a deficit of $300,000. Its chief executive during this period was Adam Feeley, and Simon McArley is currently the acting chief executive.

Cost of economic crime

We asked about the cost of economic crime to New Zealand’s economy. While the exact cost is not known, the office recognises the scale of the issue. In many cases, the money is not lost completely; it has been redistributed to other parts of the economy for which it was not intended, such as the property market. We heard that the office has been contributing to a whole-of-Government initiative to describe the “fraud landscape” in New Zealand and develop a methodology for determining the cost of economic crime. The report is intended to be completed in the first quarter of 2013, and we look forward to reading it, if it is publicly released.

We heard that the office is adjusting to a focus on prevention and early intervention. Such strategies involve using the available data and intelligence to reduce the total impact of economic crime. We intend to monitor the success of this approach.

Christchurch

Data collected after other natural disasters worldwide suggests that between 7 and 15 per cent of rebuilding costs are typically lost through fraudulent behaviour. The Christchurch rebuild is estimated to cost approximately $30 billion, of which the office believes $1 billion could be lost. Fraud can be committed in relation to charitable assistance, and fraudulent insurance claims, for example.

We expect fraud related to the Christchurch earthquake recovery to be a growing area of work for the office, and asked how it is preparing for this eventuality. We heard that it expects to maintain its prevention and early intervention strategy, and to build intelligence capability. It will analyse data from insurance claims and reconstruction costs, for example, in search of irregularities. The office has already initiated some investigations into such matters. We intend to follow this matter closely.

Resources

Between 2009 and 2011, complaints increased by nearly 250 per cent, and the number of investigations more than doubled, while the office’s budget increased only from $7 million
to $8 million. We asked how the office had addressed this disproportion between its workload and its resources and funding. We heard that it focussed on making its practices more efficient and implementing the early and preventative intervention strategy. However, the office noted that the demand to address crime will always exceed what the Government can pay for.

**Relationships with other agencies**

The office is required to work with international agencies to resolve many serious fraud cases. For example, an offence may be committed in New Zealand but the proceeds often go overseas, which requires international co-operation to resolve. In this situation, the office would often work with the counterpart agency in another jurisdiction. We also heard that it will host the inaugural Economic Crime Agencies Network conference in Auckland in February 2013, where international crime agencies will come together to share ideas.
Appendix

Approach to financial review
We met on 28 November 2012 and 30 January 2013 to consider the financial review of the Serious Fraud Office. Evidence was heard from 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
Ian McKelevie
Mark Mitchell
Richard Prosser
Jami-Lee Ross
Lindsay Tisch

Evidence and advice received
Office of the Auditor-General, Briefing on the Serious Fraud Office, dated 28 November 2012.

Organisation briefing paper, prepared by committee staff, dated 15 November 2012.
Serious Fraud Office, Responses to questions, received 19 November 2012.
Serious Fraud Office, Responses to additional questions, received 14 December 2012.
2011/12 financial review of the Ministry of Social Development, and of the non-departmental appropriations for Vote Social Development and for Vote Youth Development

Report of the Social Services Committee

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Ministry of Social Development, and non-departmental appropriations for Vote Social Development, and for Vote Youth Development

Recommendation

The Social Services Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Social Development and of the non-departmental appropriations for Vote Social Development, and for Vote Youth Development, and recommends that the House take note of its report.

Introduction

The Ministry of Social Development is New Zealand's largest government department. Its responsibilities include the care and protection of vulnerable children and young people, employment, income support, superannuation services, funding to community service providers, social policy and advice to the Government, and student allowances and loans. It provides sector leadership in these areas, and helps the Government to set priorities and to coordinate the actions of other agencies and organisations, and communities and iwi.

The ministry incorporates the Office for Senior Citizens, the Office for Disability Issues, and the Ministry of Youth Affairs. It is the monitoring department for the Office of the Children’s Commissioner, the Families Commission, the Social Workers Registration Board, and the New Zealand Artificial Limb Board.

In October 2011 a new chief executive was appointed for a five-year term.

In 2011/12 the ministry’s total revenue was $1.171 billion and its total expenditure was $1.156 billion, resulting in a surplus of nearly $15 million. The ministry received a “very good” rating from the Office of the Auditor General for its management and control environment. It received a “good” rating for its financial information systems and controls and its service performance information and controls. Improvements have been recommended in these two areas and we expect progress to be made on these improvements before the next financial review.

The two non-departmental appropriations funded by Vote Youth Development are Services for Young People and the Youth Development Partnership Fund. Vote Social Development funds seven non-departmental appropriations: Connected Communities, Counselling and Rehabilitation Services, Education and Prevention Services, Family Wellbeing Services, Strong Families, Vocational Services for People with Disabilities, and Youth Transition Services. Other non-departmental expenses are Employment Assistance and Out of School Care Programmes. Total non-departmental expenditure was $20.488 billion, against non-departmental appropriations of $20.878 billion. New Zealand Superannuation accounted for $9.583 billion of non-departmental expenditure.
Protecting and supporting vulnerable children

White Paper for Vulnerable Children

The White Paper for Vulnerable Children was released on 11 October 2012. It followed last year’s Green Paper, which attracted over 10,000 public submissions. With a Children’s Action Plan, the white paper sets out changes to the child protection system in New Zealand.

The central proposal in the white paper is the establishment of a Vulnerable Kids Information System (ViKi) database to hold information on up to 30,000 vulnerable children for use by government agencies and frontline professionals. The aim is to improve information-sharing between agencies in order to improve outcomes for vulnerable children in New Zealand. We heard that the white paper emphasises that security of the database will be “an absolute priority”. An Expert Advisory Group on Information Security, which will ensure that the system adheres to best practice, will be led by the Rt Hon Sir Anand Satyanand.

Some of us remained concerned that the scope of the white paper is too narrow and does not substantively address issues like child poverty.

Children’s teams

We are pleased to learn that new children’s teams are being created using resources and personnel from the ministries of Social Development, Justice, Education, Health, and the New Zealand Police, with oversight by the Ministry of Social Development. The teams will be trialled in Rotorua and Whangarei; and about 25 regional teams will use a risk-prediction tool being developed by the University of Auckland to identify children at risk.

Regional Children’s Directors will be appointed by the end of 2013. The directors’ role will include responsibility for contracts with social-sector service providers in the region, coordinating services for vulnerable children, and reporting on the outcomes in the region publicly and to Ministers. We agree with the ministry that regional ownership of the teams is a crucial element in this trial, because the evidence is that local solutions work best to meet local needs.

Gateway assessment

Gateway assessments of children and young people coming to the attention of Child, Youth and Family involve full examination of their physical health, mental health, and education needs. The operation of the Gateway programme in Child, Youth and Family sites and district health boards found on average 3.2 health and education “needs” per child seen, including behavioural issues and serious medical problems. We commend the ministry on the successful roll-out of the programme, which has prioritised the health and education of some of New Zealand’s most vulnerable children.

Child, Youth, and Family

Child, Youth, and Family responded to over 150,000 notifications in the year to June. The ministry acknowledges that the number of notifications has increased 71 percent in the last five years. It anticipates it will continue to rise with the introduction of the new Child Protect telephone line, which is expected to be in place by the end of 2014. It attributes the increase in part to greater exposure of these issues and the growing propensity to raise them, which can be taken as a positive sign. We expect child protection to be a focus for
the ministry over the coming year, but some of us remain concerned about the adequacy of resources to deal with the increase in demand for Child, Youth and Family services.

Manual reviews record 71 cases of abuse while in Child, Youth, and Family care in the year to June 2011 and 23 in the year to June 2012. We heard that a data collection methodology has been established and that figures will now be produced on an annual basis. While it was suggested that the data should be collected electronically as a matter of course, the ministry told us that the manual review was a better way to examine the process for approving caregivers and ways of supporting them.

**Welfare reform programme**

The ministry began what it called “a programme of fundamental welfare reform” in 2011/12. Legislation to support the programme has been progressed, including the Social Security (Youth Support and Work Focus) Amendment Act 2012 and the Social Security (Benefit Categories and Work Focus) Amendment Bill.

Policy reforms under the welfare reform programme affecting about 80,000 beneficiaries came into force on 15 October 2012. In July 2013 about 130,000 people are expected to move onto the new Job Seeker Support benefit.

Some of us are worried about the implications for children of sanctions on their parents who are on a benefit and asked if this had been evaluated. We heard that the sanctions would cut benefits by only 50 percent, with a view to mitigating any such impact, and that every effort would be made with affected individuals to ensure that cutting benefits was a last resort. We also heard that obligations under the United Nations Convention on the Rights of the Child had been taken into account in developing the policy, although the ministry argued that “sometimes taking the best interests of the child into account means that you have to take more drastic action with respect to the parents.”

**Youth Service**

The first stage of the welfare reform programme Youth Service went live on 20 August 2012. New sanctions and obligations have been introduced for over 3,000 young people aged 16 and 17 who require financial support and for teen parents up to 18 years old.

Case management has been outsourced to external providers, and a new Youth Service Support Unit has been established to work with providers and to administer the client payment regime. The ministry’s statement of intent says that young people at risk of going on or remaining on welfare long term will receive “wrap-around support”.

Since August 2012, 3,000 clients have been transferred to the youth or young parent payment. Providers are working with about 1,500 youth payment clients and 1,200 young parent payment clients. The programme will be evaluated in 2013.

The ministry did not meet its target for 2011/12 of reducing from 51.3 percent to 35 percent the proportion of young people still requiring a benefit after participating in a Work for You seminar. The proportion decreased by 4.7 percent to 46.6 percent. The ministry attributed the shortfall to the high proportion of participants undertaking the Youth Opportunities package and the enhanced Limited Service Volunteers programme. We expect to be updated on progress against this target at the next financial review.
Investment approach to welfare

A major focus for the ministry has been developing the Investment Approach for the benefit system. This programme seeks to reduce liability by helping the ministry to focus services for the greatest impact.

The ministry has established the Work and Income Board to advise on the design, delivery, and implementation of the Investment Approach, and is confident that it can deliver the required changes. Performance measures for the Investment Approach will be included in the statement of intent for 2013/14.

Better Public Services

Most of us are pleased that, in line with the Government’s push to lower costs substantially, the ministry has coped well with an aggressive operational and policy work programme over the last twelve months. Despite the pressure, the chief executive informed us good progress has been made towards the four Better Public Services targets the ministry is responsible for coordinating through the Social Sector Chief Executives’ Forum, which Cabinet has also directed the chief executive to chair. The targets are reducing the number of people who have been on a working-age benefit for more than 12 months, increasing participation in early childhood education and infant immunisation rates, and reducing the incidence of rheumatic fever and the number of assaults on children.

Cross-agency efforts against welfare dependency

Through the Social Sector Chief Executive’s Forum, the ministry is responsible for co-ordinating the cross-agency effort to reduce the number of people receiving working-age benefits continuously for more than 12 months by 30 percent (from 78,000 to 55,000 over the next five years). We understand that the ministry will be reporting quarterly against this target on the State Services Commission website.

Investing in Services for Outcomes

The Investing in Services for Outcomes programme aims to rationalise and simplify funding and contracting throughout the ministry, eliminating duplication. It is expected to “transform” the non-governmental organisation sector, removing gaps and duplications in services and remedying lack of collaboration with and engagement of NGOs. The programme will work to decide which services the government wishes to purchase, support NGOs’ capability and development, and develop a new structure for contracting NGOs.

We heard that the ministry has received feedback from community providers to the effect that there was a need “to do better collectively”, and that there is some doubt about the government’s ability to change. The challenge for the ministry over the next year will be to demonstrate the effectiveness of the new approach, and we look forward to being updated at the next review.

Pasifika agencies

We asked about the ministry’s engagement with Pasifika community agencies. While we understand that the ministry does not keep information about whether providers aim their services specifically at Pasifika peoples, we note that the annual report refers to the launch of the Pacific Conceptual Framework for Family Violence, Nga Vaka o Kaiga Tapu, which will be used to guide the development of family violence training for Pacific practitioners.
WINZ kiosk security breaches

On 14 October 2012, the ministry disclosed that information that should have been secure had been accessed from a WINZ “kiosk” on the ministry’s premises. In response to the breach, the ministry commissioned an Independent Review of Information Systems Security by Deloitte. The review found three primary causes of the security weakness: security was not considered adequately in the design and implementation of the kiosks; the exposures identified through independent security testing were not appropriately addressed and followed up; and the risk management processes did not communicate security exposures to management effectively or ensure appropriate corrective actions were taken.

While some of us are encouraged that the review found that two of the three primary causes were not evident throughout the ministry, we note that Deloitte concluded there had been “a failure” by people with responsibility for “escalating” the risk and its management to “appropriate levels.” However, we were assured that feedback from staff to Deloitte indicated “a very strong awareness of information security and a strong culture around it”; and that the ministry has absolute confidence in the changes made in response to the security breach, including the establishment of a Chief Information Security Officer role and heightened attention at senior level to information security.

Some of us remain concerned that the Deloitte report and the ministry’s response did not go far enough to give people the assurance they need that their private information is handled appropriately.

Debt to the Crown

It has been established that the total accumulated Crown debt for overpayments and fraudulent payments account for about $600 million. This amount has increased with the size of the beneficiary population. Prosecutions have resulted in $23 million being owed to the Crown for the 2011/12 year, and recovery is extremely slow and long. We are pleased therefore that the Government is considering a new range of policies to increase the rate of collection and minimise opportunities for fraud.

Non-departmental appropriations for Vote Social Development and for Vote Youth Development

We note there has been some improvement in reporting on the non-departmental appropriations, but that reports for Vote Social Development non-departmental appropriations can be further improved by developing a wider range of performance measures. We understand that the ministry is working with the Treasury, State Services Commission, Office of the Auditor-General, and Audit New Zealand to review and discuss all performance information, and that the ministry has introduced 17 new non-departmental appropriation measures between 2011/12 and 2012/13. We note that steps have been taken to improve the quality of reporting, but as this has been an on-going issue for two financial years we expect to see this issue rectified by the next financial review.
Appendix

Approach to financial review
We met on Wednesday 28 November 2012 and 30 January 2013 to consider the financial review of the Ministry of Social Development. Evidence was heard from 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 Simon Bridges
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

Evidence and advice received
Ministry of Social Development, Responses to written questions, received 27 November and 19 December 2012, and 18 January 2013.

2011/12 financial review of the Treasury and of the financial statements of the Government of New Zealand for the year ended 30 June 2012

Report of the Finance and Expenditure Committee

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The Treasury and the financial statements of the Government of New Zealand for the year ended 30 June 2012

Recommendation

The Finance and Expenditure Committee has conducted the financial review of the 2011/12 performance and current operations of the Treasury and of the financial statements of the Government of New Zealand for the year ended 30 June 2012, and recommends that the House take note of its report.

Introduction

We have combined our report on the Government’s annual financial statements with the financial review of the Treasury. We held a joint hearing with the Minister of Finance, the Hon Bill English, to discuss the annual financial statements, and the Treasury to discuss the financial review of the department. The transcript of our hearing of evidence is appended to this report.

Fiscal position for year ended 30 June 2012

The Government’s financial statements for the year ended 30 June 2012 show an operating deficit before gains and losses of $9.2 billion, half the previous year’s $18.4 billion. The improvement reflects higher tax revenue and lower core Crown expenses, mainly because of significantly lower earthquake costs than the previous year. If earthquake costs were excluded, the deficit would have been $7.3 billion in 2011/12 and $9.3 billion in 2010/11.

After taking gains and losses into account, however, the overall deficit increased in 2011/12 to $14.9 billion, compared with $13.4 billion in 2010/11. The main component was a significant increase in the present-day value of the long-term liabilities of the Accident Compensation Corporation and Government Superannuation Fund, partly as a result of lower interest rates, resulting in a loss of $6.8 billion being recorded.

The Crown’s net worth declined to $59.3 billion as at 30 June 2012, compared with $80.6 billion a year earlier. Net Crown debt increased from $40 billion to $50.7 billion.

The Government’s tax revenue rose by $3.5 billion over the past year as the recovering economy improved consumption and wages. Core Crown expenses fell $1.4 billion relative to the year before, partly because of one-off factors such as a reduced provision for the emissions trading scheme to reflect the much lower price of carbon. We discuss below two of the major items in 2011/12: the costs associated with the Canterbury earthquakes, and an accounting adjustment to the value of the KiwiRail network.

Canterbury earthquake costs

Although the net costs to the Government from the Canterbury earthquakes are less this year—$1.9 billion compared with $9.1 billion in 2010/11—the full cost remains very hard to estimate. The Auditor-General’s audit report draws attention to the uncertainties, and says that the Treasury has detailed them appropriately in note 30 to the financial statements. A major area of uncertainty is the Government’s share of costs for restoring
local authority infrastructure damaged by the earthquakes. There are also uncertainties inherent in estimating the provision for the Government’s purchase of red-zone properties, and in estimating outstanding claims on the Earthquake Commission and Southern Response Earthquake Services Limited (formerly AMI), and the amounts they will recover from reinsurers.

Restructuring of KiwiRail

The Government’s decision to restructure KiwiRail and re-designate it a profit-oriented rather than public-benefit entity has led to a major expense—$1.7 billion—being recorded in the 2011/12 financial statements. In total, the value of the rail network has been written down by $6.6 billion, on the basis of the cash flows these assets are expected to generate for the new profit-oriented entity. Apart from the expense against the Government’s accounts, the balance of the impairment ($4.9 billion) has been written down against a revaluation reserve. The Office of the Auditor-General reports that it is satisfied that the impairment has been appropriately accounted for. It considers it fitting that the part of the rail network that provides metro passenger services continues to be accounted for in the Government’s financial statements on the basis of the public benefit these assets provide, rather than their expected cash flows.

Fiscal strategy

Putting the financial statements into context, the Minister of Finance said the Government aims to strike a balance between building a competitive economy for the longer term and maintaining funding for public services to help manage New Zealand through the recession. He believes it has the balance right, but emphasised that this approach has entailed running large deficits, increasing Government debt significantly, which cannot continue indefinitely. The Government is therefore focusing on controlling new spending and improving the quality of existing spending. It has less control over revenue, however, as it tends to fluctuate according to global conditions.

Noting that the US President’s former budget adviser recently singled out New Zealand as having the best mix of short-term stimulus and long-term fiscal consolidation, the minister commented that the balance was not entirely a policy choice, but also the result of a unique set of circumstances. Rebuilding after the Canterbury earthquakes will constitute a massive stimulus project which will support growth in the economy for several years, financed from a mixture of past deficits, borrowings, and overseas reinsurers.

The Government believes the economy remains on track overall for moderate growth of 2 to 3 percent per annum—worse than some countries, the Minister conceded, but better than others. He expects to see “patchy and somewhat grumpy growth” for a while yet, however, with results fluctuating from quarter to quarter. This fluctuation was evident in recent unemployment data, he noted, underscoring the importance of the steps being taken to encourage businesses to create jobs. The Government’s strategy for the next three to five years includes measures to remove impediments to business investment (including changes to the way water and other resources are managed), and extensive public infrastructure investment in the electricity grid, ultrafast broadband, the road network, and the rebuilding of Christchurch.

Policy settings

Some of us consider that changes are needed in the Government’s macroeconomic policy settings to address growth, the external deficit, and the rise in unemployment, which are
clearly of concern. The Minister said that policy settings are constantly under review, as reality often turns out differently from forecasts in unexpected ways, especially over the past four or five years. He said the Government is open to revising its settings in the light of consistent evidence, but questioned whether any recent data such as the quarterly unemployment figures represents a significant shift that requires a policy response. If there were evidence of such a shift, he noted, there would still be the question of what policy change could make a difference. He accepts that there is scope for discussion about the nuances of policies, but sees no easy options for quickly creating thousands more jobs or substantially changing the economy’s performance.

Regarding suggestions that New Zealand should adopt quantitative easing or change the Reserve Bank’s policy targets, the Minister said the Government is not persuaded these would make a difference. He said the Government is open to ideas from international forums and lessons from experience (for example it is working on the possibility of using macro-prudential tools to assist monetary policy), but continues to believe that the most effective approach will be basic economic policies focused on productivity and competitiveness.

**Return to surplus**

The Minister reaffirmed the Government’s commitment to the target of returning its operating balance to surplus by 2014/15. It needs to do so, he said, in order to meet its debt repayment obligations, resume contributions to the New Zealand Superannuation Fund, and increase its investment in priority public services. We asked him to clarify the target, as the Government’s operating balance is affected considerably by asset revaluations, and by changes in the discount rates used to value the Crown’s long-term liabilities. The Minister said that the target refers to OBEGAL (the operating balance before gains and losses).

**Expenditure**

We note that balancing the budget by 2014/15 will entail keeping growth in core Crown spending to about 2 percent per annum. This will be a challenge considering that spending has grown by 8 percent on average over the past decade. The Minister said he is reasonably confident the reduction can be sustained because of the focus on reducing the long-term drivers of spending.

Government departments are now working to four-year rather than annual budget plans, giving them longer-term certainty as to their funding and allowing them to focus on reducing costs progressively while maintaining services. The Government sees this as preferable to a cycle of slashing budgets in the short term, and being forced to spend later when public services start to suffer. The Minister observed that “what works for the community works for the books”. By way of example, he said that a focus on reducing reoffending is starting to create a positive cycle of lower crime rates and slower growth in law and order costs—previously one of the fastest-rising areas of government spending.

New Zealand has not undergone the drastic cuts in government spending that several other countries, including the UK, have made over the past few years, and the Government expects to be able to maintain a more moderate adjustment. One reason is that New Zealand entered the recession with relatively low government debt compared with other countries. Although debt has increased as rapidly here as elsewhere over the past few years,
the lower starting point has reduced the pressure for the Government to rein in the deficits that have been helping to support the economy through the difficult period.

The Minister told us that another reason was the Government’s decision to set a trajectory for returning to surplus by focusing on the factors that drive costs over the longer term, rather than targeting short-term cost savings as other countries, including Australia, have done. This has meant a gradual adjustment—who 2014/15, the Government will have run seven years of deficits—but one which should be sustainable.

Revenue

While the Government can control its spending to a point, it has less control over revenue, which is affected by global conditions. This was evident in the recently-published accounts for the September quarter, with lower core Crown tax revenue and interest earnings leaving the deficit for those three months $449 million bigger than forecast.

We asked whether problems with the Inland Revenue Department’s FIRST computer system are limiting tax revenue, and what its replacement will cost. We recall a public comment by the Prime Minister that it could cost a billion dollars to replace the system, and that no major tax initiatives can be implemented in the meantime. The Minister of Finance has also stated publicly that $700 million from the sale of state assets will be spent on rebuilding the system.

The Minister told us that no decision has yet been taken about replacing the FIRST system, and there are as yet no firm estimates of the cost. He said the IRD has been working to understand the problems and what needs to be done, but it has been clear from the start that the exercise will be an expensive one; some other countries have spent over a billion dollars on comparable systems. We sought confirmation that $30 million has so far been spent on consultants, but were told such details could be sought from the Minister of Revenue.

The Minister said that in time a risk to revenue would arise if the system were not fixed, but there is no obstacle to collecting tax at present. Fluctuations in revenue are due to economic conditions, not the collection system.

Unemployment

Latest results of the official household labour force survey show unemployment in the September quarter to be worse than generally expected, at 7.3 percent (175,000 people unemployed), compared with 6.8 percent for the June quarter. We asked the Minister whether this casts doubt on the Government’s stated target of creating 170,000 jobs, and indicates the need for a change in policy settings.

The Minister cautioned against reading too much into a single quarter’s results, but acknowledged that unemployment is too high, and a matter of concern. He stressed that if the Government saw a policy measure that would allow jobs to be created quickly and sustainably, it would not hesitate to take it. In his view, however, the latest data simply underscores the need to press ahead with the strategy already being followed of supporting businesses to invest and create jobs. He acknowledged that in the past four years New Zealand’s ranking among OECD members has slipped from the top quarter to the middle of the pack in terms of employment. However, he believes the earlier ranking was based on unsustainable conditions, with many jobs in real estate and in areas of hefty government spending such as health and education.
The Minister added that there used to be a correlation between the number of people on the unemployment benefit and the number recorded as unemployed on the household labour force survey. He said it is puzzling that this correlation appears to have broken down over recent years, and statisticians have not yet been able to explain it. In Auckland, for example, the survey records a large increase in the number of unemployed, yet the number on the unemployment benefit has dropped steadily. The Secretary to the Treasury concurred that the survey result is puzzling, but he is cautious about reading too much into it. He believes most people expected the survey to show a rise in unemployment, but not by as much. His department is working to understand the underlying data, and the implications for economic activity generally.

Some of us consider that the result of the latest survey should not have come as a surprise, and members of Government should not have been dismissive of forecasts by BERL and the ANZ National Bank, which correctly predicted unemployment exceeding 7 percent. BERL has forecast a further 25,000 unemployed by March 2013.

**Debt**

Net Crown debt increased substantially over the past year, from $40 billion (20.3 percent of GDP) to $50.7 billion (24.8 percent of GDP). The Minister expects it to continue rising reasonably rapidly to about 2016 before starting to fall. Meanwhile, borrowing by businesses is fairly stable or falling, and household debt is diminishing. In the Minister’s assessment, as such deleveraging is occurring around much of the developed world, New Zealanders will need to get used to the idea that growth must be funded from our own earnings, and not by borrowing.

**The external deficit and the exchange rate**

Forecasts of New Zealand’s external deficit by the Treasury and the Reserve Bank see it continuing to increase, to about 6.7 percent of GDP in 2016. The IMF has assessed our external deficit to be the second worst in the developed world after Greece this year, and expects it to be the worst next year. The Minister said he does not entirely agree with the forecasts, and is more optimistic.

He told us he believes forecasters are influenced by the assumption that conditions will revert eventually to historical averages, and history shows that New Zealand has had current account deficits for more than 30 years. In contrast, he believes the world has changed in two important ways. First, markets will no longer tolerate countries running persistent current account deficits of 7 to 8 percent of GDP; they will impose a sharp correction through interest rates and the exchange rate. Second, he believes there is evidence of New Zealand changing its behaviour, with households increasing their savings rates and the Government getting its spending under control.

Setting aside the effect of imports for rebuilding in Canterbury, which the Treasury estimates will add 1 percent a year to the current account deficit, the Minister expects the deficit to peak at about 5 percent of GDP. He considers this closer to a sustainable level than might have been predicted a few years ago. The Minister added that various policy prescriptions have been tried over the past 30 years to reduce the current account deficit; in his view the only measures likely to make a difference are improving the savings rates of households and the Government, and microeconomic policies that help export businesses make headway.
The high exchange rate was described by the Minister as in some ways “a problem of success”: international investors see New Zealand as stable and with good prospects, so they put their money here, driving up the dollar. However, he said all his investigations into managing the exchange rate indicate that intervention brings more risks than benefits.

**Reserve Bank Act**

Some of us are convinced that the Reserve Bank Act should be changed with its objectives broadened so that inflation targeting is not given primacy over other important objectives of economic management. The worsening external debt and the business closures caused by the high dollar’s erosion of business competitiveness are matters of serious concern. The Minister told us he does not accept such arguments, as they imply that the Reserve Bank’s actions are propping up the dollar’s value. While this might have been true in 2006/07 when the bank was using interest rates to fight inflated housing prices, he said, the risks these days are more evenly balanced between deflation and inflation. He told us he has yet to see a plausible case for specific changes to the Act.

**Sectoral issues**

**The housing market**

Commenting on recent increases in house prices, the Minister said a bit more interest in the housing market is to be expected. Not only are many economists forecasting a sustained period of lower interest rates, but the past five years have seen relatively flat housing prices relative to the rest of the economy. Between March 2007 and March 2012, household disposable incomes increased by 33.8 percent, helped by lower tax rates and interest rates, while house prices increased on average across New Zealand by only 1.3 percent. Nominal GDP grew by 19 percent over the same period.

Asked whether the Government plans to address the effect of immigration inflows to Auckland on the demand for housing, the Minister said the Government has chosen to tackle the issue of housing affordability by focusing on increasing supply. Demand-side issues such as immigration are relevant, but not the priority at present.

**The banking sector**

We asked what could be done about concern that banks are gouging, particularly in their overdraft rates to farming-sector customers, which appear to be 2 percent higher than necessary. The Minister observed that the one thing worse than profitable banks is unprofitable ones, as several countries have discovered. What interest rates are charged depends on how competitive the banking system is. The Government’s view is that New Zealand’s system is sufficiently competitive; interest rate expectations are dropping, and people can shop around for lower rates.

**The Treasury**

The Treasury is the Government’s main economic and financial advisor, and one of the three central agencies working to improve the state sector’s performance. As well as providing policy advice, it manages the Crown’s finances and monitors the performance of Crown entities. It also provides services such as managing the Crown’s ownership interest in state enterprises.

Departmental operating expenses for the Treasury totalled $78.105 million in 2011/12 compared with $65.788 million the previous year, representing an increase of 18.7 percent for the year and 37 percent over the past five years. Most of the last year’s increase arose
from expenses related to the mixed ownership model: about $10 million was paid during the year in preparation for the sales, mostly on consultants and legal fees. Multi-year funding of $20.163 million has been appropriated for work related to the mixed ownership model; because of the uncertain timing of the sales, any unspent funds will be carried forward.

**Mixed ownership model**

We asked about the advice Treasury is providing on the timing of the proposed partial sales of state assets. Some of us are of the view that the Crown is unlikely to be able to maximise its return from a public offering of shares in the current economic climate, which has impinged on SOEs’ performance, and with the uncertainties arising from pending court action by the New Zealand Maori Council over interests in fresh water. We were told that the Treasury has provided some advice about the timing of the sales, but final decisions will be based on market conditions at the time, and the Treasury will be providing advice closer to the time.

We asked whether, if the aim is to maximise price from the sales, this is a good time to be launching an initial public offering, when there have been few IPOs in recent times. The Secretary to the Treasury said that numerous factors need to be taken into account; they include the Government’s reasons for selling as well as the amount it hopes to receive from the sales. He said the focus of the Treasury’s advice at present is on helping the Government prepare for the court proceedings, but it is also keeping a close watch on risk factors, including SOEs’ performance and the global conditions in which a transaction would take place.

The Treasury stands by the way it accounted for the expected sale proceeds and loss of dividends in its pre- and post-election forecasts, saying it complied with accounting standards.

**Austerity versus growth**

We are aware of international debate about austerity versus growth; that is, the extent to which fiscal contraction by governments could have the unintended effect of reducing growth. Recent work by the IMF suggests that the fiscal multiplier may be greater than previously thought, increasing the risk that austerity measures could worsen a downturn. The Secretary to the Treasury told us that there is still controversy among economists over the IMF’s modelling, and work by his department suggests that the findings do not particularly apply to New Zealand. He referred us to a paper published by the Treasury setting out its view.¹ It concluded that there is little reason to believe that the pace of fiscal consolidation in New Zealand will be detrimental to growth. The reasons relate to New Zealand being a small, open economy with a floating exchange rate, and the fact that our Reserve Bank can exercise an important influence over aggregate demand, and has room to do so by lowering interest rates further if necessary.

**Measuring quality of life**

The Treasury is continuing work on what it calls a “living standards framework” to help it take into account non-material determinants of living standards in formulating its advice, as well as the usual income measure of GDP. It has published a paper setting out five factors

such as sustainability and equity that policy analysts could consider, alongside economic growth, in their day-to-day work.\footnote{The Treasury, *Improving the Living Standards of New Zealanders: Moving from a Framework to Implementation*, June 2012.}

We were interested to hear that the Treasury has been working with the Department of Statistics and other agencies in workshops, seeking to devise a set of practical measures of the quality of life, and is starting to incorporate the approach in its regular work; it is expected to be reflected in the long-term fiscal statement which will be published in 2013. The secretary commented that such thinking is not new. He said the Treasury has always had a focus on improving New Zealanders’ living standards—“we are not neo-liberal orthodoxists”—but now it is working to understand, specify, and explain better how this can be tackled. We understand there is no intention to formalise the approach in the Public Finance Act 1989. We commend the Treasury for its innovative thinking in this area.

**Satisfaction with public services**

Among the achievements recorded in its annual report, the Treasury has noted the results of a comprehensive survey conducted between February and June 2012 measuring New Zealanders’ satisfaction with frequently-used public services. The overall score showed an improvement since a previous survey in 2009; only one service—applying for or receiving a student loan or allowance—showed a significant decrease in satisfaction. We consider these results commendable in the light of funding constraints on public-sector agencies.

We asked the Treasury about the results, as it is one of the core agencies charged with overseeing public sector performance. The Secretary to the Treasury attributed the results to the tighter fiscal conditions compelling a focus on delivering value for money; that is, forcing agencies to focus their service on the things that matter most to citizens. He also believes it reflects public servants’ commitment to doing a good job for New Zealand, something he believes is already felt strongly at an individual level, but is becoming more entrenched at an organisational level as agencies adjust their systems and processes.

As part of this exercise the Treasury commissioned a survey of its own stakeholders. The results were favourable regarding its expertise and professionalism and the standard of its analysis. It is working on areas selected for improvement, including collaborating with stakeholders, providing information about what it is doing, and engaging with a diverse range of stakeholders.

**Change programme**

Work continues on a change programme to improve the Treasury’s accountability and the way it engages with and influences others, and to ensure it works well on an organisational level. A review during the year indicated that urgent work is still needed to ensure the vision of its leadership team translates into front-line performance. The secretary told us that the latest review confirms that the organisation is heading in the right direction, but change takes time to embed. In particular it is working to shift the traditional perception of the Treasury as a number-crunching, fiscally-focused organisation whose role is to say “No” to spending proposals, aiming instead to be seen to work in partnership with other public agencies to achieve the Government’s goals. This shift is happening, he told us, and staff are learning that listening to others is as important as their analytical work.
Central agency shared services

In March 2012 the Central Agency Shared Services unit was established to provide combined administrative and support services to the Treasury, the State Services Commission, and the Department of Prime Minister and Cabinet, with the aim of reducing costs. We were told that it is still early days and costs were incurred in 2011/12 to set up the unit, but savings of about $1 million are expected for 2013/14. We intend to follow up at our next review whether such savings are actually achieved.

Retail deposit guarantee scheme

We sought an update from the Treasury about any changes it has made as a result of the critical report by the Auditor-General on its handling of the Crown retail deposit guarantee scheme, which was implemented in October 2008 in response to the financial crisis. The secretary told us that no further analysis has been done of hypothetical savings had action been taken earlier to cap the growth in finance companies’ deposits covered by the scheme. The Treasury’s focus has been on implementing the recommendations from the report and the lessons learned. We were told that the main lesson has been to ensure that the organisation plans ahead to anticipate and manage risks; it has done considerable work on this, but believes no organisation can claim to have foolproof risk management processes.
Appendix A

Approach to financial review
We met on 14 and 28 November 2012 to consider the 2011/12 financial review of the Treasury and of the financial statements of the Government of New Zealand for the year ending 30 June 2012. We heard evidence from the Minister of Finance and from the Treasury, and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Organisation briefing paper, prepared by committee staff, dated 14 November 2012.
The Treasury, Annual Report 2011/12.
2011/12 FINANCIAL REVIEW OF TREASURY AND FINANCIAL STATEMENTS OF THE GOVERNMENT

Appendix B

Corrected transcript of hearing of evidence 14 November 2012

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

Witnesses
Hon Bill English, Minister of Finance
Gabriel Makhlouf, Secretary and Chief Executive of the Treasury
John Crawford, Deputy Secretary, Commercial Transactions
Fergus Welsh, Chief Financial Officer and Chief Accountant
Vicky Robertson, Deputy Chief Executive

McClay

Minister English, good morning. Welcome to the Finance and Expenditure Committee. We are grateful to you for giving us time this morning. We have until 10.45 with you to hear evidence on the Financial Statements of the Government for the year ended 30 June 2012. I invite you to make some comments and then I am sure our colleagues will have questions.

English

Thank you, Mr Chairman. The Financial Statements for the year ended 2012 show an operating deficit for gains and losses of $9.2 billion. This is half the $18.4 billion deficit recorded the previous year, when the costs of the earthquake rebuild were included in the accounts. About half of the previous deficit was attributable to the Christchurch earthquake. When those costs are excluded, the deficit for 2012 was $7.3 billion compared with $9.3 billion in 2010-11. So in the year we’re looking at, higher tax revenue and lower core Crown spending and a large fall in annual earthquake costs helped to halve the latest deficit.

It is also important that we have provided the funding to maintain public services through the recession, but that has meant running large deficits, but these can’t continue indefinitely. The consequences of too much debt on any country are evident around the world. We believe we are running a
balanced programme to build a competitive economy, at the same time as manage our way through the recession.

We have also worked, as is evident in these accounts, to reduce unsustainable growth in Government spending. The latest annual accounts show we’re making progress, with the economy continuing to recover, and public finance is on a track to improve. In the year to 30 June 2012 tax revenue increased by $3.5 billion from the previous year as the recovering economy underpinned consumption and wages. Core Crown expenses fell by $1.4 billion compared with the previous year, due to a number of factors, some of which were one-off factors associated with the emissions trading system and some other polices.

Outside of the core Crown activities there was a significant write-down of KiwiRail’s rail-related assets. It was actually a total of an $8.6 billion devaluation on KiwiRail, and about $1.4 billion of that was recorded as an expense against these accounts. We have got a strong longer-term focus on Crown debt. In the latest year, net Crown debt increased to $50.7 billion or 24.8 percent of GDP. This was up from $40 billion or 20.3 percent of GDP the previous year—so a significant increase in debt of a nature that we can’t continue with.

So we’ve got a strong focus on controlling new spending and improving the quality of existing spending, but, obviously, we have less control over revenue, and that is—the fluctuations of revenue—related to some extent to what is happening with the global economy. The European Commission just last week said the eurozone will come close to zero growth over the next year. It is now forecasting 0.1 percent growth for the eurozone, and even Germany’s growth forecast has been cut from 1.7 percent down to 0.8 percent. So we expect we will continue to see patchy and somewhat grumpy growth for a while yet with numbers fluctuating from quarter to quarter.

However, the strategy remains focused over the 3 to 5 year period. Last week we saw an unemployment figure for the September quarter come in higher than expected at 7.3 percent. This reinforces the need to press on with those programmes that are focused on supporting business to invest and employ and thereby create jobs. That includes in the next stages changes to the way we manage resources, particularly water, and the processes of decisions around our broader resource management, all of which can provide—or are designed to remove further impediments to investment.

We’ll also continue with our large-scale infrastructure programme, which is supporting thousands of jobs through initiatives such as the ultra-fast broadband rollout, the electricity grid upgrade, the extensive roading programme, and the Christchurch rebuild, as well as the Government’s investment in its own long-term assets.

In terms of the Government’s accounts—moving into the first quarter of this year—we’ll continue to see fluctuations in revenue driven by economic conditions. This is reflected in the accounts for the 3 months to September. Core Crown tax revenue was $295 million below forecast, and core Crown
interest revenue $147 million lower than expected. So while we continue to keep control of spending, lower revenue has left the deficit for those 3 months $449 million larger than the Budget forecasts.

We remain committed to the target of getting back to surplus by 2014-15. We need to get back to surplus to meet ongoing obligations such as repaying debt, resuming contributions to the New Zealand Superannuation Fund, and targeting more investment at priority public services.

In recent months there has been quite a bit of focus on housing and house prices. The Government has a significant fiscal exposure to the housing market in the sense that it runs just under $2 billion of rental subsidies, which are vulnerable to upward pressure on rents, and is the owner of $15 billion worth of houses.

But I’ve just got some figures here, which indicate there’s been a significant adjustment over the last 5 years in housing prices relative to the rest of the economy. So according to Quotable Value, from March 2007 to March 2012 house prices increased, on average, across New Zealand by 1.3 percent over that 5-year period. During that 5-year period nominal GDP has grown by 19 percent, and household disposable income—that is, income after housing costs—has risen by 33.8 percent, and a significant factor in that is the much lower interest rates and lower tax rates.

So we can see from that that while there is some discussion now about where the housing market is going, households are in a better position than they were, because the house prices, on average, have moved up a bit in nominal terms over that 5-year period—1 percent. Disposable incomes have moved up a lot over that period, so it wouldn’t be surprising to see a bit more interest going back into the housing market, particularly since the more recent forecasts from a whole range of economists have indicated a longer period of lower interest rates. Any questions?

McClay Minister, thank you.

Parker Thank you for that summary, Minister, and welcome to yourself and the Secretary for the Treasury. The latest growth figures, the drop in exports, and the increase in unemployment are of concern to the Opposition. I was wondering if you have yet had cause to reflect on whether your existing policy prescription is going to be good enough to meet the promises that you made at the time of the last election. And if you don’t think you’re going to make the likes of your target for 170,000 more jobs, are you ready to concede yet where there are some changes needed to some of the significant macroeconomic settings that you refuse to budge on?

English Well, we’re always reviewing the policy settings, because the—I think, you know, the picture of the last 4 or 5 years for anyone involved with economic policy is that reality has turned out differently than expected. I was just looking at some figures for forecasters in New Zealand, which show, just as recently as May, the expectation for the 90-day interest rate was just under 4 percent—3.9 percent—and now just 3 or 4 months later their expectation is that it is going to be 3.1 percent. In the forecasting
world that is actually a significant shift in a very brief time. So, you know, reality keeps turning out in different and unexpected ways. So we are always open to revision of the settings in the light of, you know, consistent evidence one way or another.

You mentioned a number of figures there, and, I think, you know, the question of whether any of them represent a significant shift in the trajectory and that is, in the case of employment, you know, employment growth hasn’t been what was expected, or the drop in unemployment hasn’t been what was expected 2 years ago, employment growth isn’t as strong as was expected, but we do expect it to continue. So even if you can see a significant shift, then there’s a question of what you would change around the policy prescription.

I think I can assure the Opposition that we are as concerned as they are, and if the work was, you know, just a shift in a macro setting that would enable quickly thousands more jobs, well, I am sure that we would take that choice, if it was, you know, a sound long-term choice. We haven’t seen—we’ve seen—you know, there’s a discussion about nuances around things like how interest rates might be set, but we haven’t seen any easy options for significantly shifting those numbers around.

Parker Well, you say there’s been some short-term variability of some of these forecasts changing—One of the forecasts that hasn’t changed materially, but to the extent that it has changed seems to be likely to be getting worse, is our external deficit, which is driving an increase in New Zealand’s net international liabilities. Last year our external deficit was $10 billion. This year, according to the IMF, it’s the second worst in the developed world after Greece. And next year it’s projected to be worst in the developed world. Isn’t it time to have a look at some of these settings that change both investment patterns, savings patterns, and exchange rate settings?

English Well, I don’t necessarily agree with those views about the current account deficit, but, you know, time will tell.

Parker Well, let’s just deal with that. What do you think the current account deficit is going to be, if you don’t accept the IMF, the Reserve Bank, or the Treasury forecasts?

English Well, you know, we can have a—I just think their views are a bit more negative than has turned out to be the case. I mean, all of these entities, for instance, forecast that New Zealand household savings behaviour wouldn’t change, and, actually, it’s changed quite dramatically. So they forecast all sorts of statistics—

Parker Well, was their forecast right for last year? The $10 billion deficit that occurred was pretty close to what the forecast was saying it would be, wasn’t it?

English I haven’t actually checked that in detail. Looking ahead on the current account deficit, there’s a statistical issue, which is the way that the statisticians have decided to record the impact of the earthquake, so they
don’t count the inflows but they do count the spending. So they’re only counting the negative bit, so that’s a—

Parker Well, the advice of your Treasury officials at the time of the Budget, is in the out-years going forward of our current account deficit, which is projected to be about 6 percent, about 1 percent of it was earthquake—

English That’s right.

Parker —so let’s not pretend that’s the main problem.

English No. But even if you use those numbers, you end up with—let’s say that’s all correct, then you would end up with a current account deficit peaking at about 5 percent, and at a time when nominal GDP would be fairly similar to that, and that’s getting much closer than we used to be, to what would be regarded as a sort of rule of thumb for sustainability of it. Because, I think, we’d all be worried if we saw an obviously unsustainable current account deficit—building up external liabilities in a world where no one likes that much. So, you know, I think the indicators—there’s no dramatic turnaround in it, but I think the peak looks a bit lower than might have been expected a couple of years ago.

In terms of policy settings, there aren’t too many long-run policy settings that you can alter dramatically, because New Zealand’s had 30 years of these, and has had every argument about every variation on every possibility of policy setting. So looking ahead, improvements in savings rates for the household sector and for the Government are going to have an impact. Sound microeconomic policy that is going to help businesses in the export sector deal with the significant headwinds they face is going to make a difference. Would it make a difference if you changed the policy targets agreement? No, I don’t think it would, and I haven’t seen a convincing argument that it would.

Parker One final question around your forecasts. You and the Prime Minister both expressed surprise at the latest household labour force survey figures. Notwithstanding the fact that the quarterly employment survey had also shown an increase in unemployment, and that the ANZ National Bank had said that they thought over the coming months unemployment would go up to over 7 percent and so had BERL, your colleague Mr Joyce has been acerbic in his criticisms of BERL, calling them, unjustifiably, toadies of the National Party, effectively, which they’re not—

McClay Labour.

Parker Of the Labour Party, I’m sorry.

Barry Right first time.

Parker Right first time, they’re saying? You know—

English So what’s the question?

Parker One, is it very becoming to be criticising people who just don’t agree with the Government, and, secondly, if the BERL forecasts for an additional
25,000 unemployed by 2013—March 2013—comes right, will you and Mr Joyce resign instead of criticising the people that are getting it right?

English

No, I wouldn’t think so. Look, reasonable people can disagree about these things. I think on the unemployment figure, I think people expected it to be a bit softer, and that number turned out to be higher than even those expectations. I think it is still—you know, it’s a quarterly figure. These things jump around. One of the factors around measures of employment that’s changed in recent years is that you used to have a pretty strong, a pretty good, correlation between numbers on the unemployment benefit and numbers that were showing up as unemployed in the labour force survey. That correlation’s broken down to the extent where in Auckland, for instance, where the HLFS figure shows a big increase in unemployment, the numbers on benefit continue to drop week by week. So there’s something going on there that I don’t think statisticians are able to explain just yet.

But, look, that number is too high. Whether it’s 6.8 or 7.3 percent, it still represents a hurdle for some people to get in the job market, and it just compounds the need for us to get on with those microeconomic reforms that are going to assist businesses to make the decision to employ. I think we would—the number is generally too high wherever the forecasters put it. The best way to get that down is for us to support businesses to hire people. That’s what gets the numbers down.

Cosgrove

Just picking up on Mr Parker’s point about the deficit, given that you’ve said you disagree with the Reserve Bank, Treasury, IMF, and they’re generally reasonably learned organisations, I would’ve thought. They base their forecasts on evidence and data. Given you disagree with them on the forecasts, what do you base your prediction on? Evidence? Data? Crystal ball? Best guess? I think you owe people an explanation if you disagree with those three entities.

English

Well, I’m just a bit more optimistic. That’s all. I mean, they—

Cosgrove

Based on what?

English

Well, forecasters work on—I mean, this is the only way they can do it really. Wherever you are, they forecast that you’re going to go back to the average or the norm, and so their view about New Zealand is that we have a persistent high current account deficit, so they always forecast that we’re going to go back to it. It’s like looking at their foreign exchange forecasts. They always forecast you’ll go back to the long-run average. The fact is we’re in a world that is pretty different, because everyone’s trying to reduce debt, and I think New Zealanders have responded in a fairly resilient way to the different pressures that are on them. I think their savings behaviour is shifting. I think you’re starting to see some systemic change in Government, which ensures that its long-run savings behaviour is going to be improved. I don’t think the world will let us run 7 and 8 percent current account deficits. It just won’t. I think you’d get the kind of sharp adjustment that the textbooks tell you would happen in the exchange rate or interest rates, if
that happened. The world’s just not going to let us run an extreme current account deficit.

So that’s two reasons. One is I think the world will punish us more quickly if it gets out of line, and the other is I’m a bit more optimistic about the way New Zealanders are adjusting to a deleveraging world.

Cosgrove So being the second worst in the world is not out of line?

English Eh?

Cosgrove Being second worse in the world, in terms of deficits, is not out of line?

English Well, look, I’m just looking at the actual numbers, and if you exclude the earthquake and we peak somewhere between 5 or 6 percent, then that’s quite a bit lower than the 8 percent peak just 3 or 4 years ago.

Cosgrove Could I just sum up? Where you think the—

McClay We’ve got to move on, Clayton.

Cosgrove Yep, sure. The Government’s philosophy, policy-wise, is that given you’re being told, and predictions are being made—which are completely opposite to your view of the world—that your policy settings, you believe, in the face of 175,000 unemployment, the second worst deficit in the world to date, 170,000 Kiwis leaving for Oz, you say you’ve got it right, we’re on track, the recovery’s happening. Have we got it clear?

English Yeah, we think we are—no, I think that’s getting a bit carried away—I mean, the Government has been pretty consistently saying we’re on track for moderate growth—2 to 3 percent—and we think that is still the case. Along the way, because of this patchy recovery, you’re having periods that are better than expected, like the first half of this year, and periods that are worse than expected, like the second half of this year. And who knows whether that pattern is going to play out again for the third year in a row next year. We can’t be sure, but we think this 2 to 3 percent growth—you will continue to get job growth, even if quarter to quarter it’s up and down, and you’ll continue to get income growth. You know, household incomes are actually in reasonable shape, because they’ve got the lowest interest rates in 40 years, they’ve had tax cuts, if you’ve got a job the cost of living is not out of control—so they are in a position and they’re taking the opportunity to reduce their debt, and that’s the fundamental adjustment that needs to occur, and that’s happening in a more moderate way than in many other developed countries.

Goldsmith Thank you, Minister. Look, we’re seeing around the world some substantial drastic cuts in Government spending, not just in Greece and Ireland and the obvious places but also, you know, in the UK. We haven’t seen such drastic cuts in Government spending here, and I’m interested why not, and just how confident you are you’ve got the balance right so that we’re doing enough now that we don’t have to be making, you know, drastic cuts further down the line.

English I think there’s a couple of reasons. One is, as I think has been debated before, the New Zealand Government went into this recession with
relatively low levels of debt compared with those countries. We’ve actually had as rapid an increase in debt as a lot of developed countries, but starting with the lower level you’re not under quite the same pressure to get on top of the rapid increase.

The second reason we’re not having substantial cuts is, I think, choices made by the Government. So we set out in late 2008, 2009 to run up deficits while we were in a sharper recession, but at the same time to set a track that would get us back to surplus, and along the way focus on what we could control about expenditure and that is the longer-term cost drivers. So unlike a number of these other developed countries, we haven’t gone in for—including Australia, I might say—we haven’t gone in for the short-term cash savings; we’ve gone in for focusing on the longer-term cost drivers, so that over a period of 5 or 6 years you get back to surplus because you’ve genuinely dealt with what’s pushing your costs, whether it’s law and order, which was, for instance, the fastest-rising cost in Government 3 or 4 years ago and has now pretty much flattened out. So over the next 4 or 5 years that will yield a lot of benefits.

So we will have run 6 or 7 years of—New Zealand will have run deficits 2008, 09, 10, 11, 12, 13, 14, so 7 years of deficits to get back to surplus. So that’s a fairly moderate adjustment compared with others, but we think it’s going to have a better long-term effect on our fiscal outlook, so it won’t bounce back on us. It will get our debt levels down. It will get us on a good trajectory of reducing debt, so that by the time there’s another major recession, we’re in a reasonable position for it.

Parker Your reference to surplus in 2014, 2015—we see the effect of revaluations and changing discount rates upon the Budget for the operating balance after revaluations and the like. When you say 2014, 2015 do you mean OBEGAL?

English Yeah.

Norman Thank you, Mr English. Previously, the Government’s argued that the household labour force survey is what we should be looking at, and so I want to kind of make an argument around looking at those numbers, because that’s what people have said are important. And also the Government’s argument has been to look at New Zealand relative to other OECD countries—saying you can’t look at New Zealand in isolation, which also is a reasonable argument. So, comparing September 2008 with September 2012, which is, you know, the figures just before your Government came in compared with Labour’s figures—a 4-year period—New Zealand went from having the, kind of, eighth-best figures in terms of unemployment to having the 15th-best figures, if you like, or the 15th lowest. So even on your own terms, looking at the numbers you say we should look at—household labour force survey—and even doing it in a relative way, we’ve gone from having the eighth-lowest unemployment to the 15th-lowest employment. So we were kind of in the top quarter of the OECD and now we’re kind of almost dead centre within it. Don’t you think, even in your
own terms, that’s a fail mark, because the relative position of New Zealand in terms of unemployment has declined?

English

Well, I don’t think you’ll be surprised to hear me say no. I mean, we could—look, if the point is has the economy produced enough new jobs, then the answer is, no, it hasn’t, particularly if you talk to the people who are out there who’re looking for them. And so we do want to continue. We’re focusing strongly on the conditions that are going to enable more new jobs, and we can argue about what those conditions are, but that’s a common focus, I think, a common sense of purpose.

With respect to shift in performance over that period, I mean, given that you’ve raised it, I would argue that the eighth best, or whatever that rank was, was based on a fairly unsustainable set of conditions. So, you know, there were lots of people in real estate. We had a higher level of housing activity than most countries except perhaps Canada, Ireland, and Australia. We were right on the crest of a wave of about a 50 percent increase in Government spending.

If you look at employment figures, some of the biggest growth rates of employment there were where the Government spent the most money, being health and education. So that was just—then conditions changed and that turned out to be unsustainable. So I’m not surprised if we’ve dropped relative to others, but the relativity argument is no good to a Kiwi who’s out there today who’s lost their job, looking for another one. So, yeah, I accept the point. If you rank it that way, the New Zealand position has deteriorated, which is just another argument for getting on with improving it.

Norman

So to pick up your point that the settings or the kind of situation back then was unsustainable, aren’t there similarities between the economic conditions when you took office to what’s happening now, with the return of the housing bubble—seems to be, particularly in Auckland, is coming back—very large current account deficits with projections that they’ll grow? When you talked a lot about the debt-fuelled consumption boom, we don’t quite have that, but we clearly have some of the problems that you inherited when you took office. The tradable sector is in real trouble, and you’ve repeatedly made the point that the tradable sector was in trouble from 2005, and I agree with you. But now we’re seeing with the currency, the tradable sector’s in trouble again. So don’t you see some of the things, the problems that you inherited, have come back again? And why doesn’t that make you challenge the orthodox settings that you’re continuing with when these problems are recurring?

English

Well, look, there are some of those features probably didn’t go away, actually. You know, this has, like most developed economies, got to go through a fairly significant readjustment from debt-funded consumption and housing, and that’s going to take a while. But, fundamentally, the right things are happening, so even where we say those problems are back, well, it’s in a pretty muted form. I mean, if you take the housing issue in Auckland, yep, there’s parts of that market where prices look pretty spiky.
It’s on a relatively low turnover. It’s not reflected across the nation. Housing has been through 5 years of fairly flat prices while the economy’s grown and incomes have grown. So it’s not surprising people have shown a bit of interest again, particularly if they think interest rates are going to stay flat for a while. But in terms of the policy settings, well, I mean, you know, we’re always open to the argument about whether there is another policy setting that will somehow deal with some of these deep-seated structural issues. We think we’ve got the balance about right. You’re arguing for, you know, some mix of quantitative easing and different sort of Reserve Bank settings. We’re just unpersuaded. It’s not really a matter of defending orthodoxy; it’s a matter of adopting the lessons of the past. In this case probably the most significant one around macro settings is the possibility of using macro-prudential tools to assist monetary policy. That process is well under way, and, you know, any other bright ideas that filter out of the international discussion about this we’ll look at. But we haven’t seen that many that we think will make much difference compared with—or put alongside—sound, basic economics that focuses on productivity and competitiveness.

Norman So the current account deficit, which you didn’t quite talk about there, but clearly is a major problem—but what you said earlier was very interesting because you said, basically, the world won’t let us run a persistent large current account deficit. There will be a sharp adjustment at some point, or words to that effect.

English Yeah.

Norman And I agree with you. So shouldn’t the question be for us how do we manage bringing down a current account deficit rather than letting the world impose a sharp adjustment on us? And those Governments and Reserve Banks that have intervened on their currency—quantitative easing and various other ways—what they’re trying to do is manage those external imbalances by intervening on their currency, because the alternative is that the markets ultimately will impose an adjustment on us. If we carry on down the current path—I agree with you—we will have an adjustment imposed. Wouldn’t you rather have a managed current account deficit bringing it down rather than having it imposed on you externally?

English Well, look, in the first place I don’t think we’re on a path to a sharp adjustment; I think we’re on a more moderate path than that.

Norman IMF says it keeps going up.

English Yeah, well, let’s just see what happens.

Norman So does Treasury.

English Let’s just see what happens. And, actually, the signal from the world at the moment—I mean, we can’t have it both ways here. One of the reasons that we think the exchange rate is higher than we’re comfortable with is precisely because, relative to others, we’re seen to have sound prospects of producing stable yields over a period of time compared with other countries. We’re not getting warning signals from the market on the basis of current
forecasts. If anything, our problem, in a way, is a problem of success. You know, we look stable and look like we can produce yields on assets, and so they’re coming in to buy. So in terms of managing the current account, look, if we thought you could manage it, well, we’d just go and manage the damn thing. Right? Because it would reduce our vulnerability. It’s just that the propositions that we see that are meant to manage it, like, for instance, managing the exchange rate, look, on balance, to have more risks than the benefits that you might get from them. And I’ve spent a bit of time talking to people who are running these strategies, and they worry about it. They get very worried about the risks involved in large-scale intervention in the exchange rate market. So, yep, look, there’s tools there, but they don’t look better than the tools we’ve currently got.

Smith

My first question is in the international context, in that in October, at the meeting of the IMF, President Obama’s Budget Office Adviser Peter Orszag noted that—actually singled out—New Zealand as having had the best balance of short-term stimulus and long-term fiscal consolidation. Do you accept the comments that he made about the importance of that long-term fiscal consolidation to getting the balance right long term for New Zealand?

English

Oh, yeah, I certainly do, although the balance we’ve got is not entirely policy choice. I mean, the Christchurch earthquake was not something we chose, but it is going to underpin growth over the next wee while. So we have this sort of unique set of circumstances where in terms of the Government’s books, we’ve expensed already a large proportion of our commitment to Christchurch, and it’s going to be spent over the next 4 or 5 years. It is, to stand back from the actual circumstances, it is a massive stimulus project—that’s how you would characterise it in economic terms—funded partly by borrowings, deficits we’ve already incurred, and by offshore reinsurers. And that is going to be an ongoing support to the New Zealand economy. So we didn’t choose it, but we’ve incorporated that in the strategy, and, yes, I think we have got the balance about right.

Smith

In the Auditor-General’s report on those Financial Statements for the year to 2012, they note the quite tight core Government expenses projection going out and a real test being capacity to deliver that, particularly if you look over the last decade of getting 8 percent per annum average increases in core Government spending and that now being at 2, and the comment that to meet balance in 2014-15 is going to require keeping at more like the last couple of years of 2 percent increases in core Government expenditure. How confident are you that you’re going to be able to keep core Government expenses to the point where you can make that 2014-15 balance?

English

Well, yeah, look, we’re reasonably confident. The ability to sustain—look, anyone can set out to manage expenditure, but you have to be able to sustain it over time. And one of the measures of that is whether you’re delivering the public services, because if you go in and rip the money out but end up 2 or 3 years later where the public say “Well, actually, we’ve had enough of that, and now we want a spend-up.”, you can spend an awful lot
of money catching up. And we’ve been through that cycle before. But we think the combination of providing certainty to Government departments about what their spending’s going to be over the next 3 or 4 years, longer-term budget plan so they’re working on 4 years, not 1 year—that gives them the opportunity to really understand what’s driving their businesses, their organisations, their service delivery, and start using tools to take cost out over time in a way that’s sensible for maintaining services, rather than being done by the Government or the Minister or Treasury just ripping the money out wherever they can find it. We think that is going to enable us to stick to the line. Because, in the end, what works for the community works for the books. So if we can close some prisons, invest some of that money in reducing reoffending and reduce one prisoner reoffending, that saves us $90,000 a year for each prisoner who does not go back inside. And they’re starting to get some of those positive cycles working—lower crime rates, less prosecution, less prisoners, and less expense. And trying the same on a larger scale on welfare reform, which is set up to actually spend more. Last year’s accounts included more money spent on welfare interventions, not less, and when we start getting savings from that, we’ll start counting them.

Peters: Well, look, I don’t really want a hugely long answer to these questions. How does it feel to have taken your country in the South Pacific to below New Caledonia in terms of growth? Because those figures are there.

Smith: New Caledonia’s got a bit of minerals. We’ve tried a bit of that.

Peters: Well, Nick, when you get back in the Cabinet, you can answer the question, but I don’t think you will be, given your track record, so can we hear from the Minister of Foreign Affairs.

Barry: Same with you, I’d imagine.

Peters: Well, I’ll get back when I feel like it—before you.

Barry: Well, we’ll see about that.

McClay: Colleagues, it’s been a delightful morning so far. Winston, direct the question. We’ve got 4 minutes left. Direct the question to the Minister, please. No, no, everybody calm down. Please, let’s get back to the question.

Peters: New Caledonia’s growth rate is 3.4, and it’s performing very well. What’s our performance compared with that?

English: Well, our growth’s a bit lower than that. Look, you can pick out Norway, I think, is probably meant to be the oldest one.

Peters: Or Singapore or Taiwan or Hong Kong. You never use those figures in comparison. When you say balanced programme to build a competitive economy, why don’t you mention those countries?

English: Well, we can mention—I don’t think there’s any secrets about this. I mean, the growth rate is the growth rate, and it’s better than some and not as good as others, and that’s nothing new about New Zealand. The question is what longer-term, sound policy can you put in place week by week, month by month to lift that in the long term? Because we know that you need to do about 200 things right to get a longer-term, relatively small increase in your
growth rate, particularly in the global conditions we’ve got now. And we’re sticking to that, and if there’s lessons from New Caledonia that we can learn, we will learn them.

Peters I didn’t say that. I’m just saying that it’s rather a shame to go to New Caledonia and find that we’re stuck below them when we used to be No. 1 in the South Pacific. But how do we get to—

English Well, I hope it didn’t ruin your holiday, Winston.

Peters No, it was actually a work and study group with some of your colleagues. Apparently, the lesson was lost on them.

English That bad?

Peters And nobody has spoken to you about it. How do we get on top of repaying debt as our external debt balloons—

Barry Duty-free cigarettes.

Peters Now, look, don’t get nasty. No need to get personal here.

Cosgrove She’s incapable of doing anything else.

Barry Says you.

Peters This is not the morning gardening programme.

Barry No, it’s not, is it?

Peters Settle down. How do we get on top of repaying debt as our external debt balloons upwards? That’s what’s happened, and it’s going on and on and on, and your balance of payments, amongst other things, is exacerbated by your refusal to deal with the ultra-high currency. Today in the Dom, for example, another business is closing—a standout business in this country, used to have 59 people, now down to nine, and now it’s closing. And one of the things they cite, as they always do, is the level of our currency. When are you going to do something about it?

English Well, just to deal with the debt issue, I mean, these things—over time, the pattern that’s occurring is business debt is reasonably stable to falling. Household debt is now dropping. Government debt is still rising reasonably quickly, but by 2014, 2015, 2016, it’ll be peaking and starting to come down. Now, that’s not altogether easier for the economy, because if everyone’s reducing their debt, it’s going to make for less buoyant economic conditions, and we’re all just going to have to get used to a different situation than in the last 30 years, where a fair bit of our growth was bought from the future by borrowing, and not just in New Zealand but across the world—either households or Government or whoever. So we’ve got to adjust to growth without the extra fuel of credit growth.

In terms of the exchange rate, well, as you know, Mr Peters, you’ve had some opportunities yourself as a Treasurer and a Minister of Finance and an influential coalition partner in a series of Governments, and I think we might both say that while it’s easy to say you can manage the exchange rate,
when it comes to actually making some policy choices that are intended to give you the exchange rate you want, it’s actually pretty difficult to do.

Peters But you would accept that the lesson is to change the Act, not to tinker around with the policy targets agreement where the Governor can carry on as before. You need to change the Act. That’s the lesson that we learnt from my personal experience.

English Well—

Peters No, hang on. You recall what happened. I changed the policy targets agreement and we changed the band out to 3, whereupon the previous Governor—namely a former leader of the National Party as well, I might add, and the other party as well—this man, 27 out of 36 months had been outside the 02 band, and he spent the next 3 years inside the old 02 band when it was 0 to 3. You see what happens when a Governor can pervert the intention of a political arrangement. So the Act has to be changed, do you not think, if you want to change the level of the currency now?

English Well, no, I don’t agree with that, because I haven’t seen a plausible case about what you would change the Act to. And when I listen to these arguments where some of it is about fighting the last war—some of the arguments I hear make it sound as if the Reserve Bank is sticking interest rates up and that’s driving the exchange rate up because he’s trying to get on top of house prices. Well, that was happening in 2006-07, but that’s actually not the war we’ve got now. The war we’ve got now probably is much—You know, the risks are pretty balanced between deflation and inflation.

Peters When you made a recent speech on—

McClay Winston, I’m sorry. This will have to be the last question.

Peters Well, OK. A bit of a pity, you know. How long has this been going for?

McClay 45 minutes.

Peters It’s really not long enough to be talking to the Minister of Finance.

McClay Well, we can have a discussion about that afterwards.

Peters Anyway, let me ask this question here. When you made a recent speech on the housing problem and your solutions, given that one of the factors driving up demand in Auckland is that the replacement people who are leaving for Australia mainly are coming from housing situations they’ve already got—mum and dad and what have you—but the people who we’ve got coming to replace them are coming in, 60 percent of them are going to Auckland, all needing housing now. Why don’t you address that? Why did you call that sort of an elephant in the room and not mention immigration at all and its effect upon Auckland in terms of the housing demand?

English I think you’re right to point it out as a factor that influences the market, but we’ve got a broad enough range of a policy front on housing affordability as it is without opening up a whole immigration debate. As you know, the stuff we’ve talked about has all been about the supply side, so we can argue about how to limit or control demand—for instance, by limiting the
number of migrants who go to Auckland. Whatever the result of that policy, 
we still want more flexible supply, and so we’ve made a priority out of that 
side of the equation. That’s not to say that other part of the demand side of 
it isn’t relevant. It is, but we have the opportunity now to have a good look 
at the supply side before there’s a lot of pressure on the market.

**Clark** Minister, the Inland Revenue Department says that the tax take dropped 4 
percent during the last term in its briefing to the incoming Minister, and 1.5 
percent of that could be allocated to the global financial crisis and 2.5 
percent according to Government tax changes. One of the things that 
you’ve outlined is that the revenue continues to fall, and we’ve got an issue 
with falling Government revenue. One of the things that you’re on record 
as saying is that $700 million from the sale of the State assets will be spent 
on rebuilding the tax system. Is that a decision that Cabinet has taken to 
allocate money from the Future Investment Fund to the replacement of the 
FIRST core computer system at IRD?

**English** No, a decision hasn’t been taken yet. IRD have spent the last 12 months, in 
fact the last couple of years, in the first place trying to understand the issues 
with the IT systems they’ve got, and that is essentially that a system 
designed to collect tax 30, 25 years ago has now got a whole lot of other 
systems built on to it, and it’s become difficult to change anything at 
reasonable cost or reasonable time. But I would expect over the next 6 to 
12 months there will be decisions about—

**Clark** You said $700 million. Is that a number that you plucked out of the air, or is 
that a number that’s being tested at the moment in terms of— I mean, I 
understand they’ve spent $30 million on consultants so far in the recent 
period. Is that $700 million a likely number? I mean, John Key was saying 
earlier in the year it was going to be a billion dollars and that the tax system 
can’t support the kind of radical changes from Government and that 
Government effectively is held hostage to— It can’t create new tax policy, 
and so that’s part of the picture of the falling revenues, is that sensible 
policies, what I would think were sensible policies, pro-growth policies like 
a capital gains tax to neutralise the investment signal and so on, cannot be 
implemented at the moment. How firm is that $700 million number, and 
why did you say $700 million? I guess that’s my question.

**English** OK. Well, we could dispute whether taxing successful businesses, which 
would be the core—

**Clark** That’s not my question, Minister, with respect.

**English** —of capital gains tax revenue, is a good idea.

**McClay** Colleagues, let’s let the Minister answer.

**English** There’s no firm estimates of cost, although IRD have been keen to make 
sure from early on that the Government understands that changing the tax 
system, changing the actual IT system, would be very expensive. There are 
some other jurisdictions that have spent in excess of a billion dollars 
redoing it. This stuff costs a lot of money. So they’re just wanting to make 
sure everyone understands that.
Clark: But can I get on record that you spent $30 million on consultancy, and you’ve got no estimate of cost. This is not a new issue. John Key was talking about it as a pretty urgent issue in February. Is there no firm estimate on cost yet?

English: I can’t confirm whether there’s $30 million been spent. You’d need to talk directly to the Minister of Revenue about the details of it, but there has been a huge task to understand—Actually, a big part of the task has been understanding what the system currently is, because it’s got layers and layers of coding, which are not documented, where they’ve had to spend quite large amounts of money just finding out what the hell is there so that they can then start making decisions about how to change it. So if it’s $30 million, it’s likely to be—It is an expensive exercise. There’s no doubt about that. I would just pick up one point. Tax revenue is not continuing to fall. In fact, the first half of this year it was higher than expected. This half of the year it’s likely to be a bit lower than expected, and that is related to economic conditions, not a collection system. They’re just telling us now that, in time—well, now you can’t implement any major tax change—and in time there is a risk to the revenue. But I don’t think anyone’s suggesting that—

Clark: With respect, there’s lower voluntary compliance—

McClay: No, no. David, you’ll have to leave it there. John Hayes—

English: No one’s suggesting we can’t collect tax now because of the IT system. That’s not the case.

Clark: Well, compliance is dropping off.

Hayes: Minister, I just came back last night from leading a cross-party group to a number of European capitals, and I would like to congratulate you and Mr Secretary on doing an outstanding job, because I can tell you that our main indicators are significantly better than just about every other European capital. One thing that concerns me, one thing you can see that’s difficult in Europe—and I am also noticing it in my electorate—is trying to encourage a bit of spending, a bit of consumption, because that also leads to more jobs. And it seems to me, particularly in my electorate, that the banks are gouging, particularly in their overdraft rates to a lot of our farming communities. They’re charging about 2 percent more than they need to and the numbers would suggest, and I’m wondering, is there something that might be done about this to encourage the banks to take their foot off people’s throats a bit?

English: That is a good question. OK, I think the first point I’d make is that if you’ve just been to Europe, the one thing that’s worse than profitable banks is unprofitable banks. So all these countries are finding out what happens when your banks fall over. So that’s the first point. The second thing is the argument about what interest rates are charged is really a judgment about how competitive your banking system is. Do we think New Zealand’s banking system is sufficiently competitive? And our view is yeah, it is, that people have the opportunity to shop around and in an environment where
interest rates expectations have been dropping, there have been opportunities for people to get lower rates.

McClay All right, Minister, thank you very much. We will have to leave it there. Thanks for your time today and your understanding. We appreciate it. And we will have the Treasury stay now for a financial review.

English And thanks for a little bit of entertainment.

McClay Gabriel, good morning. Thank you, you’ve slept through the earlier part of the morning. We’re still in public session, so the media and others may stay should they wish. We now have a financial review of the Treasury. I’d invite you to make some comments, should you wish, and then I’m sure my colleagues will have questions for you. We have 45 minutes available. Actually, we’re going through to 11.30, and, depending upon how we go with questions, we may need to stay a bit longer, but let’s kick off.

Makhlouf Thank you, Mr Chair. Good morning. If I can introduce Vicky Robertson, my deputy chief executive, and Fergus Welsh, my CFO. I don’t have an opening statement to make, in view of the time, so we can go straight to questions.

Goldsmith Just looking at your report here, at page 27, you’re talking about satisfaction with use of public services. One of the big issues, of course, is that we have been under pressure in the last few years—no significant increases, quite tight situations for most Government departments—yet we are seeing from the surveys still a steady increase in the score for satisfaction with the public services. You must be pleased with that. Do you think that that will be able to continue, that improvement, over the next few years, as we continue to keep a pretty tight rein on spending? That is the first question. The second one is what do you think are the basic reasons for that continued good performance in a tight financial situation?

Makhlouf Firstly, yes, we are pleased that those ratings are high and rising. We are certainly very focused on continuing that, and I’m reasonably confident that we can do that. The reasons for it, I think, are probably twofold—well, threefold. One is the focus on delivering—well, the fact that all departments now have much tighter fiscal conditions to work within has actually put a much greater focus on delivering value for money. Delivering value for money, by and large, has meant they really need to focus on what are the services that they’re producing for citizens. I think that has actually helped them to focus quite hard on that. Secondly, I think the whole move of the Public Service, which is in some ways embodied in the key results that the Government announced, again is focusing the service on those things that matter most to citizens. Finally, and probably most importantly, I think it reflects the commitment of every public servant in the country to doing a good job for New Zealand.

Goldsmith So you would describe that as a bit of a culture change in terms of—customer focus is what you refer to it in a business sense, but it’s not quite the same in the Public Service. Do you think that is entrenched, that shift in attitude, or have you still got a long way to go on that?
Makhlouf: I think it’s entrenching, actually. I’d be cautious about saying it’s entrenched, but I think the individual public servant is absolutely committed to doing a good job for New Zealand and New Zealanders. I think organisations are learning how to adjust their systems and processes so that they’re both delivering value and focusing on the things that matter most. In some respects it’s a bigger culture change for organisations than it is for the individual employee who works within it.

Cosgrove: I’ve got a line of questioning, firstly on SOEs and then on a couple of other advisory areas. You’ve put together on page 51, you’ve outlined the level—you’ve appointed commercial advisers, you’ve got a Crown adviser, you’ve prepared advice on the mixed-ownership model for the Minister. Do you agree that basic commercial practice when launching an IPO, an initial public offering, is that, essentially, you clear the decks, you create as much certainty as you can, you resolve any risk areas, you try to present a product to the market where there is as much stability and certainty as possible, in order to maximise price? Is that basic commercial practice when launching an IPO?

Makhlouf: I think there’s broadly—I mean, a private sector company would broadly, yes, aim to do what you’ve just described.

Cosgrove: Well, your answer’s ambiguous. You’re not saying that a public sector company wouldn’t attempt to maximise price.

Makhlouf: No, no, I mean, I’m just reflecting the reality that—because you are talking about the Government’s current mixed-ownership programme and partial asset sale programme. The reality is that when a Government enters into this sort of space, there are all sorts of political considerations, which a commercial entity wouldn’t necessarily have to worry about.

Cosgrove: Yes, but the principles are the same, aren’t they?

Makhlouf: Broadly, yes.

Cosgrove: You try to resolve risks, you try to create certainty, you try to present a product to the market to maximise profit, right—correct?

Makhlouf: Yes.

Cosgrove: So my question is: given pending court action, given, as the Minister himself has said, this is the biggest economic meltdown in a couple of generations, given the declining performance of those SOEs, which must lead to price, have you advised the Minister—what advice have you given him on timing going forward?

Makhlouf: Well, we’ve given Ministers a whole bunch of advice on timing, but, I mean, it’s, you know, they’ve made a decision to—

Cosgrove: No, no, no.

Makhlouf: They’ve taken a decision to move the initial IPO that they were planning into next year, so—

Cosgrove: So what advice have you given? Have you given any advice that the process should be slowed, halted, or the time line changed, given pending court
action, which will crystallise later this year and could flow into next year, given the state of the SOEs, which has changed, i.e., Solid Energy, Air New Zealand share price, Meridian, in respect of Rio Tinto? Have you given any advice to the Minister that maybe he needs to look at the time frame or the structure?

Makhlouf We’ve certainly given some advice on looking at the time—

Cosgrove What is it?

Makhlouf Well, I’m not going to get into precisely what advice we’ve given, for the reason I’m about to explain. Ultimately, the Government will make the final decision on whether to actually go to market depending on market conditions at the time. So, I mean, there’s a broad strategy, which the Government has announced. But the final, final decisions aren’t going to be made today; they’re going to be made depending on market conditions at the time. And we will be giving advice at the time on that specific point.

Cosgrove Given that you and I agree on the basic private sector protocols—

Makhlouf Yes.

Cosgrove —do you think this is really a good time to be launching an IPO, given that there haven’t been many launches in New Zealand in recent times, if you want to maximise the price? And don’t you think, in launching an IPO during this period, that you are not going to maximise the price?

Makhlouf I wouldn’t say that. I mean, I think there are a whole bunch of factors that need to be taken into account when you decide to launch an IPO. The reasons the Government wants to proceed with this particular programme, I mean, you know, are well understood and well set out. Those sorts of factors initially need to be taken into account when you’re considering the arguments of when you want to go, how much you want to extract, and all those sorts of issues.

Cosgrove Given that we can’t, obviously, get the detail of the advice, can I put it another way. Are you regularly providing an ongoing risk assessment to the Government in respect of the factors we’ve discussed in relation to SOEs—in relation to sale?

Makhlouf Broadly, yes. I mean, we’re obviously prioritising our focus on some things rather than other things, bearing in mind the fact that the IPO has been moved to next year, and the court action. I mean, most of our focus right now is on helping the Crown in the court proceedings that are going to take place. But, I mean, we keep a very close constant eye on the market. We keep a close eye on the SOEs and how they’re doing. And we keep a close eye on, you know, the whole global context in which transactions will take place.

Cosgrove Briefly, on two other areas, I note—

McClay I just want everybody to have a fair crack at it, so if you could just make maybe one last question, and then we’ve got Maggie Barry, then Russel Norman, then—
Cosgrove: This is a financial review.

McClay: Yes, yes.

Cosgrove: On education you note specifically—you’ve given quite a swathe of advice supporting the Government’s education policies in respect of schools. Two points: have you at any stage advised the Ministry of Education or Ministers or Government that an opportunity exists to rationalise Canterbury schooling over and above a rationalisation that may occur as a direct result of the earthquake? And—just in case the chairman gets excited—in respect of Novopay and the debacle around that, what advice or oversight or monitoring, given that’s your function, and your report have you provided to Ministers and the Ministry of Education around that.

Makhlouf: We haven’t provided advice on Novopay to the Minister of Education or the Ministry of Education. On—I wasn’t, sorry, your precise question. I mean, we haven’t got involved in the detail of the Christchurch education reorganisation, or whether the Crown should be going further than the earthquake required it. I mean, we give the Minister of Finance a lot of advice on what the cost of the rebuild of Christchurch is likely to be and what the best way of managing it is.

Cosgrove: If you’ve given that advice—I may have got the Ministers wrong. Have you given that advice or views on the rationalisation of schools over and above those that require that as a direct result of the impacts—

Makhlouf: No.

Cosgrove: —of the earthquake to the Minister of Finance?

Makhlouf: I’m not aware of us having given any advice on that.

Barry: I congratulate you on achieving most of your service performance targets, but the change programme that’s being implemented, prior to your time and now, throughout, and particularly the performance improvement framework—I’m interested in the reviews that you’ve done of that, which continue to highlight a problem in that disconnection is between the leadership intent and the front-line delivery. Your own review has called for urgent attention to that. I’m just wondering what actions you’re taking to actually make sure that that gap’s closed.

Makhlouf: Sure. I’ll ask Vicky to come in on that in a minute. The one—the performance improvement framework process is one that we’re participating in alongside a whole number of other agencies and departments, so it’s part of—in some ways it’s a response to the earlier question about satisfaction with the Public Service. We are looking to improve the way we do things across the board. The change programme that was started in the Treasury, which did start, aspects of it did start before I became Secretary, and which we’re continuing, the really positive thing about the latest review is confirmation that we’re headed in the right direction. But it is a change programme, and it takes time and it requires clear direction and it requires engagement. So we’ve got a whole number of things that we’re putting in place, which perhaps Vicky can talk about.
Robertson: The main focus that came out of the review is making sure our connection from our front-line staff to departments and to the external world is probably less on the “No.” side and more on the “How can we work with you to achieve what the Government wants to achieve?”. So it’s moving from a Treasury that is probably more in the fiscally focused side and the numbers side to more collaboration and working in partnership. That’s going to take time. It’s a different way of working, and it requires not only an analytical strength but also ability to work in partnership with people. So that’s probably the biggest area where we’re trying to shift.

Barry: So, specifically, how are you doing that?

Robertson: Part of it’s an understanding—well, internally we’re doing things like talking to staff about—because it’s actually happening in some areas. Some of the conversations we’re having with the likes of Defence have really shifted over the last 3 or 4 years, where we’re actually talking to them about how they’re getting to more of a sustainable fiscal track, but it’s actually how do they deliver on their business as well. So it’s sharing some of those stories internally. There is a skill discussion around—you know, we tend to, with all these things, where there’s a skill gap around how we actually manage those relationships, so looking at that. The other thing is for Treasury staff it’s not just about being right and showing that they can have more impact and better impact by doing the good analytical work and talking to others about what their views are and influencing them, but also hearing what they are. So talking to them about what benefit it will be for Treasury, and the impact that we have in the organisation. Those are the things under—

Barry: I just have a further question on CASS, which is a relatively recent innovation, the Central Agency Shared Services Unit. You’ve combined there with the Department of the Prime Minister and Cabinet and the State Services Commission. The idea is you’re saving money, pooling resources, getting expertise, and making that work across those agencies. So an update on that would be useful.

Robertson: Yes, and this is a new thing for the public sector service. So we are doing something quite different in the public sector, and it’s probably early days in terms of how that’s going. What we’re finding with all of these things is, the positive things, is that, actually, yes, we’re actually combining to increase the resilience for our organisations. So that has actually happened, and it’s really throwing up some issues that we’re—some of our services have actually no time, and we need to do something about that. It’s early days in terms of, you know, each organisation has different systems, different processes, so bringing those together and matching one set for the three is a work in progress. But, yes, it’s a bit of a change for the Public Service, and I think it’s a really good model.

Barry: Quantifiable financial savings yet?

Robertson: Yes, we’re on track for financial savings.

Cosgrove: What’s your estimate? What’s your forecast for the financial savings?
Welsh This year’s a bit—about a million across the three agencies over time. This year’s still an investment period.

Cosgrove And next year?

Welsh Sorry?

Cosgrove And next year?

Welsh It’s moving up there. I think there’s—as Vicky said, there’s consolidation of systems and that, which will sort of be netted off the—

Cosgrove You don’t have formal estimates—forecasts, I should say?

Welsh Yes, it’s around $1 million.

Cosgrove For next year as well?

Welsh For 2013-14.

Norman I just wanted to start with what I call the quality of life work that Treasury is doing—looking at standards of living, rather than just GDP. Is one of the disconnects—and that’s the bit I don’t understand—is one of the disconnects that came out in that PIF report between the kind of talk that you’ve been doing and the leadership team has been talking about and the standards of living, or quality of life, as opposed to just, if you like, dollars—is one of the disconnects trying to get the rest of Treasury on board with that idea? Is that one of the disconnects in terms of the disconnect between the leadership and the front-line staff?

Makhlouf I don’t think it is, actually. I think the disconnect is more a—you know, we’re moving the organisation into a new space, which is more than the living standards framework; it’s about how we work with others, it’s about how we engage, and all that sort of stuff. So I think that’s more of a disconnect. The living standards framework—I think it’s well understood, actually, by most of the organisation. We’re still learning how to best apply it. So it’s a slightly different term. It’s a question of time.

Norman That’s good to hear. I guess, then, the follow-up is: one of the key challenges with applying that kind of framework is about the metrics.

Makhlouf Yes.

Norman So if you don’t measure it, it’s not going to enter the equation. So what work are you doing in terms of developing metrics, other than purely fiscal or monetary metrics, to measure broader quality of life indicators so that they actually influence the advice Treasury gives other departments?

Makhlouf Yes, well, that’s—we’re doing two things. One thing we’re doing is actually trying to implement the framework in some real policy work that we’re doing right now. The best example of that is the work we’re doing on the long-term fiscal statement, which we will be publishing next year. So actually having policy analysts say “Right, here’s our problem. Here’s a framework. How do we make it work?”. So some real stuff. But probably the most significant thing we’re doing is working with other agencies to try and address precisely your point about what is the best and most
comprehensive set of metrics that we can bring together across Government that will, one, help us with those answers, and, two, actually avoid duplication—I suppose duplication—across the system. So we held a workshop—when I say “we held”, the Public Service held a workshop last month, which involved a whole bunch of agencies across Government, to look specifically at the issue of metrics around living standards. So you will be seeing more about this particular topic as we go forward.

Norman So the Department of Statistics would seem to be an obvious kind of master agency for this.

Makhlouf Yes, absolutely. I think they may have—it may have been their workshop that we attended, I can’t remember.

Norman So you’re working with Stats—

Makhlouf Absolutely.

Norman Because they seem to be the obvious place to hold that kind of—

Makhlouf Absolutely, they’re key. And, actually, they find what we’re doing very helpful because—

Norman You’ve got more resources.

Makhlouf No, no. Actually, they’ve probably got more resource for this specific task. But our involvement is just to help to focus a broad range of—I mean, they’re playing in a whole load of fields. We’ve turned up and said “Well, actually, if we try and focus on this area, it would be good.”, and I think that’s helping.

Norman That sounds great—fantastic, innovative thinking coming out of Treasury, and I congratulate you. The other question is quite different, which is: I don’t know if you saw the IMF at its last meeting recalibrated the austerity multipliers or the fiscal multipliers.

Makhlouf Yes.

Norman Have you incorporated that recalibration into your modelling and projections? Because it is quite significant. They’ve taken a quite significant change of course now, saying that if you cut back on Government spending you’re going to have much larger multipliers through the economy.

Makhlouf Yes, I mean, we’re still looking at precisely what the IMF’s work is. It’s actually proved quite controversial in some circles. And it’s not completely bought in by leading economists around the world. So I think our position on that multiplier question probably still is what we set out in something we published back in May 2012, which I’m very happy to let the committee be reminded of. But in our monthly Economic Indicators of May 2012 we had an annex there, a short paper, just talking about this specific issue. And that’s really still our position.

Clark Secretary, my question relates to Treasury’s handling of the Crown retail deposit guarantee scheme. I guess the history is that during the first 5 months of the scheme Treasury didn’t monitor whether finance company deposits were growing in a way that increased the Crown’s risk and through
the more risky behaviour that happened on the back of the Crown
guarantee. You’ll probably recall that one finance company’s deposits grew
from $800,000 to $8.3 million during that period. South Canterbury Finance
Ltd’s deposits grew by 25 percent after the guarantee was put in place.
When the Auditor-General did an initial scoping exercise, her view was that
Treasury didn’t want to interfere in financial markets and so wasn’t
prepared to accept that things could have been done differently—I’m
paraphrasing, so correct me when you come to your answer, if I haven’t
quite got exactly what she said or your picture’s different. What I got out of
all of that—sorry, the other part of the picture is that the estimate is
anywhere between $100 million and $500 million of additional loss because
of the risky practices that went on unmonitored at that time, which is bigger
than INCIS, you know. It’s probably one of the biggest losses of Crown
revenue—at the upper end it would be enough to run Treasury for 5 years
or more—was lost. What internal reviews have you had, and what measures
have you taken to ensure that hundreds of millions of dollars won’t be lost
again in those kind of difficult situations that Treasury often picks up?

Makhlouf  I was going to say something about that we’re trying to help the whole
world avoid another global financial crisis, because that’s really one reason
why we had that problem. But, more seriously, what we’ve—you know, we
accepted all the recommendations that the Auditor-General made in her
review of the way we manage the scheme, and we’ve decided to implement
them. The key lessons, for me, about that—and I’m not commenting, really,
on the numbers that you were talking about; I’m commenting on the
recommendations and the lessons. The key—

Cosgrove They were termed “loose change” by John Hayes at the time. I think it was
300 million or 400 million bucks at least.

Makhlouf  The key lesson for me in that is we need to make sure we as an organisation
understand how to plan, how to project plan, and we’re actually doing a lot
more of that. So those are specific recommendations that we’re picking up.
I mean, the fact is, what happened on 12 October 2008 was an exceptional
set of circumstances. You know, decisions were made over a weekend and
were implemented extremely quickly. And the other huge lesson is, if you
can avoid it, plan before you make decisions. And we were basically—we, as
I say, the Treasury and, actually, the whole of the financial system, not the
world, made decisions and then spent a bit of time trying to recover and do
the planning. So that, for me, is the big lesson for us.

Clark The background, of course, was that the Aussies gave us a day to be in or
out on it, and it was put in place—to stop the run on banks here, and that is
what it is—but then 5 months passed. Treasury often gets called in with
emergency situations. If there’s a flu epidemic or a foot and mouth outbreak
or whatever, Treasury will make those decisions over the course of the
weekend, and there’s no doubt that there’s something to be learnt from this.
Has Treasury done any work on quantifying the amount of additional loss
as a result of that mishandling, in terms of how many hundred million
would have been avoided being lost if Treasury had monitored early on the
growing Crown risk?
Makhlouf We discussed this specific point at a previous committee meeting—

Clark Yeah, I’m wondering whether in the interim, because that was one of the—The Auditor-General’s report left open that opportunity for Treasury to learn further from this.

Makhlouf We are not doing further analysis of what the hypothetical costs may have been. What we are doing is implementing her recommendations, learning from them, and that’s our focus. So that’s what we’re doing.

Clark Final question: what kind of processes have you put in place for alerting the finance Minister to risks as they come up if he doesn’t know what the right question to ask is, or he doesn’t ask for any advice in terms of those growing risks? What processes have you put in place around making sure that the finance Minister is aware of risks growing in that way? Because there will have been some people in Treasury who will have observed those risks growing.

Makhlouf Risks across the whole—

Clark Well, you know, so that risk where there was tens, hundreds of millions of dollars in risk accruing but the finance Minister did not ask questions on it for a number of months. What kinds of processes—that end up being taxpayer liabilities—has Treasury put in place to ask those questions or ensure the Minister is briefed whether or not he knows what the right question to ask is?

Makhlouf I think the— I’m not sure any organisation can say it’s got foolproof risk management processes, but we’ve invested quite a lot in recent years to do just that. Having external people sit in our risk and audit committee, having a quite reasonably well-developed, anyway, strategic risk management programme, and actually investing more—and this is an ongoing thing—in looking really hard at our balance sheet and being clear that we understand the risks that are on the balance sheet. All of that stuff gets reported, ultimately, to Ministers.

Clark Thank you. I assume the choice of the word “foolproof” was not intended as a reference to the current finance Minister?

McClay No, no, no.

Clark No. Thank you.

Peters The first commercial matter that a guarantor would consider, no matter how urgent or how short the circumstances were for them to consider it, would be to cap the risk. That’s the first thing a guarantor would do. So I want to know why is Treasury not asking itself how could we have missed the most obvious question in a situation which we were dealing with like this? The cap, that is.

Makhlouf We gave the Government of the time a whole load of advice on the design of the scheme, and the Government then made decisions.

Peters Did it include a cap?
Makhlouf: There certainly was a cap on individual deposits, yeah. I can’t off the top of my head remember all the advice we gave Ministers, but we certainly gave that one.

Peters: So you gave advice that would have averted a blowout of the type that South Canterbury Finance undertook?

Makhlouf: Sorry?

Peters: So you gave advice that, if taken, would have avoided the blowout of the type that was experienced by South Canterbury?

Makhlouf: Oh, that’s probably too big a jump to make. We gave advice on the design of a scheme, which included advice on what the maximum guarantee should be—the individual deposits. We gave advice on the costs that should be charged to institutions participating in this scheme. So we gave a whole bunch of advice, and certainly I think it’s entirely reasonable to say that some of that advice directly had an impact on the size of the loss to the Crown, ultimately.

Peters: So you’re saying “The advice we gave, if it had been taken, was sufficient to alert those taking the advice that there needed to be a cap.”?

Makhlouf: Sorry, there was a cap. We did recommend a cap and there was a cap, but the level of the cap was a decision made by the Ministers at the time. I mean, they could’ve made it higher and they could’ve made it lower, and it would’ve had different effects probably.

Peters: This is a bit new. At the first time of the effective bailout the Crown guaranteed it was set at a certain level. Right? To deal with the immediate circumstances that happened then. Then you had those going from a famine to a feast of gilt-edged guarantee by a taxpayer prudential activity. What was in your report to alert those making the decisions not to allow that to happen?

Makhlouf: When we initially gave our advice?

Peters: Yes.

Makhlouf: I can’t remember off the top of my head, because what I do know is we did make recommendations to, as I said, cap individual deposits and to charge costs for entry into the scheme by institutions. As time went on, obviously, and we realised—this is the point of the Auditor-General’s report—we realised that what was actually happening in these institutions we decided to take more active action in terms of both intervening directly in those that—Putting inspectors in in those institutions that we were worried about. Well, all the stuff that’s set out in the Auditor-General’s report. But at the very beginning of the process, we gave the finance Minister of the time a series of advice, and, you know, the Government then made decisions. I can’t tell you if they’d made different decisions would South Canterbury have or have not fallen over. I mean, that’s speculation.

Peters: Well, rather than falling over, some were doing extraordinarily well out of it.

Makhlouf: I think it’s really—
Peters    Unparalleled advantages against others.
Makhlouf   Well, maybe they did. What’s really important to remember is that the context in October 2008 was to protect New Zealand’s financial system. And what the Auditor-General’s report sets out is we actually succeeded in protecting, the Government succeeded in protecting New Zealand’s financial system.

Peters   Look, say I accept that, my question has all been about that you overprotected it—that’s the point—on this occasion.
Makhlouf   Well, it’s a really hard question to answer.

Peters   All right. On this question of quality of life, could I just say, do you not think there’s something incongruous about Treasury doing this quality of life analysis? With respect, right.
Makhlouf   Not at all.

Peters   After 30 years and a certain type of orthodox neo-liberal advice, there are some out there who suspect you want to shift people’s goal posts to something they find more acceptable in a less materialistic world.
Makhlouf   That’s not where we’re coming from at all. Firstly—

Makhlouf   It’s both—it’s both. I’ll come on to that. Firstly, we’re not neo-liberal orthodoxists, or whatever it is they like to be called.

Cosgrove   Can we get that in writing?
Makhlouf   I’m happy to put it on the record now. What we are are people who think really hard about evidence and really hard about the quality of our analysis and really hard about how we’re going to improve the living standards of New Zealanders. Living standards—I mean, you can call it quality of life if you want—is what we’re focused on. In some ways I don’t think it’s a brand new thing that Treasury is doing, actually. What it is we’re actually explaining it better. We ourselves are understanding it better. And we don’t see inconsistencies between improving living standards and some of the stuff that people would describe as orthodox. I’m completely relaxed about it. You can call me unorthodox or you can call me orthodox, but we’re focused on improving New Zealand’s living standards.

Bennett   How about being practical? Is that a part of that?
Makhlouf   Yeah, absolutely—absolutely it’s part of that. Because what you can’t afford to do is to base your advice on completely impractical things or doing stuff that’s sort of based on something other than good evidence. Implementation and execution, I think, are as important pieces of advice and analysis as just theory.

Clark       What concrete steps does Treasury have to put in to develop that line of work, in terms of the alternative measures, sustainability, and indexes and so on over the coming period. The original paper that Ben Gleisner and others
authored kind of left things hanging, and yet we’ve got some reforms about
to go through the House. Did they pick that up and to what extent?

Makhlouf  Well, the original paper was published last May, and this July—I think July
or June—we published our next development of that, which is essentially of
a pentagon shape with the five corners. We’re now looking at how, I said
earlier, we’re actually going to do two things. How do we actually use it in
policy work? So that’s a process. We can’t just say “Right, we’re going to be
using this full stop.” So we’ve got our long-term fiscal work using that in a
big way. And other parts of the organisation are using that. And, secondly,
the measurement question from Dr Norman earlier where we’re looking at
how can we best get a set of measures that we can start working to. So what
I would say in a nutshell is that the living standards framework is a critical
part of the way we do policy, but it’s also a work in progress—both our
understanding of it and our application of it to our work.

Clark  There’s no intention to bring that into the current Public Finance Act in
some fiscal responsibility?

Makhlouf  Not as a statutory piece of legislation, no.

Parker  The Prime Minister and the Minister of Finance have both expressed
surprise at the household labour force unemployment figure that came out
last week at 175,000 and 7.3 percent. We’ve heard earlier from the Minister
that this doesn’t show up necessarily in unemployment benefits going up.
Does it have implications for the likely economic activity in the country, in
that there are fewer people or that there are more people out of work than
was previously anticipated?

Makhlouf  It’s certainly a factor that we’re going to have to take into account as we put
together our half-year economic and fiscal update. It’s the latest piece of
data that we would have to think about.

Parker  Is it consistent with the earlier pieces of data coming out from the quarterly
employment survey?

Makhlouf  Well, we were expecting—I think most people were surprised by last
week’s numbers, to be fair. I think we were expecting it to be a bit soft, but
we weren’t expecting it to be as high as it was. And one of the things that
we’re trying to do is to try to understand some of the underlying numbers.

Parker  So your expectation was for it to be a bit soft but not that bad. What was
your expectation of what the household labour force unemployment figure
would’ve shown last week?

Makhlouf  I can’t remember. But we have been saying that the pace of growth in the
first half of the year was going to slow down in the second half, but we
weren’t expecting the sort of number that’s come out. What we’re trying to
understand, because there is partly a puzzle this—the unemployment
benefit point you just made—but the fact that it’s happened that the biggest
jump was in Auckland at the same time when we’ve got the housing boom.
So there’s a bunch of puzzles around that that we’d like to really
understand. I’m also personally cautious about jumping to big policy
conclusions on the back of one set of numbers, but we do need to study it carefully.

Parker Your referencing to the housing boom—a housing price increase as opposed to a building boom, is that right?

Makhlouf Well, it’s the issue that’s underlying the housing affordability debate.

Parker Which is not—I just want to, I agree with you. You used the words “housing boom”, but it’s not a boom in the building of houses; it’s an increase in the price of housing.

Makhlouf Yes, that’s right.

McClay Point well made.

Cosgrove My question’s a two-parter. Firstly, do you stand by your department’s approval of the revenue being booked in the PREFU for the sale of State-owned assets, which hasn’t occurred, but the corresponding loss in dividends not being booked, and post your answer will lead to my next question.

Makhlouf We haven’t revised our—

Cosgrove You stand by it.

Makhlouf Yes, I do.

Cosgrove OK. Given that, why are both now accounted for in your budget projections?

Makhlouf Well, principally because—

Cosgrove You didn’t account for it in the PREFU. You stand by that. Now you are putting it in. Why, given that the sales may not happen at all, or are in jeopardy?

Makhlouf Principally—and my CFO may explain—because before the election no decisions had been made, but since decisions have been made. So it’s essentially an accounting treatment that’s dictating those.

Welsh As Gabs said, prior to the PREFU the decision hadn’t been made. It has been made since, and we follow accounting standards in the way we did that forecast.

Norman Treasury put out a paper about comparing private sector and SOE electricity prices. You may recall it a couple of months ago. In it you, in comparing the prices of the two, assumed that Contact Energy provided its discount to all of its customers—the private provider Contact Energy provided a discount to all of its customers—whereas the SOEs provided no discounts to any customers, and that fundamentally tilted the analysis in that paper. Why did Treasury decide to include that discount for Contact Energy but not for any of the other publicly owned electricity provider?

Makhlouf Maybe I will get Vicky—Partly, if I can just say, I think that particular type of discount—I mean, our analysis included all the discounts that everyone offers, and that one is an extra discount that they offer. Have I got that right? Go on John.
Crawford: We looked at the discounts that were available to customers, and all discounts that were available to customers were looked at, so that’s a discount that is available to customers. It’s not a question of how many people take it up or not; it’s looking at what is available to a customer in terms of ______.

Norman: There are no other—none of the SOEs in your price comparison you assume that no SOE provided a discount, that Contact provided for everybody, even though Contact doesn’t provide it for everybody.

Crawford: No, we didn’t assume it provided it to everyone. We looked at what was available to a customer. Contact is the only one that provides that discount for online payment, so it’s the only one that was included. The discounts that SOEs provide for prompt payment were included. So it was looking at what is the lowest price available to a customer who signs up to any particular supplier.

McClay: OK. Thank you very much for coming in.

conclusion of evidence
The Transport and Industrial Relations Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Transport, and has reviewed the reports on the 2011/12 non-departmental appropriations for Vote Labour and for Vote Transport, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

David Bennett
Chairperson
The Government Administration Committee has reviewed the report on the 2011/12 non-departmental appropriations for Vote Arts, Culture and Heritage and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
The Education and Science Committee has reviewed the reports of the 2011/12 non-departmental appropriations for Vote Education and Vote Science and Innovation, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Nikki Kaye
Chairperson
The Māori Affairs Committee has reviewed the report on the 2011/12 non-departmental appropriations for Vote Māori Affairs and Vote Treaty Negotiations and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Tau Henare
Chairperson
2011/12 financial review of the Ministry of Women’s Affairs

Report of the Government Administration Committee

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Ministry of Women’s Affairs

Recommendation

The Government Administration Committee has conducted the financial review of the 2011/12 performance and current operations of the Ministry of Women’s Affairs and recommends that the House take note of its report.

Introduction

The Ministry of Women’s Affairs provides policy advice to the Government to improve outcomes for women in New Zealand, a nominations service to put forward women candidates for positions of leadership in government entities and on public boards, and management of New Zealand’s international commitments regarding the status of women. The ministry’s total revenue in 2011/12 was $4.576 million and its total expenditure was $4.518 million, resulting in a surplus of $58,000.

Ministry’s goals

The Ministry of Women’s Affairs focuses on increasing the economic independence of women, increasing the number of women in leadership positions, and increasing women’s safety from violence. The ministry works with stakeholder groups, such as government agencies, community groups, and private-sector organisations, to achieve progress towards these goals.

In our previous financial review of the ministry we noted our concern about the lack of clarity in the ministry’s objectives and its strategy for achieving the goals set by the Minister of Women’s Affairs. A report by the Human Rights Commission, New Zealand Census of Women’s Participation, released in November 2012, argues that “women are being short-changed by those setting targets on their behalf,” and criticises the prevailing “pale ambition for women’s progress in New Zealand”.¹

Women’s economic independence

Increasing the economic independence of women is one of the ministry’s priority outcomes. This laudable long-term goal spans a number of policy issues, including the gender pay gap, women’s employment, early childhood education, and welfare reform. During the year under review, the ministry undertook research into the economic return to women from their skills, which will be published shortly. We look forward to receiving a copy of this research.

Paid parental leave

Paid parental leave for women is a key facet of women’s economic independence. We are currently considering the Parental Leave and Employment Protection (Six Months’ Paid Leave) Amendment Bill, which seeks to extend paid parental leave to six months. We asked whether the ministry had provided policy advice on the bill to ministers. We were told that the ministry had input into the Department of Labour’s policy processes, advising on comparative regimes in other countries.

¹ Human Rights Commission, New Zealand Census of Women’s Participation, November 2012, p. 3.
Gender pay gap and women's employment

Statistics New Zealand’s *New Zealand Income Survey* for the June 2012 quarter indicated that median average earnings increased to $22 dollars an hour and $19.95 an hour for males and females respectively, representing a gender pay gap of 9.3 percent. The ministry indicated that this figure has been trending down over the last three years. The ministry monitors the gender pay gap and reports its findings to the Minister of Women’s Affairs and other stakeholders. It also conducts research on this matter.

We asked whether the ministry was the lead agency responsible for closing the gender pay gap and for pay equity. We were told that the ministry is responsible for monitoring the gender pay gap; while others, such as Government agencies and private-sector companies, were responsible for the delivery of initiatives to close it. We consider it strange that there is no designated lead agency responsible for addressing this inequity.

Last year we expressed concern that the ministry had ceased work on pay equity in occupations and professions dominated by women. The ministry pointed to its research work as evidence of progress in this area, noting that the results would inform future policy advice.

Career and transitioning advice for women

We were interested to hear of the ministry’s career advice to women, particularly those embarking on their careers. The ministry’s work in this area focuses on women making career choices based on their interests, aptitudes, and skills rather than their gender. The ministry undertakes analysis in this area and works with other agencies and the private sector to broaden women’s perceived career choices.

Women in leadership

Increasing the numbers of women in leadership is the second of the ministry’s priority outcomes. The ministry’s nominations service provides nominees for State-sector boards and departments, and the ministry also works with other stakeholders, mostly in the private sector, to promote women’s inclusion in leadership positions.

Private-sector boards

In June 2012 the 25 Percent Group was established. It consists of chairs and chief executives of private-sector companies, and seeks to increase women’s participation on New Zealand boards to 25 percent by 2015. Currently, women hold about 14.75 percent of private-sector directorships. The ministry has provided the group with an analysis of international best practice in the area. The group recently launched its own voluntary code for executive recruitment companies, and the ministry advised on appropriate codes and models.

Last year we were told that the Government’s target was for women to make up 10 percent of representatives on corporate boards by 2015. We note that this target has already been exceeded. We asked the ministry whether the target has been revised to a more ambitious one. We were told to refer this question to the Minister of Women’s Affairs, as it was a Government target, not one set by the ministry. We encourage the ministry and the Minister to set a more progressive objective.
Women's participation on state-sector boards

We note that the representation of women on state-sector boards currently stands at 41.1 percent, a decline from the 42.3 percent level recorded in December 2008. The Human Rights Commission noted a general downward trend in the level of women’s representation. This pattern is of concern to us. We urge the ministry to do all it can to reverse the trend.

Violence against women

The third key priority outcome set by the ministry is to increase women’s safety from violence. The ministry seeks to do so by providing advice on measures such as managing risk factors like alcohol use, and improving the response to violence and preventing revictimisation, and on women’s access to justice. This year the ministry undertook a major research project into the sexual revictimisation of women and girls.

In the past we have expressed concern at the amount of violence directed at New Zealand women. It is very difficult to gather accurate data on domestic violence, as it involves intruding into people’s private lives. We were told that the ministry talks with other agencies about this issue. The ministry said that it had talked to the Police about their decision to suspend publishing data on family violence in their annual report. The data was still available from the Police if requested, but would no longer be published. We heard that the ministry’s relationship with the Police was very good, and that it worked with them closely on addressing domestic violence. None the less, we are concerned that the decision to stop publishing this important data was taken without consulting the ministry or other stakeholders.

On 25 November the Minister of Women’s Affairs cited Police figures stating that nine women died at the hands of their partners in 2011, compared with six in 2008. We are very concerned by this increase.

International obligations

New Zealand is a signatory to the United Nations Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW). This year, the Minister of Women’s Affairs reported to the CEDAW committee on New Zealand’s progress towards CEDAW goals between March 2006 and March 2010.

The CEDAW committee recently issued its concluding observations on New Zealand, which highlighted progress and areas of concern. We were concerned that the latter continue to heavily outweigh the former.

The ministry has oversight of the state’s implementation of CEDAW. It is currently coordinating the Government’s response to the latest report. We look forward to receiving an update on progress towards adoption of the recommendations. We noted with concern the Human Rights Commission’s criticism of the ministry and we intend to monitor progress in this area.

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2 New Zealand Census of Women’s Participation, November 2012, p. 117.
Appendix

Approach to financial review

We met on 12 December 2012 and 30 January 2013 to consider the financial review of the Ministry of Women’s Affairs. Evidence was heard from the Ministry of Women’s Affairs and advice received from the Office of the Auditor-General.

Committee members

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

Evidence and advice received


Ministry of Women’s Affairs, Responses to written questions, received 12 December 2012.

Ministry of Women’s Affairs, Responses to additional questions, received 14 January 2013.

Office of the Auditor-General, Briefing on the Ministry of Women’s Affairs, dated 12 December 2012.

Organisation briefing paper, prepared by committee staff, dated 26 November 2012.
Reports of select committees on the 2012/13 financial reviews of Government departments, Offices of Parliament, and reports on non-departmental appropriations

Fiftieth Parliament
February 2014
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Introduction

This is a compendium of all select committee reports on the 2012/13 financial reviews of departments, Offices of Parliament, and reports on non-departmental appropriations presented to the House during the 50th Parliament.

Financial review process

The process of reviewing departmental performance began with the presentation of each department’s or Office of Parliament’s annual report and financial statements of the Government for the year ended 30 June 2013. The process of reviewing reports on non-departmental appropriations began with the presentation of reports by the responsible Minister under section 32A of the Public Finance Act 1989.

The Finance and Expenditure Committee allocates to each select committee the task of conducting financial reviews of the performance of the particular departments or Offices of Parliament, as well as the reports on non-departmental appropriations. The annual report of each department or Office of Parliament, and the report on each non-departmental appropriation, accordingly stands referred to the select committee allocated the financial review.

The financial review of a department or Office of Parliament examines both current operations and the financial and service performance for the previous financial year, as recorded in its annual report and financial statements. The financial review of reports on non-departmental appropriations examines either a statement of service performance that compares actual performance with forecast performance, or a statement of results produced or actioned against those forecasted to be achieved. The manner in which the financial reviews are conducted is a matter for each select committee to determine.

Consideration of reports by the House

The financial reviews are considered in the House during the committee stage of the Appropriation (Financial Review) Bill. The debate also provides an opportunity for debate on the Government’s financial position.

Financial reviews of security agencies

The financial review reports of the Intelligence and Security Committee, a statutory committee established pursuant to the Intelligence and Security Committee Act 1996, are included for ease of reference.

Financial reviews of Crown entities, State enterprises, and public organisations

Select committees also conduct financial reviews of Crown entities, State enterprises, and other public organisations. Similar processes are followed but there is a separate timetable for examination, report, and debate. The reports of select committees on their
examinations of Crown entities, State enterprises, and other public organisations will be published in a separate compendium in mid-2014.
2012/13 financial review of the Ministry of Business, Innovation and Employment, and of the non-departmental appropriations for Vote Communications, Vote Economic Development, and Vote Tourism

Report of the Commerce Committee

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Ministry of Business, Innovation and Employment and non-departmental appropriations for Vote Communications, Vote Economic Development, and Vote Tourism

Recommendation
The Commerce Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry of Business, Innovation and Employment, and reviewed the reports of the non-departmental appropriations for Vote Communications, Vote Economic Development, and Vote Tourism. The committee recommends that the House take note of its report.

Introduction
The Ministry of Business, Innovation and Employment, established on 1 July 2012, integrates the functions of four former government departments: the Ministry of Economic Development, the Ministry of Science and Innovation, the Department of Labour, and the Department of Building and Housing. With a principal policy goal of increasing New Zealanders’ real household income by 40 percent by 2025, the ministry has responsibility for building a competitive and productive economy, improving public services, creating affordable housing, and rebuilding Christchurch. The ministry employs over 3,500 staff and supports 14 ministerial portfolios; its chief executive is David Smol.

Financial and service performance
In the 2012/13 financial year the ministry administered Votes Economic Development, Science and Innovation, Employment, Tourism, Accident Compensation Corporation, Housing, Communications, Commerce, Consumer Affairs, Energy, Labour, and Immigration. For the 2012/13 financial year, the ministry received total revenue of $577.8 million, and its total expenditure amounted to $559.4 million, resulting in a net surplus of $18.4 million.

The Office of the Auditor-General rates the ministry’s management control environment, financial information systems and controls, and service performance information and associated systems and controls as “needing improvement”. These ratings reflected the fact that the ministry is still using systems and controls inherited from the four former departments, and the speed of the ministry’s formation.

Review of reports of non-departmental appropriations
In the 2012/13 year the ministry’s non-departmental actual expenditure amounted to $49.259 million for Vote Economic Development, $116.420 million for Vote Communications, and $8.306 million for Vote Tourism. Expenditure reported for Vote Communications included

• appropriations for Fibre Drop Costs
• Telecommunication Development Levy Funded Procurement for Non-Urban Infrastructure and the Deaf Relay Service
• Broadband Investment (Rural Supply).

In Vote Economic Development, non-departmental appropriations were for the
• establishment and operation of Food Innovation Network New Zealand
• Large Budget Screen Production Fund
• Major Events Development Fund.

The non-departmental expenditure under Vote Tourism was for the National Cycleway Fund – Extension.

Ultra-fast broadband

We asked the ministry for comment after hearing reports of Chorus being unable to fulfil its financial obligations for the roll-out of ultra-fast broadband. Chorus is a telecommunications infrastructure company which manages a network of copper and fibre cables and local telephone exchanges. It has entered into a contract with Crown Fibre Holdings to build most of the planned ultra-fast broadband fibre network. The ministry told us that moving from a copper to a fibre network may take many years, but the benefits would ultimately be significant. We asked whether any legal analysis had been undertaken of remedies in the event that Chorus defaulted on the terms in the contract. The ministry said that as it is not party to the contract with Chorus it could not comment for Crown Fibre Holdings. The ministry had not sought independent legal advice regarding a contract default. The ministry also refused to speculate on the outcome of discussions between Chorus and Crown Fibre Holdings, or whether a legislative change would be required if the contract was renegotiated.

Copper pricing and advice

We asked whether the ministry had calculated the change to the price of Chorus’ copper network provision to other internet retailers in 2011, when they were developing a cost-based pricing principle for telecommunications legislation. The ministry said that although they developed the policy, it is up to the Commerce Commission to use the methodology set out in the legislation to determine price. We heard it was highly probable that Chorus would have completed extensive calculations based upon the cost-based pricing principle before entering into the contract with Crown Fibre Holdings, but the ministry denied doing this calculation themselves.

We asked the ministry what advice it had provided to the Minister on the impact of the cost-based principle on the copper price. The Minister was advised in 2011 that the price might drop by a small amount but equally might increase by up to 20 percent. The ministry did not agree that retail prices for copper broadband would increase significantly and said so in the regulatory impact statement for the Telecommunications (TSO, Broadband, and Other Matters) Amendment legislation. We note that although the ministry was responsible for a legislative change that would affect the copper price, the ministry did not provide the Minister with more detailed calculations. We were told that it was impossible to determine

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1 Chorus was established as an independent business from 1 December 2011, following its demerger from Telecom Corporation of New Zealand Limited.
We asked whether health and safety was given appropriate priority in the establishment of the ministry. The chief executive said that health and safety is a high priority; in 2012/13 it developed the Health and Safety (Pike River Implementation) Bill, established and responded to the recommendations of an independent taskforce on workplace health and safety, and worked to establish WorkSafe New Zealand. The ministry currently employs 343 health and safety staff; 125 are inspectors. We heard that it is concentrating on improving the effectiveness of health and safety inspections.

Deaths in the forestry sector

We are very concerned about the number of work-related deaths occurring in the forestry sector, and sought information from the ministry about the specific actions being taken to address this problem. The ministry told us it has recently rolled out a Safer Forestry Harvesting Project, to target the areas, such as felling and dragging timber, which have led to serious injuries and fatalities. Since the project’s inception, 146 assessments have been carried out, and 48 percent of them have resulted in enforcement action. We consider that scrutiny of workplace injuries must prioritise the sectors and work areas of highest risk.

We questioned the ministry about the recipients of enforcement actions in the forestry sector; we discussed the importance of holding agents and forest-owners as well as contractors to account for the sector’s safety record. The ministry said that most of the operations forced to shut down were logging gangs or contractors. However, a new approved code of practice for forestry was released in December 2012. Under the best-practice guidelines in the code, every duty-holder, including owners and agents, has explicit obligations. The ministry said that the current legislation does not allow it to be wholly effective in bringing enforcement actions against owners, but it believed that the new Health and Safety (Pike River Implementation) legislation would allow more accountability at the ownership level. We were told the ministry is using education and engagement measures to prevent workplace injuries.

Recognised Seasonal Employer scheme

We inquired whether there were plans to expand the Recognised Seasonal Employer scheme and whether the employers involved had been surveyed about its outcomes. We heard that the current policy allows 8,000 migrants to enter New Zealand as temporary seasonal workers in horticulture and viticulture each year; 7,500 workers took part in the year ending 30 June 2013. The ministry said that employers had been surveyed many times since the policy’s inception and expressed high levels of satisfaction. Benefits from the scheme included the transfer of knowledge to the Pacific Island states whose nationals took part. The ministry is proud that the World Bank said recently that the scheme could be used as a model policy.

Immigration and unemployment

Employers in the horticulture and viticulture sectors have reported that on the basis of crop forecasting, demand might increase to 10,000 workers each year. However, the ministry’s primary aim is to maximise the productivity of the workers already taking part by encouraging them to move between employers and regions during the 7 months they are
permitted to work. It said that any expansion of the scheme would have to be balanced against New Zealanders’ access to jobs.

We asked whether unemployed New Zealanders were considered for work under the scheme; the ministry said it worked closely with the Ministry of Social Development on a regional level when planning the supply of workers under the scheme. We were told that it was unlikely employers in the dairy sector would be included in the scheme, as this sector was adequately serviced by New Zealand citizens and residents, and through the existing immigration arrangements.

**Competitive markets and businesses**

We noted that the ministry’s 2013 annual report recorded an improvement in New Zealand’s competitiveness as a market, and asked about the causes of it. We were told the ministry seeks to drive economic outcomes principally through the Business Growth Agenda. Reforming regulation affecting businesses is a key factor, along with creating efficiencies in processes already established, such as those under the Resource Management Act 1991. The ministry also actively supports business innovation through Callaghan Innovation, which was established as a stand-alone Crown entity in February 2013. It was formed to facilitate access for businesses to the research expertise in universities and Crown research institutes.

**Innovation**

The ministry told us that the main barrier to innovation for New Zealand businesses was cost. Many small businesses cannot afford the fixed costs associated with developing, prototyping, and testing innovations. The ministry and its partners are working to improve access to support and advice for businesses. The ministry also works with the New Zealand Venture Investment Fund to ensure early-stage capital is available.

**Increasing exports**

We asked what the ministry was doing towards increasing exports to 40 percent of Gross Domestic Product by 2025, a key goal of the Business Growth Agenda. The ministry believes that improving market access for New Zealand businesses is central to increasing exports. It considers that the proposed Trans-Pacific Partnership agreement would improve access to markets in the United States and Japan, and is supporting the Ministry of Foreign Affairs and Trade in trade negotiations. The ministry works with New Zealand Trade and Enterprise to provide information and services to exporting businesses.

**Ranking on trade index**

We noted that New Zealand’s ranking on the 2012 World Economic Forum Enabling Trade Index had improved slightly to fifth out of 132 countries. The ministry said the index measures how open a country’s economy is by comparing policies, services, and other factors in facilitating international trade.

**Migrant investment**

We noted that migrant investment (that is, money brought into the country by immigrants) had increased by over $350 million in 2012/13 from the previous year and asked for further information. We heard the ministry has two immigration categories that encourage migrant investment: Investor, which requires a minimum investment of $1.5 million, and Investor Plus, with a minimum investment of $10 million. These policies, implemented in
2009, have attracted a total investment value of approximately $2 billion to date. The ministry attributes the growth in migrant investment to the establishment of these immigration categories. It works with New Zealand Trade and Enterprise to target investor markets and leverage New Zealand’s reputation as an open, well-regulated economy.

**Petroleum and minerals**

We asked for an update on permits granted for oil and gas exploration. The ministry now operates a “block offer” tender process which it said allows proactive management of resources and more consultation with iwi, hapū, and local government, and helps market New Zealand as a desirable location for the oil and gas industry. The ministry considers the 2013 block offer had been very successful, with 10 new oil and gas permits issued. This is the same result as 2012, the year the block offer strategy was introduced.
Appendix A

Approach to financial review
We met on 5 December 2013 and 30 January 2014 to consider the financial review of the Ministry of Business, Innovation and Employment and of the non-departmental appropriations for Vote Communications, Vote Economic Development, and Vote Tourism. Evidence was heard from 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
Hon Clayton Cosgrove
Clare Curran
Kris Faafoi
Julie Anne Genter
Mark Mitchell
Hon Chris Tremain
Dr Jian Yang
Hon Shane Jones replaced Kris Faafoi for this item of business.

Evidence and advice received
Ministry of Business, Innovation and Employment, Responses to written questions, received 27 November 2013.
Ministry of Business, Innovation and Employment, Responses to additional questions, received 24 January 2014.
Organisation briefing paper, prepared by committee staff, dated 29 November 2013.
Appendix B

Corrected transcript of hearing of evidence 5 December 2013

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

Witnesses
David Smol, Chief Executive Officer, Ministry of Business, Innovation and Employment
Greg Patchell, Deputy Chief Executive, Market Services
Brett Murray, General Manager, High Hazards and Specialist Services
Michael Bird, General Manager, Institutions and Systems Performance
Nigel Bickle, Deputy Chief Executive, Immigration New Zealand
Peter Thomas, Deputy Chief Executive, Corporate Services
Brad Ward, Manager of Telecommunications Infrastructure and Resource Industry Group
David Binnie, General Manager, New Zealand Petroleum and Minerals

Young Welcome to the Commerce Committee. [Opening comments]

Smol I would like to introduce my colleague Greg Patchell, who is the Deputy Chief Executive Officer for our Market Services Group, and behind me I have a very small selection of people who can hopefully answer your questions. If we can’t, we will come back to you.

Thank you for the opportunity to meet with you. I will comment briefly on four things. One is the purpose and targets we’ve developed for ourselves as a new organisation; second is progress we’re making on the merger; third is progress on supporting the Government in its delivery of its priorities; and, the fourth is our delivery of core business.

We came into being on 1 July 2012, from four previously existing agencies, and moved to our integrated structure on 19 November 2012. We’ve established as our purpose to grow New Zealand for all. Growth is an economic concept. We have a part to play in supporting stronger economic performance, very much though as a means to an end—the end being a better quality of life for New Zealanders. The “for all” captures the idea that it’s growth that will benefit all New Zealanders—New Zealanders today and of the future. Clearly the way the growth is achieved is also very
important—not, for example, by compromising the safety of our workplaces or the integrity of our environment.

We’ve set ourselves some targets. The primary one relates to real median household incomes, and we have supporting targets relating to business competitiveness, trying to achieve a high employment economy and affordable housing.

The merger itself has been a major focus over the past year, and we have made real progress, albeit with many small bumps and frustrations along the way. We do have the integrated organisational structure up and running. We have just recently moved to one financial management information system, although we’re still cleaning up the data in that system. We’re working towards having one payroll system, and we’ve commenced negotiations to move to a single collective agreement.

We’re well advanced in migrating all our people to a single IT platform, and next year we will move all our Wellington people into a single office in Stout Street, and we’re progressing property consolidations around the country.

While completing the merger of four into one, we’ve more or less simultaneously also been working to separate WorkSafe out. WorkSafe will be a stand-alone Crown entity focused on health and safety, from 16 December. We are joining up policy in related areas—for example, skills innovation and economic development, in our contribution to the Canterbury recovery, and in support of Māori economic development. In areas of service delivery we’re pooling resource wherever we can—for example, in applying best practice to areas such as dispute resolution, to our contact centre support, to occupational regulation, and to consumer protection.

One consequence of the merger, which I just want to cover briefly, is that we’ve been working with multiple systems and information sources. The four previous organisations didn’t define everything in precisely the same way. We have put a huge effort into answering all of your questions. Having said that, some of the data has been put together from disparate sources and we just need to keep that in mind. Some of the year-to-year comparisons probably aren’t completely like for like, but we’ve done our best.

We’ve put a big effort into supporting Government Ministers in their areas of priority. A lot of work has gone into support of the Business Growth Agenda. We’ve had a material part to play in each of those areas—innovation, skilled and safe workplaces, infrastructure, capital markets, natural resources, and export markets. We’ve also led the preparation of detailed economic reports on our sectors and regions.

We lead the Better Public Services key result 9, which is focused on transforming Government’s interface with business, and we support a number of the other key results.
In Canterbury our work has been focused mainly on supporting the physical rebuild in the areas of housing, including temporary housing, labour supply and procurement, and ensuring that workers, including migrant workers, are adequately protected in the course of the rebuild, not least from a health and safety perspective. We’re supporting the potential development of an innovation precinct, of a convention centre, and the recovery of the tourism sector down there.

We’re supporting Ministers’ work on Māori economic development, mainly through the He Kai Kei Aku Ringa joint Crown-Māori strategy, particularly focused on supporting Māori businesses and better skills and employment outcomes for Māori.

In the science and innovation area, work has included supporting Ministers in establishing the National Science Challenges, which are intended to ensure that Government expenditure on science goes to those areas of most importance for our country.

Cosgrove

Is Colin Craig participating in that?

Smol

Not to my knowledge, no. And to the creation of Callaghan Innovation, which has a particular role to support our firms in the high-value-manufacturing and services sectors.

In the skills area we’ve worked closely with the Ministry of Education to support the Minister in the development of the draft tertiary education strategy, and we’re particularly focused on strengthening links between our tertiary and training systems and skills and employment.

In the labour area the particular focus has been health and safety. We’ve done a great deal of work to support Ministers in their implementation of the royal commission recommendations post Pike River. We’ve supported the task force that looked at the health and safety system as a whole, and it has resulted in a substantive rewrite of the primary legislation. I’ve already mentioned the establishment of WorkSafe, the new stand-alone health and safety regulator, and in turn we’ve focused on lifting our game and ensuring that our front-line people have the capability and the support to be effective. We’ve supported the Accident Compensation Corporation in their work on injury prevention.

In building and housing we’ve continued work in response to the leaky buildings problems and the aftermath of the Canterbury earthquakes, and built momentum in work on affordable housing and on social housing. The Auckland Housing Accord and the work on special housing areas in Auckland, with the council, are practical examples of that.

In immigration we’ve progressed work on Vision 2015—a transformation of the way immigration services are delivered, moving a big part of the process online, which will be more flexible and should provide a more consistent service for people using the system. It will enable us to manage risk better, and ensure that we are attracting key skills to this country.

In our work leading whole-of-Government procurement reform, we’ve continued to make gains. We’ve published some new sourcing rules, which
clarify a number of issues for businesses and for departments. We’ve progressed all-of-Government procurement contracts. We’ve assisted a number of departments in complex procurements. We’ve continued to work to raise capability in procurement across the public sector, and on lowering the cost of participation in supplying to Government for businesses.

In petroleum and minerals we’ve supported the Minister in amending the Crown Minerals Act and in particular have focused on strengthening linkages between the licensing regime, health and safety, and the environmental protection aspects, without compromising the independence of any of the various decision makers, and we’ve progressed the block offer process, which is now an annual event.

In telecommunications we’ve supported Ministers in modernising the interception and network security regimes, without any change to the underlying controls within that system, and supported the ongoing roll-out of rural broadband and of ultra-fast broadband. We continue to support the Ministry of Foreign Affairs - led free-trade negotiations, of which, as you know, the Trans-Pacific Partnership is the most prominent.

In the commerce area we’ve supported the Minister to pass through Parliament the Financial Markets Conduct Act and the Patents Act, both of which are significant rewrites of important areas of our economy.

Throughout all this change we’ve maintained a real focus on service delivery. I’m not aware of any major interruptions to services to our various customers in areas such as the delivery of visa services, the Companies Office work, the Intellectual Property Office, residential tenancy, and employment mediation services. That we have been able to maintain service delivery to that extent is a huge tribute to the professionalism and commitment of all our people from across the four founding agencies and those we have recruited since, as well as a great deal of support from a number of partners across Government.

As MBIE we have made a good start. We’ve got a very long way to go if we are to maximise our contribution to growing New Zealand for all. Thank you very much.

Young Thanks very much for your introductory remarks, Mr Smol. That was a pretty comprehensive brief of what you’ve done in the last year. It’s been incredibly busy, and I know it’s been through a transition period of time. We now come to questions.

Jones Greetings. There’s about 39 or 40 people I’ve counted, and there’s a few journalists whom I see too much of. How many people have you brought here today?

Smol Well, we can count them, if you like. I’m not sure they’re all our people, but certainly most of them are. If you count to 39, that’s probably slightly higher than the number who are ours.

Jones Why have you brought several rugby teams with you?
So that we can answer your questions to the best of our ability. We employ around 3,500 people. We support 14 ministerial portfolios. We work with 25 Crown entities. This is 1 hour a year; we want to do our best to deliver as good a service to you, to help you do your job, as we possibly can.

In terms of health and safety, are you confident that in the transition health and safety has been given a suitable priority, and, given the large-scale number of deaths in the forestry, do you feel any responsibility that you haven’t done enough?

Well, on the first half of your question, we have put a huge amount of focus on health and safety. I would say we’ve had no higher priority. That includes, as I’ve said, responding to the Pike River royal commission recommendations specific to the mining sector, working with the task force on the legislation that governs the whole sector, the establishment of WorkSafe. While all that’s been going on, we have also been very focused on improving the effectiveness of our front-line health and safety inspection.

How have you done that?

It includes a much more proactive approach across particularly all the high-risk sectors, and I might ask Brett Murray. Do you want to come up, Brett, and just talk about the—Brett heads our High Hazards Unit. He will transition over to WorkSafe in mid-December. He can talk to you.

Well, I can make it simple for you. I just want to test whether or not in the big bureaucratic transition—and I accept that there’s always challenges there—have you taken your eye off the ball and as a consequence New Zealanders have died because of the regime you’re bureaucratically responsible for in the forest?

No. In fact, just the opposite. Our Safer Forest Harvesting Project, which has been rolled out, has probably put a greater emphasis and focus on forestry than we’ve had for a number of years, and we will continue to do that in successive years.

In the emphasis on forests, can you elaborate? What does that actually mean?

Well, it’s an evidence-based approach, but most of the fatalities and serious injuries are occurring in felling and breaking out—so, felling and dragging the timber out. As you probably know, there’s a number of issues in the forestry sector also around work planning, fatigue, and other issues related to transportation, but the project that we’ve targeted is around that. So we’ve conducted 146 assessments since the project began. Forty-eight percent of those resulted in some enforcement action. And we’ve actually shut down 14 operations temporarily.

So when you say “operations”, are these contractors?

Well, they’re individual operations. So that could be logging gangs. Primarily, in terms of shutdown operations, it would logging gangs that we—
Jones Presumably you’re finding that there are cases where the code of, I mean, good practice hasn’t been met, etc. Are you focusing also on the agents working on behalf of the forestry industry and not just the hapless contractors and the growing number of people in their gangs who are dying?

Murray No. In fact, there’s a new ACOP out this year. We’ve distributed just over 5,500 copies of that.

Smol Could you just explain what an ACOP is.

Murray So, that’s an approved code of practice for forestry.

Jones Is that legally enforceable?

Murray Yes, it is. Well, it’s evidence of best practice, which is mandated under the health and safety Act.

Jones OK. Now, the best practice—does it relate to the agents securing the services of a contractor, as opposed to just the contractors?

Murray Yes, it will. So, every dutyholder has duties under the Act.

Jones So when you’ve gone and closed and suspended operations, how many people have you pinged who are representatives of the owners of the forests, as opposed to just focusing on the contractors? Because, as I understand the code and good practice, it takes two to tango. Now, correct me if I’m wrong, but public impression is that there’s a lot of focus on the contractors and allegations that they’re all on dope, etc.—grossly unfounded. Are you talking and enforcing and pinging the agents of the actual estate owners as well?

Murray Where we can, yes, but we’re certainly in direct dialogue with them. We have a clear understanding that good management of health and safety in forestry or any other agency starts at the top down, at the board level down. There’s some quite—

Jones Are you preparing any legal action against people at the top down, or are you starting at the bottom up?

Murray Well, it may not be the bottom up or the top down. We look at the dutyholders right across the spectrum, so we may lay charges against several entities.

Jones So the charges you may lay, are they going up the tree, or are they largely at the level of the contracting crew cutting, harvesting?

Murray It probably varies. Our focus is on the top of the tree down, but, obviously, on site around the logging gangs, the notices are served on the gangs in terms of pinging them. So when we put a prohibition notice on, of the 14 we’ve done in this project, 11 of them have been for having no systems or processes. The follow-up work around that is to go up the tree and ask those questions.

Jones Just one or two more questions and I’ll finish up—one more. So can you assure me that when these engagements are taking place, you will be
prepared to take legal action against the contractee—i.e., the person who is contracting, not just the seller of the services? Because the sense that we have is that there’s a great hullabaloo about the people cutting the trees, but the ones with all the money and all the wealth and a stake in the actual estate, you’re either not talking to them or you’re intimidated by them.

Murray Certainly not intimidated by them, and we are talking to them. The current legislation, it’s probably fair to say, doesn’t allow us to be as effective as we could be at the top of that tree, which is—the new health and safety at work Act that’s going to be coming out will put a lot more responsibility on those high levels.

Jones So the legislation is effective in terms of hitting the corporates?

Murray We’re able to hit the corporates, but it depends on the relationships in terms of the direct links through the chain around the dutyholder’s responsibilities.

Jones And final question—of the 3,500 people in this phalanx, how many are employed in the OSH division?

Murray In terms of inspectors, we’re talking, or overall?

Cosgrove Total.

Jones Actual front-line people going out, talking to the crews, talking to the forest owners both before and after our fellow New Zealanders die.

Murray We’ve got nine what you would term forestry inspectors doing inspections, but in July this year we separated the proactive work, if you like—so, the assessments—from the reactive investigation work. So we have 35 investigators. So in terms of incidents on sites, they would be investigated by investigators—

Jones But there’s nine forestry guys—

Murray There’s nine—

Jones—which is a quarter of the number of the bureaucrats you’ve arrived with here today. That’s the small number of inspectors actually dealing with this tragedy in the bush—have I got that right? Thank you.

Murray Well, the figure is what it is.

Cosgrove Sorry, what’s the total number of the OSH division? That was the other question that was asked. He asked front-line but he also asked the total.

Smol It’s of these 330-something of that—hold on. It’s 343. One of the conclusions of, I think, both the Pike River royal commission and of the independent taskforce is that the OSH, as you call it, capability has been under-resourced. It will be better resourced in the future. We accept we’ve got a long way to go before the system is operating as effectively as it needs to.

Cosgrove What are the other 300-odd doing?

Smol In the OSH division? Well, there are a range of functions—front-line inspectors, people who provide the tools, people—
Cosgrove: You just said there were 35 of those.

Smol: No, there—

Murray: No, there’s currently 125 inspectors. We’ve just taken on 40 new recruits. We’re looking to build the inspectorate up to 200 in WorkSafe, as it will be, plus the High Hazard Unit inspectors, plus we have another 20 staff who are specialists who are health and safety warranted, so such people as engineers, occupational hygienists, etc.

Young: So that’s a response from the royal commission work on Pike River. That’s where that work commences, is it?

Smol: Yeah. We’ve largely implemented the recommendations specific to the mining industry, and through implementing the findings of the task force and the establishment of WorkSafe we will complete that process.

Mitchell: Just a quick supp on that. Just clarifying—so your approach is to—say the 14 operations that you’ve shut down, which is obviously the front line where the serious injuries and deaths are occurring, you’ve shut them down. Your focus is, there, to try and restore them back to a safe working environment, and then you will start looking at the board level in terms of where there’s more responsibility, where the responsibility lies. So your’re focusing on trying to fix the area where the serious injuries and deaths are occurring, and then you’re returning your focus to who else has got responsibility in this. Would that be a fair summary?

Murray: Yeah, so it is a multifaceted approach using educating, engage, and enforce where appropriate. So there is strong engagement with the sector including those contracting companies while educating the guys who are cutting down the trees and enforcing where we need to. I just want to be clear around the enforcement action when I say “shut down”; that’s a prohibition notice, and they’re only issued if there’s an imminent danger of harm to people so the inspector takes action. That is then focused further up the tree because the contractor has—from the principal on down—clear responsibilities for people under them.

Cosgrove: Given that I’m advised there’s been one death almost per month in the forestry industry, do you believe you’re taking this issue seriously enough?

Smol: We’re taking it very seriously.

Cosgrove: I mean, industry deaths occur. It’s tragic, but in the frequency that this has occurred over a 12-month period I get the impression that the public think that there’s not enough action being taken because they’ve simply continued. Either the contractors just aren’t fearsome of your resources and your inspectors or why are the deaths continuing? You can blame legislation, but guys are actually dying—one a month at the moment.

Murray: I don’t blame legislation. We’ve issued 182 notices, so inspectors are certainly out there being effective. It’s up to industry, and I’m talking about that they’re supposed to wake up to the fact that they have responsibilities for their people, and we’ll be pushing that quite strongly.
Cosgrove Can I put this to you: it seems to me that some of the priorities are wrong. I can give you an example, in my patch, where a guy in a kitchen business cut his finger even though he’d had the training, and the boys came in from OSH like storm troopers and threatened thousands of dollars of fines and what have you and were all over the small business. And this bloke literally cut his finger. Yet we’ve got a death once a month for 12 months, and you’re handing out pieces of paper.

Smol We focus our resource on the areas of highest risk. We’re not saying for a moment that the rate of fatality in the forestry industry is acceptable. We have been far more proactive and allocated more resource than in the past. Is the current state satisfactory? No, it’s not. We know we have more work to do.

Cosgrove Well, with respect, it conjures up visions of the IRD where they go after the small guys because they’re easy fish to fry—the big guys are a lot tougher to get to. So, as I say, the small businesses, the inspector is around within 5 minutes if there’s a minor a problem. And I’m not saying that they shouldn’t be, but the emphasis doesn’t seem to be where there is catastrophic failure and men and women are dying.

Smol We are absolutely prioritising those areas of highest risk.

Jones Are there anything more important, Mr Smol? At the moment?

Smol I agree.

Cosgrove And as the CEO you’d be well placed to do something about it.

Smol Yes, and we are. And I accept we have more to do.

Lotu-Iiga Thank you, Mr Smol and your team. Unlike my colleagues here, I actually think having people here to answer the questions, not just for us but for the public, is really important. So thank you for coming.

I appreciate you talking about the purpose of growing New Zealand for everyone. You set out some targets around incomes. Obviously, competitive businesses and competitive market is really important to that. I note in your annual report some of the measures in which you look at competitiveness. One around Global Competitiveness Index, World Economic Forum—obvious improvement there, 23rd to 18th. You’ve got the burden of government regulation; you’ve gone from 14th to 13th. So, what are the factors, given there’s a real focus on providing jobs, growing the economy for New Zealanders. What are those factors that are bringing about some of these positive changes in terms of the competitiveness?

Smol What we do is focused mainly through the Business Growth Agenda, and it’s a broad-based approach to seeking to support better economic outcomes. Some of those measures you’ve just described take a view about the extent to which regulation both achieves its purpose but is also enabling growth. We have reformed a number of areas of regulation that are important to business. We’ve also looked to support the provision of better infrastructure to improve the operation of areas like the Resource Management Act to speed up processes there—not necessarily to change
outcomes, but to improve process. We’ve supported a more focused approach to supporting business innovation, for example through the creation of Callaghan Innovation. We have continued to support improved broadband facilities and so on. So there’s a whole range of things we’ve done. It’s always hard to pinpoint exactly what’s caused an improved rating in international surveys, but it is often the cumulative effect of change that is occurring.

Lotu-Iiga  Let’s look at innovation, because you’ve mentioned it a couple of times during your introduction. In your report, again, you talk about some of the barriers that hamper our businesses in terms of innovating and growing. The top barrier that you identify is the cost to develop or introduce, reported by 21 percent of businesses. Can you just elaborate on some examples of that? Because, obviously, that’s impinging some of these businesses from innovating.

Smol  The costs? Sorry, what did you say?

Lotu-Iiga  It says the cost to develop or introduce reported by 21 percent of businesses.

Smol  To introduce a new product?

Lotu-Iiga  Yes. It’s part of the Innovation in New Zealand: 2011.

Smol  I think the underlying issue there is that there are typically fixed costs in developing an idea, prototyping the idea, testing whether it’s going to have value in the marketplace, and then scaling up. The endemic challenge we have in New Zealand is we have predominantly small businesses for whom that fixed cost is a significant challenge. Government can help by ensuring that businesses have ready access to the innovation capability within our research and innovation systems, our Crown research institutes, our universities. They’re not always easy to navigate, so helping businesses spot where those ideas might be can help them considerably.

Bird  I think, for example, the formation of Callaghan Innovation—one of the key focuses of the formation of Callaghan Innovation is to actually act as a facilitator and broker between the expertise that resides within science and research institutions and firms. That’s an example of quite a tangible initiative in that area. We also have initiatives—for example, a long-standing initiative around the New Zealand Venture Investment Fund, which is about making sure that the capability and access to early stage capital, which is actually really critical for these firms, exists in the economy. And one of the key focuses of the New Zealand Venture Investment Fund, which has the Seed Co-investment Fund and the Venture Investment Fund, is to actually build the capability of the venture investment in the angel investment markets. So those two things, together with Callaghan Innovation’s support room for the innovation process, are very much focused on enabling businesses to access the innovation they require in order to grow.

Yang  One of the priorities, targets, for the Business Growth Agenda is to increase exports to 40 percent of GDP. Baseline was 30.2 percent in 2011-12. My
question is what specific actions are you taking to fulfil or achieve this goal? Related to this question are two minor questions. One, on page 34 of your annual report, you say that the measures, an improvement in New Zealand’s ranking in World Economic Forum Enabling Trade Index. Last year, 2012, it was fifth out of 132 countries, which was an improvement from previous year, 2010, sixth out of 125 countries. So what exactly does it mean, or the implications of that for achieving the goal of 40 percent of GDP?

On the same page, there’s investment here—improvement in level of migrant investor investment in New Zealand. The result here is from July 2009 to June 2013, that total investment was $671 million. That was a major improvement over the period July 2009 to July 2012; that was $313 million. It means in one year it increased by almost $358 million. So, those investments would be able to increase trade, or what areas are these investments in that year, basically?

Smol

Well, I’ll answer the first two parts and then I’ll ask my colleague Nigel, who leads Immigration New Zealand, to comment on the third one. We’re doing a lot of work with partners across Government to support the goal of increasing exports as a percentage of GDP. A critical part of that is to improve market access for our businesses and, as you will be aware, the Trans-Pacific Partnership is a key element there. It would improve access to the huge United States market, potentially, now, the Japanese market as well, and that would build on the gains we’ve been able to achieve in particular from being the first country to have a free-trade agreement with China. We’ve worked with partner agencies to support businesses who are looking to access those markets, in particular we worked with New Zealand Trade and Enterprise who provide a range of services to exporting businesses and who have been increasingly focusing their offshore footprint into growth markets in the Asia-Pacific region—China above all.

The work we do on innovation also indirectly supports export. Typically it’s innovative firms who can succeed in international markets. There’s a whole range of actions that we’re taking to support what is ultimately a challenge for businesses. Government itself doesn’t export.

In relation to our ranking in the World Economic Forum Enabling Trade Index, my understanding is that that’s a measure of how open a country’s economy is, how easy it is for firms to access the resources and the markets that they need, and how open our economy is to firms from other countries. As a small and remote trading nation we’ve always taken a view that we benefit from having open markets internationally—preferably through multilateral initiatives such as the World Trade Organization, but failing that, through bilateral and multilateral trading agreements. And that very high ranking I think does reflect the openness of our economy, in particular.

On migrant investor investment, which I’ll ask Nigel to talk about, that’s people bringing money into New Zealand, so it’s not exports per se, but it is also a very important part of our economic story.
Bickle  So, obviously, in terms of good capital markets, capital's both about foreign
direct investment but we have immigration products that are designed to
attract investors, entrepreneurs. We have two products: Investor, which is
around bringing $1 million investment, and Investor Plus, $10 million in
capital. They were policies that were introduced in 2009. Over that period I
think we've attracted $2 billion of potential investment. What's happening is
the product's more established. We're working pretty closely with Trade and
Enterprise. We're targeting and leveraging markets. New Zealand's a
relatively attractive place from an investment proposition for all of the
reasons that David's outlined. I think we're generally seen to be a safe and
secure country with good quality regulation, the least corrupt Government
in the world. It's a pretty attractive investment proposition and what we are
seeing now each year is that basically we're getting more investors in the
pipeline and actual more funds transferred to New Zealand. So last year
$350 million actual investment through the immigration products and the
year to date for the first 4 months of this financial year, $120 million of
investment funds actually invested in New Zealand.

Hughes  Thank you very much for this presentation. My question goes to the ultra-
fast broadband. What we see is the Minister just outside say that Chorus
faces a “sizable shortfall” in being able to undertake its UFB obligations. It's
an absolute mess, isn't it?

Smol  No.

Hughes  No? Why isn't it a mess?

Smol  The transition from copper to fibre was always going to be a multiyear and
challenging transition. It's always very hard to predict at the start of these
processes how they will unfold. This is an issue that we need to work
carefully through and I'm sure there will be other issues where we'll need to
work carefully through as the roll-out continues. It's important to take a
balanced approach and always keep an eye on what we're trying to achieve
in terms of broadband enabling better outcomes for New Zealanders.

Hughes  Given the issues have been well signalled and well known for a number of
years, shouldn't the Crown and taxpayer have confidence that a company, if
it signs a contract, can actually undertake its obligations? And my question
is: has MBIE or Crown Fibre Holdings undertaken any legal analysis of
Chorus defaulting on their contract and what the possible remedies would
be?

Smol  Well, the negotiation—I might get Brad up here in case I say anything
wrong—was between Crown Fibre Holdings and Chorus, and Crown Fibre
Holdings carried out very thorough due diligence before entering into the
contracts. As you'll know though with any long-lived contracts that's
operating through an environment where significant change can be
occurring, it's not at all uncommon to need to revisit in light of events and
Crown Fibre will be talking to Chorus along those lines.

Hughes  But have you sought legal advice if Chorus has breached the contract
conditions and what remedies are available to the Crown?
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Smol  Well, we’re seeking to ensure we have all relevant advice so we can give Ministers complete advice on issues and choices as we work through this process.

Hughes  So that’s a yes? You’ve sought legal advice then as part of that wide-ranging advice?

Smol  We have access to legal advice continuously. We have in our phalanx of people a number of lawyers who advise on broadband—

Cosgrove  The question was “Have you sought it?”. It’s a pretty simple question.

Smol  Do you mean have we formally sought legal advice from an independent legal party? I don’t know the answer to that. Do you Brad?

Cosgrove  A lot of words to get to it.

Smol  No, we haven’t. As I say, Crown Fibre is the primary party to that contract.

Hughes  And they haven’t sought advice?

Smol  I don’t know whether Crown Fibre has. We or you would need to ask them that question.

Hughes  So, if you’ve got a private company who can’t meet the contract terms, which have been previously agreed, and now they are potentially coming to the taxpayer asking for a top-up, I think it’s described, do you think things like restraining what I think is quite a generous dividend over the last 2 years should be a bottom line in any contract negotiation or top-up?

Smol  I don’t think we can speculate on what the outcome of the conversations between Crown Fibre and Chorus might be at this stage.

Hughes  Right. Can I ask when the Ernst and Young report will be made public?

Ward  So Ernst and Young are due to report for their final report next Thursday, and my understanding is it would be released sometime after that.

Curran  I’ve got some specific questions for you. Did MBIE in 2011 calculate the likely copper price under a cost-based pricing principle?

Ward  Not that I’m aware of.

Curran  So, despite the fact that it was in the legislation that it would happen after a 2-year moratorium, there was no calculation done by MBIE?

Smol  We looked at what’s the best pricing principle to include in the legislation and it used to be retail minus. That ceases to make sense with the new industry structure. As you know, it’s the Commerce Commission’s job to give effect to the methodology.

Curran  It was in the legislation that came out of your department—

Smol  Yes, that’s right. Well, as I say—

Curran  —of the shift to a cost-based pricing principle.

Smol  Yes, that it was the appropriate pricing methodology given the changes to the nature of the industry structure.
Curran  And so how could the ultra-fast broadband contract have been negotiated without a calculation of the impact of that legislative change?

Smol  Well, I think it’s fair to assume that Chorus—Telecom as it was then—would have made that calculation. They were the ones entering into the contract needing to think about that aspect. Crown Fibre was seeking to achieve the best possible result for the taxpayer.

Curran  So in the discussions around the contract negotiation there was no discussion that included the impact of the legislative change that was due to happen in 2 years’ time or 3 years’ time on the party to the contract?

Smol  Well, my expectation—and I’m sure this was the case—would be that Telecom/Chorus would have looked very carefully at that legislation and sought to work out what possible scenarios might eventuate in the future and take those into account in negotiating.

Curran  You’re saying that MBIE had no role.

Smol  We weren’t a party to the contract. We were looking to find the best principle to embed in the legislation in view of the—

Curran  You were not a party to the contract but you were the Government department that was creating the legislation and advising the Minister during this whole process?

Smol  Yeah, that’s right.

Curran  So there was no advice provided to the Minister on the impact of the cost in your own legislation in 2 years’ time?

Ward  Your original question was around—

Young  Excuse me, would you just mind pulling the microphone around for our transcript?

Ward  The original question was did we go in and—I mean, I think what you’re getting to—provide any sort of numbers or any view about where prices may go. At that time in 2011 we were developing legislation. We thought that the price could drop a little bit, and that was the advice provided.

Curran  You provided advice to the Minister that the price might drop a little bit?

Ward  There was advice provided that there could be a small fall in the price, but we also provided advice that no one could know with any certainty, because at that time there was also a lot of commentary saying that the price was going to rise. In fact, some parties, including TUANZ at that time and Vodafone, thought that the prices of copper could rise by up to 20 percent.

Curran  That was the averaging?

Ward  That was because of the change—

Curran  So did you provide advice to the Minister on the impact of averaging?

Ward  That was in relation to the copper price changes in 2011, which is all about moving to average and a cost base.
I am trying to ask MBIE’s advice. Did MBIE provide advice on the impact of the averaging in the legislation?

And as I’ve said, we provided advice on the potential impact of averaging from our view, and our view at that point was that the price could drop a little bit. But at that time we also advised the Minister that the prices could go up, and that was because there was a lot of commentary at select committee at that time, that prices could rise by up to 20 percent.

We’re talking about MBIE, not the select committee’s advice—MBIE’s advice. Could you define what a little bit is? How small is a little bit? Were there any numbers provided to the Minister?

Not that I’m aware of.

There were no numbers provided to the Minister?

Not that I’m aware of.

Sorry, just to clarify—[Interruption] No, hang on. You gave a report to a Minister that says “a little bit” or “small”? So he didn’t ask for any numbers. That’s bizarre.

Can you predict that because of changing technology and this further drop in price? Can you predict about that?

No, we can’t foretell the future. We do our best. We look at trends. We look at international data. But we’ve never pretended we can predict the future with—

Are you aware of two analysts’ reports around that time? One is from Goldman Sachs and another one is from Macquarie Wealth. They both looked at the impact of the change to a cost-based principle.

No, but I would expect such reports to have been prepared at the time.

Sorry, what was the answer?

I’m not, no, but I would expect such reports will have been prepared.

You would have expected there would have been analysts’ reports?

Absolutely. Lots of people were expressing views about what this might mean.

Despite the Minister and the Prime Minister saying that there was no awareness of any analysts’ reports at that time?

He can’t comment on what the Prime Minister’s—

Well, that’s up to him. Let him respond.

The analyst industry does produce lots and lots of reports. I do not know how they’ve been circulated.

Sorry, could I ask you a question? Going back to my original statement, is it correct that you prepared a report of advice for the Minister where you said the price movement could be “a little bit” and “small”, and you provided no
definition around numbers, and the Minister didn’t ask you to quantify “a little bit” or “small”?

Smol You’re asking for very precise recall now, and I think we ought to go and check rather than give you information that may turn out to have been based on imperfect recall.

Cosgrove With respect, you’ve got 39 people here. You’ve got the chief legal eagle.

Smol No, he’s not. He’s a—

Cosgrove Well, whoever he is. He’s the legal guy.

Smol He’s not a legal guy at all; he’s a telecommunications kind of a guy.

Cosgrove Well, let me put it this way: he’s aware, obviously. Did you prepare the advice?

Ward In 2011?

Cosgrove The advice that you referred to, where you included the words “little” or “small”. Did you prepare—

Ward No, I didn’t prepare the advice.

Cosgrove OK, well, presumably you can confirm for us, and if you can’t, I’d be amazed that you can’t. Given you are aware of the advice, were there any numbers attached to that report, and did the Minister ask for any numbers attached to that report?

Smol Well, again, we’ll have to go back and check. This is several—

Cosgrove Well, I’m surprised, Mr Smol, that you can’t give us that basic information.

Smol I don’t want to give you important information on the basis of memory. As you know, our memories—

Cosgrove This is a report to a Minister.

Smol We issue hundreds of reports to our Ministers.

Curran Did any MBIE officials participate in any discussions with anyone at Chorus or the CEO, Mark Ratcliffe, relating to the move to cost-based pricing in 2011?

Ward Not that I’m aware of. CFH was responsible for the negotiations.

Curran So were you involved in those discussions? Were you involved in that at that point?

Ward We weren’t involved in the negotiations between CFH and Chorus. What we were—

Curran No, this isn’t a negotiation.

Ward —involved in is that CFH obviously was applying the policy objectives for UFB, and they would meet with MBIE or MED officials at that time, and check for clarification on policy. That was our role and that was our role with CFH.

Curran Who led that role in MBIE?
Smol  Well, we’ve had a range of people involved at different times. We can—
Curran  Was it Bruce Parkes?
Smol  Bruce Parkes was one of the members of our team.
Curran  So can you answer whether any of the MBIE officials, including Bruce Parkes, participated in any discussions with Chorus in 2011 around the impact of a move to cost-price principles?
Smol  No, I can’t just off the top of my head assure you that nobody was involved in any meeting.
Curran  So you can’t provide us with that assurance?
Smol  No, not over the space of the whole year. We would need to go back and look at our records.
Young  Also regarding that prior request for information, can you also give us information? Because you mentioned that there was commentary around a 20 percent increase of the price of copper and things like that. Can you also give us that sort of information that you were hearing at that point of time?
Smol  Yes.
Young  That’d be great.
Curran  Have you provided any information to the Minister advising that the existing contract with Chorus should be enforced?
Smol  Be enforced?
Curran  Enforced.
Ward  No.
Cosgrove  Sorry? What advice have you provided?
Smol  Do you mean have we addressed that question: should it be enforced or not enforced? And concluded that it should be enforced? I don’t think we’ve given any advice along those lines.
Cosgrove  Pardon? Can you say that again? I can’t hear you.
Smol  Well, if the question is have we given advice that addresses the question as to whether the contract should be enforced or not enforced, which is the alternative to enforcing it, the answer is no we haven’t.
Cosgrove  That’s astounding, don’t you think? Because normally, last time I checked when I was in the private sector, if one side negotiates a better deal than the other, the default position, even if the other side is a bit silly, is that you enforce the contract.
Smol  Absolutely. So there’d be no reason to question that unless there’s advice that you wouldn’t.
Cosgrove  Well, you’d be aware that the Government’s canvassed a number of options publicly, including, I presume, enforcement. You’re saying you’ve given no advice on enforcement or otherwise. What other advice have you given on options?
Smol We’ve given advice on options.

Cosgrove Which is?

Curran What are those options?

Smol Well, we’re now getting into advice to the Minister on an issue that’s live, so we can’t fully disclose those to you.

Curran Will a renegotiation of the contract require special legislation?

Smol Well, you’re now getting into speculation about a particular course of action.

Curran Well, then, I’ll go to the—

Mitchell You made a very good point in your initial briefing about procurement, because, obviously, with the risk of consolidating four major ministries like you have, you appear to be well on track in terms of getting procurement systems ironed out, especially around complex ones. So I was just wondering whether you could give the committee some more detail around how that is all coming together?

Smol This is MBIE’s own procurement function?

Mitchell Yes.

Thomas We’ve taken a look at our procurement functions as we’ve brought MBIE together. There is a number of things under way now to improve the way that MBIE procures goods and services. In the main we’re looking to leverage the common capabilities that have been put together by the all-of-Government procurement team within MBIE or via the Government Chief Information Officer at DIA. So there are a number of areas across both products and services where we’re looking to leverage those all-of-Government capabilities to, firstly, improve the efficiency of the procurement process, and, secondly, the effectiveness of it.

Bakshi Going back to your Business Growth Agenda—my question is: have you ever done a survey on employers who employed RSE workers, and do you plan to expand that further to any areas in recruiting RSE workers who are contributing to a growth agenda?

Smol Have we done a survey of employers about RSE workers?

Bickle Yes, at a number of levels. So the RSE scheme has been running now—it’s going into its seventh season. It’s been a scheme that has been evaluated at many levels. At a high level, the World Bank’s completed a pretty major survey of RSE, including the employers’ experience. So I think that’s something that New Zealand can be pretty proud of. So we talk about triple-win objectives out of RSE. So we know that the horticulture and viticulture sectors are highly satisfied with the RSE scheme. We know that it’s basically led to them making further investments and capital investments in growing their business. We know that it’s generated more jobs for New Zealanders, that there’s been no or very minimal displacement of jobs for New Zealand, and that it’s actually created some very positive outcomes for the Pacific sending States in terms of the investment and the skill transfer
going back into the Pacific Island nations that are sending RSE workers to New Zealand. So it’s proved to be fairly effective from both those sectors and the employers.

Bakshi Do you have plans to expand this—

Bickle I think that where RSE is currently at—the cap that was agreed for RSE is 8,000 workers. Last season we had 7,500 workers come in. The horticulture and viticulture sectors, in terms of forecasting their crop numbers, are basically saying there’s demand for more workers and are currently suggesting that they would like to see the RSE cap extended to 10,000 workers. That is something that we are just working through at the moment. We are looking to, in the first instance, make sure that what we do is maximise the workers that are coming to New Zealand. They can come to work for up to 7 months. So we are looking at how we get more out of the 7,500 to 8,000 workers we expect this year in terms of being able to move between employers and regions. Because the tension that we’re always managing in this space is obviously that immigration plays a complementary role in the labour market, and it’s underpinned by—firstly, it’s got to be about New Zealanders’ access to jobs.

Bakshi In my visit to different areas, there are other areas like dairy farming and on. They are also looking for some workers who can come and help them. Are you planning to look into that area also, in supporting those dairy farmers?

Bickle Well, not through the RSE scheme at this stage. I mean, obviously the role of migration in a range of products we have—whether they are for temporary workers or permanent skilled workers. Obviously the dairy sector basically employs a lot of New Zealanders and a number of migrants, both at the very high skilled end in dairy, from steel fabricators down to the fact that we have a couple of thousand temporary workers, predominantly from the Philippines working as dairy herd managers and on dairy farms right across New Zealand. So we think that the immigration settings and products allow for the dairy sector to access skilled and semi-skilled workers as it needs it, through the existing immigration products, and we don’t have any intention, or see any need, to extend something like RSE into other sectors at this stage.

Cosgrove Is the principle for RSE still—people are eligible depending on whether New Zealanders are available to fill those roles?

Bickle Yes.

Cosgrove So my question is this: given we have, what, 100,000-plus unemployed, how well is that being policed? When I was Minister we had an arrangement with corrections, and even when the boys would get out of the clink, they were factored in as Kiwis available to work. You couldn’t get RSE workers until you’d mopped up them in Hawke’s Bay or wherever. So what assurance can you give us, given the unemployment levels, that this is being policed, and Kiwis aren’t being displaced? Because there’s a lot of unemployed out there.

Bickle There is, and what you might be pleased to know is that—through one of the Ministers of Immigration at the time—mechanisms that got put in
place, for those very reasons, are still in place and working well today. So at a very pragmatic level we have a regional approach to establish—so we have a cap as you know—8,000 workers. At a national governance level it’s about the horticulture and viticulture industries alongside the very senior people in immigration and the Ministry of Social Development, and that’s replicated down at a regional level. So we still have the regional governance structures, and the numbers are basically worked through between the industry, the Ministry of Social Development in terms of unemployed New Zealanders and their view on local labour market conditions, and immigration, in terms of planning for the supply from sending country States.

Curran Going back to the question line that I had, Minister Adams this morning has said that the Government supports Crown Fibre Holdings entering into talks with Chorus on this issue. Will a renegotiation of the contract with Chorus involve special legislation?

Smol I don’t think we can speculate on what the outcome might be.

Curran I think that there is a discussion document which is still live that includes three options that was initiated by MBIE under the auspices of the Minister. Those three options included all require legislation. The Prime Minister said on Monday that legislation was off the table in terms of overriding the Commerce Commission. Is legislation an option—necessary—to change the terms of the contract? There must be advice that has been provided to the Minister on this.

Smol Well, any contract can be changed where there is agreement between the contracting parties. So if that’s the case, then I can’t see why legislation would be needed.

Curran So are you ruling out that legislation will not be required?

Smol No, not at all. I’m not ruling anything out or in; I’m just making the point that parties to a contract can agree to alter the contract.

Curran Has there been advice provided—

Young Sorry, Clare, would you let Mr Smol answer?

Cosgrove Well he did answer—he said he wasn’t ruling anything out.

Smol I was just saying that at this stage, it’s a negotiation between two contracting parties who can always agree to amend the contract.

Curran Have you provided advice to the Minister on whether there is legislation required to change the terms of the contract with—?

Smol No.

Curran You haven’t? OK, I’ve got one more question. Now that the legislation is off the table, will MBIE be recommending to the Minister that that discussion document be pulled?

Ward You have to remember that the discussion document had a number of—

Curran Has got three options—
Ward No, the discussion had a number of parts to it. One was a discussion on the
draft Commerce Commission cover prices at that time. It had three options
in relation to that. It also quite a discussion around what future phases of
the review could include and asked for submissions on topics. And we
received submissions on some of the future topics. We have to undertake
this review because it is a statutory requirement under the
Telecommunications Act change in 2011. We have to conclude that by
2019, and as part of that review we have to look at the post-2020 regulatory
framework. So at this stage I believe that we are continuing with the review.

Curran Is it the case that that discussion document only proposed legislative
options?

Ward No, that discussion document also asked for feedback on future phases of
the review.

Curran Where were those options?

Ward They were in two chapters within the discussion document. In fact, the
discussion document also had quite a lengthy introduction asking for
feedback on the wider TELCO competition environment as well, and
asking for feedback on that.

Curran So that discussion document is still live?

Young Clare, time’s up. I’ve got a question that I want to ask, sorry. I said one
further question and you’ve taken in two extras. Now, we’ve just got a
minute to go—I want to ask this question because I know today was the
announcement of the 2013 block offers. We in this committee were
involved in the Crown Minerals Act reform bills. What I’d like to ask Mr
Smol is in terms of that Act and the effect of it in terms of block offers—
what has been the benefit that we’re looking at?

Smol Do you mean in terms of the Block Offer 2013?

Young Yes—the change and what that’s delivering to the country.

Binnie So the change to the block offer does a few things. It allows us to market
New Zealand as an attractive business destination for the oil and gas
industry. It allows us to strategically manage the resource, and that being
when we put blocks and which blocks to put out at any particular time. It
also allows us to consult widely before we do it. All of those things have
resulted in two very successful block offers, as you say, culminating today.
In terms of financial—

conclusion of evidence
2012/13 financial review of the Canterbury Earthquake Recovery Authority, and of the non-departmental appropriations for Vote Canterbury Earthquake Recovery

Report of the Finance and Expenditure Committee

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Canterbury Earthquake Recovery Authority, and the non-departmental appropriations for Vote Canterbury Earthquake Recovery

**Recommendation**

The Finance and Expenditure Committee has conducted the financial review of the 2012/13 performance and current operations of the Canterbury Earthquake Recovery Authority, and of the non-departmental appropriations for Vote Canterbury Earthquake Recovery. It recommends that the House take note of its report.

**Introduction**

The Canterbury Earthquake Recovery Authority (CERA) was established in March 2011 as a government department to plan, lead, and coordinate the rebuilding and recovery effort after the earthquakes in Canterbury. CERA’s governing legislation, the Canterbury Earthquake Recovery Act 2011, has a lifespan of five years, to April 2016.

As well as receiving funding for its own operations, CERA monitors a very large amount of earthquake-related spending for which the Minister of Canterbury Earthquake Recovery is responsible. We have combined our financial review of CERA with that of such non-departmental appropriations.

We plan to carry out a separate financial review of the Earthquake Commission early in 2014.

**Financial and service performance**

CERA recorded a total income of $63.593 million in 2012/13, and expenditure of $44.505 million. The net surplus of $19.088 million was returned to the Crown. The main variance from budget was in fees for consultants and contractors, which were $15.5 million lower than expected, as recruitment was deferred until the cost-sharing agreement with the Christchurch City Council was finalised, which took longer than planned.

The Office of the Auditor-General assessed CERA’s management control environment and service performance information, systems, and controls as needing improvement—as it had the previous year. The grading for financial information systems and controls has improved to “good”.

We note that the Auditor-General’s grades and associated comments aim to highlight areas for improvement. They are not an assessment of CERA’s overall management performance, nor of its effectiveness in achieving its objectives.

**Organisational challenges**

We are grateful for the work CERA is doing, and aware of the pressure it operates under as the central agency for a massive multi-faceted recovery effort. It has had to build its organisation and systems from scratch since 2011, and to deal with extraordinary, evolving challenges as it moved from initial emergency response to recovery and rebuilding. It is perhaps understandable that its controls, systems, and information have not yet reached the
We place particular importance on CERA’s governance capability, given its central role and the very sizeable amounts of non-departmental expenditure it is responsible for monitoring on such key work as the restoration of horizontal infrastructure and the central city anchor projects. We have some concern about whether it has the necessary expertise and arrangements to coordinate the next stage of the recovery to minimise risks and avoid bottlenecks, as rebuilding will inevitably place pressure on available resources.

### Staffing and recruitment

Having started with 50 staff, CERA had 300 employees at the end of June 2013, on a mixture of secondments and long-term and short-term contracts. Its annual report highlighted the need for more capacity to manage key projects. We understand it has lost several staff since June, and has had problems recruiting and retaining staff, including key positions in risk management and assurance. We realise such difficulties may worsen as CERA approaches the end of its planned lifespan, and asked whether it believes it has the capability to manage the work ahead of it.

CERA acknowledged that it has many vacancies at present, but says it has been more successful than it expected in recruiting staff with project management skills for rebuilding the central city, with several appointments since the annual report was published. It is seeking a balance of specialist skills and knowledge of the local community.

### Legacy planning

As the Canterbury Earthquake Recovery Act will expire in April 2016, we would expect CERA to cease to exist after this date, and consider it very important to plan for its legacy. For accountability, it will be important that the goals it is committing itself to now can be adopted and pursued by other organisations. We asked how a smooth and effective transition is being planned. The chief executive said it is early for such thinking, and the Government has not yet made any decisions about CERA’s legacy. He noted that the expiry of the Act will not necessarily mean that CERA itself will cease to exist. However, he agreed that planning will be needed, as work on reconstruction will clearly continue after 2016. He observed that some work could move to other agencies such as Environment Canterbury, the Christchurch City Council, and Ngāi Tahu.

CERA has agreed to provide us by next year’s financial review with a clear plan for arrangements beyond 2016 so we can examine this issue more closely.

### Central city rebuilding

CERA’s annual report notes several significant achievements during the year toward the rebuilding of the city centre, including removal of the cordon that had restricted public access. The Christchurch Central Development Unit within CERA was set up in April 2012 to develop a central city recovery plan and blueprint, and coordinate rebuilding work. The plan includes 17 “anchor” projects for the central city, and the Government and Christchurch City Council agreed during the year on the funding each will contribute.

We see the anchor projects as an important catalyst for the city’s redevelopment, but also as high risk. Careful governance and monitoring of the overall programme will be vital to coordinate the demands on resources and avoid undue cost pressures, or the crowding-out of residential rebuilding activity. We understand that CERA has been working with the
Treasury to develop business cases for the projects, and were told they have been completed for those where work is commencing—the Avon River precinct and the bus interchange—and are under way for several others. We believe it would be beneficial to have a business case for the programme as a whole, not just for individual projects; we understand that the State Services Commission has also advocated this. We intend to follow up progress with business cases at our next review.

Some of us consider it important that planning should try to ensure that all New Zealanders benefit from the rebuilding effort, since all taxpayers are contributing to it. For example, jobs in the forestry industry would benefit if timber construction was favoured. CERA told us that the anchor projects have not yet reached the stage of considering construction materials, but it noted that private builders report more use of timber, as it fared better in the quakes.

CERA told us it has consulted the community closely over the Avon River precinct and the metro sports facility, and will be doing so for other projects, but is trying not to overload the public by seeking feedback on everything at once. Some of us remain concerned that the Government has committed $284 million for the convention centre precinct but has yet to develop a business case or seek the community’s views.

We note that construction costs in Canterbury are already increasing at about 10 percent a year, well above the national average. CERA said that cost pressures are unavoidable, and likely to increase, but it is trying to plan work to minimise bottlenecks as far as possible.

**Timing of anchor projects**

The first two projects to be developed will be the Avon River precinct and the bus interchange. Work has started on removing silt from the riverbed, which will help to counter the rise in water level caused by the earthquakes. Most of the work on the river precinct will be done in 2014, with completion expected in the second quarter of 2015. A family playground will be completed in late 2014. No funding has yet been appropriated for developing a riverside park, but we are hopeful it will be forthcoming in view of strong public support. We heard that the principal structures will be located on the south bank and near the convention centre, with less substantial work elsewhere to help return the river to a natural state.

The bus interchange is a high priority. Work is expected to start in early 2014 and finish in 2015. Work on the East Frame, a residential development inside the central city, is also expected to begin early in 2014. Expressions of interest are currently being sought from developers.

For the convention centre project, which could include hotel, restaurant, and shopping facilities, the Government has been exploring commercial partnership options; five consortia have expressed interest, and it plans to choose one by mid-2014, with the aim of having the complex open in the first quarter of 2017. A preliminary business case has been prepared, but final plans will need to be developed with the consortium partner.

Work on the planned justice and emergency services precinct will begin in early 2014, with construction over three years. Development of a health precinct is being led by the private sector, which is showing strong interest. Design concepts are now being sought for a sports facility, with completion expected in 2017. A stadium development will be a later project, probably opening in 2017.
Private sector investment

We note that the anchor projects were selected on the basis that they are likely to prompt related developments by private investors, and asked how much interest is being shown. CERA told us there has been no great capital flight from Christchurch; large businesses in the city before the earthquakes such as the Hotel Grand Chancellor remain committed to rebuilding.

Preservation versus replacement

Some of us are concerned that the blueprint for the central city has resulted in some buildings being demolished, apparently because their location did not suit the plan, when they could have been repaired. The central library seems to be an example, and some of us are also concerned that the replacement building will entail a significant element of betterment. CERA told us that structural damage is not always visible, and the library had sustained substantial damage. The chief executive acknowledged that in some cases repairable buildings had been demolished, but said efforts had been made to retain existing large buildings when designing the blueprint. He undertook to try to provide us with information about the relative costs of repairs and rebuilding; we were subsequently told that CERA does not hold such information.

Horizontal infrastructure

Work is well advanced on restoring roads and underground pipes for fresh water, stormwater and waste water (“horizontal infrastructure”). Completed repairs to 30 June 2013 included 59 per cent of the water supply, 43 per cent of storm water and 29 per cent of waste water drains, and 18 per cent of roads. The repairs are being managed by SCIRT, an alliance of CERA, the Christchurch City Council, the New Zealand Transport Agency, and five private contracting companies. CERA told us that the work is being timed to fit in with the central city anchor projects and major private developments. It expects the repairs to be completed by the end of 2016.

This is one of the largest and most important parts of the recovery effort. The infrastructure is vital for basic health and social wellbeing, movement around the city, and its economic development. The total cost has been estimated at $3 billion, of which the Crown has agreed to fund $1.8 billion and the Christchurch City Council $1.14 billion. We note, however, that this estimate is still highly uncertain, as the extent of damage often cannot be known until repairs are begun. The audit report on the non-departmental financial statements includes an “emphasis of matter” paragraph to this effect, pointing out that the Crown’s liability for such costs could change.

A performance audit report by the Auditor-General was published the day after our hearing with CERA, commenting on the effectiveness and efficiency of arrangements for the repair of horizontal infrastructure. We will report on it separately to the House. We expect CERA to consider the Auditor-General’s recommendations carefully, and to act on them.

Residential areas

We heard that the pace of progress on residential repairs and rebuilding has picked up, with the residential construction rate now 50–60 percent higher than it was before the quakes.

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1 The Stronger Christchurch Infrastructure Rebuild Team.
CERA noted that this pace will need to increase by half again if insurers are to meet their aim of completing work by 2016, but its discussions with the insurance industry indicate they are confident of achieving this ambitious goal.

By the end of the financial year, 6,379 residential properties in the residential red zone had been settled, and 2,409 demolitions completed. As more people than expected chose to have the Crown purchase the land only, and settle with their insurers over the property, CERA undertook only 50 of the demolitions in 2012/13, with the rest undertaken by insurers. CERA said it hopes to see demolitions in Canterbury’s flat areas completed by April 2015.

We discussed the situation in the Port Hills area, and of Redcliffs School which faces another year on a temporary site while it awaits geotechnical data on the stability of the cliffs behind its original site. CERA agreed the delays have been far from ideal, and understands the stress and frustration felt by Port Hills residents over changes in land zoning as geotechnical information has been updated. It noted that the state of the roads in hill areas makes even demolition work impossible.

Community wellbeing

CERA works with several agencies to promote the wellbeing of the community in Canterbury. From the regular surveys it commissions, it believes people are generally coping well, but some still find life very difficult, so CERA is trying to concentrate on helping them. It funds 60 earthquake support officers in the community, and in the past year has set up a residential advisory service to help with insurance problems. A winter programme offered residents help with weathertightness problems, and in summer a series of “parties in parks” aims to lift morale. It noted that overseas observers and the Red Cross have commented favourably on the amount of community support it coordinates.

Non-departmental appropriations

The Minister of Canterbury Earthquake Recovery is responsible for a large amount of earthquake-related expenditure under several non-departmental appropriations, which CERA monitors on behalf of the Crown. Details are provided in its annual report. They include the cost to the Crown of acquiring red-zoned properties, purchases of land for anchor projects in central Christchurch, and contributions to local authorities’ costs for restoring horizontal infrastructure. The independent auditor has drawn attention to the considerable uncertainty about these non-departmental expenses, and hence about the Crown’s liability.

As in previous years, actual spending differed greatly from estimates. Several appropriations were significantly underspent in 2012/13, with actual expenditure totalling $533.8 million against appropriations of over $2.2 billion. (In 2011/12, appropriations were considerably exceeded.) The following were the main causes of the underspending:

- Under a cost-sharing agreement with the Christchurch City Council, the Crown’s exposure for water infrastructure repair and rebuilding costs was reduced. Expenditure for this purpose totalled only $239 million in 2012/13, from an appropriation of $985 million.
• Appropriations of $202 million to acquire residential properties in Canterbury’s red zone, and $8 million for land remediation work, were not required in 2012/13; future requirements will depend on the resolution of the remaining zoning issues in the Port Hills.

• Only $100.9 million of a $716-million appropriation to purchase land for the central city anchor projects was spent in 2012/13, as negotiations took longer than expected. We also note that unappropriated expenditure was incurred of about $10 million. While such sizeable variations against budgets, and unappropriated spending in particular, are always a cause for concern, we accept that the earthquakes have created unusual circumstances that make estimates particularly difficult.
Appendix

Approach to financial review

We met on 13 November 2013 and 29 January 2014 to consider the financial review of the Canterbury Earthquake Recovery Authority, and of the non-departmental appropriations for Vote Canterbury Earthquake Recovery. We heard evidence from the Canterbury Earthquake Recovery Authority and received advice from the Office of the Auditor-General.

Committee members

Paul Goldsmith (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
John Hayes
Hon Shane Jones
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Jami-Lee Ross
Hon Kate Wilkinson

Evidence and advice received


Organisation briefing papers, prepared by committee staff, dated 11 November 2013.

Canterbury Earthquake Recovery Authority, responses to committee questions, dated 11 November and 18 December 2013.
The Government Administration Committee has conducted the financial review of the 2012/13 performance and current operations of the Office of Clerk of the House of Representatives, and the Office of the Ombudsmen, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
2012/13 financial review of the Department of Conservation and of the non-departmental appropriations for Vote Conservation

Report of the Local Government and Environment Committee

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Department of Conservation and of the non-departmental appropriations for Vote Conservation

Recommendation

The Local Government and Environment Committee has conducted the financial review of the 2012/13 performance and current operations of the Department of Conservation and of the non-departmental appropriations for Vote Conservation, and recommends that the House take note of its report.

Introduction

The Department of Conservation manages and oversees the conservation of New Zealand’s natural and heritage assets in terrestrial, marine, and fresh-water environments for the benefit and enjoyment of all New Zealanders. It manages public protected lands and marine reserves directly, and facilitates agreements for the protection of private land. The department is responsible for managing protected wildlife and marine mammals, and is charged with fostering recreation in areas under its management.

Financial and service performance management

The department’s revenue for 2012/13 was $335.868 million and its total expenditure was $322.524 million, resulting in a net surplus of $13.344 million.

The non-departmental output classes Identification and Implementation of Protection for Natural and Historic Places and New Zealand Biodiversity Funds had net surpluses of $3.233 million and $709,000. In 2012/13 the annual appropriation and actual expenditure for the output class Moutoa Gardens/Pakaitore was $23,000.

The output class Management Services—Natural and Historic Places is reported separately by the Historic Places Trust and the Queen Elizabeth the Second National Trust.

The Office of the Auditor-General gave a “good” rating to the department’s management control environment and “very good” to its financial systems and controls, as it did in 2011/12. Service performance information and associated systems and controls also received a second successive “good” rating.

Ruataniwha Dam irrigation scheme

The proposed Ruataniwha Dam irrigation scheme, which involves building a dam on a tributary of the Tukituki River in the Ruahine Range, is currently before a board of inquiry. The Ministers of Conservation and the Environment convened the board in June 2013 following advice from the Environmental Protection Authority that the proposed changes to the Tukituki Catchment Area met the criteria for “nationally significant”. While the department sometimes make submissions against resource management applications in its advocacy role, in this instance it decided not to make a substantive submission on the potential effect of the scheme on the whole Tukituki catchment. Instead it made a brief submission focussing on the probable impact of the proposed dam on its immediate area.
The decision to do so was partly based on the department’s classifying the environmental values of the Tukituki River as “medium”.

We are aware that a draft submission described the catchment as “nationally significant” for native fish. We asked the department how its position moved to the point where it rated the river’s environmental values as only “medium”. It explained that the draft submission was prepared by its technical advisers whose primary focus is scientific. That information was passed on to management, whose decision-making process also considered wider conservation values. It also said that the issues regarding the Ruataniwha scheme are highly technical and it does not have the in-house resources to make a substantive submission.

The department also said that at the time it was involved in 40 other projects and decided that its limited resources were best spent elsewhere. It stressed that the decision to proceed with a shorter submission was made by management. It said that in similar circumstances regarding something of higher environmental value, it would probably decide to become involved.

We acknowledge that everyone must live within their budgets. Nevertheless, there remains some concern that the department has reduced its advocacy work over the past few years by making fewer submissions on resource management applications.

**Pest control**

2013/14 is likely to be a mast year, in which beech vegetation produces a large abundance of seed, leading to explosions in pest population, including rats, stoats, and possums. The department is taking advice on the best way to manage its pest control programmes in response. It pointed out that it would still need to seek resource consents. We were perturbed to hear that obtaining the requisite consents can account for 50 percent of each operations budget.

The National Science Challenges, funded by the Ministry of Business, Innovation and Employment, seek to find innovative solutions to some of the fundamental issues New Zealand faces. One of the challenges is New Zealand’s biological heritage, and we were interested to learn that the department had made some suggestions relating to pest control which it considers could have real impact. We look forward to developments.

**Engagement**

We raised the question of staff morale in the wake of several years of substantial restructuring. The director-general acknowledged that morale was “patchy” but said that it was improving. He also observed the department had a number of young Māori coming through who were doing great work.

As the guardian of the conservation estate (all land and natural and historic resources held under the Conservation Act 1987) the department is involved in most Treaty of Waitangi settlements. The Deed of Settlement between the Crown and Ngāi Tuhoe includes provision for the co-governorship of Te Urewera. We were interested to hear that the settlement with Tuhoe is perhaps one of the most complex—but that it also presents an opportunity to improve the way the department works with iwi.

**Marine reserves legislation**

On 12 December 2012 we reported the Marine Reserves Bill back to the House with the recommendation that it not proceed. This piece of legislation was introduced during the
47th Parliament and was reinstated by the 48th, 49th, and 50th Parliaments before it was discharged in 2013. While progression of a replacement bill is at the discretion of the Government, we were pleased to hear that the department has continued to work on it and that one of its objectives would be allowing marine reserves to be created within the Exclusive Economic Zone.

In our report on the bill, we encouraged the Government to introduce legislation to protect marine communities and ecosystems as soon as possible. We restate this encouragement.
Appendix

Approach to financial review

We met on 21 November 2013 and 30 January 2014 to consider the financial review of the Department of Conservation and of the non-departmental appropriations for Vote Conservation. Evidence was heard from 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
Moana Mackey
Eugenie Sage
Su’a William Sio
Phil Twyford
Andrew Williams

Evidence and advice received

Department of Conservation, Responses to written questions, received 19 November, and 3 and 10 December 2013.


Organisation briefing papers, prepared by committee staff, dated 18 November 2013.
2012/13 financial review of the Office of the Controller and Auditor-General

Report of the Finance and Expenditure Committee

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Recommendation

The Finance and Expenditure Committee has conducted the financial review of the 2012/13 performance and current operations of the Office of the Controller and Auditor-General, and recommends that the House take note of its report.

Introduction

The Office of the Controller and Auditor-General (OAG) provides independent assurance to the public and Parliament that public sector organisations are operating and accounting for their performance in accordance with Parliament’s intentions. The Controller and Auditor-General is an Officer of Parliament, independent of both the Government and Parliament, but accountable to Parliament for the public resources used by the office.

Most of the office’s funding is for the annual auditing of all public entities’ financial and performance reports; funds appropriated for this work are recovered from the entities audited. The balance funds the Controller and Auditor-General’s work supporting Parliament in ensuring accountability for public resources. This includes providing reports to Parliament and advice to select committees, and more discretionary performance audits and inquiries relating to public entities.

Financial performance

In 2012/13 the office’s total income was $80.3 million, a decrease of 1.9 percent from the previous year. Of this, the Crown funded just over $10 million, with the balance from audit fees. Total expenditure was $79.4 million, 1.3 percent less than in 2011/12. The resulting surplus of $929,000 was returned to the Crown.

An independent audit of the office’s financial statements and statements of service performance was carried out by CST Nexia, which found no significant issues with the office’s performance, probity, or legislative compliance.

Organisational matters

During the year the office finished fitting out its new Wellington premises, for which it had received a capital injection of $2.2 million, allowing its two business units, OAG and Audit New Zealand, to occupy one building with shared corporate services. It expects to achieve some cost savings as a result. We understand that the total cost of the fit-out was $2.552 million. The office also invested in a new computer system to collate information to scrutinise the public service by sector or theme.

Audit New Zealand also maintains six other offices around New Zealand; its Christchurch office was recently relocated from temporary to permanent premises.

Audit work

The office is responsible for financial audits of all public entities, numbering more than 4,000 in 2012/13. About half are carried out by Audit New Zealand and half by private-sector auditors on its behalf. About 60 percent of the audits are of schools. Problems with Novopay made these audits particularly difficult in 2012/13, causing delays and some
increase in costs. We heard that about 90 percent of school audits have now been completed. Otherwise, performance in this area was similar to the previous year’s.

On average, audit fees increased by 3.4 percent, mostly reflecting the hours worked rather than the charge-out rate. This figure excludes additional audit fees negotiated with public entities to deal with unforeseen issues. The problems with Novopay are expected to result in audit fees for schools increasing by 10–15 percent overall ($1–1.5 million) for the 2012 school audits.

**Reporting and inquiries**

The office completed 29 reports during the year, following the annual work programme approved by Parliament. The Auditor-General told us she is particularly proud of the report on public-sector financial sustainability, and the series of reports on the education of Māori.

The office also carries out inquiries in response to public requests. It normally has 20–30 inquiries open at any time; in 2012/13 its workload was particularly heavy, with as many as 47 inquiries in progress. During the year it completed four of the five inquiries carried over from 2011/12; the fifth report, on Kaipara District Council’s management of the Mangawhai community wastewater scheme, was presented on 3 December, the day before our financial review hearing. Three other large inquiries were undertaken during the year, into funding of the United Future Party, the mayor of Nelson’s business dealings in China, and investment decisions by a subsidiary of Dunedin City Council; the first two have been completed so far.

The office also deals with inquiry requests under the Local Authorities’ (Members’ Interests) Act 1968. The Auditor-General comments that work on the large inquiries took a toll on the office’s resources, and they fell behind schedule. She is considering how to address the problem, but suggests in the annual report that reform of the Act is needed.

**Inquiry into the Kaipara wastewater scheme**

The day before our hearing, the office reported on its long-running inquiry into the Kaipara District Council’s management of the Mangawhai community wastewater scheme. The project, commenced in 1996, incurred huge cost overruns and caused a breakdown of relations between the community and the council, which was eventually replaced by commissioners in 2012. We discussed the inquiry’s findings at some length with the Auditor-General, as they raise issues of accountability, governance, and management that are important for all public entities, and because they reflect on the role of Audit New Zealand, which had routinely audited the council’s annual reports and long-term plans without picking up the problems over many years.

The inquiry, which started in March 2012, was unusually large and complex; the report is 423 pages long (a 47-page summary report was also issued). It found numerous failings in the way the Kaipara District Council planned and managed the wastewater project, demonstrating a lack of capacity and capability, and an inadequate focus on the council’s public-sector obligations and accountability. For example, key decisions had been taken in informal workshops, and were based on PowerPoint presentations rather than on full business cases. Record-keeping was found to be woefully inadequate; the Auditor-General observed that it had taken her staff 20 months simply to unearth the relevant information.
The Auditor-General had kept the Kaipara community updated on developments via open letters, and presented and discussed the report at two public meetings the evening before our hearing. We commend her for this openness. We heard that some ratepayers were understandably angry, but some are now more concerned with putting things to rights. One reason the report was so long, she said, was in order to set out all the facts, and the community seems to appreciate learning the full details of the saga.

**Next steps and potential liability**

Now that the facts are clearer, three avenues are being taken to determine the reasons and liability for the problems, and what should be done. The commissioners who have taken over from the Kaipara District Council are seeking legal advice as to whether anyone should be legally held to account; Parliament has, with some reluctance, passed legislation validating irregularities in the setting and assessing of rates by the council and other processes; and a judicial review in the High Court is being sought by the association of Kaipara residents and ratepayers. The Auditor-General told us she considers these steps appropriate, and her office will act on any decisions that result from them.

We asked the Auditor-General about potential conflicts of interest involving the council, and whether the inquiry had indicated any fraudulent activity. We were told that there was known to be one conflict of interest, which the council had sought to manage. The Auditor-General’s office had judged that the consequences were not material. All funds had been accounted for. Nevertheless, we agree with the Auditor-General that lessons should be drawn about ensuring that those who write specifications for a contract have no involvement in subsequently managing it.

**Audit New Zealand’s role**

Audit New Zealand, a business unit of the Office of the Auditor-General, undertook the annual audits of the Kaipara District Council until 2012. When problems with the wastewater scheme started to emerge, the Auditor-General instead contracted a private audit firm to the role. To manage the conflict of interest with the inquiry, the Auditor-General commissioned an independent reviewer, Neil Cherry, chair of the New Zealand Auditing and Assurance Standards Board, to carry out the parts of the inquiry that examined Audit New Zealand’s work.

We questioned the Auditor-General closely about the competence of her auditors, given their failure to pick up the problems in many successive audits. We heard that the independent reviewer did not find any systemic or widespread problems with the way Audit New Zealand had conducted the audits; however, there were isolated problems with the audits from 2006 to 2009. The reviewer described those audits as “inadequate”, while those for 2003–2005 were “adequate”, and those since 2010 were “good”.

The Executive Director of Audit New Zealand said he accepted responsibility for the issues raised by the reviewer. He did not believe the shortcomings in 2006–2009 were typical of Audit New Zealand’s general standards over the past decade, but accepted that his unit clearly has work to do to reassure Parliament, the public, and the Auditor-General that its work is of consistently good quality.

The Auditor-General told us she takes responsibility for her office’s work. She noted that the office’s regular quality assurance reviews of auditors, and independent reviews over the years, have not indicated the kind of issues found by the independent reviewer. Nevertheless, she was not prepared to accept the inadequacies as isolated cases; instead, she
was taking a belt-and-braces approach: having Audit New Zealand adopt an improvement programme, and allocating no new audits to it until the issues raised by the independent reviewer, and the underlying reasons for them, were addressed. She emphasised, however, that she would not take responsibility for the failings of others.

We expressed our serious concern to the Auditor-General about the failure of Audit New Zealand to identify the problems at an earlier stage.

**Lessons for auditors**

The Auditor-General told us the inquiry report highlights four important lessons for any auditor: know the organisation well; do a thorough risk assessment; document your judgments; and exercise professional scepticism, asking probing questions rather than accepting information at face value. She will be reinforcing these messages with her own auditors and those she contracts.

**Lessons for public entities**

We agree with the Auditor-General that the mistakes made by the Kaipara District Council offer crucial lessons for all councils and public-sector entities.

In the Auditor-General’s view the key lessons from the inquiry are that good governance and good record-keeping are critical; contracting must be managed properly; and the total cost of a programme must be carefully monitored. None of these things were done with the Mangawhai project, she noted, and everyone must learn from the council’s mistakes.

**Local authority debt**

We recall that Kaipara ratepayers were alarmed by large increases in the council’s debt relative to its funding from rates. We asked how local authorities’ debt limits and strategies are audited, as in this case such policies appeared to be lacking or ignored. The office told us that the Local Government Act 2002 gives councils responsibility for their debt strategies, and sets out processes, including public consultation, for making any changes. The office believes it would be inappropriate for auditors to override democratic decision-making processes by setting local authorities’ debt policies for them, but said that audits focus closely on their strategies. Annual audits look at the reasonableness of a council’s debt, while the three-yearly reviews of councils’ long-term plans look more broadly at the prudence of their debt limits and their treasury management arrangements.

The Auditor-General told us that her report on the results of the 2012 audits of local authorities’ long-term plans focused particularly on debt, and included cautions which led some councils to rethink their existing strategies. However, she observed that while she has the power to report, she cannot force people to read or act on the reports. We accept these points, but believe that at times the Auditor-General has grounds to sound a louder note of caution, and should work to find ways of doing so.

**Councils’ governance capabilities**

We are aware that small councils can struggle to find the necessary governance skills, and welcome any steps to help such councils to develop them. The Auditor-General told us the New Zealand Institute of Directors has set up arrangements with local authorities to help them understand their responsibilities. Her office also briefs new council members. She

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agrees that this is an important issue, and intends to do more work to improve governance, including having her auditors follow up the initial briefings.

**The cost and limitations of auditing**

Public entities meet the cost of their auditing by the OAG, or by private firms on its behalf. We are aware that they represent a hefty burden each year, averaging anywhere from $100,000 for small entities, to $500,000 for the likes of the Auckland Council. We think it is therefore reasonable for entities to expect an audit to be rigorous.

The Auditor-General agreed, but cautioned that expectations as to what an audit entails can be unrealistic: an audit provides reasonable assurance about an entity, but is not a full health check, and an unmodified audit opinion does not mean everything has been “given the tick”. The office would need enormously more resources if comprehensive auditing were required.

**Following up the Auditor-General’s advice**

It is of concern to us that advice, cautions, and recommendations from the Auditor-General in her reports are not always heeded by councils and other public entities. She told us she does not think her office needs more powers; nevertheless we believe the office should find ways of flagging its concerns more prominently, and of following up recommendations.

The Auditor-General told us the office is already changing the way it works, following up its recommendations and reports more rigorously by writing to entities’ managers. If the weaknesses specified in such letters are not addressed, it intends to escalate such issues to Parliament more promptly in future.

In the current year’s work programme the office is looking at the way public entities manage their fixed assets—a key area, with the stock of public assets valued at well over $200 billion. It proposes to do more work the following year on improving the governance of public sector organisations.

We welcome these changes, and the areas of work proposed.
Appendix

Approach to financial review
We met on 4 December 2013 and 29 January 2014 to consider the financial review of the Office of the Controller and Auditor-General. We heard evidence from the Controller and Auditor-General, and received advice from CST Nexia New Zealand.

Committee members
Paul Goldsmith (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
John Hayes
Hon Shane Jones
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Jami-Lee Ross
Hon Kate Wilkinson

Evidence and advice received
CST Nexia New Zealand, Briefing on Office of the Controller and Auditor-General, dated 4 December 2013.

Organisation briefing paper, prepared by committee staff, dated 4 December 2013.

Office of the Controller and Auditor-General, responses to committee questions, received 29 November and 18 December 2013.
2012/13 financial review of the Department of Corrections

Report of the Law and Order Committee

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Department of Corrections

Recommendation
The Law and Order Committee has conducted the financial review of the 2012/13 performance and current operations of the Department of Corrections and recommends that the House take note of its report.

Introduction
The Department of Corrections manages offenders who are sentenced to imprisonment or community sentences or held on custodial remand, and provides rehabilitative programmes to address the causes of their offending. It also provides information to the judiciary regarding sentencing decisions, and to the New Zealand Parole Board regarding release decisions. In 2012/13 its total revenue was $1.185 billion and its total expenses were $1.159 billion, resulting in a net surplus of $26 million. This includes $4.8 million in revaluation gains and up to $14.5 million in expense transfers.

Financial performance
The Office of the Auditor-General assessed the department’s management control environment and financial information systems and controls as “very good”, the same as the previous financial year. The department is in the process of making recommended enhancements to its procurement policy, practices and policy management, which was taken into account in the assessment.

Spring Hill Prison
The department is conducting an enquiry into a riot at Spring Hill prison on 1 June 2013, where a group of intoxicated gang-associated prisoners broke into a staff control room, and it took eight hours to bring the situation under control. The department is pleased with the way the event was handled, considering it a testament to the training of its staff that there were no fatalities, and there have been no related complaints. Its advanced control and restraint officers receive intensive specialist training. They received special commendations for their central role in bringing the situation under control.

The prisoners involved in the violence managed to concoct alcoholic drink using fermented fruit and alcohol-based hand sanitiser. The department has now removed the hand-sanitiser and reduced the amount of fruit prisoners are given, and is requiring more regular cell searches. It has also had a change of manager at Spring Hill as it considers that previous leadership was not visible enough.

The department told us that the event had tested its emergency response equipment and measures with a difficult combination of fire and water hazards and intoxicated prisoners, although it was resolved satisfactorily. On the basis of lessons from the riot it had invested in more specialist protective and emergency response equipment, and increased the number of advanced control and restraint officers.

The department said that the open design of the prison was unsuitable for high-security prisoners, who it has placed in other facilities. It is a good facility for prisoners who are
willing to be rehabilitated, and the department does not want to disadvantage such prisoners by tightening overall security to deal with a small minority.

We asked if the large amount of drugs and drug paraphernalia confiscated at Spring Hill was indicative of a systemic problem in the prison. The department said it is pleased with the level of detection, and invests a lot of personnel in controlling what is brought into the prison.

**Safety**

Following the previous year’s financial review, the department has produced a plan to combat violence in prisons. The plan sets out improvements intended to reduce assaults on staff by offenders. It has also produced a pamphlet for staff, *Keeping each other safe*, which outlines the plan. It is trying to overturn the assumption that having to deal with violence personally is normal for staff. The key message is that violence of any kind will not be tolerated. The department aims to reduce the number of assaults on staff by half by 2015. It has introduced stab-proof vests and on-body cameras, and training in the use of pepper spray and self-defence.

We asked if the use of cameras could be intimidating for some prisoners. We heard that the introduction of closed-circuit television cameras is to make people think about their actions and the potential consequences. It expects camera footage also to be helpful in clarifying disputed events. The cameras will be trialled only in demonstrably high-risk areas.

We asked if the department was confident that staffing was sufficient to ensure the safety of staff and prisoners. The department pointed out that the environment also plays a part in ensuring safety. For example, Spring Hill was fully staffed on the day of the riot, but keeping prisoners active and engaged also was important in keeping conditions safe. It has been proactively encouraging prisoners to keep active; going to the gym, or taking part in education, training or work.

**Attacks on prisoners**

We questioned the accuracy of the reporting of assaults on prisoners, having heard anecdotally that there were more stabbings in prison than those reported. The department assured us that the reporting is thorough, and the large numbers of reported assaults that do not result in injuries demonstrates this. There is an obligation to report them, and any failure to do so would show a lack of integrity.

The department said it is pleased that serious attacks on prisoners have dropped in the last four months, but acknowledged that this did not necessarily predict a lasting trend.

**Change in prisoner attitudes**

We asked the department about the large increase in serious assaults in 2009–2013. The department said that it had examined this issue, and many reasons emerged. One was an unusually low rate of assault in 2010, which made subsequent rates look worse; however it acknowledged that one incident was of the most serious kind, and resulted in the death of a staff member.

The department said that an obvious factor was a worsening in the attitudes of younger prisoners, with a growing lack of respect for authority figures and institutions. Gang affiliations are more common, and the proliferation of gangs leads to more violence among prisoners, which staff are challenged to monitor and predict. We were assured that the many reasons for this trend will continue to be monitored and studied carefully.
Serco

We asked the department if it was confident that Serco Incorporated New Zealand, which runs Mount Eden prison and in March 2012 was awarded the contract to build and operate a 960 bed prison at Wiri, maintained good safety standards and staffing levels. The department said that Serco had the same obligations to their employees as it does to staff in state prisons, and is experienced in running prisons.

Facilities and prison design

All of New Zealand’s prisons have different designs, ranging from low-security, open styles to high security, and the department has been taking steps to ensure prisoners are in the appropriate facility for them, even if this means distance from family.

Effect on security

Some of the prisons are very modern, and some nearly 100 years old. The older prisons present more challenges in terms of safety for staff and prisoners. It can be difficult to ensure officers have a clear line of sight to the prisoners, to move prisoners around the prisons safely, and to check for contraband that may contribute to violence.

Paremoremo rebuild

We asked the department, recalling its insistence on the importance of prisoners remaining active, to comment on the restriction of some prisoners in D block at Paremoremo Prison to a small room for exercise while the yard was being renovated. The department told us that it is rebuilding the prison, which is 50 years old and does not have good rehabilitation or care facilities. The new prison will open in 2017. In the meantime the department wants to avoid putting money into constructing temporary facilities. It acknowledged challenges for staff and prisoners, but said that safety had to be paramount. The ultimate solution is to improve the facility, but this may make for difficulties in the short term.

Prison safety in earthquakes

The department undertook a seismic survey of facilities following the Christchurch earthquake, and we asked if it had found that its prisons are safe in the event of an earthquake. The department has established a risk profile of its facilities and has set up a programme it believes is more rigorous than any comparable response. It aims to double the current building code requirement that existing buildings have one third the ability to resist earthquake damage of a new building. It had planned to bring the most at-risk buildings up to standard within 12 months, but had fallen behind in this programme as more problems requiring attention came to light. It believes the most fundamental problems have been addressed. It maintains a capacity buffer against forecast levels of prisoners, so if a major earthquake made some facilities unusable, there are enough beds available in others.

Staff engagement and training

The department agreed that staff engagement is not as good as it should be. It expects that changes to make leadership in the department more visible, and to ensure that staff see that leaders take concerns such as safety seriously will go a long way towards improving it. It is also examining the structure of the prison service with a view to more transparent accountability.
The department has increased its initial training for prison officers from 6 weeks to nine; considering international comparisons and the complexity of the job, we queried whether this was sufficient. The department said the training provided is frequently refreshed, and they have recently introduced mental health, youth, and drug and alcohol training.

**Domestic violence programmes for prisoners**

We asked the department what it was doing to increase the number of people sentenced for domestic violence crimes completing domestic violence programmes. The department said that it is difficult to ensure people with community-based sentences complete their programmes, but they have more success with prisoners. Some success in its community work programme has been largely due to successful liaison between offenders and community work supervisors, and it hopes to take what it has learned there and extend it into domestic violence programmes, with the aim of increasing participation.
Appendix

Approach to financial review

We met on 11 December 2013 and 29 January 2014 to consider the financial review of the Department of Corrections. Evidence was heard from the Department of Corrections and advice received from the Office of the Auditor-General.

Committee members

Jacqui Dean (Chairperson)
Jacinda Ardern
David Clendon
Hon Phil Goff
Hon Todd McClay
Ian McKelvie
Mark Mitchell
Richard Prosser
Lindsay Tisch

Evidence and advice received

Department of Corrections, Responses to written questions, received 11 December 2013 and 29 January 2014.

Office of the Auditor-General, Briefing on Department of Corrections, dated 11 December 2013.

Organisation briefing paper, prepared by committee staff, dated 9 December 2013.
2012/13 financial review of the Crown Law Office

Report of the Justice and Electoral Committee

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Crown Law Office

**Recommendation**

The Justice and Electoral Committee has conducted the financial review of the 2012/13 performance and current operations of the Crown Law Office and recommends that the House take note of its report.

**Introduction**

The Crown Law Office provides legal advice and representation to ensure the Government can lawfully achieve its objectives and discharge its constitutional duties. The office is funded through Vote Attorney-General, and has two main functions: providing legal advice and representation to the Crown and government departments and agencies, and supporting the principal law officers of the Crown—the Attorney-General and the Solicitor-General (who is also the chief executive of Crown Law).

**Financial and service performance management**

Crown Law’s total revenue for 2012/13 was $67.86 million, and its total expenditure was $67.772 million, resulting in a net operating surplus of $0.88 million (compared with a 2011/12 net surplus of $2.008 million).

As in the previous financial year, Crown Law received a rating of “good” from the Office of the Auditor-General for its management control environment, and financial information systems and controls; but its service performance information and associated systems and controls were rated as needing improvement.

Similarly, for the last two financial years Crown Law’s service performance information was rated as needing improvement. We asked what is being done in response, and heard that the organisation’s timeliness and quality measures and client survey have been improved, and measures are being developed for the performance of the Crown Solicitor Network.

Under revised Cabinet directions, Crown Law’s focus is now on core Crown legal work (providing legal advice relating to revenue, supervising the enforcement of criminal law, advising on constitutional matters including Treaty of Waitangi issues and law officer matters, providing legal services regarding the lawfulness of the exercise of government power, and Crown litigation). This has reduced the scope of the office’s work, its revenue, and the number of lawyers it employs. The chief executive considers that the situation is now relatively stable.

**Library**

We pointed out that the Crown Law’s library is valued at $815,000 but after accumulated depreciation is given a net value of only $22,000. We were told that the Office of the Auditor-General has recommended the library be re-valued in 2013/14.

**Government Legal Network**

Crown Law is building up a small unit, with its own director, to lead a Government Legal Network. The purpose will be to inform, engage and connect the approximately 800
lawyers working in central government. We will take an interest in the development of this network.

Staff

We note the increase in staff turnover to 32 percent from 9 percent in 2011/12. The chief executive said he is confident it will return to the usual rate; the mood of the office’s employees is now positive, with people enjoying the new environment, technology and structure. We heard that on average legal staff stay with Crown Law for five to six years, and that to provide an alternative career development option the office has created a new senior Crown counsel role, focussed on legal leadership rather than management.

We noted that the gender profile in Crown Law, particularly among Crown counsel, is about two-thirds female, and asked whether this was a matter of policy or chance. The chief executive said the organisation has a strong tradition of promoting women, but the statistics mainly reflect demographics, the numbers of women lawyers, and their motivation to work in the public sector.

Quality assurance

We asked why only 62 percent of Crown Law’s written opinions and advice complied with its own peer review quality assurance process, against a target of 75 percent. We learned that the process might be by-passed for reasons such as advice being required urgently, or being secret. Clients are surveyed every six months, and in the most recent of these surveys the overall satisfaction rating was 87 percent, up from 82 percent, indicating that the quality of the work produced has been maintained.

Prosecution of Hon John Banks

We asked about Crown Law’s decision to take over the prosecution of Hon John Banks from a private prosecutor. After considering the evidence in accordance with new prosecution guidelines, it was decided the prosecution should be conducted under the supervision of the Solicitor-General, and an independent Queen’s Counsel was instructed to undertake the prosecution.

Public perceptions and the judiciary

During last year’s financial review the committee suggested it would be useful for Crown Law to issue more public information about judicial independence, and explain some of the factors in controversial judgments. This year we heard that Crown Law had discussed this with a number of people including former senior judicial officers, and concluded that it is difficult for the Solicitor-General and Crown Law to do more publicly because they are the primary litigant before the courts. Crown Law consider it appropriate that the New Zealand Bar Association and the New Zealand Law Society take a more active public role, which they are doing. We would like to discuss further the role of Crown Law in this regard at another time.
Appendix

Approach to financial review

We met on 14 November 2013 and 30 January 2014 to consider the financial review of the Crown Law Office. Evidence was heard from Crown Law and advice received from the Office of the Auditor-General.

Committee members

Scott Simpson (Chairperson)
Paul Foster-Bell
Jo Hayes
Raymond Huo
Alfred Ngaro
Denis O’Rourke
Hon Maryan Street
Holly Walker
Hon Kate Wilkinson

Holly Walker was replaced by David Clendon for this item of business.

Evidence and advice received

Crown Law Office, responses to additional financial review questions, 6 December 2013.
Organisation briefing paper, prepared by committee staff, dated 12 November 2013.
The Government Administration Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry for Culture and Heritage, and the Ministry of Women’s Affairs and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
2012/13 financial review of the Ministry of Defence and the New Zealand Defence Force

Report of the Foreign Affair, Defence and Trade Committee

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Ministry of Defence and New Zealand Defence Force

Recommendation

The Foreign Affairs, Defence and Trade Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry of Defence and the New Zealand Defence Force and recommends that the House take note of its report.

Introduction

We have divided our report into two parts to reflect the separate operations of the two entities. We report on the 2012/13 performance of the Ministry of Defence in Part A, and in Part B we focus on the performance of the New Zealand Defence Force for the same period.

Part A: Ministry of Defence

The Ministry of Defence is responsible for advising the Government on the defence of New Zealand and its interests, the acquisition of defence equipment, and assessing and auditing the performance of the New Zealand Defence Force. In 2012/13 the ministry’s total income was $13.52 million, and its total expenditure was $13.287 million, resulting in a surplus of $233,000.

Financial and service performance

The ministry received a grade of “very good” from the Office of the Auditor-General for both the management control environment and financial information systems and controls. Its service performance information and associated systems and controls were graded as “needing improvement” as they were in 2011/12 and 2010/11.

Equipment acquisitions

We asked both the ministry and the defence force about the acquisition of up to 200 new trucks from Rheinmetall MAN, and about recent changes in the way it procures equipment. The ministry had previously experienced delays in the deliveries of new equipment. To avoid further such delays, it is now making a policy of working with its key defence partners when procuring equipment. In the case of the trucks, they were bought from the same production run as a British military order. The ministry no longer orders customised equipment, to minimise costs and avoid delays in delivery. The new trucks were acquired within 18 months of starting the procurement process, which is an improvement on previous orders.

The benefits of the new trucks are that they afford far greater protection for the drivers and other occupants than the Unimog trucks used previously. They also have greater off-road capacity and better protection against improvised explosive devices; their extensive IT capability can be used to manage supplies on the road, and in other more sophisticated ways. These benefits will lead to fewer trucks being needed in the field.
Part B: New Zealand Defence Force

The New Zealand Defence Force (NZDF) is the sole provider of armed forces to the Government, and the Chief of the Defence Force is the Government’s primary advisor on military policy. Its purpose is to secure New Zealand against external threat, to protect New Zealand’s sovereign interests including its exclusive economic zone, and to be ready to meet threats in New Zealand’s areas of strategic interest. In 2012/13 the NZDF’s total income was $2.260 billion, and its total expenditure was $2.217 billion, resulting in a surplus of $42.5 million.

Financial and service performance

The Office of the Auditor-General gave the NZDF’s financial information systems and controls a grade of “good”, which is an improvement on the 2011/12 grade of “needs improvement”.

Women in the New Zealand Defence Force

We noted concern about a substantial drop in the number of women serving in the NZDF from 2009 to 2013: 20 percent in the army, 18 percent in the air force and 13 percent in the navy. We asked the reason for this, and what measures were being taken to ensure women were adequately represented in the armed forces.

We heard that a number of roles in the army have been reclassified as civilian positions in the NZDF, which is why the number of women in the army in particular seems to have fallen. Some jobs that historically have been filled by women, such as administrative roles, have been reduced in number. The proportion of women in the NZDF relative to those in comparable military forces in other countries remains high.

The Ministry of Defence is undertaking a review of the position of women in the NZDF, with the aim, among others, of finding ways to ensure women are promoted to senior roles. Recruitment policies will be adjusted in an effort to make combat streams a desirable career choice for women and their families. Careers in combat streams are more likely to result in promotion than officer technical streams, which currently attract a good proportion of women. The review is intended to be available to the minister before Christmas 2013. We look forward to the results, and to seeing more efforts to promote the defence force as a career option for women.

Staffing

Overall staffing has dropped by over 1,000 personnel since 2009, and the lack of skilled personnel has directly affected operational matters. For example, there is a shortage of trained air force personnel, and the navy can crew only four out of its six in-shore patrol vehicles at any one time. We asked, given the recent period of high attrition, how long it will take to restore the NZDF’s strength and capability. We heard from the Chief of Defence Force that to rebuild its strength, with staff of all levels of experience, will take seven to ten years. Simply building up numbers will take a much shorter time, about two to three years. The NZDF said that personnel shortages are historically cyclical and it is confident it will recover, with no permanent damage to its operational capacity.
Afghanistan

SAS raid in Kabul

In 2010 SAS soldiers were involved in a raid in Kabul that lead to the deaths of two Afghan security guards, and New Zealand has subsequently paid out $20,000 to their families. We asked for some clarification of the circumstances of these deaths. The Chief of Defence told us he had reviewed video evidence and is confident that the soldiers identified themselves before they were shot at. The ex gratia payments were consistent with rules of engagement, and were not considered to be compensation. It is the practice in Afghanistan, and in other parts of the world, to make payments to families of those killed, in order to prevent revenge-driven retaliation.

Attack in Baghak

We asked the NZDF if it had determined the cause of the wounding of two Australian soldiers and a New Zealand soldier in Baghak in August 2012, reportedly by an Afghan whom they were training. The NZDF could not comment in detail, as the Australians are preparing a full report, but it assured us that there were no indications of tension or unrest before the attack.

We raised the concerns of Peter Page, one of the soldiers affected by “friendly fire”, and Lieutenant General Jones responded that none of these were substantiated, after being followed up. The committee has decided to write to Lieutenant General Jones to seek a copy of the un-redacted notes of the military police investigation.

We asked if, as the 2014 withdrawal from Afghanistan grows closer, the risk of such attacks will grow. We heard that this is possible, but that increased security measures by the International Security Assistance Force and improvements in conditions and morale for Afghan troops have reduced such incidents by up to a third from the previous year. We will be interested to see how security in Afghanistan is maintained as international forces continue their withdrawal and how well the Afghan National Army takes responsibility for security.

Counter-piracy in the Gulf of Aden

NZDF has had approved by the Government a two-year plan of involvement in counter-piracy operations, the first phase being a three-month deployment of the frigate HMNZS Te Mana, from November 2013 to March 2014. Throughout 2014 and in early 2015, small command teams and liaison teams will serve in the region, and an Orion will also be deployed later in 2014 for maritime patrol.

New Zealand has committed resources to this operation over the next one and a half to two years, giving its operational readiness a high priority. The commitment to the counter-piracy operation is one of the reasons that providing personnel for the frigate has taken priority over in-shore patrol vehicles.

Capability in the South Pacific

We asked the NZDF to outline disaster relief capability in the South Pacific. We heard that New Zealand is committed to an agreement with Australia and France for responding to natural disasters in the Pacific by sharing information and resources. HMNZS Canterbury is one of the primary response vessels in the region. New Zealand’s Hercules aircraft are also
used widely in the area, working alongside French and Papua New Guinean aircraft, which are smaller and therefore able to land in places a Hercules cannot.

The Christmas period is a busy one for NZDF operations in the Pacific. The cyclone season means it must on high readiness for disaster relief; and Antarctic waters are temporarily accessible as the sea-ice breaks up.

**Savings targets**

The NZDF was asked by Cabinet in 2010 to make annual savings of $350—400 million by 2014/15, of which $205 million had been achieved in September 2013. It confirmed that the target of reaching $350 million in savings by 2015 had been abandoned, but the goal of making the savings had not. It is now reviewing the plans for the remaining savings, and is negotiating with the Government to balance potential operational consequences. The defence force considers it must constantly look for reforms in the interests of efficiency, to maximise funding for front-line operations, effectiveness, and training.

We asked if the NZDF was reviewing these targets because finding the required savings had been damaging for it. The NZDF believes that it can make more savings using the new strategy, and that more investment is needed to achieve the kind of changes that would release savings in future.

**Introduction of new helicopters**

We asked the NZDF about the integration of the new NH90 and A109 helicopters into service. The NZDF told us that Exercise Southern Katipo 2013, the first integration of the helicopters into a field exercise, is going well. They are complex aircraft, and extensive training is required, not just to operate them, but also to understand their capabilities. A lack of instructors had contributed to delays in getting the aircraft into service.

At the same time as they are being integrated and crew trained, the Iroquois fleet is being wound down, and it is planned to take them out of service in early 2015, although they may be needed for somewhat longer.

There has been delay in the delivery of the NH90s, with the final delivery two years late. The NZDF will receive $1.8 million from the manufacturer as compensation as well as compensation in kind in the form of extended technical assistance and the guaranteed availability of a helicopter.

**Lightning strike**

In August 2013, one of the new NH90s was hit by lightning near Ohakea air base. The helicopter and the crew survived, but the cost is initially estimated to be in the region of $4.8 million to New Zealand. We were told that the lightning strike was so severe that it would have brought down an Iroquois.

**Departure of the Chief of Defence Force**

We acknowledge that this is the last time Lieutenant General Rhys Jones will appear before the committee in his role as the Chief of Defence Force for a financial review. We would like to extend our thanks to him for his years of service and his leadership over a difficult time for the New Zealand Defence Force.
Appendix

Approach to financial review
We met on 21 November and 5 December 2013 to consider the financial review of the Ministry of Defence and the New Zealand Defence Force. Evidence was heard from the Ministry of Defence and the New Zealand Defence Force 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
David Shearer
Lindsay Tisch

Evidence and advice received

Organisation briefing paper, prepared by committee staff, dated 20 November 2013.

Ministry of Defence, Responses to written questions, received 20 November 2013.

New Zealand Defence Force, Responses to written questions, received 20 November 2013.
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Recommendation

The Education and Science Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry of Education and recommends that the House take note of its report.

Introduction

The Ministry of Education is the Government’s lead advisor on the New Zealand education system. The ministry’s key priorities in 2012/13 were improving education outcomes for Māori and Pasifika students, those with special educational needs, and those from low socio-economic areas, and maximising the contribution of education to the economy. The ministry also sought to improve its own performance by altering its role in the education sector, and strengthening its processes, human resources capability, and programme and project management. During the 2012/13 financial year, the ministry received total revenue of $1.817 billion, mostly from Crown revenue, which was also the sum of its expenditure for the year.

Relationship between the ministry and the sector

We heard that the ministry has been changing the way that it engages with the education sector, allowing the profession more autonomy and responsibility for itself. Previously the ministry saw itself as the sector leader, in effect its “head office”, which fostered a hierarchical mindset at odds with the highly-devolved structure of the education sector in New Zealand. The new Secretary for Education has asked the ministry to become a steward of the education sector, improving its relationships with sector groups, and to adopt a culture of backing the efforts of principals, teachers, and providers. We heard that the Minister hopes the proposed replacement for the Teachers Council, the Education Council of Aotearoa New Zealand, will reflect this new relationship; the success of the new council will rest on the quality of appointments to the board. Sector groups will be involved in nominations for board positions.

The ministry’s initiatives include a project to improve the ministry’s interaction with the sector; the establishment of a Novopay Sector Group, chaired by the Secretary for Education, and a cross-sector bullying-prevention group; and work with the Canterbury Primary Principals Association on its relationship with schools in Christchurch. A reorganisation of the ministry’s operations is to include establishing a dedicated Deputy Secretary role concerned with education system performance.

Statutory management

The Education Act 1989 provides a legislative framework of statutory interventions to allow a prompt, flexible, and appropriate response when the operation of the school, or the welfare or educational performance of their students, may be at risk. One option is the appointment of a limited statutory manager (LSM) for the board of trustees by the Secretary for Education, at the direction of the Minister, to work on the board’s governance, while the board remains in existence. The ministry sets the terms of the appointment, but schools are required to pay the costs of the intervention. If they cannot
afford to pay, the ministry can reimburse part or all of the cost. We heard that in the 2012/13 financial year, the costs reimbursed by the ministry amounted to $338,310.

The ministry considers that the system needs review, and it has discussed possible changes with sector groups. The review will examine, among other things, the reasonableness of the rates charged by LSMs, around $100 per hour. Any changes will need to allow the ministry to intervene quickly when things go wrong.

**Māori education**

**Te Kotahitanga**

Te Kotahitanga is a research and professional development programme that helps teachers to improve Māori students’ learning and achievement in a culturally responsive way. We are aware that Te Kotahitanga is no longer funded, and asked why the programme had been discontinued. The ministry explained that it had been reviewed and refined, and the core components incorporated into very similar new programme, called Building on Success. The ministry acknowledged that it could have communicated the change and the reasons for it more effectively.

We heard that Building on Success incorporated key elements of the Te Kotahitanga and He Kākano’ programmes, and one called Starpath, which is designed to help schools understand their data on student achievement; and it reflects suggestions from schools on improving leadership. The ministry said that this new programme would be launched in the near future. Building on Success will be delivered by a consortium comprising Waikato University, Auckland University, and Te Whare Wānanga o Awanuiārangi, who provide Te Kotahitanga, Starpath, and He Kākano respectively. This new programme differs from its predecessors in not having a set methodology, and seeks to respond appropriately to the situation in each school. The ministry intends to have approximately one-quarter of secondary schools in the project at any one time, with schools entering and leaving according to their needs. The ministry confirmed that the new programme will still include support in the classroom.

**Kōhanga Reo Trust**

We are aware that Ernst and Young is conducting an independent review, supported by the ministry, of public funding of Te Kōhanga Reo National Trust following recent claims of inappropriate spending. The review will cover the trust’s controls over the funding provided by the Ministry of Education and the Tertiary Education Commission. We heard that the trust is cooperating fully with the review, which should be completed before Christmas.

In May 2013, the Waitangi Tribunal published a report, *Matua Rautia: The Report on the Kōhanga Reo Claim*, on a claim by the trustees of Te Kōhanga Reo National Trust. The trustees claimed that the Crown acted inconsistently with the principles of the Treaty of Waitangi regarding the relationship between the Crown and kōhanga reo, and the ability of kōhanga reo to operate effectively to ensure the transmission of te reo me ngā tikanga. One of the recommendations from the tribunal was to start promoting more effectively the benefits of learning in Te Reo. Another was to work more with iwi, to get them involved in promoting and protecting Te Reo ā Iwi.

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1 He Kākano is “a strategic school-based professional development programme with an explicit focus on improving culturally responsive leadership and teacher practices to ensure Māori learners enjoy educational success as Māori.”
The ministry has been trying to act on the recommendations in the report, by means including improving the connections between kōhanga and kura, as there are many children who attend kōhanga but do not go on to kura. The ministry is also hoping to address obstacles to children progressing from kura to wharekura.

The ministry noted its strong working relationship with Te Rūnanganui o Ngā Kura Kaupapa Māori and Ngā Kura ā-Iwi, which organisations support, protect, and give direction to the development of Kura Kaupapa Māori. The ministry is working to bring kōhanga, Te Rūnanganui, and Kura ā-Iwi together. The ministry has also transferred some funding to Vote Māori Affairs to directly fund whānau and kura reo programmes. This has greatly improved support for whānau in learning and support the learning of their children.

School property

Property management

We are aware that the ministry is one of the largest landowners in New Zealand, with land valued at $2.8 billion, and buildings valued at $7.9 billion. The ministry has reorganised its management of its property portfolio into a single service line, which reports directly to the chief executive. We were interested to learn that it has changed the way it disposes of surplus property; it has signed a memorandum of understanding with Land Information New Zealand to manage this process. The ministry said that this will result in a better service, with properties disposed of and returns realised more quickly. We will be interested to see the results of this new process and acknowledge community concern about derelict school properties.

When a school is closed, the ministry determines whether the property is required for community purposes; in many instances it is not, as the school is closed because the community that attends it has decreased dramatically. If community groups do not want the property, the ministry is intending to demolish the buildings more quickly than it used to. We heard that none of the five partnership schools/kura hourua plan to open on closed school properties, and if any future such school should want to use a vacant school site, it would need to buy it.

The ministry is seeking Crown land that can be used to establish early childhood centres in communities with a strong Māori and Pasifika presence. The ministry is working with iwi, Pasifika groups, and providers of early childhood education, who are often keen to move into areas of high need, to find land for new services. In the year to 31 October 2013, 16 licensed early childhood education services were opened on Crown land.

We heard that public-private partnerships are being considered for the redevelopment of Christchurch schooling. The ministry told us it is considering all of its procurement options to ensure that it receives best value from its capital investment; it would not proceed with such a partnership if the business case did not indicate value for money. The benefit of a PPP to a school is that it provides facilities management, so that the principal of the school can focus entirely on education. The ministry is confident that where it plans to redevelop schools into community campuses, for example in Aranui, the PPP will allow the flexibility to accommodate other community services, such as a library, swimming pool, or sports facilities. In Aranui the ministry has established a community leadership group, which is consulting the community as to the services it wants delivered from the proposed campus.
Asset maintenance

We are aware that about 60 percent of school buildings are over 40 years old, and their deterioration contributes to the $500–600 million the ministry spends each year on school property. There are also a number of leaky school buildings, and the ministry estimated the cost of repairing them at about $1.5 billion. We heard that the ministry is surveying school buildings, to determine which need earthquake-strengthening, or leaks repaired, or other maintenance. For two years it has been gathering information to prioritise work to repair schools and bring them up to 21st-century standards. Given the substantial investment in school properties, we will be interested in whether the assets are maintained better as a result.

Partnership schools/kura hourua

We are aware that five partnership schools/kura hourua will open in time for the 2014 school year. The contracts between the ministry and the sponsors of the new schools include a bonus payment linked to achievement. A number of the students who will be enrolled at these new schools will undertake part of their schooling at existing state schools, and we were interested to learn how the ministry would determine the extent to which their educational achievement would be attributed to the partnership schools/kura hourua. The ministry explained it is developing a framework for measuring achievement using a number of indicators. The contracts between the ministry and the partnership schools/kura hourua sponsors set indicators and target outcomes for which sponsors will be held to account. Targets are set in high-level outcome areas including student’s achievement and engagement, the financial health of the schools, and their focus on priority learning groups. The contracts stipulate that one percent of the funding for partnership schools/kura hourua will be retained by the ministry, and will be released only if the Minister is satisfied that the sponsor has met all of the performance standards for the school year. All sponsors must meet the financial performance targets stipulated in their contracts. The targets are publicly available, and are based on best accounting practice for state schools, to ensure the partnership schools/kura hourua are financially viable.

Novopay

The ministry told us it partially completed the remediation work related to the new payroll system, Novopay, introduced in the last financial year. Although the error rate of the Novopay system has fallen to within the normal tolerance for a payroll system, the ministry considers that the service model is not working, and needs to be changed.

Gaps in the model have placed extra workload on school administrators, which the ministry will address. We heard that the ministry is preparing for the “end of year/start of year” payroll procedure, the most significant payroll actions in any school year. This procedure is due to be completed by February 2014, after which the ministry will be in a position to determine what changes are needed to the service model. The ministry suggested that ministry support personnel might be more heavily involved, instead of relying on teachers using online self-help modules. It is focusing on remediation work including fixing bugs in the interim, to help reduce workload pressure; and it has recently released another version of Novopay, which allows more transactions to be completed online.
**Recovery of cost**

We heard from the ministry that it expects to make full use of the breach arrangements in its contract with Talent2, the provider of Novopay, but it has not yet moved to recover costs. The ministry has an arrangement with Talent2 whereby the ministry will initially cover the costs associated with getting the Novopay system fit for purpose. Once the system has been satisfactorily fixed, a process will apportion the cost for the fixes between the ministry and Talent2. This approach was chosen as it allows the ministry to focus on repairing the system as defects appear, without the distraction of negotiating responsibility for the costs incurred as they arise.

**Whole-of-government targets**

Four of the Government’s whole-of-Government “Better Public Services” targets apply to the education sector: to increase participation in early childhood education; to have 85 percent of primary school students achieving at or above national standards; to increase the proportion of 18-year-olds with NCEA Level 2 or equivalent qualification; and to increase the proportion of 25- to 34-year-olds with advanced trade qualifications, diplomas, and degrees. We note that one of the targets relates to improving students’ academic achievement in specific areas, and sought assurances that this would not detract from a broad-based education. The ministry believes that these targets apply at the top of the system, to marshal and focus resources, not at the school level. Some media organisations are obtaining information on performance against the targets through the Official Information Act 1982, and publishing individual school results, but this is not a ministry initiative.

To assess accurately children’s progress against national standards, the ministry is reliant on data collected by the schools. It is seeking to improve the consistency of data from schools, and has introduced a Progress and Consistency Tool. A national standards school monitoring study is examining the implementation of national standards. We heard that the ministry is monitoring the impact of national standards, and it is trying to ensure that schools understand that the curriculum should not be narrowed to focus on national standards.

**National Student Numbers**

We are aware that the Education Amendment Act 2013 introduced a new power, allowing the Secretary for Education to assign National Student Numbers to children who would be unlikely to participate in early childhood education. Concern has been expressed that information thus collected could be used to police the compliance of people on welfare with early childhood education obligations. We were assured that it has no agreement with the Ministry of Social Development in this respect, nor have they discussed this possibility.

**School Network Upgrade Programme**

We heard that the ministry is well on track to meet its targets for the School Network Upgrade Programme. The 2013 Budget included $136 million for the programme, which we were told should be sufficient for all schools to be upgraded by 2016. The ministry expects to have 20 schools upgraded by Christmas 2013, and 700 by the end of 2014. The programme should ensure that schools can join the network managed by Network for Learning, to improve access to learning resources.
Early childhood education

In 2012, 18,412 children were enrolled in home-based early childhood education, representing 9.4 percent of all enrolments in licensed early childhood education. Between 2003 and 2012, enrolment in home-based early childhood education has nearly doubled, making it the fastest growing kind of early childhood education provision. We learned that the ministry had adopted a different review process for this sector from that initially planned. It involves bringing together key home-based providers, and working with them on issues. This change was intended to make the process more inclusive. The ministry told us there is good evidence that the home-based services work well, but it has not yet conducted a formal evaluation.
Appendix

Approach to financial review
We met on 13 November and 4 December 2013 to consider the financial review of the Ministry of Education. Evidence was heard from the Ministry of Education and advice received from the Office of the Auditor-General.

Committee members
Dr Cam Calder (Chairperson)
Catherine Delahunty
Hon Jo Goodhew
Chris Hipkins
Colin King
Tim Macindoe
Tracey Martin
Simon O’Connor
Grant Robertson
Dr Megan Woods

Evidence and advice received
Organisation briefing paper, prepared by committee staff, dated 11 November 2013.
2012/13 financial review of the Education Review Office

Report of the Education and Science Committee

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Education Review Office

Recommendation
The Education and Science Committee has conducted the financial review of the 2012/13 performance and current operations of the Education Review Office and recommends that the House take note of its report.

Introduction
The Education Review Office (ERO) is a government department responsible for assurance on the quality and effectiveness of schools and early childhood education services. During the 2012/13 financial year, ERO received most of its funding from the Crown, with total revenue of $15.133 million. It achieved a net surplus of $315,000. The chief review officer in the year under review was Graham Stoop. Shortly before our hearing of evidence, Mr Stoop resigned as chief review officer, and was replaced by Diana Anderson in an acting capacity. In addition to regular reviews of schools and services, ERO evaluates and reports on significant and topical education issues, for example via national evaluations of education sector performance. It published three such reports during 2012/13, which focused on Māori students, Pacific students, and students with special needs. It is planning a report which will focus on students from low socio-economic backgrounds, and it is also conducting research about the impacts of poverty on learning. ERO perceives these reports as part of its role of recognising and sharing successful practice throughout the school system.

In the year under review ERO focused on improving academic achievement by students designated priority learners by the Government, and ensuring its data on their progress was accurate. ERO also focused on its methodology work with kura kaupapa, particularly those that operate under the philosophy of Te Aho Matua. Another priority was its contractual agreement with the Ministry of Education to provide “readiness reviews” of all new and merging schools, and operational support when they open.

Parental engagement
We have recently initiated an inquiry into engaging parents in the education of their children, and we are interested in initiatives to help parents engage with schools. During the 2011/12 financial year, ERO changed its school reviews to make them more accessible to parents, reducing their length and eliminating jargon. In the year under review, ERO started to produce pamphlets for parents suggesting questions to ask of their local schools. It told us it received an “enormous response” to the first two booklets, which suggested questions to ask at school and of boards of trustees. ERO has scheduled three further booklets for publication in 2013/14, including one on effective teaching, one on how schools can prepare students for training and employment, and one explaining the structure of the education system. We welcome these measures and look forward to the release of the new booklets.

Early childhood education
ERO told us its role in the early childhood sector is to build the capability of services to examine their own performance in relation to their philosophies and espoused objectives.
ERO’s reports on early childhood education services have been redesigned to open with a clear judgement of the overall quality of each service.

We are aware that home-based service is the fastest-growing area of early childhood education, growing 92.1 percent between 2003 and 2012, compared with enrolment growth of 18.7 percent for education in early childhood centres. Network providers of home care centres are usually reviewed on a regular three-year cycle, although some may be reviewed more often. ERO also randomly samples homes where care is being provided, to inspect the quality of the care and to speak to caregivers about their support and professional development.

ERO is seeking to improve its methodology for reviewing home-based care, in the interests of certainty about the self-review capabilities of such services. It will consult parents who use home-based care, using questionnaires and focus groups. ERO said it expects to publish a report detailing its findings, and we look forward to seeing it.

**Home schooling**

In New Zealand about 6,000 children are being home-schooled. We are aware that ERO only checks on the quality of home schooling by request, usually from the ministry where a complaint has been made or an issue raised, such as failure to follow an approved educational programme. We heard that ERO used to review home-schooling more extensively, but found that most parents who home-schooled their children were doing a very good job, so it now focuses on specific areas on concern.

Home-school reviews involve examining the programme that has been approved, and assessing the students’ work and the evidence of achievement. ERO also looks at children’s opportunities to develop their social skills and interact with other children. ERO acknowledged the potential for a jaundiced view of the quality of home-based schooling because it is generally going into homes where improvement is likely to be needed. Next year, it will work with the New Zealand Home Based Early Childhood Education Association to review good practice in home schooling. It plans to issue a document that will be useful for parents who want to home-school their children.

**Review cycle**

Schools in New Zealand are reviewed by ERO on different cycles, depending on their performance. Schools with high or exemplary performance are reviewed on a 4- or 5-year cycle. If ERO has cause for concern about the education or safety of students they are reviewed every 1 or 2 years. The 3-year cycle is considered the norm. ERO conducts an annual risk analysis of the schools that are due for review, and those where there have been significant changes, such as a change of principal.

ERO aims to visit about one-third of schools every year; the target shifts from year to year. During the year under review, 75 percent of schools on 1- or 2-year cycles moved to 3-yearly review, and 11 percent of those on a 3-year cycle moved to 4 or 5 years. ERO said that the differentiated cycle allows it to focus its resources where students’ achievement is poor. We note that the differentiated review approach is still relatively new, and we will watch its implementation with interest.
Appendix

Approach to financial review
We met on 13 November and 4 December 2013 to consider the financial review of the Education Review Office. Evidence was heard from the Education Review Office and advice received from the Office of the Auditor-General.

Committee members
Dr Cam Calder (Chairperson)
Catherine Delahunty
Hon Jo Goodhew
Chris Hipkins
Colin King
Tim Macindoe
Tracey Martin
Simon O'Connor
Grant Robertson
Dr Megan Woods

Evidence and advice received
Organisation briefing paper, prepared by committee staff, dated 11 November 2013.
Education Review Office, response to written questions 1 to 140, received 11 November 2013.
Education review Office, response to written questions 141 to 152, received 25 November 2013.
# 2012/13 financial review of the Ministry for the Environment and of the non-departmental appropriations for Vote Environment

Report of the Local Government and Environment Committee

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Ministry for the Environment and of the non-departmental appropriations for Vote Environment

Recommendation
The Local Government and Environment Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry for the Environment and of the non-departmental appropriations for Vote Environment, and recommends that the House take note of its report.

Introduction
The Ministry for the Environment is the Government’s primary adviser on environmental matters. The ministry administers the Resource Management Act 1991, which sets out how the environment should be managed, covering air, water, soil, biodiversity, coastal areas, noise, subdivision, and land-use planning in general. It also prepares national policy statements, national environmental standards, and reports on the state of the environment, and gives national direction to central and local government agencies with responsibility for environmental management.

Financial and service performance management
The ministry’s revenue for 2012/13 was $53.609 million and total expenditure was $52.395 million, resulting in a net surplus of $1.217 million.

The following non-departmental output classes had net surpluses:

- Allocation of New Zealand Units: $279.587 million
- Community Environment Fund: $688,000
- Contestable Waste Minimisation Fund: $3.993 million
- Fresh Start for Fresh Water: New Initiatives: $916,000
- Issue of New Zealand Assigned Amount Units to Permanent Forest Sink Initiative Participants: $16.608 million
- Protecting Lake Taupō Programme: $383,000
- Waste Disposal Levy Disbursement to Territorial Local Authorities: $90,000.

The following non-departmental output classes recorded an even balance:

- Fresh Start for Fresh Water: Rotorua Lakes Restoration Programme: $8.2 million
- Tui Mines Remediation: $4.85 million
- Fresh Start for Fresh Water: Waikato River Clean-up Fund: $4.745 million

Water
The appropriations Fresh Start for Fresh Water: New Initiatives, Fresh Start for Fresh Water: Rotorua Lakes Restoration Programme, and Protecting Lake Taupō Programme are intended to improve water quality in our waterways. Riparian and wetland planting continued at Te
Waihora/Lake Ellesmere and the ministry is helping the Waihora Ellesmere Trust change the way farmers near the lake operate. The ministry said that collaborative models, such as the one in operation at Te Waihora/Lake Ellesmere, work better than others to minimise the impact of farming on waterways.

The ministry also works with Rotorua Lakes Restoration Programme stakeholders. The programme began in 2008, and by the end of the 2012/13 financial year nitrogen had been reduced in Lakes Rotorua, Rotoiti, Okareka, and Rotoehu by 181.548 tonnes (against a project end target of 391.4 tonnes)—with Rotoiti having the highest reduction, by tonnage, of 158.5 tonnes. We heard that nitrogen reduction in Lake Rotorua is progressing more slowly than the other lakes in the programme, but that it is on track.

The Lake Taupō programme includes nitrogen trading which allows farmers to buy, lease, or sell nitrogen. Those farming less intensively than their allotted cap are permitted to sell any surplus. It is not yet possible to discern outcomes, but the ministry told us that it was pleased with the scheme’s framework. We look forward to its progression.

The ministry announced that the next stage of the water reform strategy would be further work on a National Objectives Framework, including indicators. We noted that a macroinvertibrate community index indicator is not included, nor is there any objective for concentrations of nitrate in rivers. The ministry made the point that it did not believe there was agreement between scientists as to either of these matters.

**Greenhouse gas emissions**

New Zealand’s target for greenhouse gas emissions is a 5 percent reduction from 1990 levels by 2020. We heard that while the ministry wishes to reduce both gross and net emissions, it is focusing more on gross emissions. To reduce them, it works with other agencies such as the Energy Efficiency and Conservation Authority and Land Transport New Zealand (on transport emissions) and the Auckland Council (in its unitary plan). We note that it does not track what carbon price is being passed on by industries using or retailing electricity or liquid fuels.

Section 30G(1)(c) of the Climate Change Response Act 2002 allows for the use of quantitative restrictions on the surrender of international units. In response to our asking at what point the ministry might recommend using this provision, we heard that it was necessary to distinguish between the first and second commitment periods as trading in the secondary clean development market was available during the first period but not the second.

**Environmental reporting**

In August 2013 it was announced that an environmental reporting bill would be introduced into the House later that year. We were pleased to learn that the ministry has completed the necessary policy work. We would like to see this legislation introduced as speedily as possible, and look forward to considering it.

Under the proposed legislation, the ministry envisages producing six-monthly domain reports, and a consolidated report every three years, possibly at the beginning of each Parliament. In the meantime, it will continue producing indicator reports.

We queried whether the appropriation for the Environmental Legal Assistance Fund is sufficient. The ministry said that it did not intend increasing the fund at present, and that its focus was on primary interaction rather than funding appeals.
Natural hazards management

In its inquiry into building failures caused by the Canterbury earthquakes, the Royal Commission made a number of recommendations relating to the Resource Management Act 1991. We note that amendments to the Act, signalled by the Government in August 2013, as part of a larger package, would respond to the recommendations by inserting into Part 2 (Purpose and principles), provisions relating to the management of natural hazards and allow the development of a national policy statement.

Consultation with Māori

As a steward of natural resource management, the ministry views an enduring relationship with Treaty partners as vital for long-term policy solutions. The ministry acknowledged the point that Māori are not a homogeneous group, and said that for this reason it engaged extensively in consultation. It noted our suggestion about producing an audit report on outcomes achieved from consultation. We look forward to possible progress on this front.
Appendix

Approach to financial review

We met on 21 November 2013 and 30 January 2014 to consider the financial review of the Ministry for the Environment and of the non-departmental appropriations for Vote Environment. Evidence was heard from 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
Moana Mackey
Eugenie Sage
Su’a William Sio
Phil Twyford
Andrew Williams

Evidence and advice received

Ministry for the Environment, Responses to written questions, received 19 November and 10 December 2013.

Report on Non-Departmental Output Expenses Vote Environment for the year ended 30 June 2013.


Organisation briefing papers, prepared by committee staff, dated 20 November 2013.
2012/13 financial review of the Ministry of Foreign Affairs and Trade and of the non-departmental appropriations for Vote Official Development Assistance

Report of the Foreign Affairs, Defence and Trade Committee

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Ministry of Foreign Affairs and Trade and non-departmental appropriations for Vote Official Development Assistance

Recommendation
The Foreign Affairs, Defence and Trade Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry of Foreign Affairs and Trade of the non-departmental appropriations for Vote Official Development Assistance, and recommends that the House take note of its report.

Introduction
The Ministry of Foreign Affairs and Trade is responsible for protecting and promoting New Zealand's interests overseas. It provides advice on international relations, works to advance and protect New Zealand's security and trade interests, administers New Zealand's overseas aid programme, and provides consular support for New Zealanders overseas. It is also the Government's official channel for communications with other countries and international organisations.

For 2012/13 the ministry’s total income was approximately $400.8 million and its total expenditure was $336 million, resulting in a surplus of $64.8 million. A total of $557.6 million was appropriated for Vote Official Development Assistance and its total expenditure was $498.7 million, with a surplus of $58.9 million.

The Office of the Auditor-General assessed the ministry’s management control environment, financial information systems and controls, and service performance and associated systems and controls as “good”, with some deficiencies it had identified in the previous financial review resolved.

Disposition of resources
We asked the ministry if its resourcing in China was adequate, as we had received reports that some standard services cannot be provided there. We heard that since the free trade agreement with China was implemented, trade volumes have trebled, but staff levels have barely risen, and funding has fallen. The ministry said that it now has additional staff in Wellington assigned to the China effort, and it plans to increase the staff in China to support the trade growth. It has staff in Shanghai, Beijing, and Guangzhou, and is planning to establish a presence in Chengdu. The ministry is not the sole government agency that represents New Zealand in China, and we heard that others are also increasing their resourcing.

The ministry did not agree with us that lack of resources is related to the damage to New Zealand’s reputation following the Fonterra contaminated whey issue.

Funding
We compared the level of funding in China, which is acknowledged to be a priority area for New Zealand, with recent spending on creating a presence in Barbados, which is a low priority, accounting for only a fraction of the amount of trade and tourism income that
China generates. We heard that the ministry believes it had responded adequately to the rapid growth in trade with China and in dealing with issues such as the contaminated whey alert. We remain concerned at what appears to be an underinvestment in the number of staff based in China by the ministry in what is New Zealand’s biggest and rapidly expanding export market.

**Work within New Zealand**

The ministry is also working to equip New Zealand businesses with the competencies and knowledge they need to do business in China, and to ensure that the ministry can support them. It is increasing the number of Mandarin speakers on its staff, and working with agencies such as the Asia New Zealand Foundation.

**Global activity and investment**

We asked where and how the ministry was focussing its limited diplomatic resources. The ministry is expanding its relationships with the countries in the Association of South East Asian Nations (ASEAN), which is a dynamic community of importance to New Zealand trade. It has established a presence in Myanmar, and will establish an ambassadorial-level position in Jakarta, to deal with ASEAN issues alongside the New Zealand ambassador to Indonesia.

In 2011 a one-person post was established in Abu Dhabi, supported by the embassy in Saudi Arabia. This has resulted in interest in New Zealand’s agricultural capability, and in New Zealand’s public policy and institutions.

Given the small amount of trade and tourist flow in that area we queried the establishment of a presence in Barbados.

We asked about reductions in funding to the Americas, Australia, and the Pacific, which we consider to be important areas for New Zealand. The ministry said they reflected the strength of the New Zealand dollar, and, more significantly, the fact that the ministry has been functioning more efficiently while improving its impact.

**Morale**

We have heard and seen evidence that morale among the ministry staff is low. We recognise that last year was particularly difficult, but we note that morale has not recovered to the level of two years ago. Unplanned resignations have trebled in the last three years, and attrition is at 18 percent. We have heard reports of allowances and salaries being cut and spouses not receiving the level of support they have come to expect. We asked the ministry if it is fair to still expect the best from its staff under these circumstances.

The ministry told us that it accepts that there have been changes, but does not believe that these changes result in a lack of proper recognition, nor a downturn in recruitment of suitable, valuable people. It pointed out that unplanned turnover was down from the previous year, at 8 percent, and morale was improving.

**Performance**

**Restructure**

The ministry embarked on a large change programme in the period under review and we asked how the changes have affected the strength and effectiveness of the ministry. The ministry told us that the most recent evaluation was a mid-term performance improvement framework review, which was largely positive although it found areas that still need work.
When questioned about the independence of the evaluation team, consisting of Murray Horn and Debbie Francis, lead reviewers for the performance improvement framework, the ministry said it was confident in the validity of the review.

**Official Information Act requests and ministerial correspondence**

We asked the ministry about its slow response to Official Information Act requests and ministerial correspondence. Timely response to ministerial correspondence has dropped from 80 percent last year to 49 percent in the year under review, and only 57 percent of responses to Official Information Act requests meet the requirement of a response within 20 working days. The ministry said it has changed its processes for both sorts of correspondence. We expect these measures to improve this area of long-running concern in the ministry’s performance.

**Peer ratings**

The peer rating of the quality of the ministry’s negotiations has fallen. The percentage of peers rating the quality of the ministry’s negotiations at 4 or higher on a scale of 1—5 is down from 79 percent in the last financial year to 69 percent in this financial year. We asked if the ministry thinks the lower rating reflects reduced staff numbers. The ministry thinks that it still delivers the desired quality of service with its current level of staffing, and that it values feedback given freely and frankly by the agencies it works with, with the aim of improving the service. The ministry agreed with us that the lower rating may well be due to public perceptions of the Trans-Pacific Partnership, and does not reflect the quality of the trade agreements that New Zealand has entered into, which have led to measurable trade benefits.

**United Nations Security Council seat**

The ministry has focussed this financial year on New Zealand’s bid for a seat on the UN Security Council. The election of the incumbent is now a year away. The ministry believes that New Zealand has a strong case for election, in spite of strong competition from Spain and Turkey, as a small country with a history of multi-lateral engagement and an independent perspective on foreign policy.

Over the next several years there will be a series of commemorations of the First World War, and the ministry will use them as an opportunity to garner support for New Zealand’s bid for a Security Council seat and to enhance its relationships with European nations, without detracting from the significance of the commemorations. The effectiveness of New Zealand’s aid programme is also a selling point for New Zealand in its campaign, the ministry said this was not in effect using aid expenditure to “buy” a seat on the council.

**Vote Official Development Assistance**

We asked about the reason that Vote Official Development Assistance was underspent by $64.6 million. The ministry said that the accounting period for Vote Official Development Assistance had moved to a three-year cycle for two multi-year appropriations, and that it expects to meet the spending target over this period.

**Pacific assistance**

The United Nation’s millennium development goals have been a focus for the year, and we asked what New Zealand is doing to support countries such as Kiribati and Papua New Guinea which are falling behind with their goals. The ministry said it has been contributing to health and education, particularly sexual and reproductive health.
Another focus in the Pacific has been energy, and encouraging Pacific nations to reduce their reliance on diesel as a source of energy and generally improve their sustainability. Tokelau is now using solar power exclusively.

New Zealand has signed the Copenhagen Accord and is committed to funding to help developing countries address climate change, but there has been no corresponding increase in the aid budget. The ministry said that it has met its financial obligations, and the Prime Minister has made a commitment to increasing funding for this purpose. The ministry intends to integrate its climate change work with disaster risk management, both of which are very important in the Pacific.

We also asked for an update on New Zealand’s work towards gender equality and combating domestic violence in the Pacific. The ministry ensures that gender issues are considered in all of its activities, and has a large, successful, programme with the New Zealand Police to educate Pacific police forces about domestic violence.

**Use of private business**

The ministry assured us private businesses used in aid delivery were held accountable to the same standards as Government agencies. The ministry applies a standardised accountability model whether its partner is a foreign Government, the private sector, or a non-governmental organisation. Any large projects are put out to open tender and the bids evaluated for value for money and ability to deliver.

**Aid allocation**

Using aid to Myanmar as an example, we asked about the limits of aid allocation, whether the amount of aid sought was provided, and how its detailed allocation is decided. The ministry said it looks for the best match for New Zealand’s strengths, and the needs of the country receiving the aid. In the case of Myanmar, New Zealand is providing aid for human resources development and agriculture, two of New Zealand’s areas of strength. In other locations, aid may be provided in areas such as health or education. The ministry denied that it would use aid to secure entry for New Zealand businesses into markets; its primary concern is the impact of aid on people’s lives in the recipient country.

**Trade agreements**

Work on the Trans-Pacific Partnership takes up much of the ministry’s time and energy. It expects the partnership to remain a priority area for the ministry for some years. We asked the ministry why it had not been more vocal in promoting the partnership, and making known the potential benefits in job creation and government procurement, and why New Zealand had not undertaken an analysis of the potential benefits. We heard that once the agreement is formed, a national interest analysis will be done. The ministry agreed with us that jobs and opportunities will be created as a result of the partnership.

The ministry told us that it hopes to conclude a free trade agreement with South Korea in 2014. The recent visit by the Prime Minister to South Korea and the change in Government there have revived the momentum of the negotiations, which now have commitment from South Korean leaders.

New Zealand has increasing contact with the Pacific Alliance, an economic bloc consisting of Chile, Colombia, Peru and Mexico, formed in 2011 to negotiate trade with Asia-Pacific countries. New Zealand is interested in the Pacific Alliance partly because the Trans-Pacific Partnership also includes Chile, Peru and Mexico and there is growing parliamentary and
ministerial involvement in the area, with the Prime Minister visiting in 2013. The ministry considers that this involvement represents a real opportunity for the New Zealand economy, particularly agriculture, and encourages it.

New Zealand is also working with Gulf states to build stronger ties, with the aim of helping them develop food security. These states recognise New Zealand’s established credentials in this subject, and its understanding of quota management and supporting sustainable agriculture.
Appendix

Approach to financial review
We met on 5 December 2013 and 30 January 2014 to consider the financial review of the Ministry of Foreign Affairs and Trade and of the non-departmental appropriations for Vote Official Development Assistance. Evidence was heard from 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
David Shearer
Lindsay Tisch

Evidence and advice received
Ministry of Foreign Affairs and Trade, Responses to written questions, received 3 December 2013 and 28 January 2014.

Office of the Auditor-General, Briefing on Ministry of Foreign Affairs and Trade, dated 5 December 2013.

Organisation briefing paper, prepared by committee staff, dated 13 November 2013.
The Intelligence and Security Committee has conducted the financial review of the 2012/13 performance of the Government Communications Security Bureau. The committee heard evidence in public from the Government Communications Security Bureau and received advice from the Office of the Auditor-General.

The committee has no matters to bring to the attention of the House and recommends that the House take note of its report.

Hon Christopher Finlayson
Acting Chairperson
2012/13 financial review of the Treasury and of the financial statements of the Government of New Zealand for the year ended 30 June 2013

Report of the Finance and Expenditure Committee

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The Treasury and the financial statements of the Government of New Zealand for the year ended 30 June 2013

Recommendation

The Finance and Expenditure Committee has conducted the financial review of the 2012/13 performance and current operations of the Treasury, and of the financial statements of the Government of New Zealand for the year ended 30 June 2013, and recommends that the House take note of its report.

Introduction

This report combines our discussion of the Government’s annual financial statements and the financial review of the Treasury. We held a joint hearing with the Minister of Finance, the Hon Bill English, to discuss the annual financial statements, and with the Treasury to discuss the financial review of the department. The transcript of our hearing of evidence is appended to this report.

Fiscal position for year ended 30 June 2013

The financial statements of the Government provide a consolidated view of the revenue, expenses, assets, and liabilities of all Government entities. They show a continued improvement in the Government’s fiscal position, with the operating deficit more than halved over the past year. As measured by the operating balance before gains and losses (OBEGAL), the deficit was $4.4 billion for the year ended 30 June 2013, compared with $9.2 billion in 2012 and $18.4 billion in 2011.

The OBEGAL deficit was considerably better than forecast, because tax revenue was higher than expected, and growth in expenses lower. Core tax revenue increased by $3.6 billion in 2012/13, to $58.7 billion, as a result of increased consumer spending and a large increase in investment. Core Crown expenses grew by $1.2 billion (1.8 percent) to $70.3 billion. The main increases were in costs related to student loans, and for superannuation. Earthquake-related expenses were lower than forecast.

After taking gains and losses into account, the Crown’s overall operating balance was a surplus of $6.9 billion. After a deficit of $14.9 billion the previous year, this was the first surplus since 2008. Most of the improvement resulted from gains on the investment portfolios of the Accident Compensation Corporation (ACC) and the New Zealand Superannuation Fund, and in the valuations of the long-term liabilities for ACC claims and Government Superannuation Fund pensions. As a result, the Crown’s net worth increased for the first time since the global financial crisis, to $68.1 billion (32 percent of GDP).

Focusing on the OBEGAL deficit, the Minister said the Government remains on track to return to surplus in 2014/15, but there is no room for complacency. Government borrowing is still $110 million a week, so net debt is continuing to rise, albeit at a slower pace than in recent years. At 30 June 2013 net debt was $55.8 billion, 26.3 percent of GDP. The Government’s goal is to reduce it to below 20 percent of GDP by 2030. The Minister
commented that once a surplus was achieved, the Government would then have choices about reducing debt and further investment in public services and infrastructure.

**Treatment of partial asset sales in the financial statements**

The financial statements for 2012/13 record the first sale under the “mixed ownership model” programme announced in Budget 2011. In May 2013 the Crown sold part of its shareholding in Mighty River Power, receiving over $1.6 billion from the sale of 48.2 percent of the shares. The commentary on the financial statements (page 9) provides details about the gross and net proceeds from the sale, and explains how the Crown’s ownership interest is shown in the financial statements. Because the Crown continues to own more than 50 percent of the shares and retains control of the company, it must report all of its assets, liabilities, revenue, and expenses. Additional lines have been included in the operating statement and balance sheet to show the Crown’s ownership interest, separately from the portion attributable to minority interests.

**Expected proceeds from partial asset sales**

By the time of our hearing, minority shareholdings had been sold in Mighty River Power, Meridian Energy, and Air New Zealand. The Minister confirmed that the Government remained committed to its plan for the sale of up to 49 percent of its shares in Genesis Energy in the first half of 2014, subject to market conditions.

The Minister told us that the Treasury was finalising its half-yearly economic and fiscal update (HYEFU), to be released on 17 December with the Minister's budget policy statement. The update would set out revised forecasts for the total proceeds expected from the Government’s programme of partial asset sales. The original estimate, in 2011, was that total proceeds would be between $5 billion and $7 billion, and the Treasury’s forecasts were based on the $6-billion mid-point of this range. The Minister told us that the revised estimate would take into account developments since then, including the results of the share offers to date, and the fact that Solid Energy’s financial difficulties rule it out from sale at present. He said the new estimated range would be $4.6–5 billion, with a mid-point of $4.8 billion.

Some of us are of the view that previous statements by the Government about the expected proceeds from the sales were unrealistic and based on flawed valuations, and that the Government should have acknowledged much earlier that it would not realise as much as $5–7 billion from the sales. In particular, some of us consider it inappropriate to attribute the revision to the withdrawal of Solid Energy from sale, since it had been clear for some time that it was in financial difficulty.

The Minister did not accept such arguments. He said that any valuation is a theoretical exercise until such time as shares are actually sold, when an actual market valuation can be derived. Even with the removal of Solid Energy, he said, the proceeds from the completed and planned sales were likely to reach the lower end of the original estimated range. In his view, the central issue was that the market had come to realise that, contrary to the perception of the energy companies as cash cows, such companies carry risk and are vulnerable to falls in wholesale electricity prices. With some commentators suggesting the sale prices were too high and some too low, he believes that on balance they were about right.

On the question of whether, in the current climate, the Government had achieved maximum value for taxpayers from the sales, the Minister said if the aim had been solely to
maximise value, it would have sold 100 percent to a single consortium which could control
the company. Rather, it had set clear aims: to sell only 49 percent, achieve widespread New
Zealand ownership, and within those parameters to obtain good value for taxpayers. He
believes these aims were accomplished. He commented that more small New Zealand
investors might have bought shares had there not been the political threat that the energy
companies could be nationalised. He emphasised, however, that the Government has
banked nearly $4 billion from the sales, which would help at a time when it is trying to limit
the increase in debt and invest extensively in infrastructure and other public assets.

**Meridian Energy and the Tiwai Point smelter**

Some of us questioned whether the sale of shares in Meridian Energy could be judged a
success, when it had realised net proceeds of just over $1.8 billion against an estimate of
$3.9 billion. The Minister said the main difference was that the market’s valuation built in
risks regarding Meridian’s contract with Rio Tinto for supplying electricity to the Tiwai
Point aluminium smelter,¹ and the market clearly factored in what it saw as the strong
possibility that Rio Tinto would withdraw in 2017 or 2018. He said he did not need to
make such an assessment, but acknowledged that it was a possibility; he noted that a
smelter in Australia had recently closed, and said Rio Tinto would no doubt be examining
its cost structure closely as the price of aluminium continues to fall, and China’s production
capacity increases.

Some of us also questioned the purpose of a $30-million payment by the Government in
connection with the renegotiated contract between Meridian and the smelter operator, if it
did not secure the prospects for jobs at the smelter. The Minister said the purpose had
been clearly stated when the deal was announced: it secured an arrangement that made it
more likely Rio Tinto would remain; it did not say that jobs would be secured. The new
contract was essential to remove uncertainty for potential investors in Meridian about what
was going to happen with the smelter in the medium term. (Under the new contract, New
Zealand Aluminium Smelters agreed to continue operating the smelter until at least January
2017.) He said all the statements he had made were consistent with the share offer
prospectus, which by law had to present a true picture to investors.

**Fiscal impact of partial asset sales**

We are interested in the effect the share sales will have on the fiscal position, and
particularly in their effect on the operating balance before gains and losses. The Treasury’s
previous forecasts estimated that the OBEGAL deficit would increase by $90 million a year
as a result of the sales, as the Crown would receive future dividend payments only in
proportion to its reduced shareholding. In effect, it would receive a lump sum of proceeds
from the sales up front, for use to reduce debt now, in return for lower income in the
future. We asked the Minister how this was likely to change with the reduction in the
estimated total proceeds from the sales.

The Minister said such estimates are purely theoretical, and many different figures were
possible depending on the assumptions made about the dividends a company might pay
under public ownership or as a semi-privatised company. Also, such calculations ignore the
risk entailed in commercial ventures. In our later hearing on the financial review of the
Treasury, the Secretary to the Treasury also declined to provide an updated estimate of the

¹ Rio Tinto Alcan New Zealand is the majority owner of New Zealand Aluminium Smelters, which operates the Tiwai
Point smelter.
effect of asset sales on the OBEGAL, saying it would be in the half-year economic and fiscal update, due for release in two weeks’ time.

We note that the update published on 17 December (page 37) estimates the debt impact of the share offer programme as a $4.2-billion reduction in net debt by 2017/18, and the accrual impact as a net decrease in the OBEGAL of $108 million per annum.

The housing market

We asked the Minister what is being done about escalating prices in the housing market. We have heard from the Reserve Bank about the serious risks they pose for the economy and the financial system, and note that housing affordability is one of the Treasury’s priorities.

The Minister said the Government has been working for two years to develop policies to deal with another housing cycle like the one around 2005. This culminated in recent legislation to create special housing areas, and a housing accord with the Auckland Council. In his view, council decision-making processes are at the heart of the housing affordability problem, as supply is constrained by councils’ restrictions on development opportunities, and by their efforts to make developers bear the cost of affordable housing. He told us the Government has been trying to get planners to understand the macro-economic effects of their decisions—for example, the debt burden caused by escalating house prices, and the socioeconomic strata being created in cities by a shortage of affordable housing. He believes progress is being made, with the mayors of Christchurch and Auckland accepting that housing must be available for those on moderate incomes. However, more still needs to be done to get this understanding through to the planning process.

The Minister said he expects measures by the Reserve Bank to confer some benefit by curbing demand for a time, but he believes steps to increase supply will make a much bigger difference in the long term. In his view it is difficult to control demand, as many factors are involved such as migration flows, the availability of credit, and wage increases; and people tend to find ways around any restrictions.

Asked whether the Government was considering incentives to move to provincial cities as a means of lessening migration pressures on Auckland, the Minister said it has been discussed; the immigration points system was already weighted to favour migrants to other parts of New Zealand. In his view, however, the preferred approach is to allow demand to flow relatively freely, and to improve the supply of housing.

The challenges of debt and savings

Government debt has increased by $50–60 billion over the past five years. The Minister said the main driver of the borrowing has been maintaining public services and support for the most vulnerable in the community during the recession. He believes the Government has had considerable success in containing unnecessary spending, and is making progress in controlling the underlying drivers of spending. With the outlook improving, he is reasonably confident that as revenue rises the Government will be able to repay the debt that has accumulated and rebuild the fiscal buffers depleted by the earthquakes. He told us the challenge now will be to maintain sufficient restraint to repay the debt once surplus is achieved.

Some of us see the low level of national savings as a particular challenge, and believe Government decisions about KiwiSaver and suspending contributions to the New Zealand
Superannuation Fund have greatly exacerbated the situation. It is of concern that the IMF ranks New Zealand’s current account deficit as the largest in the developed world—a sign of the country’s inadequate savings relative to its investment needs.

The Minister said he and Treasury are engaged in a “robust debate” about the long-standing issue of New Zealand’s savings rate. He believes the policy establishment does not have a good understanding of New Zealanders’ decisions about saving, although it has been saying for 30 years that New Zealanders do not save enough. He believes more work is needed to find out why Kiwis behave the way they do. He does not accept that New Zealanders cannot afford to save. His view is that people regard their payment of tax as a significant element of savings, as it funds subsidised childcare, free education, interest-free student loans, Working for Families rebates, and national superannuation.

The Minister observed that Australia’s current account deficit is only marginally better than New Zealand’s, despite 15 years of compulsory superannuation, so he does not believe that compulsion is the solution. Some of us note, however, that $1.6 trillion in national savings has given the Australian economy capital depth, whereas New Zealanders appear to invest in property because policy settings discourage other investment options. The Minister disagreed; he said part of the answer lies in tax policies, such as the abolition of depreciation deductions for investment property, but that efforts would continue to understand New Zealanders’ savings behaviour and adjust policies accordingly.

The Treasury

The Treasury is the Government’s main economic and financial advisor, and one of the three central agencies working to improve the state sector’s performance. As well as providing policy advice, it manages the Crown’s finances and monitors the performance of Crown entities. It also provides services such as managing the Crown’s debt and its ownership interest in state enterprises.

The Treasury’s work focuses on improving economic performance, securing a high-performing state sector to support New Zealand’s competitiveness, and ensuring a stable and sustainable macroeconomic environment. It describes its vision as securing higher living standards for all New Zealanders.

Staffing

The Treasury’s head count has increased over the last few years as it has absorbed the Crown Company Monitoring Advisory Unit, and taken on new roles with the establishment of the National Infrastructure Unit and the Central Agency Shared Services (CASS) unit, also managing the Crown retail deposit guarantee scheme and the Government’s share offer programme. At 30 June 2013 it had 389 full-time-equivalent staff, an increase of 4.6 percent over 2012.

Financial performance

Most of the Treasury’s funding comes from appropriations under Vote Finance. Since the creation of the CASS unit, it also recovers costs for the provision of services to the State Services Commission and the Department of the Prime Minister and Cabinet. In 2012/13 it returned a net surplus of $402,000; its total revenue was $84.6 million and total expenditure $84.2 million, both up about 8 percent from the previous year. The changes resulted mainly from implementing the Government share offer programme, which
increased costs by just over $3.7 million, and operating the CASS unit for the first full year, which increased both revenue and expenditure by $4 million.

**Managing the Crown’s balance sheet**

The Treasury is updating an investment statement about the Crown’s assets and liabilities, which it intends to publish by June 2014. The statement will outline how they have changed and are expected to evolve over at least the next two years, and indicate ways the Crown’s balance sheet could be improved so services could be delivered more effectively at less cost. It sees such work as an important part of its stewardship role, and of transparency in its fiscal accountability. Given the size of the Crown’s footprint in the economy, it believes small improvements in the way risks are managed, assets are used and maintained, and the balance sheet is invested and funded could allow sizeable gains in New Zealanders’ living standards.

**Borrowing programme**

The Treasury’s annual report notes among the year’s highlights the borrowing programme managed by its New Zealand Debt Management Office. The office issued $14 billion of government bonds in 2012/13, including the first inflation-indexed bonds since 1999, at maturities that reduced refinancing risk. The cost of new borrowing was 3.1 percent, significantly better than the performance target of 5.5 percent. We commend the office on this important contribution to managing the costs and risks borne by the Crown.

**The Treasury’s policy advice**

The Treasury told us it has commissioned an external review of the quality of the advice it has provided to the Government over the past 10 years about fiscal policy, to find ways it could improve. The review will be published in June 2014.

**Solid Energy**

Some of us are concerned about how well the Treasury has performed its central roles of providing policy advice and monitoring the Crown’s ownership interests in state enterprises, as it is clear that Solid Energy’s financial difficulties were not picked up and acted on as soon as they might have been. The Secretary to the Treasury said he was confident that his department had advised Ministers of the key issues in a timely way; he noted that an independent assessment of its performance as a monitor of Solid Energy did not find a material failure in its monitoring processes.

Asked why, then, steps had not been taken earlier to correct Solid Energy’s deteriorating financial position, the secretary said the state enterprise arrangement in New Zealand gives their boards and management responsibility for managing the inevitable risks of commercial businesses, and the extent to which the Government can intervene is limited. He believes that, with hindsight, the board and management clearly made riskier decisions than they should. He noted that the Treasury certainly had disagreements with the company, of which Ministers were aware.

**Learning Media Limited**

Some of us are concerned about the arrangements being made following the announcement on 4 September that Learning Media Limited is no longer financially viable and will be wound up. It appears improper that the Government allowed Learning Media to raise funds through several share offers in order to repay its major bank creditor, while
its landlord and other creditors were left struggling to collect what they were owed. The Treasury said it was involved in providing advice to Ministers about Learning Media’s situation, but it could not comment during the current commercial process. The secretary undertook to provide us with detailed explanations of the arrangements as soon as he was able.

We were subsequently informed that the redeemable share subscription agreement was designed to ensure an orderly wind-down, allowing services such as the School Journal to be moved to other providers and, in particular, to ensure that all of the company’s staff were paid their full entitlements. This had been accomplished by the time the company was placed in liquidation in early December, although larger creditors, including Learning Media’s bank, were not paid in full.

**Productivity and competitiveness**

Pages 13–17 of the Treasury’s annual report contain an interesting discussion of New Zealand’s historic economic performance, and particularly its productivity. It notes that New Zealand’s GDP per capita ranked well against the OECD average until the mid-1980s before dropping away and remaining steadily lower since the 1990s. The conclusion is that New Zealand needs to outperform other countries if it is to overcome the disadvantages of size and distance. We discussed the prospects for New Zealand’s doing so with the Treasury. The secretary told us the department is studying this issue intensively, with other agencies and the private sector. He is optimistic about the opportunities for New Zealand, as a part for the first time in history of the world’s fastest-growing region. Asia’s middle classes will continue to grow, increasing demand for the type of products New Zealand excels in producing. He also believes technology offers the potential for overcoming the challenge of distance.

To help New Zealand seize these opportunities, the Treasury is reviewing all policy settings for their effects on New Zealand’s international connections. It is also seeking to ensure the state sector delivers real value, especially in areas such as education. It sees the international challenge as more than gaining access to markets; New Zealand must also ensure it develops the skills it needs to exploit opportunities as they arise.

We note that growth in the tradable sector still lags behind non-tradable GDP growth, despite New Zealand’s terms of trade being the best in 40 years. We asked whether this indicated the Government has failed in its efforts to close this gap. The secretary agreed there has been little improvement so far, but believes New Zealand is on the right road to improving its long-term sustainability. He does not consider the current account deficit unsustainable, noting it currently reflects post-earthquake rebuilding, and suggesting that it could have been worse.

Asked how the Treasury’s views on savings differ from the Minister’s, the secretary explained that his department’s focus is on New Zealand’s vulnerability to external shocks. It believes New Zealand as a country has inadequate savings, leading to a reliance on overseas borrowing. He said the debate is about the extent of the resultant vulnerability, the sustainability of the current account deficit, and the lessons to be drawn from the last 30 years’ experience. The Treasury believes the single most important thing the Government can do is to bring its books back to surplus, which is the present goal.
International trade agreements

In support of the Government’s business growth agenda, the Treasury has been developing a framework to assess the overall costs and benefits of the Trans Pacific Partnership (TPP) trade negotiations. It told us it is doing so methodically, examining each aspect of the negotiations for its potential fiscal and economic impacts, but also, using a living standards framework it has developed, in terms of its broader effects on society and sustainability. Its starting point is that free trade is a good thing, as are lower tariffs, international connections and trade, and direct investment, both foreign and inward. It believes a TPP agreement that met the objectives the Government has set would be very good for New Zealand, and could encourage China to join, which would be transformational for global trade. The secretary acknowledged that the negotiations are challenging, and that getting China on board could take a decade, but he considered this would be well worth the effort.

Regional development

We asked whether the Treasury is seeking ways of encouraging industry and investment to move from Auckland to smaller centres in other regions. We were told that it tends to focus on recognising and removing obstacles to growth in the regions, leaving the market to decide where resources should go. Occasionally however, as in Christchurch, the Government takes an active part in a region’s development.

The secretary also said he and his staff make a point of visiting the regions to talk with business leaders around New Zealand. He believes that in recent years the Treasury has improved its understanding of the issues they face; a recurrent theme is the importance of access to skills.

Measuring living standards

In an effort to diversify the way it thinks and works, the Treasury has increasingly been using a “living standards framework” in its policy analysis, looking at other dimensions of living standards as well as economic growth: sustainability, equality, social infrastructure, and managing risk. We asked how it measures such aspects of well-being, beyond the traditional yardstick of GDP, as we are aware that the OECD is doing similar work and finding it difficult. The Treasury said it is still early days, but it is devoting specialists to the task, and working with several agencies, especially Statistics New Zealand. On its website it has allocated 85 or so statistical indicators to the various dimensions of the framework, and plans to publish an assessment of them in 2014.
Appendix A

Approach to financial review

We met on 4 December 2013 and 29 January 2014 to consider the 2012/13 financial review of the Treasury and of the financial statements of the Government of New Zealand for the year ended 30 June 2013. We heard evidence from the Minister of Finance and from the Treasury, and received advice from the Office of the Auditor-General.

Committee members

Paul Goldsmith (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
John Hayes
Hon Shane Jones
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Jami-Lee Ross
Hon Kate Wilkinson

Evidence and advice received


Organisation briefing paper, prepared by committee staff, dated 18 November 2013.

The Treasury, responses to committee questions, dated 21 November and 20 December 2013.
Appendix B

Corrected transcript of hearing of evidence 4 December 2013

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

Witnesses
Hon Bill English, Minister of Finance
Gabriel Makhlouf, Chief Executive and Secretary of the Treasury
Vicky Robertson, Deputy Chief Executive
John Crawford, Deputy Secretary, Commercial Transactions Group

Goldsmith Welcome, Minister and Mr Secretary. Thank you very much for coming this morning. We’ve got two things that we want to cover: the financial statements and the financial review of Treasury. I imagine you'll focus more on the financial statements, and then we’ve got an hour with Treasury from 10 until 11. We don’t have to be too hard and fast. If you could give us some brief introductory comments, I’d be grateful, thank you.

English Thank you, Mr Chairman. I’ll just make a few comments on the financial statements. In the year to 30 June 2013 we had higher tax revenue than expected and lower expenses, which halved the deficit to $4.4 billion, from $9.2 billion the previous year. The $4.4 billion compared to a forecast of $7.9 billion deficit, so it was considerably better.

We continue to focus on getting better results from our public services as the principal means of getting better results for the Government’s books. We remain on track to return to surplus in 2014-15. Until we get to an OBEGAL surplus, and then a cash surplus, we’ll continue to increase our debt. We are still borrowing more money, so there’s no room for complacency. In fact, we’re still borrowing a net $110 million a week. This compares to $260 million a week back in 2010-11. Once we’ve reached surplus, then we’ll have choices about reducing our debt, and investing in...
effective public services, where we believe that that will reduce future costs by solving social problems and also further investment in infrastructure, as another choice.

I will be releasing the half-year update for this year on 17 December and that will have a full set of economic forecasts from the Treasury. In the Budget this year, Treasury forecast net Crown debt increasing to over $70 billion by June 2017, from $10 billion in June 2008. You might recall in the Budget we set out a goal of getting Government net debt below 20 percent of GDP by 2020. So the approach to our tax and revenue is driven by achieving that goal, generally along the lines of holding the growth of expenditure while revenue grows.

I’ll just quickly cover some of the other key figures in the latest annual accounts. Core tax revenue increased to $58.7 billion, up by $3.6 billion in that year, driven largely by higher incomes and higher consumption; expenses increased by $1.2 billion, to $70 billion, in large part due to extra costs around student loans; core Crown expenses have been around the $70 billion mark for 3 years, up until 2013; our expenses were around $3.4 billion below the Budget forecasts, and that’s partly as a result of lower-than-forecast Canterbury earthquake costs, but also just a lot of other bits and pieces.

We remain on track to reduce Government expenditure as a percentage of GDP to 30 percent of GDP by 2016-17. We peaked around 35 percent of GDP in 2010-11. Thirty percent of GDP is around the level that it was through the early 2000s, so it’s not radically different for a New Zealand Government.

The actual operating balance after gains and losses is significantly in surplus, around $7 billion for 2013. That is the total gain in the Government’s position, including an increase in its now very large share and investment portfolio.

I just want to make one final point about the expected proceeds from the Government share offer. Treasury’s early estimates, 2 or 3 years ago, were that total proceeds would be between $5 billion and $7 billion. The estimated range was based on five companies being in the programme, including Solid Energy. For the purpose of their forecasting, Treasury assumed that receipts would be in the mid-point of that range, around $6 billion. A re-estimate that excludes Solid Energy from the programme, based on the same assumptions, would put the proceeds at between $4.4 billion and $6.1 billion. So that’s if you take the original assumptions and exclude Solid Energy; we’re certainly on track to be within that range. The half-year update later this month will set out a revised assumption of the receipts, based on the fact that Solid Energy is clearly in no position to be sold any time soon, and taking account of other industry developments and the results of the share offers to date. So the new estimated range in the half-year update will be $4.6 billion to $5 billion, with a mid-point of $4.8 billion, which I understand is what the Treasury will use as an actual figure at the mid-point of the range. So this is the cash Treasury expects taxpayers
to receive, that we would expect to come from completing the
Government’s share offer process.

I am happy to take questions, Mr Chairman.

Goldsmith  Thank you very much, Minister.

Cosgrove  Tell me, Minister, why do you continue to blame the Solid Energy collapse
issue for the revised forecast, because back in 2011 your Prime Minister said
he believed the sale of those assets would free up $10 billion, then the claim
was $7 billion to $10 billion, then $7 billion, then $5 billion to $7 billion,
then $5 billion, and now we’ve got $4.6 billion at the bottom range or $5.8
billion? So my question is: you and your Government were still forecasting
outrageous proceeds, even though you had a plethora of advice, including
the UBS study and others, as far back as 2011, but Solid Energy was
basically on the rocks. So why do you keep using that as an alibi?

English  Well, it’s not an alibi. It’s just a matter of assessing the facts as they stand.
So the $5 billion to $7 billion was estimated by Treasury I think for Budget
2011, or certainly Budget 2012, and it’s a reasonably wide range. I think you
might remember there was a perception, cultivated somewhat by the
Opposition as well as others, that these electricity companies were semi-
monopoly cash cows. I think people who have invested in them might have
a different view now, if they ever believed that one.

No one was quite sure whether it would be some kind of bonanza or more
realistic. So that was the range of $5 billion to $7 billion. Solid Energy was
at one time valued at over $3 billion on the Government’s books, so it was
certainly regarded as potentially a significant part of the sale process. When
you take that out and a revision particularly to the value of Meridian, you
end up with the range that Treasury has given.

Cosgrove  I just come back to that. You’ve had a series of advice since you came into
Government, I think starting about 2009, showing you had disputes over
valuations, two in fact, and you had a UBS study to scope it for sale, but
came back and said it was a basket case. Yet you, your Prime Minister, and
your SOE Minister kept forecasting, at that point, over $7 billion and then
you kept revising it down, but you never made a realistic forecast, and you
only use it as an alibi now. You knew, over a number of years, it was in
trouble yet you kept factoring it in. So why do you continue, given that
information, to use that as an alibi, because you didn’t make the grade?
You’re at the bottom end of your $5 billion to $7 billion forecast. You’re
not going to make $5 billion.

English  Well, you guys can’t have it both ways. I mean, you’re putting forward a
policy that says—

Cosgrove  Under us it was an export, award-winning company.

English  —these companies are way overvalued and therefore consumers are paying
prices that are far too high, and now you’re turning round and saying that
somehow it’s a failure because the values are lower than the Government
thought they were.
Cosgrove  No, I am saying that you stuffed up the valuation. You stuffed up the valuation. They’re your valuations. Either Treasury gave you bad advice, but we’ve been told by Audit that they think their advice is appropriate, or you over-inflated the valuations. You’re the one with the books. You’re the one with the information—we don’t.

English  Well in the first place, you don’t know a market valuation until the company’s on the market—

Cosgrove  You had the UBS study.

English  Well, politicians need to remember that. A market valuation can only actually be derived from the market. That’s the first point. The second thing is—

Jones  We’re learning that through Chorus.

English  For 3 years, we’ve talked about $5 billion to $7 billion. Even with the removal of Solid Energy we’re at the bottom of that range, so I don’t think there’s a misalignment of valuation here. I think that my last point here is that Treasury has to make that assessment—and it does. So, up until now, it hasn’t had sufficient reason to change the range. So it has changed it from $5 billion to $7 billion, to $4.6 billion to $5 billion.

Cosgrove  Do you think that if you were advising—if you were in the private sector—and you were advising clients when to sell an asset in order to maximise the value to those clients, you would have advised them to sell these assets in this climate, in this environment given that apart from Air New Zealand, where you made an extra hundred million—36 hours of Government operating expenditure—you took a pasting on all those assets? The shareholder didn’t maximise the value for the taxpayer.

English  I simply disagree, for a couple of reasons. One is that the Government never set out to maximise the value. If we did, we would have done a trade sale of 100 percent to people who wanted to control these companies, and we may have got hundreds of millions more. Government never said it was trying to maximise the value. What it said was that given the conditions we laid down, which were selling down 49 percent and widespread New Zealand ownership, that we would get best value for taxpayers. So that’s the first point. The second point is that I simply don’t agree that these sales have realised a whole lot less than they should have. And who knows what they should have. And who knows what they should have realised? They had valuations via Government. These are not market valuations; they’re theoretical valuations. What’s become clear through the process is that people’s understanding of those markets has changed quite considerably—for instance, the market now believes that, contrary to the Opposition’s view, these companies are vulnerable to drops in electricity prices. In fact, if you look at wholesale electricity prices, they’re now down 15 to 20 percent. It’s really only the Transpower investment, which you oversaw, flowing through in fixed charges, is going to hold electricity prices, even at current levels. So all of your theories about all of these things have turned out to be proven wrong by the market perception of the company.
Cosgrove So you judge success on a forecast for Meridian Energy of $3.9 billion, and you got $1.88 billion—actually, you got $1.84 billion, if you take into account the borrowing cost of the instalment plan. If you’re a shareholder sitting there, and you’d sold the asset, you’d class that as a success?

English Yes I do. The main thing about Meridian is that the Government valuation didn’t do what the market price does, and that is price-in expectations of the Rio Tinto contract, which is a big chunk of its electricity production. So the Government valuation didn’t have probabilities built into it about the very real chance that Rio Tinto would move out in 2017 or 2018. The market price does. That’s one of the reasons we float these companies—because market pricing of them is more realistic, as it happens. The value of those companies is less than people thought, which I think contradicts the view that the Opposition have had, that they’re cash-cow, semi-monopoly companies that can raise electricity prices at will. That’s now turned out to be obviously wrong.

Cosgrove So can you tell me, what did the taxpayer get for the Rio Tinto deal? Because as we all understand it, Rio Tinto got a halving—or over a halving—of their notice period, which should tell us something; they got a reduction in the electricity price. You threw in $30 million. You cast that as securing jobs for those workers and for people in Southland. And yet, we know from your own quotes on Radio New Zealand that you received no jobs guarantee for that $30 million. We know from your own words that you never even asked for a job guarantee, and we know from media that the week the cheque was being signed they were laying off workers. So, could you tell me, what sort of negotiating strategy you embarked on, and what the taxpayer actually got, apart from you trying to protect the Meridian position?

English Well, we didn’t run the negotiating strategy; Meridian did. So they negotiated to the point they regarded as a point of commercial indifference between a greater likelihood of Meridian staying and a lower price. The fact is that it turned out that that created a more realistic picture of the Meridian value.

Cosgrove So it was all about stabilising Meridian, wasn’t it, as we kept saying? It was all about putting that risk to bed so you could float it. It wasn’t about jobs.

English It was all about representing truth to investors. We exist in a world of politics. When you sign a prospectus on the pain of criminal liability, it has to be true. It would be great to see every Government agency jump through the same hurdles as organisations going to a public float, because everything that’s said has to be true.

Cosgrove So was it true that the jobs would be secured? I mean, jobs have been laid off.

English Well, we didn’t say the jobs would be secured. What we said was that we’d secured an arrangement, which made it more likely that Rio Tinto would stay. So by the time we got to issue the prospectus it had to be pretty clear what was going to happen. You could not put it to the public with as much
uncertainty as there was around the initial contract. So Meridian took a commercial view about it. As we’d been quite transparent about at the end, the Government made a payment to secure the signature on the contract.

Cosgrove With respect, there are a plethora of quotes from you, in Parliament and in media, trumpeting the deal with Rio Tinto as securing jobs—there are a plethora of quotes. You now tell us that you’re backing away from that? Because those jobs aren’t secure, are they? You got no guarantee of any jobs, and jobs have been laid off.

English No, the Government couldn’t mislead anyone about this, because it was in the prospectus. So every statement is made under pain of criminal liability. So, again, read the prospectus, it outlines it—

Cosgrove I’m interested in reading your quotes.

English My statements are all consistent with those quotes. What we’ve said is that it made it more likely that Rio Tinto would stay. They’ve just shut the Gove aluminium smelter in Australia after months of negotiations with state and Federal Government in Australia. So clearly capacity in China is rising. At the moment, the aluminium price continues to fall and I’m sure that that means that Rio Tinto will be looking really hard at the cost structure of its operation in Invercargill. So there are no guarantees.

Goldsmith Supplementary on the partial asset sales. The financial return has been at the lower end of the spectrum, but it’s still on track. There are a whole lot of other objectives in the process, such as the market scrutiny that the partial share market ownership would have, and so forth. How successful would you regard the outcome in terms of those wider goals of the partial sales programme so far?

English In the first case, we don’t accept the contention that the assets were sold for some lesser price than they “should have been”. In fact, if you go and ask investors their perception—some of them—is that they were sold for more than they should have been sold for. And my response to them is, well, you got the shares you bid for at the price you bid. What can you complain about? You’re still going to get the yield that was in the prospectus. So, I think we must have got it about right. If we’ve got these guys saying they’re way undersold, and the people who bought them saying they’re way oversold, that sounds like we’ve got about the right value, given the constraints.

In terms of the wider objectives, they’ve also been achieved—good value for taxpayers’ money, as well as widespread New Zealand ownership. That could have been a bit more, without the political risk hanging over these companies. Unsophisticated investors turned out to be unwilling to take risks of buying when there was a threat of nationalising these industries—that’s understandable. We’ve got nearly $4 billion in the bank, at a time when we’re trying to limit the increase in our debt. Where we have an extensive programme of investment in infrastructure and other public assets, that’s pretty handy to have.
Could I ask you: are you still committed to the sale of Genesis Energy at your stated time frame next year?

Yes, subject to market conditions.

What does that mean? Because they haven’t been subject to market conditions—

It means subject to market conditions.

Well, why the new criteria? Because you haven’t made the others subject to market conditions, have you?

Yes, we have.

That’s why you took a bath on two of the three of them.

No. Well, I disagree about taking a bath. You guys are just disappointed that the prices are going down because it undermines your argument that consumers are paying too much for electricity. Well, stiff cheese; you got it wrong.

No, we’re just disappointed that you’ve sold a revenue-generating asset to buy non-revenue-generating assets and at some point the money—

That doesn’t sound like a question.

You can always buy them back. If you think the revenue’s that good, get out and buy them back.

Mr English, I’m looking at the Budget Policy Statement 2012 in which the Treasury estimates that the increase in the operating balance excluding gains and losses will be—there will be an increase in the deficit by about $90 million a year as a result of asset sales, according to the figures from your department. All right? But that was based on selling them for $6 billion. So now that you’re planning to sell them for $4.8 billion, it means the impact on the operating deficit will be even worse under the projections, because you’re raising less money for them. So what do you project now for the increase in the operating deficit as a result of asset sales?

Well, I think, as we’ve discussed before, there’s any number—there’s two or three ways you can calculate the impact on the Government’s finances. I think the last time Treasury—it must have been at the last Budget—did some calculations. One method showed it a bit positive, one a bit negative, one about neutral. Bear in mind that those calculations are all theoretical—and that is that they make assumptions about what these SOEs would have paid as dividends had they remained SOEs and they measured those assumptions against what they say they’re going to pay as dividends as partially privatised companies. The fact is that those numbers move around a lot, so I am quite sure that, for instance, had they remained in 100 percent Government ownership they’d be paying lesser dividends than they will be relative to their value as semi-privatised companies. So I don’t know what the updated calculations are. All I know is, first, they’re theoretical and, secondly, if you believe that owning risky companies is automatically going to yield you larger income flows that exceed the cost of debt, then
Government could borrow money and buy every asset on the stock exchange and we’d be better off. Now, clearly, that’s a nonsense. So the element that’s left out of those calculations is the element of risk. As I said before, it’s now pretty clear to the market and from the share valuations that people perceive a risk that electricity demand is flat to falling—

Norman All right. Thank you.

English Well, hang on. No, no, you’ve got to let—

Norman I asked a very specific question. You refused to answer it and you’re giving us a long lecture about other stuff.

Goldsmith It’s a complex argument which he’s—

Norman I asked a very specific question. He won’t answer it, so I think we should move on. We’ll run out of time.

English Well, actually, this is part of the problem with the Greens’ view. They don’t understand commercial risk. These are risky companies. You can’t guarantee anything.

Goldsmith Right, we’ve got that answer—

English Well, I can’t answer that question.

Norman What is the increase in the operating balance excluding gains and losses as a result of privatisation. According to Treasury previously the increase in the operating balance excluding gains and losses was about $90 million—

English According to one calculation.

Norman And so, now that you’ve raised a lot less money than you originally projected—under your department’s projection, not mine. I didn’t make this up; this is your projection, not mine. So you’ve raised a lot less money, so the deficit will increase significantly more as a result of privatisation—

English No, that’s quite illogical. We will still have Solid Energy, right?

Clark Good news.

Cosgrove Economic archaeology.

English Which exactly makes the point about commercial risk. We haven’t sold Solid Energy. We’re unlikely to. It’s not going to be paying dividends. We’ve avoided putting capital in—or hardly any capital. That exactly makes the point. The ownership of these assets does not guarantee income flows and if you guys take the referendum seriously—if you believe it’s going to be 90 percent in your favour—then you will go and buy the assets back, according to your own logic and fix the deficit.

Norman OK, so the other way that Treasury tried to spin it to make it look better was they looked at operating balance not excluding gains and losses, which is an unusual approach but obviously it kind of made it look better. And then they assumed that there was going to be a forecast gain on sale. In one Budget Policy Statement it was about $800 million over the lot. The next one they cut it back to about $600 million. It’s now actually a big loss, because you’ve lost money against the book value through the sales process.
So what is your projection for the operating balance if we don’t exclude gains and losses?

English: I haven’t done that. I haven’t seen that calculation. But I think—

Norman: It’s in your document.

English: Eh?

Norman: It’s your documents that you released to the House.

English: No, no, I haven’t seen an updated one. We’re talking now about updating figures. In fact, I can’t recall the numbers from the other one, anyway. I think the general point here is if we believe that was the most important, first of all, it’s a theoretical calculation and you can pick your result, basically. Secondly, if we believe that was the most important thing for the Government, we’d be out buying risky assets on the basis that their yields are greater than the cost of debt and that is a nonsense. It might be what you guys are going to do. We think it’s a nonsense and I don’t think taxpayers support it either, actually. The third thing is we never set that as an objective. We never said the whole point of this is to improve the Government’s deficit. We said it’s to keep debt down, get better performing companies, have the market scrutinise the risk instead of the Government, and get widespread New Zealand ownership, and we have achieved all those things.

Norman: OK, so if you have increased deficits—operating deficits—does that over time increase the Government’s debt or not?

English: Well, it would, except your calculation of what’s driving those increases is theoretical. These are risky companies. In fact, one of the features of the Government’s accounts in recent years has been the write-down of SOE dividends. SOEs have not been paying substantial dividends except in the case of these electricity companies, and, even in their case, there’s been a lot of pushing and shoving over getting them to pay the kind of dividends that the market would expect them to pay. So there’s no guarantee. Just because Treasury does a calculation doesn’t mean that that creates reality. That’s just a theoretical calculation—with respect.

Norman: If the operating balance excluding gains and losses is now going to get a lot worse because of asset sales—

English: Well, we don’t know.

Norman: Indeed, the operating balance is getting worse because of asset sales, just based on Treasury numbers—that’s all it’s based on. So those aspects of the asset sales have failed. But your other objective, like you said, was widespread New Zealand ownership. You achieved 2 percent ownership in Mighty River Power, 1 percent with Meridian, Air New Zealand was marginal, completely marginal—maybe 0.1 percent. Is that a successful outcome in terms of widespread New Zealand ownership of these companies—2 percent, 1 percent, 0.1 percent?

English: First, I disagree with your assertion that in the long run it’s unnecessarily bad for the fiscal balance. I just disagree. There’s no guarantee of the
theoretical dividends that Treasury put in in its calculations either under Government ownership or private ownership, and that’s going to be pretty sorely tested. If all those things were correct, the share prices would reflect higher expectations than they currently reflect. So I just disagree with that bit.

And on the rest of it, yes, I do believe it’s been successful. We have tens of thousands more New Zealanders who are now participating in the public financial market. It would have been more, but one of the things that scared them off—I think two things scared them off a bit. One was they started to understand these are risky companies and they don’t guarantee some windfall gains. Everyone assumed there’d be windfall gains from buying these shares off the Government. That didn’t happen. And the second thing is the Opposition policy made them a bit worried about whether these companies might change dramatically over the next 4 or 5 years.

Norman Who made the decision to sell them? Was it us or was it you?

English No, it was us—very proud of it.

Norman So you made the decision that lost all the money that increased the operating deficit?

English No, I disagree.

Norman It was your decision, not ours. You can’t blame us for that.

English I know, but you have the opportunity to buy them back, and I’m still waiting to hear that you will take the referendum seriously and buy them back.

Norman The problem we’ve got is that you’ve thrown the Government books into $60 billion worth of debt and so we don’t know what kind of books we’re going to inherit.

English Yes, you do. The books are completely transparent.

Norman They’re massively in debt because of your Government.

English The books are completely transparent.

Norman You’ve increased Government debt dramatically.

Cosgrove Minister, you admitted that you thought that the market thought there was a real chance, if you’re talking about risk, of Rio Tinto leaving in 2017 or 2018. You said the market had factored that in. So do you think that’s a real risk as well?

English I think, look, there’s Rio Tinto operating in an aluminium market where prices are low and Chinese capacity’s growing rapidly. They’ve just announced they’re going to close an aluminium smelter in Australia, and you don’t have to be rocket scientist to think there’s a possibility. Now, one of the benefits of having a share price on the market is it will reflect market assessments of that probability, not political assessments.

Cosgrove What’s your assessment?

English Well, I’m not really making the assessment.
Ross

Minister, I’d like to ask about a different topic. In the papers we’ve received as part of the financial review, we’ve got Treasury’s output plan and the priority list for Treasury, and one of them is housing affordability. We had the Governor of the Reserve Bank here recently outline his views on housing and the wider economic issues that housing is creating. Can you talk us through your views on the housing affordability issues, the advice that Treasury is giving the Government around the policies that need to be put in place to address housing affordability, and your confidence in those policies and the work that’s being done?

English

A fast rising housing market is a significant risk to the economy. We’ve been here before, quite recently, back in 2003 to 2008. By the end of 2007, we had 10 percent first mortgage rates, an export sector in recession, and that was before the global financial crisis, so it wasn’t the only factor in that cycle, but it was a significant factor. So the Government has started out in 2011, before the housing market started rising, to get policy in place that was going to help deal with another housing cycle, and that culminated a few months ago in passing legislation and an accord with Auckland city, both of which had been a couple of years in the making.

Really at the nub of the housing affordability issue is the council decision-making process. So councils, for reasons we still are trying to fully understand, tend to want to achieve two things at once—that is, to write sets of rules that restrict the availability of both greenfield and brownfield development opportunities—that is, restrict supply—and at the same time, they try to push the cost of affordable housing onto developers. So, the model is to constrain the supply of land, and then when someone does do a subdivision, make the developer pay for affordable housing. So they’ll say they want affordable housing, but actually they write rules which make it quite difficult to achieve that. And that’s become quite clear in Auckland and Christchurch. So in both cases the Government’s been working with those councils to try and change that model. Now, it’s taking some time.

From my point of view, and I think from an economist’s point of view, housing in New Zealand is more expensive than it needs to be by a lot, and some of the reasons for that are pretty clear—that is, we restrict supply when demand is growing, as it is now, with reversal, of migration flows, rising consumer expectations, and low interest rates. We would expect demand to be growing. We’ve got to find the formula, particularly with councils, to balance the political pressures on them, because the political pressures are to stop all development, if possible, because people like their cities the way they are and their suburbs on the one hand, but there’s a greater good here which is that we just chew up too much of our income servicing housing and we run up too much debt trying to buy houses.

Jones

Thank you, Minister. Funnily enough, I agree with a lot of what you say. But, I mean, isn’t it perverse you, the most powerful politician in respect of economic policy, and you can’t make the planners of New Zealand—you can’t bring them to heel?

English

Well, all the planners—
Jones: I’ve heard you speak dismissively of them, and I could not have agreed more, but it strikes me as rather odd—you’ve got such a short period to survive in this role that you’d be incapable of getting the planners of New Zealand to do what you want?

English: Well, there’s a thing called local democracy. You know, ratepayers pay their taxes and they have a vote accordingly and so they have a right to influence that process, so there is a boundary here between being seen by the citizens of any town to be central government riding in over local preferences. You’ve got to balance that, because they’ve got legitimate ways to express that on the one hand, and on the other hand a macro-economic risk created by a lot of planners’ decisions. What has been the case, at least up until recently, is that the planning process and the people in it haven’t taken account of those wider economic impacts. I think they’re increasingly understanding there is a real risk to the economy.

Jones: Is a part of what you’re doing—have you ever had on your work programme any incentives to actually lessen the kind of domestic or international migration to Auckland and sort of targeted in terms of more provincial cities?

English: Oh, look, I think that’s been talked about. There’s already a weighting in the points system for migrants who go out of Auckland. You know, that’s one factor of—and you can discuss that, right? Reasonable people can disagree about whether that should or shouldn’t happen. It’s one factor of demand. There’s others.

Jones: But I mean it’s a privilege to come to our country, and if we’ve got this ongoing flow into Auckland, creaking at the cistern—

Goldsmith: You can’t force people to live in Taumarunui!

Jones: Oh, I quite like Taumarunui. I don’t like Gore all that much.

English: There’s a lot more migrants showing up in Gore. Last migrant function I went to in Gore—

Jones: Yes, the Catholic Church is thriving down there, I’m told!

English: It is, yes! There were 36 nationalities at the migrant function.

Ross: Sorry, I just wanted to keep exploring the housing supply—

English: Oh, housing supply, yeah.

Ross: Do you have confidence that councils are doing enough around housing supply?

English: Well, look, do we have confidence? We’ve got some confidence but not enough yet. I think that we’ve got a reasonable understanding by the mayors, for instance. So in Christchurch and Auckland the mayors, I think, have indicated they have a real interest in housing that people can afford on the moderate New Zealand incomes that we have, but I think that has yet to sink into the planning process—that part of the purpose is to enable people to, on a reasonable and on the incomes we have, have reasonable
probability of being able to afford housing. That is not part of the current planning ideology.

The planners, it appears from the behaviour, regard that as the responsibility of individual developers who make too much money, but in fact if we want to have cities that accommodate the broad range of our society that are not sliced into layers of socioeconomic wealth and that don’t lock a whole lot of people into this kind of floating world of permanent rentals, then the wider community needs to follow through on the way it values homeownership. I think the wider community does, but we’ve got to translate that into reality for actual New Zealand families, and there’s a blockage there we’ve chipped away at, but we’ve got some way to go.

Ross Can you just talk us through your views, if any, on the Reserve Bank’s approach to this issue and the wider risk we face if we don’t get serious about it and interests rates have to rise.

English You have spoken to the governor, as I understand it. The Reserve Bank is trying to have some impact on demand by restricting the availability of credit. Now we will see whether that has some impact. I expect it will have some impact for a time. But we believe that the action on the supply side is going to make a much bigger difference in the long run—that if you have supply that can be flexible, as it is in some cities around the world, then you will get a more even profile of house prices and they will be more affordable. Trying to control demand is pretty difficult for people to find their way around it. You can’t control all the factors. They include migration, the availability of credit, and the possibility of wage increases. We would rather let demand flow relatively freely and get the supply side right. But we do understand the bank’s focus on reducing risk in the financial system, and I see exactly the same discussion is now becoming more prominent in Australia, where there’s now active propositions to copy the Reserve Bank’s methods here because they feel like they’re getting into a housing bubble, partly fed by cheap credit.

Bennett In your introductory remarks you talked about borrowing $110 million a week, and most New Zealanders I think would be horrified to see that we’re still borrowing at that level, but you mentioned that things like student loan costs have gone up, or that was impacting on your ability to fund and get into surplus, and therefore you were borrowing so much. Do you want to talk us through that—the legacy policies that are stopping you getting into surplus earlier than we should be?

English We inherited Government spending out of control. It had gone up by 50 percent in 5 years. But what’s been driving the borrowing is simply that revenue has been flat and we’ve maintained a set of commitments particularly to the most vulnerable in our community to maintain their income support and to maintaining public services. You can do that when you have the confidence that the situation is going to reverse. We’ve probably got the timing of that not too bad. The earthquake was an extra complication, but again New Zealand’s fiscal constitution is pretty robust
and we’ve been able to absorb the earthquake expenditure. But it is pretty important to rebuild the buffers, so the drivers of the borrowing have simply been paying teachers and paying national superannuation.

In the first 2 or 3 years we’ve contained quite a number of the spending policies that were out of control. That’s turned out to be quite successful, and probably a bit more successful than we thought. Now, we’ve got a much stronger focus on the long-term drivers of our expenditure, such as crime, vulnerable children, and long-term welfare dependency. Again, that focus is starting to show some success. So rather than try to make savings, we’re focusing on those drivers.

So we’re reasonably confident that Government expenditure can be relatively well controlled, so that as revenues rise we can pay off the debt we’ve accumulated, and that’s the flipside of it. The Greens are correct. The Government has run up $50 billion or $60 billion of borrowing over the last 4 or 5 years. The key challenge now is maintaining sufficient constraint to repay that debt, but of course, you know, if you’re going to borrow to buy back the assets, well, that’s pushing it up rather than pushing it down.

Clark

So the question really is around the savings policy. I mean, National does seem to have got the big calls wrong over time, from dumping the Kirk-based savings scheme, which is obviously not your personal responsibility—I will grant you that much from the start—opposing the Cullen fund at the inception, stopping the contributions at the wrong time, not restarting the contributions, opposing KiwiSaver, undermining KiwiSaver through fiddling with the contribution rates, having no vision for the future rates or coverage, as far as we can tell, wrong decisions on default schemes, and so on, and so on. I will stop there.

If the economy is managed so well, why do we have the largest current account deficit in the developed world, according to the IMF, and when Treasury was predicting that by now unemployment would be down to 4.3 percent not so long ago, why is unemployment still over 6 percent, and isn’t a big part of it the terrible approach to savings?

English

No, I disagree, and I disagree with most of what you’ve said. When it comes to savings policy, let’s just stand back a bit. Our current account deficit is now a bit larger than Australia’s, and I see it has been revised downwards again, so now I think it’s currently about 3.9 percent. Australia has had compulsory superannuation for 15 years. Its current account deficit is a bit better than ours, but not much, and that’s after the boom of a century for their exports, with a huge 200 percent lift or something in their terms of trade. So there’s no magic around New Zealand’s or Australia’s 30-year effort to try to buy savings. I think the Treasury might be able to reflect to you that we have a robust internal debate about this.

I think the New Zealand policy establishment doesn’t have a good understanding as to why New Zealanders do what they do, because in the end the savings are a sum total of New Zealanders making their own personal decisions. The policy establishment has for 30 years said they don’t save enough. We’ve got to find a way of saving more, making them save
more. So we’ve come up with all sorts of schemes to try to make them save more.

Clark Which you’ve stopped.

English No, we haven’t stopped them at all. That’s not correct.

Clark Or stalled, anyway.

English If you go back, there’s been all sorts of attempts and Australia has come up with what I think you regard as the perfect answer, and it’s made stuff—all difference to their current account deficit.

Clark So you think there’s stuff—all difference between the New Zealand and Australian economies? They’ve got $1.6 trillion in savings, and I think it’s pretty widely acknowledged that makes a difference in terms of capital depth.

English No, the current account deficit is the balance between—part of it is the balance between savings and investment, and actually it’s better than New Zealand’s but not markedly so. I think we’ve got to be a bit more—the financial services industry has a view. They like savings streams that generate fees for them. That’s not the only form of savings, and it doesn’t dictate New Zealanders’ decisions. I think part of the gap in our policy understanding is that while we talk about—and I’ve done this; I talk about it too—New Zealand being vulnerable because of its apparently low level of savings, the punters don’t see it that way. They don’t feel vulnerable, because if they did, they would save more.

Clark With respect, Minister, with a struggling economy most New Zealanders can’t afford to save.

English Hang on. Assuming they’re wrong—well the Chinese have a lot lower incomes and they save a lot more. That’s not an answer. So we need to understand what it is about what New Zealanders think they’re doing. My own view is that I think they regard their payment of tax as a significant element of savings, because it guarantees their subsidised childcare, free education, interest-free student loans, Working for Families, and universal national superannuation when they pay their tax. I think in their heads they see that as part of their form of savings, for instance, but we’ve never asked them. We don’t go and ask them, and I think we should.

Clark OK, the balance between property and other forms of savings surely is wrong. You’ve got to acknowledge that. How do we shift that towards a different balance, and it doesn’t seem that the settings are there. The house prices continue to rise, Kiwis continue to at least put their money there and they don’t have other vehicles for savings, and you’re discouraging that consistently.

English No, I don’t agree with that. It’s only wrong—it’s wrong in the sense that in policy land we say it’s wrong, but again you’ve got to understand why people behave the way they do, rather than just saying they’re wrong, because if they keep doing it, then there must be some reason for it. The policy answers to that are partly to do with tax, which is why we abolished
depreciation on investment property. It collects much more than any capital gains tax would. That debate will go on. We will chip away at it.

Goldsmith Well, thank you very much, Minister, for coming in. We appreciate your time this morning, and thank you. And we'll move on to the Treasury questions on the financial review.

Makhlouf Let me go straight into this. I just want to highlight a couple of things which the Treasury is actually working on at the moment, which will just add to what’s in our financial review. One is I hope members noticed that the Treasury announced an external review of our fiscal policy advice. We’ve decided that in light of, not least, the particular point in the cycle that we’re in, it would be a good thing for us to have some experienced professional just come and look at the quality of our advice over the last 10 years to help us understand what we can do better going forward. And we’ll be publishing that review by the end of June next year.

The other thing I wanted to mention is, as a result of Parliament’s decision to amend the Public Finance Act and to ask us to prepare an investment statement, we’re actually also in the middle of doing that, and we’re going to be publishing that certainly before June next year. The statement’s going to describe and quantify the value of the Crown’s assets and liabilities, outline how those have changed over time and how they’re forecast to evolve over at least the next 2 financial years. And it will discuss a number of issues relevant to improving the Crown’s balance sheet, which I consider a top priority to enable us to deliver better outcomes for less cost, and a critical part of our stewardship role.

I mean, one of the things that’s worth just keeping in mind, bearing in mind, is that small improvements in risk management, asset utilisation and maintenance, investing in funding of the balance sheet, could yield significant gains in terms of the living standards of New Zealanders, because the balance sheet is very large and the Crown’s footprint in the economy is very large. So I hope that both the external review of the quality of our fiscal policy advice and the investment statement will help parliamentarians and New Zealanders in general to just understand that it will improve access to information and continue our tradition of being very transparent on our fiscal accountability. That’s all I wanted to say, Mr Chair.

Cosgrove I’ve just got a couple of questions on your last few statements [—inaudible] advice. You engaged an internal report to review the process and quality of your advice to Ministers around SOEs, particularly Solid Energy, correct?

Makhlouf I initiated a review to look at how we undertook our role of monitoring Solid Energy.

Cosgrove And the advice from that report, as I understand it, was it basically said that you’d done your job. Would that be a fair characterisation?

Makhlouf Yep.

Cosgrove It would? So you’re confident that your agency provided Ministers with the appropriate level of advice and the appropriate advice per se in respect of
the demise of, or the ongoing evolution, shall we say, of Solid Energy over this period? Ministers were fully aware of your advice?

Makhlouf Well, we certainly put advice up to them, and I’ve got no reason to believe that they weren’t aware of the advice we put up to them.

Cosgrove Your report, as I recall, was also slightly critical of management and the board, is that correct?

Makhlouf Yep.

Cosgrove So is it your view that management and the board should have acted in a certain way?

Makhlouf I think, with the benefit of hindsight, it seems clear to us that the board and management made decisions that were probably riskier than they should have done.

Cosgrove And you’re confident—and I presume, given the report—that Treasury executed its duty to provide Ministers, or your Minister at least, with high-quality advice? They were aware of all the issues that you put before them in respect to that company?

Makhlouf I’m confident that we did a quality job putting the key issues in front of Ministers. I also recognise that there’s always lessons we can learn from experiences like this, and we are learning them. I think one of the key challenges that we have as a Treasury but also as a Government operating in the commercial arena is that commercial activity has risks, and the framework that we operate in New Zealand essentially gives boards and management responsibility for running companies and understanding and managing those risks. So the extent to which we can be ahead of the game, perhaps, is quite hard.

Cosgrove Forgive me—is that actually true? Because—

Makhlouf We can’t run those companies.

Cosgrove No. I’m not saying you should or could, but if you look at some key milestones over a period—so if you join the dots: two disputes with yourselves and Solid Energy over valuation, which is reasonably unheard of, the UBS scoping study which came back, ironically, you know, it was scoping to sell; it came back and said “These guys are in deep trouble.” And the huge sort of, I think it’s about 3 or 4 feet high of information that Treasury released or your Minister released or dumped on journalists, there’s a litany of advice that things were going wrong and heading south fast. So is it fair to say “Well, you know, hindsight’s a great thing.” when there were a series of key milestones that you yourself, or your agency, identified and put up to Ministers and then nothing happened? Surely it would have been possible to arrest the bleeding if proactive action had been taken.

Makhlouf Well, certainly we feel we’ve—

Cosgrove You’re not the Minister; I accept that. You’re not the decision maker.
No, no, I’m not the Minister, and I’m just sort of really answering on behalf of my organisation. We feel that we gave the right advice at the right time. We certainly had disagreements with the company.

And the Ministers were aware of those disagreements?

Yeah.

I’ll just ask a specific question myself, and then a broader question, and we’ll come to some others. On page 11 in your highlights of the year, you’re talking about the borrowing programme, issuing Government bonds, inflation-indexed bonds, first time since 1999. Why did you stop doing inflation-indexed bonds in 1999, and what’s the sort of thinking behind stopping that and getting back into it?

I think we are always making—to be absolutely honest, I don’t know why we stopped doing it in 1999. I suspect it was almost certainly to do with the economic conditions of the time, what markets were expecting, the nature of our own fiscal position. Why we are moving into it now is because there is clear evidence that the market is interested in this current inflation environment, and it’s worth doing. As a Treasury, we are always trying to operate our debt management activity to secure the greatest value for the Crown’s books. We made the judgment which the market had clearly confirmed, that this is a good step forward.

Then on page 14 there is a very interesting graph about New Zealand history and GDP per capita. When you look at it, New Zealand fell off the pace in the 1970s and 1980s, and has been basically steady since then. But it’s been a long-term issue to try to find out a way to grow faster than other countries in order to catch up with them, and that’s proved difficult. It seems like you’ve highlighted that basically the conclusion you’ve drawn is that New Zealand’s got to strongly outperform other countries to overcome the disadvantages of size and distance. What’s your view on the likelihood of doing that, and what progress do you think we’re making on that score?

This is an area where we are actually investing quite a lot of time and effort in studying, and it’s been part of the programme of—all these have been a lot of work internally; there’s been lots of engagement across agency, and we have been working with and talking to a lot of the private sector businesses, just to get the best understanding we can. If we take a medium to long-term perspective, and as I’ve said on the public record, I’m very optimistic about the opportunities in front of New Zealand, which are really based fundamentally around the fact that we are in the Asia-Pacific region. For the first time in our history, we’re in the fastest-growing region in the world. The growth of the Asian middle classes is going to continue. Whatever happens to growth in Asia, the middle classes in Asia will continue to grow and their demand for the sorts of products that New Zealand excels in will also increase. So for me, that’s an opportunity to seize.

Thirdly, I do think that the potential of technology does give us opportunity to actually address that distance issue. The challenges for us are, I think—there’s no single magic bullet, but where Treasury is focusing on in
particular is the need to actively take an international lens across all our policy settings, whether they’re domestic policy settings or foreign policy settings. We should be actually looking and asking the question: is this supporting closer international connection with markets? That could be people, cultural-type activity; it could be free-trade agreements. But actively looking at increasing, enhancing, and strengthening our international connections is one of the really important things for us.

Secondly, we’re putting a lot of store in getting the State sector to actually deliver real value—to create it to be innovative, deliver real value, and meet some of those challenges that we’ve recognised, which were in the newspapers today, for example, about the state of our education system. Making sure our education system delivers the skills that the country needs is really important, and Treasury continues to focus on that.

Actually the third thing that we are thinking quite hard about at the moment, especially as we can see ourselves moving back into surplus, is making sure we’ve learnt the lessons of the past, and we manage the cycle a lot better than we did previously.

So we think that there’s a whole range of things that we could be doing, which can make a real difference to New Zealand’s growth and the living standards of New Zealanders.

Goldsmith Size and distance has always been an issue for New Zealand. Back in the 1960s when we were up near the top, we still had the same—even more so in terms of distance. It seemed like the key thing was access to markets. We had great access to markets and we lost it, and now we’re working hard to rebuild those. But I suppose, like you say, there’s a number of factors—

Makhlouf Yes, it’s much more than just an access to markets issue. It’s making sure we’ve got the skills and capabilities to exploit those opportunities when they arise, for example.

Hayes I don’t know how often you and your staff get out into the sticks. [— inaudible] export income is earned, but I was in Porongahau last week, in the nether regions of my electorate, and one of the things that really strikes you is that there’s a lot of people out there working very hard at earning a lot of foreign exchange, but because they’re small in number, they have no—well, they have at least a diminishing—political influence. What I’m wondering about is what thinking is going into how you maintain your provincial and rural infrastructure, when you don’t have that political influence to drive it, but you depend on it—we all depend on it—because of our foreign exchange? So the price of things like roads, schools, broadband, telephones, mobile phones—all those sort of things. Do you think about those sorts of issues, and do you have any of your staff wandering around those places to pick up an understanding of what’s going on in the heartland, where we earn our foreign exchange?

Makhlouf I was in Hokitika a few weeks ago.

Hayes They’ve got an airport, for example.
Makhlouf: They do. And the sun was shining when I went. So it was a good day. I think it’s really important for Treasury to spend time outside of Wellington, and outside of Auckland, and outside of Christchurch, understanding the whole of the New Zealand economy, and we have been doing that. I personally have been doing that, but my team have been doing that—spending time talking to businesses and just understanding the sorts of issues that they’ve got. So I could run through all of the places I’ve been to. One of the big themes of a lot of those trips is skills—access to skills. It’s different types of skills, whether I’m in New Plymouth, or in Tauranga, or in Invercargill. People talk to me about skills. I would hesitate to say we understand everything perfectly, but we certainly understand the New Zealand economy probably better than we did a few years ago, just simply because we have been talking to and listening—actually more importantly, listening—to people in the regions.

Bennett: Just following on from that, we’ve seen the Aussie dollar crack 90c today, and we see an economy there that’s slowing, and we’re doing reasonably well and going to be ahead of that. What do you think the implications are for that on—you’ve mentioned before—our trade, especially Australia being a big market? How do we adjust to that, and what are some of the things you think we need to be aware of there?

Makhlouf: The Australian economy is—we’re in a single economic market with Australia. So keeping a close eye on developments in Australia is important. Everything I just said earlier applies to our relationship with Australia as much as it does with the rest of the world. I think with Australia itself, because of the close connections we have, we should just be making very sure that we work, in the business communities in particular, very closely together so that they understand what each other is doing, and understand how they can leverage off each other. The reality is that a lot of Australia’s economy will continue to rely on Asian growth for some time. We depend on Asia and we depend on Asia through Australia, as well as directly. The new Australian Government is planning a whole series of reviews to their financial system, to their tax system. They are reviewing their whole public expenditure at the moment. Those are likely to have implications for us, so we’re going to be keeping in very close touch with our opposite numbers in Canberra.

Norman: I’m interested in the tradable versus non-tradable division. Basically, one of the objectives that the Minister of Finance set himself was to overcome these imbalances. He started some time ago talking about tradables versus non-tradables. I’m just looking at the latest graph, which Statistics New Zealand are fortunately now producing and they are reproduced in your report as well. There hasn’t been any significant improvement in tradables versus non-tradables that I can tell, looking at these graphs. Is that right?

Makhlouf: I don’t know what graphs you’re looking at, but there hasn’t been a significant improvement. There’s been some improvement. I know these graphs are important, but they do pose measurement challenges. But there is a gap. The sorts of policies that Treasury is—which again, I talked about
earlier. And actually, as you say, the Government’s intention is to try and reverse that over time.

Norman And so far it’s completely failed because this graph, which is in your report, is showing that, if anything, the gap appears to be widening or remaining relatively static.

Makhlouf I would be cautious about saying that it’s failed, because absent are the various things that have happened over the last few years. It could’ve been worse, potentially. So I’d be cautious about jumping to saying that because of what the graph looks like the policies over the last few years have failed. That would be pushing it.

Norman So we’ve had a Minister of Finance who explicitly set the goal of reducing the gap between the tradables and the non-tradable sector. We have a graph sitting in front of us that that says in black and white that that has manifestly failed. But you say that that’s not a failure.

Makhlouf No, what I was saying was—we should be cautious about saying that if we haven’t done the policies that we have done, that we’ve implemented over the past few years, it could’ve been worse. That’s all I’m saying.

Goldsmith Supplementary to that: is there a perfect relationship between the two?

Makhlouf No.

Goldsmith I wouldn’t have thought that there necessarily is. What is the perfect relationship?

Norman The Government’s got the goal of closing the gap between tradables and non-tradables, and certainly we would all applaud that goal. But we have to judge the Government, and your department, on the basis of the numbers in front of us. And on the numbers in front of us, we have manifestly failed to achieve the goal that the Government set itself.

Bennett Aren’t the terms of trade at the highest level in 40 years?

Makhlouf They are the highest for 40 years.

Norman But doesn’t that make it worse? So we have the highest terms of trade since 1973, and we’re running one of the worse current account deficits in the OECD, and the gap between the tradables and the non-tradables has not closed at all. You’ve got the best possible conditions, and yet here you have, in your own report, the numbers that show that we have failed to deal with this imbalance in the New Zealand economy.

Makhlouf We haven’t fixed it by today. Are we on a road that’s actually going to be more sustainable over the longer term? And my definition of success, incidentally, is not tradables and non-tradables. That isn’t my definition of success.

Norman Well, that’s great. What is it—a current account deficit?

Makhlouf No, it’s not that either. My definition of success is actually improving New Zealand’s living standards. So GDP is a very important part of that, but it’s much more than that. It’s about making sure we maintain stability. It’s
important to make sure we have environmental sustainability. It’s important that we increase equity. As you know, our living standards framework actually defines what success is for me.

Norman I’m all for it. However we have to sort this problem out—

Bennett The Greens talk about current account deficit now and all of that. What was the percentage terms of that, say, 10 years ago? Did we have a higher percentage current account deficit then than now?

Makhlouf I can’t remember off the top of my head the precise—

Norman We had about 8 percent under the previous Government. The problem now is that we’re an outlier.

Makhlouf I said when I was here last time that I did not think the current account that we’re forecasting is not unsustainable, and I haven’t changed my view. The reality is that part of the current picture reflects the impact of the Canterbury rebuild—not completely, but it does reflect that. We don’t think it’s unsustainable. I use my words carefully. It’s what I said last time and I haven’t changed my position.

Norman I just wanted to try to get an answer from you, because I couldn’t get one from Mr English, about the impact of the asset sales on the OBEGAL. Treasury has previously projected that there is a significant negative impact on the OBEGAL as result of asset sales. But that was based on a projection that you’d raise $6 billion. Now the mid-point is $4.8 billion. Will the operating deficit—your projections of the OBEGAL—be worse as a result of getting a lower number for how much you raise?

Makhlouf The way I—you’re not going to like my answer—

Norman Because you’re not going to answer it, are you?

Makhlouf No, because in 2 weeks’ time, we’re going to publish our forecasts of the OBEGAL. I would prefer to leave my answer for 2 weeks’ time.

Norman Without specifically naming a number, can you tell me—in terms of the operating balance excluding gains and losses, is it worse because you raised only $4.8 billion, rather than your projected $6 billion from asset sales, as the mid-point? Without naming your number, is there a direction to this thing? I think the answer is pretty obvious—I just want you to tell us.

Makhlouf To be honest, until I’ve actually seen the numbers, I wouldn’t automatically agree with you, because it’s all to do with minority interests. It’s all to do with future profitability. It’s all to do with a whole bunch of numbers. So, I’ll tell you in 2 weeks’ time.

Peters If you’re shy of $2 billion—don’t forget the figure was $5 billion to $7 billion, and say it’s $6 billion—but if you’re shy of $2 billion it’s axiomatic that the situation might be worse.

Makhlouf What would be worse?

Peters The forecast, with respect to these issues.
Makhlouf Well, obviously, as the Minister said earlier, we are reducing our forecast of the proceeds. We are being asked quite a technical question about the impact on the OBEGAL.

Peters Yes. And you say that you’ll have an answer in 2 weeks’ time. Well, with respect, no, you’re in front of the committee now. We want an answer now. Look, this is the select committee, and we’re entitled to these answers. We’ve been told: “Well actually, it’s coming up in 2 weeks’ time, in the December update.”

Goldsmith The select committee is focusing on the financial review of last year, not something that’s coming out in 2 weeks’ time.

Peters He was asked a question by Dr Norman, and I think it’s very, very important.

Goldsmith Let him give the best answer he can at the time, which he’s outlined.

Makhlouf We will give you a better answer in 2 weeks’ time. My colleague’s just told me what I just said to Dr Norman, which is that it involves a whole bunch of assumptions. I’d rather be quite specific—

Peters What’s not involved is the assumption on what they actually were worth, because it’s actually gone to the market and we’ve found out what they’re worth.

Makhlouf Exactly. There are differences between the accounting values and there are differences—with some of the stuff we are comparing different kinds of apples, and sometimes it’s apples and pears. We’ve got to be very clear what it is we’re talking about.

Peters You might say it’s complicated, but you did say that Treasury was “transparent on our fiscal accountability”.

Makhlouf Absolutely.

Peters You began the statement with that, when you got in the chair. Now, we’ve lived through, for example—when you hear that sort of statement, that this inclination of Treasury to have itself disposed of the inquiry into, for example, South Canterbury Finance and the huge blowout. How could you possibly think that the committee’s going to sit here and take that at face value—that you’re “transparent on fiscal accountability”, when on issues like South Canterbury Finance and their $800 million blowout, you weren’t prepared as an organisation to tell us why you didn’t prepare the Government for that farce.

Makhlouf I don’t think that I agree with you, on that. The Auditor-General published a report on that specific issue.

Peters Yes, she did. I still want to know who in Treasury was responsible for an uncapped blowout like that, because if you were in business, you’d be fired.

Makhlouf I recall answering questions in this committee a few years ago on this subject. I’m quite happy to go over it all again but, as I say, the Auditor-General did a review. She published a report. I accepted all of her recommendations.
Peters Did you give Government advice, for example, on Learning Media—on the raising of capital for Learning Media after 4 September this year?

Makhlouf We have certainly been involved in Learning Media and advising Ministers on what to do about that.

Peters So here’s an SOE going belly-up, and it has four share-raising exercises to raise capital, which seemed all to be to pay off Westpac, which was the bank creditor. What sort of advice did you give Government on the propriety of doing that?

Makhlouf I think we’re right in the middle of a series of commercial discussions around Learning Media, so I would be cautious about getting into too much detail, but we’ve certainly given Ministers advice on the whole suite of issues.

Peters Well, what was your advice on the propriety of that announcement made on 4 September that it’s going to be wound up, and next day there was an issue of I think $700,000 in shares, and then a few weeks later a further tranche, and then a few weeks a further tranche, and a further tranche for the fourth time, all on an outfit that is going belly-up? What was your advice to Government or to the Minister of Finance on the propriety of doing that?

Makhlouf I’m afraid I’m not on top of all the detail as to what we did on each of those individual—

Peters Well, I am—maybe not at the top of your department, but I know what happened. What happened was you raised in excess of $4.2 million to pay out Westpac’s debt and then left the landlord and everybody else who were creditors of this outfit high and dry.

Makhlouf I’m not going to get into—

Peters Do any of your staff know about this?

Makhlouf We are in the middle of a commercial process and I would be very reluctant to get into it.

Peters That process—if you were to advise Government to put the thing into liquidation, it would mean that you preferred some creditors, namely a foreign bank, to New Zealand creditors, and I think that when someone comes to the select committee on an issue that’s been in the public, in the newspaper, that’s been profiled of late, somebody here should know what they’re talking about.

Goldsmith I think I can understand it. If we’re in the middle of commercial negotiations, I would expect that. Once they’re completed you will be able to come back—

Peters Mr Chairman, what negotiations could they possibly be? This outfit has been wound down since 4 September. Two Ministers made that statement—English and Parata. They went to the Government, got four lots of share issues to raise capital to pay off one creditor and there are other New Zealand creditors who have been left high and dry. This thing stinks to high heaven. What commercial sensitivity could we have here?
Goldsmith The Secretary of the Treasury says he’s not willing to comment in detail.

Peters Why couldn’t he answer the questions? I’m on a select committee that is one of the most powerful select committees in this Parliament, and I am asking pretty simple questions, and I have been told there is a commercial sensitivity. What could that possibly be?

Bennett Ask it in the House.

Peters No, I’m asking it here, where I’ve got the right to, if this committee means anything.

Goldsmith Absolutely, and I think we’ve had a pretty clear answer from the Secretary.

Makhlouf I’m very happy to come and talk about this once this issue is over.

Peters Sorry, sir, but it doesn’t work that way. We actually belong to a democracy, and when this issue is over, if they are put into liquidation, then what you will be saying to the landlord and New Zealand outfit called Anaro Investments, who are a bunch of old people who have saved money to have a property, which they are renting to an SOE, you’re going to say: “Well, take your chance with the liquidator.”, aren’t you?

Makhlouf Probably, yeah.

Peters Well, what’s the propriety of that? You’ve helped out a Westpac bank, a foreign bank, in full, paid them off, conspired with one creditor against the rest. What’s the propriety in doing that?

Makhlouf Well I wouldn’t accept your description of conspiracy.

Peters Well, can you explain to me then how it is you would prefer one creditor over others?

Makhlouf At this stage I’m not—unless you know some of the detail, without complicating what I said earlier.

Crawford I don’t know the detail, but in any situation some creditors are generally secured over other creditors.

Peters We know that; we know that. The point is, in such situations how many creditors are secured in this way? There is no money. So even though it’s going into a worsening trading situation, the Government gives them money via a share issue. How can you justify that?

Goldsmith If there are specific questions that can’t be answered today, they will have to come back to us in writing.

Makhlouf I’m very happy to—

Peters Treasury was transparent on our fiscal accountability. I’m asking a good case here, and I’m not getting any answers.

Makhlouf It’s just a question of timing. You will definitely get answers and explanations.

Goldsmith All right. So you’ll be able to come back to us on that in writing at the appropriate time, or we can follow up at the next meeting.
Peters  No, no, Mr Chairman, with respect, that won’t wash. Mr English and Ms Parata have been approached on this issue, and they refuse to make comment. Now you’ve got Treasury herewhichgave them advice on that matter, and he prefers to answer some time soon, excepting that there are people out there in New Zealand, like for example the landlord, who are a bunch of old people who are the creditors, who are entitled to have some response from this Parliament. I want the answer now, and there’s got to be somebody sitting back there who has seen this in the newspapers in the last 2 weeks who has got themselves briefed on it.

Goldsmith  Well, we can only be guided by the advice that the Secretary gives us.

Makhlouf  I will come back to you.

Jones  Mr Chair, Winston is making a damn good point. These are the top guardians of fiscal probity and fiscal matters. They don’t get any more senior than the Secretary of the Treasury. We pride ourselves, whether it’s a myth or not, as being the most senior select committee in the highest court in the land, and in all honesty you’ve got to be able to say something, then taihoa, wait for 3 weeks. It’s a relatively simple matter. Is there a reason why there was a ranking?

Makhlouf  Look, if it was simple, I’d answer it straight away. The reality is this isn’t just an issue that involves us. It’s a commercial issue that involves other players.

Cosgrove  Can’t you confirm whether they, for instance, were a debenture holder or not?

Makhlouf  Sorry?

Cosgrove  Couldn’t you confirm in ranking terms whether they were a debenture holder?

Makhlouf  Not in detail.

Robertson  They are secured creditors.

Peters  I appreciate what a secured creditor is. What I’m asking for is an answer as to why it was that Treasury would have given a Government advice on an outfit that’s going belly-up to issue more shares to raise capital to pay off a debt.

Goldsmith  OK. We’ve got a response to that—

Peters  No one knows that? We’ve got $2 million of salaries sitting over in this table here, and I think I’m entitled to an answer.

Makhlouf  I’ll write you a letter. I’ll set it out in writing. What I can say I’ll say it soon.

Clark  “Robust debate over savings” was, I think, the Minister’s phrase between the Minister’s office and Treasury. Is it still Treasury’s view that there is a capital depth issue in New Zealand, and if so, what are the main points of disagreement with the Minister?

Makhlouf  The main points of disagreement—

Clark  With the Minister.
Makhlouf: Well, I think the nature—this is an ongoing and pretty live conversation we’re having.

Clark: Yeah, the Minister’s certainly made that clear.

Makhlouf: I think part of it is it’s got different parameters and different dimensions, so the Treasury’s particular concern is around vulnerability. The Minister’s view—well, he told you what his view was. But your point about whether the Treasury thinks that New Zealand doesn’t save enough, that simple statement, yeah, we don’t think New Zealanders save enough, and that gets reflected in a number of things, including the fact that we borrow overseas significantly, and as a result, make ourselves more vulnerable. So that’s a simple question.

The sort of debates we’re having is the extent of the vulnerability, the extent to which the current account deficit is or isn’t sustainable, what does the last 30 years of experience tell us, what have we learnt. I’d be cautious about describing this as us in disagreement. We’re just having a good, healthy debate, as we do in various other policy areas.

Clark: I think the Minister may have even used the word “disagree” with the Treasury on this, so I think that’s how he—

Goldsmith: Robust debate, I think.

Clark: Well, no, he also talked about disagreeing with the Treasury on some matters.

Makhlouf: There’s quite a few things that we don’t necessarily agree on.

Cosgrove: Well, tell us more!

Makhlouf: No, no—

Clark: The extent of the vulnerability was one of the things, and whether the current account deficit is sustainable or not. What is the Treasury’s position on each of those, and how does it differ from the Minister’s?

Makhlouf: On that extent of the vulnerability?

Clark: Yep.

Makhlouf: Well, the reality is we’re probably less vulnerable today than we were 3 years ago, but when you have a net international investment position of the size that we did have a few years ago, we’re particularly vulnerable to shocks in the financial system, for example. So now that’s much lower, but it doesn’t mean that we’re completely—

Clark: Sorry, my question was: what are the main points of disagreement with the Minister? Are these points of disagreement? The Minister doesn’t agree that there’s an issue, or—

Makhlouf: No, no, it’s what I said earlier: that we are debating the extent to which there is—well, you’d have to ask him. But he accepts the importance of making sure that we know the Crown’s books are sustainable, that he recognises the vulnerability that we may have to a large financial shock. So the debate we’re having is to what extent how serious that is. We have
another debate about do New Zealanders save enough, and he explained quite clearly his view earlier, I think. So I think some of—

Clark And what does the Treasury think? Sorry, I'm just struggling to get the detail here.

Makhlouf Well, because it's one of these discussions that isn't on a very simple, straightforward subject where there are clear arguments for and against that I can present to you, because it's a number of issues to do, including the very basic ones around individual savings, national savings, the impact on our current account, etc. So we're having a good discussion about all this stuff.

Clark So is the Treasury got—

Makhlouf It's a robust debate.

Clark Are there specific recommendations the Treasury has before the Minister which he rejects?

Makhlouf No.

Clark It doesn't sound very robust, with respect, if there aren't any—

Makhlouf Well, because we haven't given him—you asked a very specific question and I gave you a very specific answer. I mean, from the Treasury's perspective, the single most important thing the Government could do is manage its books and bring the books back to surplus, and the Government's—

Clark Government books or the private?

Makhlouf Government books.

Clark Government books—single most important thing. OK.

Makhlouf And the Government has accepted that advice, which is the track that we're on.

Goldsmith I think we've exhausted that line of inquiry.

Jones Gabriel, have you had any work done in relation to—oh, sorry.

Goldsmith Oh, well, Jami-Lee probably—

Jones I'll be straight to the point, as is my style. I asked the Minister whether or not he had anything on his work programme after he demonstrated he's failed to tame the planners. In terms of regional development, I guess as a politician now living in the regions, you see a lot of under-utilised capacity in parts of New Zealand and you see, not like other OECD countries, a hell of a lot of pressure—certainly in Auckland, etc. You might tell me it's failed in the UK, but something I'm very interested in is what or whether or not you've done any work on it about effecting a transition of industry etc. and investment into more of our regional centres away from our singular large metropolitan sectors.

Makhlouf I don't think we have done that specifically. I mean, it is—we tend to look at things the other way round, in the sense that we tend to look at what are
the obstacles to growth in the regions and what can we do about those as opposed to shifting resources from one part of the country to the other.

Jones

So really the model you’re still looking at is: show me the impediment and find a way to get rid of that impediment. Basically, let an investor or the market make their own call.

Makhlouf

Well, the investor or the market or the Government, because the Government does play a part in some of these decisions, so, for example, quite specifically, the decision to bring together a load of Government agencies in the CBD in Christchurch is just an example of the Government making a specific decision for that region for obvious reasons. But generally, the approach that we would take, we would come from, is what you’ve just described.

Ross

In your annual report, you have a small discussion around the advice you’ve been giving around international agreements, particularly the Trans-Pacific Partnership agreement, and you specifically talk about the fact that Treasury has developed the framework for assessing the overall cost and benefits of the package. Can you talk to us about how you’ve gone about putting that framework together and some of the results and outcomes of the framework and the analysis that you’ve done around TPP and the benefits for New Zealand?

Makhlouf

In our view, as you know, TPP has got a number of areas that are being looked at, and we have worked with other agencies to identify the issues for New Zealand, in respect of each, so the framework really looks quite specifically at the various chapters that are subject to the negotiation. Overall, it is undoubtedly true from our perspective, a quality agreement that delivers the sorts of objectives that the Government has set will be good for New Zealand. Critically, I think—and this is part of a story that tends not to get discussed—if we can get an agreement with the current parties in it, the likelihood is it will attract some of the biggest others. Well, let me be very specific. I think China would be very interested in participating in a successful TPP. If China joins a successful TPP, that’ll be transformational for global trade.

Between now and there is a very long road to travel. It’s quite clear that the TPP negotiations themselves are challenging, but Mr Groser has talked about those. My guess is to get China on board would take probably a decade, but it would be a road definitely worth travelling. But fundamentally it’s essential that the agreement that we do enter into delivers benefits to New Zealand, because a poor agreement’s not worth having.

Ross

How does the Treasury, through its analysis, go about assessing value for money of agreements and estimating the benefits for the New Zealand economy and the New Zealand GDP?

Makhlouf

“Methodically” is probably the best word to use, because it will depend on the different chapters. Some of the chapters we’ll be looking at the potential fiscal impacts of certain changes, and other areas we’ll be looking at what the economic benefits might be. So it’ll vary.
Ross: Sounds like a more detailed response is required. You’ll probably get this as one of the questions to come back to you out of this hearing.

Makhlouf: Bear in mind, because we’re in the negotiations, there’s only so much that we can really talk about.

Barry: I wanted to follow up on the TPP package, because I guess the evaluated value for money, which is what my colleague was just asking about, is one thing, but the framework that you’re using to process the evaluation to do with the trade agreements that are coming on with Korea and so forth—just explain to me how that framework works. So, I accept it’s methodical, but, beyond that, what information is required by you to feed into this to give the advice you need to, to Government?

Makhlouf: Well, as I said, it partly depends on the nature of the agreement and the—agriculture is an important part of most of our agreements, and understanding current levels of trade between two particular countries and doing an analysis of what we expect to happen, that would be one thing. So that sort of information we would be doing. Analysis we would be doing for all agreements, and it’ll differ depending whether, as I said just now, we’re trying to understand the economic impact or whether there’s potential fiscal impacts.

But increasingly within the Treasury we are looking to adopt our living standards framework across all policy areas. That includes looking at free-trade agreements, for example. And, as I said earlier, we’ve got these five dimensions in our living standards framework that we’re trying to apply to policy studies.

But, as a generality, the Treasury starting point is that free trade is a good thing. That’s our starting point, and, obviously, there’s a whole host of issues that you’ve got to think about, but reducing tariffs, promoting international connections, promoting international trade, promoting both foreign direct investment and outward direct investment, the Treasury starting point is these are good things. And individual agreements need to be looked at on their own merits and their own facts depending on the whole host of factors.

Barry: So are you proactive around this? Do you look at what the potential might be for markets like India, Russia, as well as the ones that we’re currently under negotiation with?

Makhlouf: Well, the Ministry of Foreign Affairs and Trade, basically, lead on this stuff, and we certainly support them. For example, on TPP, the Treasury’s been deeply involved in that process.

Barry: This Ministry of Finance role was just the last thing I wanted to ask about in terms of this—you know, this is something that’s come up. I just wonder how you see your role progressing around this.

Makhlouf: Well, I mean, the Treasury is New Zealand’s economics and finance ministry, and I think the work programme that we’ve called the Ministry of Finance work programme looks to just our capability and our competence around the finance ministry bit of it. So from my perspective it’s not taking
on a new role; it’s actually making sure we’re doing our existing role much, much better. And I’m very confident that the people I’ve got in the building are more than capable of taking on that role.

What it’ll mean in time is a Treasury that is, I think, much more powerful in its understanding of how financial management decisions support economic growth and how economic issues impact on financial and management decisions—how we allocate resources critically. What I said right at the very beginning, how we manage our balance sheet, is for me a core role of any good finance ministry. And to be fair, we haven’t done that good a job in New Zealand, but we’re doing a better job than most of the rest of the world on that. And I think we’re going to do a lot better.

Norman The framework—which looks at more than just GDP, which is obviously tremendously important, and which obviously doesn’t get a lot of attention—how is it going in terms of the ability to measure it? Because I think that’s one of the key things. GDP is great because it’s a number, whereas all these other measures of well-being—it’s like if you don’t have a number, then it’s hard to kind of weigh it up against. So how are you finding that? Because I’ve just been from the OECD, where they’ve been doing a lot of talking about exactly this, about how to measure it, and there’s some issues around that. I’m just wondering how you’re going to do it.

Makhlouf I think we’ve been working very closely with Statistics New Zealand, and we’ve been working with a bunch of other agencies around this. We’ve brought people in to actually do some dedicated work for us on it. We’ve got on our website now—because Statistics New Zealand have got 83 or 85 various indicators. On our website we’ve allocated them to our five different dimensions. We’re hoping next year to actually publish our own view of where all that is. Critically, I think people can now look at our framework and actually look at what the current measures are, which is what Statistics New Zealand do around those—sorry?

Jones A very debatable point.

Norman The OECD is doing a heap of work, though.

Makhlouf Absolutely. We’re well connected with the—these are early days—

Jones These are the final days. I want the record to show that I yielded to the Greens, OK, on this issue.

Norman I yielded to you earlier.

Jones There’s a lot of love in the room.

Goldsmith On that note of collegiality, we’ll thank you very much for coming in, and we appreciate your time. That probably wasn’t as structured as it could have been, but thank you very much for your time.

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Ministry of Health and non-departmental appropriations for Vote Health

Recommendation

The Health Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry of Health, and reviewed the report on the non-departmental appropriations for Vote Health, and recommends that the House take note of its report.

Introduction

The Ministry of Health (MOH) is the Government’s principal advisor on health and disability policy. The ministry has overall responsibility for the management and development of the health and disability system, and is a funder, purchaser, and regulator of health and disability services. The ministry monitors and seeks to improve the performance of health-sector Crown entities, including the district health boards (DHBs), and administers and monitors services agreements and payments for health benefits, and administers health legislation and regulations.

Financial and service performance management

The ministry’s revenue for 2012/13 was $181.108 million and its total expenditure was $176.38 million, resulting in a net surplus of $4.728 million. The Office of the Auditor-General offered a qualified audit opinion on the ministry’s service performance against the six key health targets. This was because the reporting date for the district health boards, which are responsible for the delivery of the bulk of health services, is one month after MOH’s report date. Therefore, at the time of the audit there was insufficient evidence to give an unqualified opinion.

Non-departmental appropriations for Vote Health

The report on Vote Health non-departmental appropriations administered by the ministry in 2012/13 covers approximately $2.3 billion of expenditure on a wide variety of services provided by various organisations, excluding DHBs, in the health and disability sector. The report on non-departmental appropriations explains service performance, and also provides information about any variance between the actual amount spent and that budgeted for each appropriation. We would like to see performance outcomes from the appropriations audited in the interests of transparency and public accountability.

Surgical waiting-list priority acceptance

We requested further information about the national minimum-data set that must be collected regarding the health sector, and were particularly interested in data on triage waiting times in emergency departments and on patients under “active review”. The ministry said collection of triage waiting times can often reveal whole-of-system issues, such as hospital “bed-block”, where patients cannot get hospital treatment and their conditions deteriorate, resulting in over-crowded emergency departments. We questioned the value of collecting this information when it was not mandatory for DHBs to report the data. We heard the collection of triage times is a useful operational tool, and the ministry
will look at how DHBs are required to record this information. Active review is a category of patients for whom elective surgery is considered to be the best treatment option but the service provider does not have the capacity to provide it. We were told that these patients do not have an “assured status”, and all those who are given certainty for treatment receive surgery.

We were concerned that the ministry does not hold data on patients who require surgery but cannot get treatment within the five-month surgical waiting-time target. We consider this an important issue as a four-month target is to be implemented in December 2014. The ministry said that data is not collected on those patients who are referred and not accepted for surgery; however some of this information will be captured under a new national data collection system from July 2014. The ministry cited several indicators of progress relating to surgical waiting lists: all DHBs but two meeting the five-month target, a 34 percent increase in elective surgery over five years, shorter waiting times, and at least 10,000 fewer patients on surgical waiting-lists. It believes that shorter waiting times will make treatment available for more patients, and will not signal changes to surgical acceptance thresholds. We requested the ministry to provide us with data on surgery thresholds for each DHB, and will continue to monitor this area.

The ageing population and secondary-healthcare projections

The 2013 census results showed that New Zealand’s population is ageing; we asked what advice the Minister had received on hospital bed use by the elderly. We were especially interested in the ministry’s modelling. It believes the current model of creating more bed space in hospitals for an ageing population is outdated. As old-age health issues relate mostly to disability not sickness, the ministry perceives a long-term solution in the provision of assistance in the community, at home, and via primary care facilities. We were told an extension of acute facilities would be required eventually, and the ministry has implemented a process to guide hospital investment by DHBs to ensure the needs of an ageing populace can be met. The acting director-general cited the Canterbury hospital rebuild as an example applying old-age care modelling.

Dementia care

We requested an update on dementia care in New Zealand. We heard that this is an important issue; with life expectancy increasing, people are living to an age where the syndrome becomes a greater risk. People with dementia often require intensive or 24-hour care. The ministry has increased its payment for dementia services to make it more attractive for rest homes to develop the appropriate capacity. There are currently enough dementia beds available, whereas there was a shortage three years ago. The ministry is also working with not-for-profit organisations to develop early-detection tools for primary care professionals. The ministry is unaware of any major therapeutic advances in the treatment of dementia.

Nursing and Health Workforce New Zealand

We asked what the ministry was doing with Health Workforce New Zealand (HWNZ) to improve the experience and retention of graduate nurses. We heard about two major research programmes on recruitment and retention. Early findings indicate that New Zealand graduates want to remain in the areas where they have been trained, but jobs there are often filled by overseas-trained nurses. The ministry recognises that graduate placement needs to be addressed; however some overseas-trained nurses are necessary, and advanced
modelling is needed to take this into account. We were told HWNZ is working with a number of agencies to establish a “pipeline” process for recruitment and placement.

We were concerned about opportunities for New Zealand graduates and asked about the funding. HWNZ invests $7.3 million annually in nurse entry-to-training positions. At present there are more graduates than available positions; however data from HWNZ’s Australian counterpart and the Nursing Council predicts a shortage of nurses in the near future. We were told that investment in entry-to-practice programmes in aged residential care provides such nurses each with $12,500 worth of mentoring and guidance. The Office of the Chief Nurse and HWNZ believe this will open up employment opportunities whilst ensuring graduates receive the experience necessary to advance further. The ministry assured us DHBs have been advised that filling placements with New Zealand graduates is a priority. We will continue to monitor developments in this area with interest.

Canterbury

We requested an update on the Canterbury hospitals rebuild project. The ministry advised us that the project covers two hospitals, Burwood and Christchurch. Construction of Burwood Hospital, the rehabilitation centre, is expected to commence in January 2014 at an estimated cost of $200 million. Completion is expected within two years with the majority of acute beds available for use before December 2015. Christchurch Hospital is still at the preliminary design stage. The ministry considers the “hot” construction market in Canterbury to be the main risk to the rebuild, and is attempting to mitigate it by taking a whole-of-government approach to procurement where possible.

We asked the ministry for comment on reports that its relationship with Canterbury DHB was “challenging”. The acting Director-General responded that the responsibilities of health boards are distinct from those of the ministry; DHBs are solely responsible for the provision of health services in their regions. However, the ministry recognises that since the earthquakes, Canterbury DHB has been under great pressure to maintain health services in a disruptive environment, while managing rebuilding and repair programmes. We were told that a partnership arrangement between the two facilitates regular discussion. The ministry is also improving its visibility by holding national meetings in Christchurch.

Obesity prevention

The prevalence of obesity is increasing and it ranks as the second-biggest mortality risk factor in New Zealand. We were told that spending on obesity prevention had nevertheless decreased by $9 million over five years, and asked the ministry for comment. The ministry said obesity had to be addressed by both prevention and treatment, and we look forward to hearing about details of its initiatives. It considers that obesity is related to a number of social issues outside its remit, and a whole-of-government approach is needed to lower obesity rates. We heard that a number of factors contribute to obesity, including genetics and environment; the environment needs to be modified to curb the incidence of obesity. The ministry cited food labelling, exercise, and early identification of people at risk of becoming obese as major planks in a platform for tackling this health problem.

Some of us remain anxious to receive detailed information from the ministry on services funded under the Healthy Eating – Healthy Action (HEHA) programme. We heard that there has been disagreement about the effects of the programme, and we stressed the importance of using a scientific, evidence-based approach from now on. Some of us are concerned the
ministry is slow in responding to information requests by the committee and under the
Official Information Act, and we will be requiring better performance in the future.

**Psychoactive substances**

The ministry is responsible for the regulatory authority under the Psychoactive Substances Act 2013; we asked for information about licensing, and the prevalence of licensed products (or “legal highs”) in communities. The ministry said the regulatory authority has reduced the number of products available by approximately 75 percent since the legislation came into force on July 18. The MOH is in the process of becoming the permanent regulator of psychoactive substances. During the interim period it is developing an understanding of the range of products available and refining its risk assessment. The ministry is also developing guidance for local authorities and has restricted sale areas, purchase age, and advertising for psychoactive substances.

The Psychoactive Substances Regulatory Authority currently employs six full-time-equivalent staff, who are developing regulations and assessing licence applications. We were interested that this number was expected to decrease once the regulations had been drawn up; however we were assured by the acting Director-General that extra resources would be approved where necessary. The ministry said it was aiming to have the regulations ready for ministerial sign-off by June 2014.

**B4 School Check**

B4 School Check is a nationwide programme offering free health and development checks for four-year olds. We asked about children who are recognised as “hard to reach”, and heard that at least 90 percent of targeted children are receiving the checks. The ministry tries to identify children who have not received a check-up, and provides a vision and hearing check when they start primary school.

**Oral health**

We asked whether there were plans to develop a central data warehouse for oral health to facilitate information-sharing between DHBs. We heard its value would need to be assessed first. The ministry considers that mobile clinics have been successful in delivering on oral health objectives.

**Quality and safety**

We asked the ministry for comment on quality and safety in the health system. Its acting director-general was confident that the quality agenda is well-known and dispersed throughout the sector. However, he acknowledged that quality and safety objectives need to be balanced against obtaining best value for public funding. The ministry cited central-line sepsis being almost eliminated within a decade as a quality and safety success-story.
Appendix

Approach to financial review
We met on 04 December 2013 and 29 January 2014 to consider the financial review of the Ministry of Health and the non-departmental appropriations for Vote Health. Evidence was heard from 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
Moana Mackey
Scott Simpson
Barbara Stewart
Dr Jian Yang

Evidence and advice received
Ministry of Health, responses to committee questions, received 18 November 2013.
Ministry of Health, responses to additional committee questions, received 21 January 2014.
Organisation briefing paper, prepared by committee staff, dated 14 November 2013.
Organisation briefing paper on non-departmental appropriations for Vote Health, prepared by committee staff, dated 18 November 2013.
2012/13 financial review of the Inland Revenue Department

Report of the Finance and Expenditure Committee

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Inland Revenue Department

Recommendation
The Finance and Expenditure Committee has conducted the financial review of the 2012/13 performance and current operations of the Inland Revenue Department, and recommends that the House take note of its report.

Introduction
The Inland Revenue Department (IRD) manages New Zealand’s tax system, collecting about 80 per cent of core Crown revenue ($53.8 billion in 2012/13). It also administers several government programmes, including KiwiSaver, student loans, Working for Families tax credits, child support, and paid parental leave. The Commissioner of Inland Revenue is Naomi Ferguson.

Financial and service performance
The department’s total income for 2012/13 was $695.4 million, an increase of 3.6 percent on 2011/12. Output expenses in 2012/13 totalled $654.4 million, about 1.8 percent below those of the previous year and 4.5 percent below budgeted spending.

Inland Revenue exceeded the appropriation for KiwiSaver Kickstart payments by $3.762 million as a result of an increase in enrolments in the last four months of the 2012/13 financial year. Although some increase was forecast, the number of people enrolling surpassed expectations.

The department achieved 44 of its 58 performance measures for the year, with an overall success rate of 76 percent, compared with 69 percent in 2011/12, when the Canterbury earthquakes disrupted some services, and 84 percent the year before. Its achievements in 2012/13 included increasing its use of digital services; some improvement in recovering debt; inroads into the hidden economy, property speculation, tax avoidance, and fraud; and helping prevent unwarranted benefit payments by sharing information with other public service agencies.

At 30 June 2013, the department employed 5,475 full-time-equivalent staff, 3 percent more than in 2012.

Business transformation programme
Ministers have agreed in principle to proceed with the business transformation programme, which aims to update IRD’s technology, policies, processes, and systems over 10 years at an estimated cost of roughly $1–1.5 billion. A plan has been developed, comprising four stages: enabling secure digital services, redesigning and redeveloping the platform for business taxes, meeting the needs of social policy programmes, and a “sweep-up” stage for other matters. A business case for the first stage will be developed later in the 2014 calendar year.

The commissioner emphasised that the transformation programme is much more than the replacement of IRD’s ageing computer system; it also entails improving the department’s policies, processes, and systems to meet the expectations of the Government and the
public about appropriate levels of service. She noted that the computer system remains secure and works well, and could continue to deliver what is currently required of it for many years; but it cannot provide many more services which the Government and the public might expect of it.

Some of us are concerned that progress on the programme seems very slow. Despite the urgent tone of IRD’s briefing to the incoming minister about it some five years ago, the Government had still only reached an “in principle” decision; this is worrying since the technology currently limits a government’s ability to implement new policies. The department also seems to have problems maintaining customers’ privacy and answering phone calls.

The commissioner said that the programme is a massive undertaking, which IRD is approaching in a very considered way, with Ministers’ full cooperation. A lot of preparatory work has gone into understanding the current system, what is involved in the transformation, and what services are wanted by the public. It has already taken a number of the preliminary steps, and has upgraded online services, introduced voice identification for customers and a mobile application, and secured a contract for continuing support of the existing mainframe.

**Scoping study and Capgemini consultants**

We heard that $50 million has been spent so far on scoping work, on improving the department’s understanding of its current system and what it will take to convert it, and on initial proprietary work within the department for the stages ahead.

We sought clarification of Capgemini’s consultancy role, as we would be concerned if the firm were writing the design specifications for the project and then bidding for it. The commissioner told us that Capgemini’s involvement ceased in March 2013. It had assisted the department with some high-level diagnostic work and with some of the scoping. It did not participate in the preparation of the business case, nor in discussions with Ministers. Capgemini received about $23 million of the $50 million spent so far.

**Opportunities for New Zealand businesses**

We are aware that the IRD has been criticised for the way its approach appears to exclude smaller New Zealand suppliers from participating in the transformation programme. We asked whether one of its objectives is helping New Zealand’s information technology (IT) sector to develop.

The commissioner said the IRD’s main goal is to achieve the best possible value for money for New Zealanders in developing a 21st-century tax administration system that is fit for purpose. She told us that the department had deliberately adopted a sourcing strategy that would provide opportunities for New Zealand businesses, including those in the IT sector.

We heard that in October the department started seeking expressions of interest for a high-level design partner to work with it on the first stage of the programme, and to revalidate some of the business case for future stages; it expects to make a selection by June 2014. We note that it specified organisations that have been involved in managing and designing a project worth more than $100 million, which would appear to cut out all New Zealand IT companies. However, the commissioner told us there is scope for organisations to form consortia with local firms, and there will also be numerous opportunities for New Zealand businesses of all kinds to take on pieces of the project. For example, the department is
already seeking support with testing, and plans to seek services to support the development of mobile applications in the new year. There will also be opportunities for businesses to support the department in managing other aspects of its organisational change programme.

**Telephone and online services**

IRD has been providing more self-service and digital options for customers, and reports a high level of satisfaction with its online services.

However, it had difficulty meeting the demand for telephone services; high demand in the fourth quarter led to a decrease in customer satisfaction and failure to meet some targets. We were told that the department aims to answer 75 percent of calls within 3 minutes.

The commissioner told us it is always hard to plan for peak season. Normally, it starts in May or June, but this year saw unexpectedly heavy demand from April, when call-centre staff were still being trained. The change was mainly because of advertising by personal tax summary intermediary companies, after IRD introduced a new service for them. The commissioner told us that people are increasingly using online services, which will help to reduce call volumes; but it also means that people who call now tend to raise more complex issues, so calls take longer and require a higher level of skill to answer.

IRD expects call volumes in 2014 to again peak earlier than they used to, and it intends to bring in additional capacity.

**Tax compliance activity**

The department received additional funding in the 2010 and 2012 Budgets to improve tax compliance in areas such as the hidden economy, the property sector, and aggressive tax planning.

Property compliance work targeting people who trade in properties for profit has been extremely successful. IRD told us it found some $54 million dollars in tax due, representing a rate of return on each dollar of funding it received of $8.40, compared with a target of $6.80. Its plans for future baseline funding and resourcing will continue to focus on this very important area of risk.

**International tax arrangements**

With increasing foreign ownership in key sectors of the economy and the increasingly complex internationalisation of businesses, we consider it important that IRD work to ensure businesses pay their fair share of tax in this country. IRD told us it has been working with the OECD on international tax issues, including base erosion and profit shifting. As well as this multilateral work, it also focuses on such issues as related party debt within New Zealand.

Some of us consider that the department should invest more resources in such work, and give more visibility to its efforts, as it has done with its property compliance work. It would provide important reassurance to PAYE taxpayers if all businesses, including multinational companies, were seen to be paying their fair share.

The commissioner told us she will give thought to how the department could publicise its work more effectively. She said the department continues to tackle tax avoidance.

Regarding aggressive tax planning, its return on investment this year was $42 for every dollar spent, against a target of $11. It has undertaken several prosecutions, with good results, and feedback from the tax profession suggests there is now less aggressive tax
activity and avoidance than there used to be. We were told that the department has not estimated the amount of revenue lost from tax avoidance and evasion, as it judges that the considerable resources needed to do so can be used better in other ways, including understanding why people do not comply, so the reasons can be addressed.

**Community compliance teams**

The department is increasingly having teams of its staff specialise on specific regions, getting to know and be known by the communities to improve voluntary compliance. Community compliance teams come to understand the seasonal risks in their areas—for example, with transient fruit-picking operators—and they work with the community, local employers, industry groups, and other government departments to address issues of avoidance. We commend this approach and are pleased to hear it is proving successful.

The department is also working to improve the way it communicates with New Zealand’s increasingly diverse population. For example, in Auckland community compliance officers work with Auckland Regional Migrant Services to understand the changing demographics and encourage compliance. The department has a number of bilingual staff, and its voice identification system is tested to ensure that it can deal with different accents.

**Staff**

We wish to record our appreciation of the professionalism of IRD’s staff, and of the very high-quality work they do on behalf of all New Zealanders.

Some of us would like to see IRD locate more of its resources in regional areas where overhead costs tend to be lower than in the main centres. The commissioner told us that two factors in particular influence the department’s resource distribution. It seeks to concentrate its resources in areas where there are specific risks. It also needs to maintain a high level of skills in the services it provides. It is one of the largest employers of accountants in New Zealand, and can attract staff with professional expertise more easily in the larger centres.

**Foreign account information-sharing**

We note that United States legislation known as the Foreign Account Tax Compliance Act (FATCA), due to take effect from July 2014, will require financial institutions in other countries to provide the US tax authorities with certain information about the accounts of US citizens of interest to the authorities. We consider this a significant measure; while we do not object to tax transparency, we believe that reciprocity should apply in any such requirements. We understand that New Zealand is negotiating an intergovernmental agreement with the United States with the aims of reducing the costs of complying with FATCA for New Zealand financial institutions, and of gaining reciprocity, so that the United States would be required to provide New Zealand with comparable information it holds about New Zealand account-holders. We heard from the IRD that a recent multilateral agreement provides for reciprocal information-sharing between many countries.

**Consultants**

Some of us are concerned about the amount being spent by IRD on consultants, particularly for surveying of customers’ satisfaction and perceptions. The commissioner said all its procurement complies with government rules. Surveys of customers help IRD to understand shifts in community perceptions and attitudes to compliance and risk, so it can
develop appropriate services. It considers it important to understand whether New Zealanders feel that services meet their expectations, and if not, what needs to change.
Appendix

Approach to financial review

We met on 4 December 2013 and 29 January 2014 to consider the financial review of the Inland Revenue Department. We heard evidence from the Inland Revenue Department, and received advice from the Office of the Auditor-General.

Committee members

Paul Goldsmith (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
John Hayes
Hon Shane Jones
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters
Jami-Lee Ross
Hon Kate Wilkinson

Evidence and advice received

Office of the Auditor-General, Briefing on Inland Revenue Department, dated 4 December 2013.

Organisation briefing paper, prepared by committee staff, dated 2 December 2013.

Inland Revenue Department, responses to committee questions, dated 29 November and 20 December 2013.
2012/13 financial review of the Department of Internal Affairs

Report of the Government Administration Committee

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Department of Internal Affairs

**Recommendation**

The Government Administration Committee has conducted the financial review of the 2012/13 performance and current operations of the Department of Internal Affairs and recommends that the House take note of its report.

**Introduction**

The Department of Internal Affairs operates in a number of work areas. The Minister of Internal Affairs is responsible for the department, but the department is also responsible to the Minister for Ethnic Affairs, the Minister Responsible for Ministerial Services, the Minister of Civil Defence, the Minister for Racing, the Minister of Local Government, and the Minister for the Community and Voluntary Sector. From 1 July 2012, the department’s funding was consolidated from eight votes into a single Vote Internal Affairs.

The department’s total revenue for 2012/13 was $371.074 million, and its total expenditure was $367.930 million, resulting in a surplus of $3.144 million.

**Government Digital Archive Programme**

In 2010 the Government Digital Archive Programme was allocated funding of $12 million over four years. We asked about its progress, and heard that the digitisation of material has been completed. The environment has changed considerably since the project was initiated in 2010, with the Government’s ICT Strategy and Action Plan being launched in June 2013, and the programme is now being reviewed.

We were concerned by the programme manager’s prediction that if it were to continue as planned an additional $10.8 million would be needed, and heard that this was why the programme was paused in February 2013. The approach and methodology incompatibility was considered to be part of the problem, and a rescue programme manager was appointed subsequently to reassess the programme. A decision on whether to recover the programme or to stop it will soon be made. We were advised that the minister has been provided with regular updates.

**Christchurch City Council building consents**

We inquired about the support provided to Christchurch City Council for its processing of building consents. The chief executive of Internal Affairs said that following the council’s request for Government assistance, a Crown manager was appointed to deal with the backlog of consents, to improve the building consents process, and to restructure the responsible business unit to meet the community’s needs.

We heard that the department expects this area of activity to grow, and has established a local government monitoring team to look at the governance and performance of local authorities, and to provide timely support when issues arise.

**Problem gambling**

The department seeks to reduce the potential harm from problem gambling. We asked how the department is preparing for the use of “ticket-in ticket-out” technology, which replaces
cash with a barcoded slip of paper, being introduced at Auckland’s Skycity Casino. The department will be checking the casino’s monitoring of the technology to ensure that it is meeting its legal obligations, and has appointed a regulatory specialist to work in this area. Skycity is required to have a harm reduction programme, which is reviewed by the Gambling Commission, and the department is reviewing the casino’s policies and procedures to ensure they are legally compliant.

**Language Line**

We asked about the use of the telephone interpreting service Language Line, and were told it is continuing to grow, with 1,000 calls now being answered weekly. The service helps non-English speakers and government agencies to communicate by using interpreters, and receives consistently good feedback from users. Growing numbers of government departments are signing up to Language Line, and it has recently been extended to the private sector, with Meridian Energy and the Banking Ombudsman being the first to contract the service. We learned that there is considerable potential for growth in this area.
Appendix

Approach to financial review
We met on 11 December 2013 and 29 January 2014 to consider the financial review of the Department of Internal Affairs. Evidence was heard from the Department of Internal Affairs and advice received from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Chris Auchinvole
Kanwaljit Singh Bakshi
Hon Trevor Mallard
Mojo Mathers
Eric Roy

Evidence and advice received
Department of Internal Affairs, Responses to written questions, received 4 December 2013 and 17 January 2014.
Office of the Auditor-General, Briefing on Department of Internal Affairs, dated 11 December 2013.
Organisation briefing paper, prepared by committee staff, dated 5 December 2013.
2012/13 financial review of the Ministry of Justice and of the non-departmental appropriations for Vote Courts and Vote Justice

Report of the Justice and Electoral Committee

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Appendix 5
Ministry of Justice and non-departmental appropriations for Vote Courts and Vote Justice

Recommendation

The Justice and Electoral Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry of Justice and the non-departmental appropriations for Vote Courts and Vote Justice, and recommends that the House take note of its report.

Introduction

This report is divided into three parts: A, the 2012/13 performance of the Ministry of Justice; B, the performance of the non-departmental appropriations for Vote Courts for the same period; and C, the performance of the non-departmental appropriations for Vote Justice for the same period.

Part A: Ministry of Justice

The Ministry of Justice is the principal ministry for the justice sector, and administers three votes: Justice, Courts, and Treaty Negotiations. The Secretary for Justice and chief executive is Andrew Bridgman.

Financial management and service performance

The ministry’s total revenue for 2012/13 was $566.565 million, and its total expenditure was $565.927 million, resulting in a net operating surplus of $0.638 million (compared with a 2011/12 net surplus of $0.772 million).

Christchurch justice and emergency services precinct

The Deputy Secretary Higher Courts took us through a 3-D representation of the planned Christchurch justice and emergency services precinct, which is estimated to cost $300 million to build. From the end of 2016 the precinct will begin to house emergency services and justice sector agencies in three linked buildings, encouraging cooperation and allowing e-court ideas to be tested. The complex will occupy a large site chosen for its direct access to arterial roads. We consider the open, transparent design to be a good motif for the justice sector, and learned that the court building will be a four-storey, three-tower complex containing 19 modular courthouses designed for multi-jurisdictional use.

The ministry currently leases the existing court buildings in Christchurch from Ngai Tahu, and the lease runs to 2017.

Manukau court expansion

We asked for an update on this project, and heard that following Mainzeal’s receivership the ministry negotiated a new contract, with an end of 2015 completion date. Work is now progressing to schedule, and over the summer the Manukau courthouse will be re-roofed, and the judges’ chambers renovated.
Performance Information Framework review
The ministry’s Performance Information Framework review, published in July 2012, found that the ministry needed to strengthen its internal leadership and management. We heard that the leadership team is seeking to provide modern, accessible, people-centred justice services. It is focussing on collective accountability for improving people’s experience in the justice system, by changing processes and practices, removing legislative barriers, and making more use of technology. The strategy has a target of reducing the time taken to deliver services by half over the next five years. We intend to follow the ministry’s progress towards this target.

Fines collection
We commended the ministry on having reduced outstanding fines and reparation to $564.5 million, the lowest in almost a decade. We heard that a nationwide workflow system, data-matching, credit checks on people at airports, removal of drivers’ licences where traffic-related fines are owed, and mobile eftpos machines have all helped to bring about this improvement.

Public Defence Service
We noted that 5,544 cases were open, compared with 2,209 in the previous financial year, and asked about users’ satisfaction with the service. We heard that the Public Defence Service has now expanded to operate out of 10 offices. The quality of the service is monitored by feedback from the judiciary, which has been positive, and the number of complaints has fallen to 163, compared with 202 the previous financial year. The ministry said it needs to survey its customers more comprehensively; we agreed that this would be useful.

Number of contractors
We asked whether the large number of contracts awarded last year, 653 of them over $10,000, with a total value of $42 million, was unusual and whether it reflected a staffing issue. The Secretary for Justice acknowledged that the amount spent was a large increase on $31 million the previous year, and $24 million the year before that. The ministry is going through extensive change to modernise the court system; last year this involved restructuring the national office, undertaking reviews of the District Courts, and carrying out work in the IT area, for which people with specialist skills were needed. We heard that the ministry is seeking to build as much internal capability as possible to reduce its reliance on consultants. We will follow the courts’ modernisation work with interest.

Female redundancies
We asked why, in all but two age brackets, more women than men were made redundant. We were told that this simply reflected the gender distribution in some parts of the organisation. The redundancies resulted from reviews of specific areas of work, and recalibration of jobs involving more women than men.

Asset management
We learned that Spotless has undertaken a complete stocktake of the ministry’s assets nationwide. The ministry is confident that it knows the state of its assets, but is to consolidate its fixed asset register so that all records are in one place.
2013 IPANZ Gen-I Public Sector Excellence Awards

We congratulated the ministry on receiving the Excellence in Working Together for Better Public Services award (jointly with the Police and the Department of Corrections), and the Improved Public Value Through Business Transformation award for the transformation of the Collections operating model.

Part B: Vote Courts

Vote Courts’ non-departmental appropriations provide for various mainly court-directed, demand-driven professional services.

Vote Courts includes the following non-departmental appropriations (actual expenditure for 2012/13):

- Children Young Persons and Their Families Professional Services ($8.761 million)
- Domestic Violence Professional Services ($7.312 million)
- Family Court Professional Services ($34.309 million)

The total actual expenditure for these appropriations in Vote Courts was $50.382 million. Expenditure was lower than projected for each of these appropriations, reflecting fewer applications than expected, and fewer referrals to providers.

Part C: Vote Justice

Restorative justice programmes

Restorative justice programmes are funded through the Crime Prevention and Community Safety Programmes non-departmental appropriation. We learned that following a tender process the ministry now funds 28 restorative justice contracts, an increase of four on 2011/12. Although restorative justice has been found to reduce reoffending by up to 20 percent, and increase victims’ satisfaction by up to 80 percent, we heard that it is a challenge to convert referrals to actual conferences.

Legal aid workshops

In November and December 2012 the ministry held workshops in Auckland, Christchurch and Wellington with legal aid providers to discuss the way it purchases legal aid services, and to hear suggestions for improvement. The ministry recognises it needs appropriate controls to account for the more than $100 million it spends annually on many tens of thousands of grants. We learned that reviews of family fixed fees and civil fixed fees in the accident compensation area are planned.

We asked about waivers of the $50 legal aid application fee, and were told that it is a statutory fee and cannot be waived. However, there are exemption classes, for example for people accused of crimes who apply for legal aid in a criminal matter.
Appendix

Approach to financial review

We met on 14 November 2013 and 30 January 2014 to consider the financial review of the Ministry of Justice and the non-departmental appropriations for Vote Courts and Vote Justice. Evidence was heard from the Ministry of Justice and advice received from the Office of the Auditor-General.

Committee members

Scott Simpson (Chairperson)
Paul Foster-Bell
Jo Hayes
Raymond Huo
Alfred Ngaro
Denis O’Rourke
Hon Maryan Street
Holly Walker
Hon Kate Wilkinson

David Clendon replaced Holly Walker for this item of business.

Evidence and advice received

Ministry of Justice, response to standard and additional financial review questions, dated 12 November 2013.


Organisation briefing paper, prepared by committee staff, dated 12 November 2013.
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Land Information New Zealand

Recommendation

The Primary Production Committee has conducted the financial review of the 2012/13 performance and current operations of Land Information New Zealand, and recommends that the House take note of its report.

Introduction

The main functions of Land Information New Zealand (LINZ) include managing land, land transactions, and geospatial information; providing the regulatory framework for defining and dealing in property rights in land; administering New Zealand’s regime for land investment from overseas; and regulating ratings valuations and the acquisition and disposal of Crown land by government agencies. The agency is responsible to the Minister for Land Information. Its chief executive is Peter Mersi.

Financial performance

LINZ is funded through Vote Lands. In 2012/13, LINZ had total revenue of $114.483 million and total expenditure of $94.848 million, resulting in a surplus of $19.635 million. The Office of the Auditor-General rated its management control environment as “very good”. LINZ’s financial information systems and controls were assessed as “good” and its service performance information and associated systems and control as “good”. All ratings achieved were the same as in 2011/2012.

Landonline

Landonline is a service providing online access to New Zealand’s only authoritative database of land title and survey information. It enables surveyors, lawyers, and other land professionals to search titles, to lodge title dealings, and to examine survey data digitally. We note however, that certain information such as historic titles can not be retrieved in this way. We asked LINZ why there were problems accessing such information despite earlier assurances it would be available. We were told that the Landonline system is for surveyors and conveyancers to help them process their transactions. For other information such as historic titles, LINZ operates a manual search system. LINZ is continuing to work on automating its website so that more information can be obtained online, and is planning to improve the whole system as the software used by industry professionals advances. The current problem is not due to lack of funding but because of the need to upgrade the Landonline system, which is now over 10 years old, to a new version to be called “the Advanced Survey and Titles Services Project”. This has required a detailed investigation of users’ needs and system capabilities. An indicative business case for this proposed system is being examined.

Asset management

We asked about returns on pastoral and forestry assets. Forestry assets appear to have gone down in value, whereas the rent from Crown pastoral leases has risen significantly. We heard that the leases had risen because of a change in the method of accounting for them. Since the beginning of 2013 the method of accounting no longer values them from a net
position, but now recognises both sides of the transaction, so that the value of the asset is based on its revenue and earning capacity. All leases coming up for review had been re-evaluated in this way, and the value of some leases has been reduced. The few Crown forestry assets managed by LINZ have also been valued on their earning capacity and down-valued accordingly. The valuation processes differ because Crown forests were for sale, whereas pastoral leases are not.

**Pastoral leases**

We asked for the value of the return on these assets, whether there was a trend, and for a more detailed explanation of the valuation processes. We heard that Crown Pastoral leases have been re-valued up by $21 million and that the gross income from them in 2012/13 was $3.24 million. Crown assets are valued as part of LINZ’s fiscal reporting at the end of each financial year. Crown Pastoral land is valued using the discounted cash flows of future rentals in perpetuity; rentals are reviewed every 11 years. The revaluation model used has remained unchanged from the 2011/12 year, but the inputs have changed. Three key inputs contribute to the revaluation:

- The discount rate used in the 2012/13 valuations was 5.5 percent, (it was 6 percent in 2011/12); the rate is based on Treasury’s published rates. The change in discount rate has caused an increase in the value of the properties of approximately $4 million.

- In the 2012/13 year, an Earning Capacity Rent (ECR) uplift factor was applied to rentals that were not yet based on earning capacity, including those that remained at the Land Valuation Tribunal, to estimate future rentals. The uplift used an average of the change in leases where the leaseholders had accepted their revised rental. The application of this uplift factor revised the value of the portfolio upward by approximately $8 million.

- In the 2012/13 year 127 out of 201 properties had their rentals set under the new ECR regime.

Because this was the first year in which ECR formed the basis of revaluations, it was subject to an audit review, which found the outcome satisfactory.

**Forestry assets**

Under mandated accounting standards, the New Zealand equivalent to International Financial Reporting Standards, agricultural assets must be re-valued annually on a market value basis. Market value is defined as the estimated amount for which an asset should be exchanged on the valuation date between a willing buyer and willing seller in an arm’s-length transaction. Factors affecting the market value of LINZ’s forestry assets include log grades, growth during the year, log prices, and timber degeneration or sickness.

**Land Tenure Review**

Pastoral leaseholders can apply for a tenure review to gain freehold title to some of the land that is leased from the Crown. Tenure review of a pastoral lease is a voluntary negotiation between the Crown and the leaseholder, which results in some land being transferred to the Department of Conservation, and the lessee gaining freehold title to some land capable of productive use. We asked about the progress of tenure reviews, and were told that they were operating very well, with 17 new proposals completed this year, the highest annual number yet. More are undergoing the process but may not reach completion this year.
We noted that there appears to be a difference between what the farmers expected on the one hand and what the Commissioner for Crown Lands would agree to on the other. We asked LINZ if they had a strategy to bridge this gap. We heard that LINZ is not concerned about this, and considers that the system is working well. The Tenure Review Quality Assurance Board concurs with this view, suggesting that with 17 reviews completed in the last year and 26 expected in the next calendar year, the figures are an indication of the success of the programme.

Of the 303 original Crown pastoral leases, 111 are not in tenure review, five are entering the process, 54 are in the system; 24 are entering the advertising process and will be progressed in the next calendar year; seven are under application but have not yet been accepted; 90 have been completed; eight have been agreed, and five were whole property purchases.

**Canterbury earthquakes**

We asked for an update on the work carried out by LINZ in Christchurch and how it relates to work carried out by the city council and the Canterbury Earthquake Recovery Authority (CERA). We were told that after the earthquake LINZ first re-established the geodetic network of geographical reference points. This has now been completed and is being calibrated. A survey adjusting for land movement and repositioning title boundaries will be completed by the end of December 2013. Where boundaries have moved, surveyors have been issued with formal guidelines, which are now well established.

LINZ has agreed eight projects with CERA, the city council, and Environment Canterbury, to evaluate the core information necessary for recovery. The project team in Christchurch is working very closely with other agencies on specific programmes using this information. The most recent project is a “Forward Work Programme”, which is coordinating all the sources of information concerning the location of re-building and demolition work. This information will be made available to all the agencies involved, and should help to avoid conflicts between various types of works. Although this project is still at the pilot stage, the information collated can now be accessed and is being used by CERA and the council.

**Valuations**

We asked whether alternative valuation systems had been investigated in New Zealand. We heard that a considerable amount of work has been done on this subject following the Christchurch earthquake, and also when overseeing the merger of seven administrative areas in Auckland. There is now a recognition that new approaches to valuations may need to be considered in the longer term. We were told that it may be necessary to test the approach to valuation and other regulatory areas constantly in the future, and to assess best practice elsewhere. We would be interested in following progress in this area.
Appendix

Approach to financial review
We met on 5 December 2013 and 30 January 2014 to consider the financial review of Land Information New Zealand. Evidence was heard from Land Information New Zealand and advice received from the Office of the Auditor-General.

Committee members
Shane Ardern (Chairperson)
Steffan Browning
Hon Shane Jones
Colin King
Ian Mc Kelvie
Hon Damien O’Connor
Eric Roy

Evidence and advice received
Land Information New Zealand, Responses to questions, received 5 and 19 December 2013.

Office of the Auditor-General, Briefing on Land Information New Zealand, dated 5 December 2013.

Organisation briefing paper, prepared by committee staff, dated 24 October 2013.
# 2012/13 financial review of the Ministry of Maori Development and non-departmental appropriations for Vote Māori Affairs

Report of the Māori Affairs Committee

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Ministry of Maori Development and non-departmental appropriations for Vote Māori Affairs

Recommendation
The Māori Affairs Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry of Maori Development and of non-departmental appropriations for Vote Māori Affairs, and recommends that the House take note of its report.

Introduction
The Ministry of Maori Development (Te Puni Kōkiri) is the principal adviser to the Crown on Crown–Māori relationships. It leads and influences Government policy relating to Māori, helps the Government manage its relationships with Māori, and partners and facilitates initiatives involving Māori with Government and the private sector. It administers legislation including the Treaty of Waitangi Act 1975, the Māori Language Act 1987, and the Te Ture Whenua Maori Act 1993. Its chief executive has been Michelle Hippolite since December 2012.

Te Puni Kōkiri is funded mainly through Vote Māori Affairs. In 2012/13, its total income was $60.223 million, and its total expenditure was $58.433 million, resulting in a net surplus of $1.79 million.

Refocus review
The ministry has spent the last year waiting for the results of a “refocus” review by a working group which has been examining Te Puni Kōkiri in the light of the Minister’s desire for a more strategic role for the ministry. The working group’s report recommended that the ministry focus on providing strategic policy advice to other government agencies. The ministry is keen now to focus on implementing the report’s recommendations.

We asked how the recommendations of the review might affect the infrastructure of the ministry. No increase is expected in full-time staff numbers, which are currently under the cap set by the State Services Commission, but there are some temporary and contract staff. The ministry intends to work within current resources, but will review the regional network in 2014 to see whether the new focus requires any change. This will require the ministry to pinpoint what it is trying to achieve. A more strategic focus will also affect interactions between the ministry’s staff in the regions and other local agencies. High-level policy staff in the ministry will need to work effectively with their colleagues in communities throughout New Zealand.

We heard that the new focus will entail balancing policy and resource investment. Currently Whānau Ora administration is a major undertaking, but as responsibility is moved to commissioning agencies, the ministry’s role in service programmes will lessen. It will then be able to partner with agencies to provide more strategically focused advice, with an emphasis on effectiveness for Māori throughout the State sector.
We look forward to seeing how the refocus review achieves its goals.

**Monitoring role**

We asked if the ministry will retain its monitoring function after the refocus review. The review team recommended the repeal of the monitoring provisions of the Ministry of Maori Development Act 1991, but the ministry has rejected this recommendation, and monitoring will continue, particularly regarding the Better Public Service targets.

We were told that there were no targets for monitoring, and that the ministry was working with the State Services Commission to strengthen the Performance Improvement Framework for State agencies as it relates to Māori. We also heard that the ministry does not have targets for the discharge of its monitoring function. This seemed to contradict the ministry’s own annual report, which records two targets for monitoring Crown entities (Te Tumu Paeroa, and the Māori language and broadcasting agencies funded through Vote Māori Affairs), both of which were missed.1 We queried the transparency of the ministry’s monitoring, and were told that the ministry aims to pursue the Government sector’s goal of transparency in reporting progress against its Better Public Service targets.

We asked the ministry about its monitoring of the Māori Language Strategy, and particularly the current work of Te Kohanga Reo. The ministry is not satisfied with the maintenance and growth of Te Reo Māori. It monitors a range of indicators regarding Te Reo, and the ministry is satisfied with its current work in this respect.

**Whānau Ora**

We asked about progress on the procurement process for Whānau Ora commissioning agencies. The ministry is working with other state agencies, particularly the Ministry of Business, Innovation and Employment. The ministry has sought interest from potential commissioning agencies, and a short list has been drawn up. The ministry is working with shortlisted agencies to improve their proposals.

Agencies have been making progress in adopting the Whānau Ora “mind-set”, but the ministry acknowledged that this is taking some time. We heard that over the last three years the 34 Whānau Ora provider collectives have done well, with very low attrition rates. We asked how the ministry ensures that commissioning agencies will deliver on expectations. The ministry will design the framework, but when Whānau Ora is rolled out adopt a support and monitoring role to ensure the expected outcomes are achieved.

The ministry cautioned that the commissioning agencies will be small and entering new territory, so expectations must be realistic. Initially the agencies will have budgets sufficient to trial “trailblazing” projects, but not to reach thousands of whānau. The ministry has had initial discussions with the Office of the Auditor-General and the State Services Commission regarding an appropriate accountability framework for the commissioning agencies. We will seek further information from the ministry regarding the extent to which the Official Information Act and Public Finance Act will apply to the commissioning agencies. The ministry’s administering role is meant to keep commissioning agencies at arm’s length; but it is investigating the possibility of eventually partnering with such organisations to ensure that its investment is managed well.

The next challenge is persuading mainstream funding providers to support Whānau Ora collectives to ensure their sustainability. The ministry knows that it will take time for

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1 Te Puni Kōkiri, *Annual Report 2013*, p. 38
mainstream providers to adapt to the Whānau Ora approach of working with whānau holistically. Providers will also require evidence of successful longer-term outcomes to persuade them to participate.
Appendix

Approach to financial review
We met on 20 November and 4 December 2013 to consider the financial reviews of the Ministry of Maori Development and the non-departmental appropriations for Vote Māori Affairs. Evidence was heard from the Ministry of Maori 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
Meka Whaitiri
Jonathan Young

Evidence and advice received
Te Puni Kōkiri, Presentation on Vote Māori Affairs, 20 November 2013.
Te Puni Kōkiri, Responses to post-hearing questions on Ministry of Maori Development and non-departmental appropriations for Vote Māori Affairs, dated 4 December 2013.
Organisation briefing paper, prepared by committee staff, dated 4 November 2013
Arotakenga pūtea o Te Puni Kokiri me ngā wāwāhanga moni ō-waho tari mō Te Pōti Take Māori o te tau 2012/13

Pūrongo a te Komiti Whiriwhiri Take Māori

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Te Puni Kōkiri me ngā wāwāhanga moni ō-waho tari mō Te Pōti Take Māori

**Tūtohutanga**

Kua whakahaere e Te Komiti Whiriwhiri Take Māori te arotakenga pūtea e pā ana ki ngā otinga mahi me ngā mahi o te wā nei a Te Puni Kōkiri me ngā wāwāhanga moni ō-waho tari mō Te Pōti Take Māori o te tau 2012/13, ā, ka tūtohu kia arongia tana pūrongo e Te Whare.

**Kupu Whakataki**

Ko Te Puni Kōkiri te kaiwhakamaherehere matua ki te Karauna mō ngā hononga Karauna-Māori. Arataki ai, ā, whakaawe kaupapa here Kāwanatanga ai e pā ana ki a Māori mā, āwhina ai i te Kāwanatanga ki te whakahaere i ona hononga ki a Māori mā, ā, mahi ai hei hoa i ngā kōkiringa hoa e whai wāhi ai a Māori mā ki roto me te Kāwantanga, me te rāngai tūmataiti hoki. Ko te mahi anō hoki a Te Puni Kōkiri he whakangāwari āhuatanga e pā ana ki ngā kōkiringa hou, whakahere hanganga ture ai, tae atu ki te *Treaty of Waitangi Act 1975*, te *Māori Language Act 1987*, ā, me *Te Ture Whānau Māori Act 1993*. Nō māi anō i Hakihea i te tau, 2012 a Michelle Hippolite i tū ai hei Tumuaki Whakahere mō Te Puni Kōkiri. Ko te nuinga o te pūtea āwhina a Te Puni Kōkiri heke mai ai mā ai mā roto i Te Pōti Take Māoria. I te 2012/13, e $60.223 miriona te katoa o tana moni whiwhi, ā, e $58.433 miriona te katoa o tana whakapaungā, ā, e $1.79 miriona te mutunga mai o te hemihemi more.

**Arotahi anō i te arotakenga**

I pau katoa te tau kua hipa e tatari ana mō ngā hua o te “arotahi anō i te arotake” a tētahi ohumahi e āta tirotiro ana i Te Puni Kōkiri, i runga anō i te aronui o te Minita mō tētahi tūranga rautaki kaha kē atu mō te manatū. Ka tūtohu te pūrongo a te ohumahi kia hāngai kē te arotahi o te manatū ki te hoatu whakamaherehere mō te kaupapa here rautaki ki ētahi atu pokapū kāwanatanga. Kei te rika rawa atu te manatū i nāiānei ki te whakahāngai i te arotahi ki runga i te mahi whakatinatina tūtohutanga mō nāi ai te pūrongo. 

Ka pātai mātou, ka pēhea pea te pātanga o ngā tūtuhutanga o te arotakenga ki te anga pākihi o te manatū. Kāore he pīkinga ki tērā e tūmanakohia rā mō ngā whika e pā ana ki ngā kaimahi wākīkī. I te wā nei, kei raro iho i te taumata kua whakatakotoria e Te Komihana O Ngā Tari Kāwanatanga āngari, kei reira anō ētahi kaimahi kirimana, kaimahi wā pōto e mahi ana. Ko te koronga a te manatū kia mahi ki roto i ngā rawa kei a i a i te wā nei āngari, e arotakenga te whatunga ā-rohe hei te tau 2014 kia kītea ai mehehema, ka hīhiatia he whakahounga ki te arotahi hou. Ko tā tēnei e tono ana, kia kaha te manatū ki te āta whakaatu, he aha tērā e whakamātou ana kia whiwhi i a ia. Ka kaha kē atu te arotahi i te rautaki, ka pāpāngia hokiha ngā pāhekoheko i waenganui i ngā kaimahi a te manatū i ngā rohe, ā, i ētahi atu pokapū o te hau kāinga. Nā, mō ngā kaimahi i roto i te manatū e mahi kaupapa here i te taumata-teitei, me tino tōtika a rātou mahi i te taha o ō rātou hou mahi i ngā hapori puta noa i Aotearoa.

I rongo mātou, he whakataurite i te haumi e pā ana ki te rawa me te kaupapa here, te mahi i roto i te arotahi hou. I te wā nei, he kwenga nui te whakahaerenga o Whānau Ora, ā, na te
mea e nekemia ana te haepapa ki ngā pokapū kōmihana, ka heke haere te tūranga o te puni kōkiri i ngā hōtaka ratonga. Nā runga i tērā kua āhei ki te noho he i hoa i te taha pokapū kia kaha ai tana hoatu whakamaherehere e arotahi ana i te taha rautaki, tērā ka hāngai kē ki tōna tōtika mā Māori mā puta noa te rāngai Kāwanatanga.

Ka titiro atu mātou ki te wā e kīte ai, i pēhea te whakatutuki a arotahi anō i te arotakenga i āna whāinga.

**Tūranga aro turuki**

Ka pātai mātou mehema, whai atu ana i te arotahi anō o te arotake, ka mau tonu i te puni kōkiri tōna mahi aro turuki. Ka tūtohu te kapa arotake kia whakakorengia ngā wāhanga aro turuki i roto i te *Ministry of Māori Development Act 1991*, ēngari, kua makaia e te puni kōkiri te tūtohutanga nei ki te taha, me te aha hoki, ka haere tonu tōna tūranga aro turuki, tērā ake e pā ana ki ngā ūnga mō *Better Public Service*.

 Ko te kōrero i a mātou, korekore ana he ūnga mō te mahi aro turuki, ā, mahi ana te puni kōkiri i te taha o Te Komihana O Ngā Tari Kāwanatanga ki te whakapakari ake i te *Performance Improvement Framework* mō ngā pokapū Kāwanatanga, otirā, ērā e pā ake ai kia Māorī māi. E rongo hoki mātou, kāore he ūnga a te puni kōkiri he whakawātea i a ia mō āna mahi e pā ana ki te aro turuki. Me te mea nei, e whakahē ana tēnei i te pūrongo ā-tau ake a te puni kōkiri, tērā kua tuhia atu ki roto, e rua ngā ūnga mō te aro turuki hingona Kāwanatanga (arā, Te Tumu Paeroa, me ngā pokapū pāhotanga me Te Reo Māori, heke mai ai ā rāua pūtea āwhina mā roto i Te Pōti Take Māori), kihai rāua tahi i whiwhi. Ka uiuitia e mātou te mārama o te mahi aro turuki a te puni kōkiri. Ko tā te puni kōkiri ki a mātou, e whai ana a ia i te whainga mārama o te rāngai Kāwanatanga e pā ana kīte whakatakoto pūrongo nekenga whakamua ki ngā ūnga mō *Better Public Service*.

Ka pātai mātou ki te puni kōkiri mō tāna aro turuki i Te Rautaki Reo Māori, otirā, i te mahi ake a Te Kohanga Reo i te wā nei. Kihai te hiahia o te puni kōkiri i te ngata kīte whakatūtanga me te tipuanga o Te Reo Māori. Aro turuki ai a ia i tētahi whānuitanga o ngā tūtohu e pā ana ki Te Reo, ā, e ngata ana te hiahia o te puni kōkiri ki tāna mahi i te wā nei mō tēnei.

**Whānau Ora**

Ka pātai mātou mō te nekenga whakamua o te hātepe whiwhinga a ngā pokapū kōmihana i te Whānau Ora. E mahi ana a te puni kōkiri i te taha o ētahi atu pokapū Kāwanatanga, otirā, i te taha ake o te Manatū Hikina Whakatutuki. Kua rapu pānga a te puni kōkiri ētahi pokapū kōmihana e pūmanawa moe ana te hiahia, ā, kua whakatakotoria ngā ingoa o te hunga e tino hiahia ana i te Whānau Ora. E mahi ana te puni kōkiri i te taha o taua hunga ki te whakapai ake i ā rātou kaupapa.

Kua neke whakamua te mahi a ngā pokapū ki te “whakanohoi-te-mahara” ki roto i a rātou, he whāngai a Whānau Ora nana ēngari, ka whakae a te puni kōkiri, he nui te wā kia pau kia waea noa ai kia taua mahara. Ko tērā i rongo mātou i te huri o ngā tau e toru ki muri, kua pai rawa atu te haere o ngā ūhu kaituku i a Whānau Ora e 34. He tino itiiti rawa atu ngā auaa hinganga ki raro. Ko tā mātou uiui ki te puni kōkiri, me pēhea ia e mōhio ai ka taea e ngā pokapū whakakōmihana te tuku āwhina mai e ai ki ngā tūmānako. Ka hoahoatia e te puni kōkiri te pou pokapū kōmihana tarāwhai ēngari, ka tae ana ki te wā e whārikitia atu

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2 *Pūrongo a-Tau* a Te Punī Kōkiri, 2013, whārangī 38
ana a Whānau Ora, ko tāna mahi ā taua wā he kawe i tōna tūranga tautoko, tōna tūranga aro turuki kia pūmau ai, kia tutuki ai ngā hua e wawatatia rā.

Ka whakatūpato mā te puni kōkiri, kia whai tikanga ngā tūmanako ka hiahiatia kia tutuki e ngā pokapū kōmihana nā te mea, he pakupaku rātou, ā, he hou te takiwā e uru atu nei rātou ki roto. I te tuatahi, ka rawaka ngā pūtea a ngā pokapū hei whakamātāu i ngā pūtere “tahu ara” ēngari, korekore rawa e tae atu ki te hia mano whānau. Kua whakahaerea e te puni kōkiri ngā matapakinga tuatahi, i te taha o Te Tari o Te Tumuaki, me Te Tari O Ngā Tari Kāwanatanga, e pā ana ki tētahi pou tāra kāinga mahi tika, mā ngā pokapū kōmihana. Ka rapu mātou i ētahi atu pārongo mai i te puni kōkiri e pā ana ki te whānuitanga o te hāngai o te Official Information Act, me te Public Finance Act ki ngā pokapū whakakōmihihana. Ko te tikanga kē o te tūranga whakahaere o te puni kōkiri, he āta titiro kia rawa ngā pokapū kōmihana e tata mai mā te awhe o te ringaringa; ēngari, kei te tūhura i te tūponotanga ka puta āke pea he āhuatanga ā tōna wā, he noho ai ia hei hoa i te taha o aua momo rōpu whakahaere, kia pūmau ai, kia pai ai te whakahaere o āna haumitanga.

Ko te whakawhere kaituku pūtea āwhina auraki ki te tautoko i ngā oho Whānau Ora, te wero i tua atu kia pūmau ai tō rātou pūmaitanga. Kei te mōhio te puni kokiri, he roa te wā mō ngā kaituku auraki e waia ai ki te aronga a Whānau Ora me tāna momo mahi whānui i te taha whānau. Ka hiahiatia hoki e ngā kaituku he taunakitanga o ngā hua kua roa kē e momoho ana hei whakawhere i a rātou kia whai wāhi mai.
Tāpiritanga

Ahunga ki te arotake pūtea
I hui mātou i te 20 o Whiringa-ā-rangi me te 4 o Hakihea i te tau 2013, ki te whakaaroaro i ngā arotake pūtea o Te Punī Kōkiri me ngā wāwāhanganga moni ő-waho tari mō Te Pōti Take Māori. I rongo taunakitanga nō mai i Te Punī Kōkiri, ā, i whiwhi whakamahere nō mai i Te Tāti o Te Tumuaki.

Ko ngā mema o te komiti, ko
Hōnore Tau Hēnare (Heamana)  
Te Ururoa Flavell  
Claudette Hauiti  
Brendan Horan  
Hone Harawira  
Hōnore Nanaia Mahuta  
Katrina Shanks  
Rino Tirikātēne  
Mētiria Tūrei  
Nicky Wagner  
Meka Whaitiri  
Jonathan Young

Taunakitanga me te whakamaherehere i whiwhi
Pūrongo ā-Tau i te tau 2013 a Te Punī Kōkiri.

He whakatakotoranga mō Te Pōti Take Māori i te 20 o Whiringa-ā-rangi i te tau, 2013, a Te Punī Kōkiri.

Ngā urupare ki ngā pātai-whai muri whakawātanga mō Te Punī Kōkiri, ā, me ngā wāwāhanganga moni ő-waho tari mō Te Pōti Take Māori i te rā, 4 o Hakihea i te tau, 2013, a Te Punī Kōkiri.


He whakatakotoranga tohutohu mō Te Punī Kōkiri i te rā 20 o Whiringa-ā-rangi i te tau, 2013, a Te Tāti o Te Tumuaki o Te Mana Arotake.

Te pepa whakatakotoranga tohutohu mō te rōpū whakahaere, nā ngā kaimahi o te komiti i takatū i te rā 4 o Whiringa-ā-rangi i te tau, 2013.
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New Zealand Customs Service

Recommendation

The Foreign Affairs, Defence and Trade Committee has conducted the financial review of the 2012/13 performance and current operations of the New Zealand Customs Service and recommends that the House take note of its report.

Introduction

The New Zealand Customs Service is responsible for ensuring the security of New Zealand’s borders. It protects the economy from illegal imports and exports, and facilitates the movement of lawful travellers and goods. The service also collects revenue—$11.239 billion in 2012/13—on behalf of the Crown, investigates illegal activity, and prosecutes where necessary.

In 2012/13 the service’s total revenue was $148.554 million, and its total expenditure was $153.517 million, resulting in a deficit of $4.963 million.

Financial management and service performance

The service received a rating of “very good” from the Office of the Auditor-General for its management control environment and “good” for its service performance information and associated systems and controls, as it did in 2011/12, “very good” for its financial information systems and control, an improvement on its 2011/12 rating of “good”. We congratulate the Customs Service on its results.

Joint Border Management System

The Joint Border Management System has been in development since 2010 and has received considerable funding: $75.9 million in Budget 2010, with an additional $13.8 million in 2013. We have discussed the system with the Customs Service at previous hearings of evidence, and we were interested in its progress. The first stage was released in January 2013, and others during the 2012/13 financial year. The remaining stages are due to be released in 2013/14.

We heard that the Customs Service switched from a single “go live” date to staggered implementation to allow thorough testing of each stage before progressing to the next. This meant that the launch of the Trade Single Window, which provides importers and exporters with a single electronic point of access to border agencies, was delayed from 1 April to 1 August 2013.

New technology

The Joint Border Management System is just one of a number of new technologies used by, or developed for, the Customs Service. Another is a software package for statistical analysis, used to find trends in the importation of illicit drugs, both in mail items and by travellers. With importation via the internet increasingly common, new technologies to protect against illegal imports and exports—particularly illicit drugs—are increasingly important.
The Customs Service has also improved its profiling system, so that it now automatically applies profiles to travellers. This has increased the number of profiles applied from around 60 to 800.

**Staffing**

At the end of the 2012/13 financial year there were 125 unfilled positions. While there are fewer than in the last two financial years (147 and 159 respectively), the number of unfilled positions has increased over the period 2009 to 2013. We were told that the Customs Service was in the process of filling some of the 125 positions. It said that it favoured a “cohort” approach to recruitment—recruiting in batches—and that, at 10 percent, its turnover is lower than the public service average.

The Customs Service is satisfied that there is not a connection between turnover and training. In response to our query about the rate of turnover for men under 30, the Customs Service noted that a desire for faster career progression and more career mobility amongst those in its corporate areas may be contributing factors.
Appendix

Approach to financial review
We met on 14 November and 5 December 2013 to consider the financial review of the New Zealand Customs Service. Evidence was heard from 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
David Shearer
Lindsay Tisch

Evidence and advice received
New Zealand Customs Service, Responses to written questions, received 12 November 2013.

2012/13 financial review of the New Zealand Police

Report of the Law and Order Committee

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New Zealand Police

Recommendation

The Law and Order Committee has conducted the financial review of the 2012/13 performance and current operations of the New Zealand Police and recommends that the House take note of its report.

Introduction

The New Zealand Police is the principal agency responsible for reducing crime and ensuring the safety of the community. It aims to be a world-class police service, working with communities to prevent crime and road trauma, enhance public safety, and maintain law and order. The New Zealand Police’s revenue in 2012/13 was $1.483 billion and total operating expenses were $1.481 billion, resulting in a net surplus of $2.181 million.

Service performance environment

The Office of the Auditor-General found that the Police’s service performance information and associated systems and controls need improvement for the third year running, and recommends that the necessary improvements be made at the earliest reasonable opportunity.

Resourcing

Some members asked the Police about budget cuts, and their effect on morale and efficient operations. The commissioner said he believes they run their organisation effectively and efficiently, allocating resources so as to increase efficiency within their budget.

We referred to a very recently released New Zealand Police report to the State Services Commission, which indicates that Police staff would like to see the adequacy of resources improved. The answers to the financial review questions show reductions in spending on training, and loss of vehicles, buildings, and staff. We asked the Police if this reflects budgetary constraints, and whether it is affecting staff. They suggested that staff, being passionate about their work, will always want more resources to allow them to do their jobs to the best of their ability.

The Police are concentrating on getting more officers out in communities, rather than desk-bound. Foot patrols increased by 40 percent in the financial year, and visits to licensed premises by 23 percent.

Staffing

The report from the Office of the Auditor General shows that the Police have lost over 300 staff in 2012/13, many to work in Australia, and we asked whether this reflected dissatisfaction with budgetary constraints. The Police acknowledged the attraction of generous offers by some Australian jurisdictions, but noted that some officers are returning to New Zealand. There is no sense of discontent among staff, and interest in joining the Police remains strong.

We asked what the Police were doing in response to the 5 percent fall in its staff engagement index over the period. They attributed the fall in engagement to centralisation...
of non-sworn personnel, in an effort to allow the district commanders to focus on policing. Human resources and finance staff have been moved to national headquarters, and some long-serving staff have had to find other positions. The effect on engagement was expected and predictable, but the Police consider the changes necessary.

A more centralised workforce management system has resulted in savings of $13.4 million in accrued annual leave and time in lieu, which can be re-invested in other areas.

**Buildings**

The Police told us that reported building closures are for operational reasons, with some older buildings being replaced by newer facilities. They also prefer to have as many operational staff as possible out on the streets, and have equipped them to work remotely, so buildings are becoming less important.

**Vehicles**

Police vehicle mileage has remained consistent, in spite of a reduction in number of vehicles, which they consider demonstrates more efficient use. They have taken steps to ensure that the entire fleet is kept available, for example by using vehicles assigned to headquarters staff for operational purposes while they are not being used by the staff in question.

**Crime rate and road toll**

We heard that in the period under review, recorded crime fell by 7.4 percent. Over the past two years, it has fallen by 12 percent, which the Police attribute partly to their Prevention First initiative and Policing Excellence strategies. With less crime to attend, increases in preventive measures such as foot patrols and visits to licensed premises have become possible.

The Police also reported a fall in the road toll, and predictions of a further reduction in the coming year. There were 22 percent more road checkpoints in the 2012/13 financial year.

**Training**

The Police have updated their training methods, using more simulator training, which in the instance of firearms training saves on the cost of ammunition while providing valuable virtual experience. We questioned the effectiveness of such training as preparation for real-life operations in the field. The Police said that simulator training teaches good decision-making, in addition to purely technical skills such as target shooting. International studies have showed that it works well, and it is useful to have a record of the trainee’s actions on the simulator to revisit, so further training can address their demonstrated weaknesses.

**Domestic violence**

We asked the Police if they thought there was potential for partnerships with non-governmental organisations like Neighbourhood Watch to combat domestic violence. They told us that they work with a wide range of organisations and communities in the field of domestic violence. Community patrols are hosted at the Royal New Zealand Police College, and prevention managers in each of the districts are heavily involved. The Police envisage some scope for these organisations to help regarding family violence interventions after the initial response from Police.

We asked specifically about the role for these organisations in isolated areas, where a quick police response may not be possible. The Police told us that they have a memorandum of
understanding with Federated Farmers, just one of many rural organisations with which it has worked in this area for many years. Rural Women networks are extremely effective in rural communities, and the Police have undertaken formal agreements with some of them.

Public trust and confidence

The Police said that public trust and confidence in them remains high by international standards, 79 percent of respondents to the latest citizens’ satisfaction survey expressing full or “quite a lot” of trust in the Police. This continues an upward trend over the last three years.

Sexual assault cases

We asked the Police whether, with hindsight, they should have handled the “Roast Busters” case differently. They accept that the case was not well handled. A multi-agency investigation is reviewing the case, led by the crime manager for the Auckland City district, and there will also be a review by the Independent Police Conduct Authority. The criticism received so far concerns the lack of communication about the existence of a previous complaint. It is not yet apparent whether the case impaired public trust in the Police.

Auditor-General’s report

We referred the Police to our earlier examination of the third monitoring report by the Office of the Auditor-General following Dame Margaret Bazley’s 2007 inquiry into police conduct, and asked if they agreed with us that they still have some progress to make in the investigation of adult sexual harassment. The Police said that they have made some progress, with 99.9 percent of its Criminal Investigation Branch staff now specifically trained regarding adult sexual assault.

The Police said that they have come a long way in their treatment and support of victims of sexual offending, but recognise that further work is required. A new adult sexual assault training framework was introduced during the year, and an adult sexual assault pamphlet launched to improve victims’ understanding of rights and access to local support throughout the country.

Reporting of misconduct

We asked the Police if its early intervention system was responsible for their investigation into the Meyer case, where a police officer admitted letting a woman off a drink-driving charge in return for sexual favours. We heard that this particular investigation was the result of a complaint, but the Police said their early intervention system is a success, and an improvement on the reactive handling of complaints that was previously the norm.

The latest report to the State Services Commission indicates that Police staff are dissatisfied with the way their reports of misconduct by other officers are handled. The Police said that they will be focussing on improving their handling of internal complaints, and creating an environment where staff are comfortable making reports, and confident they will be handled well; nevertheless they expressed a high level of trust in their staff.

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1 New Zealand Police’s Report to the State Services Commission, Commission of Inquiry into Police Conduct, Change management programme progress report, Fifth phase of review 2012/13
Technology
The Police continue to seek to use technology to improve their operations. They told us that initiatives during the period under review included providing 3,900 iPads and 6,500 iPhones to front-line staff. These devices increase the mobility of officers, allowing them to spend more time in the community, which is one of the organisation’s principal goals. Their use of technology has attracted interest from the Australian police, who wish to learn from the New Zealand experience.

Cyber-crime
Cyber-crime is a new area for policing the world over. The Police told us that they have some expertise in the area, and that there is extensive international collaboration in this area. In 2014, the Police are to take part in the new Interpol Global Complex for Innovation.

Organised crime
We asked the Police about their strategy for reducing gang recruitment and influence. They agreed that the level of harm from gangs is high in New Zealand, and told us that they are developing a national gang and organised crime strategy, led by the Minister. They have papers before Cabinet, and are planning strategies to discourage people from joining gangs, and to targeting the leaders of gangs, which they believe is the most effective approach.

The Police told us that they recently seized at least $20 million in assets during the successful implementation of Operation Ghost, an 18-month operation targeting senior Asian organised crime figures operating in New Zealand. The operation also resulted in the seizure of 330 kilograms of methamphetamine precursor drugs.
Appendix A

Approach to financial review

We met on 11 December 2013 and 29 January 2014 to consider the financial review of the New Zealand Police. Evidence was heard from the New Zealand Police and advice received from the Office of the Auditor-General.

Committee members

Jacqui Dean (Chairperson)
Jacinda Ardern
David Clendon
Hon Phil Goff
Hon Todd McClay
Ian McKelvie
Mark Mitchell
Richard Prosser
Lindsay Tisch

Evidence and advice received

New Zealand Police, Responses to questions, received 15 November 2013 and 29 January 2014.

Office of the Auditor-General, Briefing on New Zealand Police, dated 11 December 2013.

Organisation briefing paper, prepared by committee staff, dated 9 December 2013.
Appendix B

Corrected transcript of hearing of evidence 11 December 2013

Members
Jacqui Dean (Chairperson)
Jacinda Ardern
David Clendon
Hon Phil Goff
Hon Todd McClay
Ian McKelvie
Mark Mitchell
Richard Prosser
Lindsay Tisch

Witnesses
Peter Marshall
Viv Rickard
Mike Bush
John Bole

Dean Just to advise you that this hearing is being webcast. There is a camera behind your head, so we are being webcast; as well, you will see there is other media in the room. And also to advise you that we are recording this hearing and we’ll be doing a transcription of it as well. So welcome to the Law and Order Committee. We’ve set down an hour for this hearing, so we’ll be going round until 12:35. If you’d like to give us some opening comments, perhaps, and then open for questions.

Marshall Thank you, Madam Chair.

Dean Thank you.

Marshall Right from the outset I would like to introduce my two colleagues, deputy commissioner Viv Rickard and deputy commissioner Mike Bush. In keeping with last year’s appearance, I don’t intend to take up any time with any exhibitions or any accompanying support; rather, getting straight down to business and answering any questions you might have in a forthright manner. But I would like to make some opening remarks for perhaps about 3 minutes.

I make the point that recorded crime fell another 7.4 percent in the 2012-13 financial year. Over the past 2 years since the launch of our Prevention First initiative and Policing Excellence strategies, recorded crime has fallen by more than 12 percent. This equates to 50,000 fewer recorded offences, and, of course, a lot less victims of crime in our communities. We have seen a
large fall in the number of people killed on our roads, and we are on course for a toll significantly less than the previous low of 284 back in 2011. It is predicted that approximately 35 fewer people will be killed on our roads this year when compared to the previous calendar year.

In terms of key preventative tasks there were 22 percent more road checkpoints for the 2012-13 financial year. There was also a 40 percent increase in foot patrols and a 23 percent increase in visits to licensed premises when the two financial years are compared. We continue to disrupt organised criminal activities, and in the 2012-13 period restrained assets worth an estimated $58.2 million under the Criminal Proceeds (Recovery) Act. The recent seizure of at least $20 million in assets during the successful implementation of Operation Ghost will add to this total. This multi-agency inquiry targeting a criminal network involved the largest ever methamphetamine precursor drugs operation in New Zealand, with more than 330 kilograms of the class B controlled drug seized.

We continue to collaborate across the justice sector to improve efficiency. The joint project with corrections at New Plymouth police station underlines this. Police, through their alternate resolutions and pre-charge warning regimes, have now diverted over 40,000 people away from the courts since October 2010. This has allowed greater flexibility in terms of police and justice personnel.

Our engagement with Māori has been greatly enhanced by the iwi-led crime and crash prevention strategy known as Turning the Tide. This week saw the release of the fifth review of New Zealand Police’s progress since the publication of the report of the Commission of Inquiry into Police Conduct in 2007. Police remain committed to implementing and embedding the report’s recommendations. It’s a sign of the police’s maturity that we were set the task of preparing the 2013 progress report ourselves. Police performed well against established measures, including a significant increase in the employee engagement index for New Zealand Police from 2011.

However, the events of recent weeks have again highlighted police processes around victims of sexual crimes. The issue was at the heart of the commission of inquiry, and while we have come a long way in terms of our treatment and support of victims of sexual offending, we are not at the end of the journey and we are continually improving in this regard. During the year, police introduced the new adult sexual assault training framework. This was supported by a launch in May of an adult sexual assault pamphlet for national standardisation in relation to victims and their understanding of rights and access to local support. As commissioner I remain committed to victim-focused culture in New Zealand Police that supports vulnerable people in their time of need.

Police also continue to successfully target recruitment towards women and members of ethnic minority groups to ensure we better reflect the population as a whole. In 2012, 21.7 percent of promotions to commissioned officer rank were women. The forecast for 2013 is 37.5. This is a significant achievement, given that senior sergeant rank is currently
made up of 9.9 percent women, so they are being promoted on merit at a far greater rate than men of the same rank. Analysis undertaken in 2011 shows that, on average, it takes women 18 years to reach commissioned rank, compared with 21.6 years for males. Of the 240 recruits graduating from the Royal New Zealand Police College during the 2012-13 financial year, 30.8 percent were women, up from 27.3 percent in the 2010-11 period.

We continue to equip our police officers with appropriate skills and knowledge. No police officer, thankfully, has died during the course of duty since 2009, though the violence with which some staff have been assaulted is an ongoing concern. Policing is an inherently dangerous career, but we’ve worked hard to reduce the risks through steps such as training and improved availability of firearms and Tasers.

We’ve also worked to improve the efficiency of policing operations with a remodelling of our finance and HR supporting functions. A new centralised model delivers better outcomes to our organisation and ensures common service standards. All areas of policing have seen improvements under Policing Excellence. Significant initiatives put in place during the 2012-13 period include the roll-out of mobility devices, including 3,900 iPads and 6,500 iPhones to front-line staff. The establishment of a crime reporting line for 24/7 response to non-emergency phone calls and the establishment of district command centres in our 12 police districts to improve our staff deployment has occurred.

It is now a time for consolidation for Policing Excellence, with an emphasis on realising the benefits. Trust and confidence in New Zealand Police remain high by international standards, with the latest citizens’ satisfaction survey showing the percentage of people having full or quite a lot of trust and confidence in police was at the end of November at a 12-month average of 79 percent—that is December 2012 to November 2013. This compares with 78 percent in the previous 12-month period and continues its upward trend over the past 3 years.

Thank you, Madam Chair. We’re available to answer any questions that may arise. Thank you.

Dean Thank you. Thank you.

Ardern Thank you, commissioner, for those introductory remarks. I’m just referring now to the report the New Zealand Police has reported to the State Services Commission, which was released yesterday, and one of the statements that’s made in that report is that resource adequacy remains one of the primary issues that are raised by staff when asked what would improve their working environment. Do you agree that resource adequacy is an issue?

Marshall Well, we have a set budget. We take the responsibility in terms of our annual budget. We manage it very proficiently and we are very conscious in relation to resources, whether it be in terms of police stations that have been opened in great numbers over the last period, whether it be in terms of technology and iPhones, whether it be in boots, whether it be in Tasers,
whether it be access to firearms. If police are asked whether they want more resources, unquestionably the answer would be from the constables and from the staff generally, yes. But I believe our staff overall are well resourced.

Ardern I guess what I’m referring to is not so much that they necessarily want more resource but perhaps even that they don’t want what they’ve got taken away. Looking back on the financial review questions, there have been 23 sites sold since 2009; 114 vehicles in your fleet have been lost, 30 of which came just out of the Wellington region; and there’s been a decrease in your training budget of over $11 million, and that’s included changes to even the way you train police officers in the use of weapons. There are fewer constabulary employees now and non-sworn staff. You’ve even had to cut your cleaning budget. Is this having an impact on staff or not?

Marshall Well, in relation to buildings, we get asked this question on a regular basis. We’ve certainly closed certain kiosks. We’ve closed certain buildings for operational reasons—because we have opened up, perhaps, a new station down the road that is large and is in keeping with the 21st century. So those decisions in relation to buildings are absolutely sound. They are decisions that I and my executive make for operational reasons, and we’ll continue to look at what opportunities there are in that regard.

Ardern But as for the rest, are they being made because of resource constraint?

Marshall Beg your pardon?

Ardern As for the rest of the areas where there have been cuts, is that because your budget isn’t sufficient to do the job that you’re being asked to do?

Marshall The answer’s no, but I’ll pass to deputy commissioner Rickard, who certainly has clear oversight of this situation.

Rickard I guess there are a few things. The reality is we run our organisation both efficiently and effectively. We’ll put our resources into the places that we think are right in terms of running an organisation of 12,000 people. We do that in order to maintain our trust and confidence and reduce our crime. So our resource allocation, in terms of efficiency—that’s where we focus.

At times, you know, all Government agencies—and the public expect us to run our organisation efficiently. So for things like vehicles, our mileage that we operate is the same as it was before, so we’re using our vehicles more efficiently. Our buildings are less relevant for us. They’re still relevant, but less relevant because we want our people out on the street. That’s why we’ve mobilised them. We’ve given them a lot of equipment as well, and this is stuff that’s bottom up, not top down—driven. So the trousers, the trial that we’ve got going on, their availability—this is bottom-up stuff where we’ve listened to our people and the commissioner’s made decisions in order to resource them.

Can I just say, our staff are very passionate about their role and they always want to do more. They always want more resources in order to do that. That’s a real positive thing about New Zealand Police, and that’s reflected in the way they report on that.
McKelvie | Around the vehicle management—so you’ve obviously changed your vehicle management systems to enable you to get some efficiencies around vehicle management. Have you got an idea what that’s saving you?

Rickard | Yes—3 years ago, actually, we did this, so this hasn’t been in the last year. We did it 3 years ago. We’ve 300 less vehicles. We talked about this 3 years ago. What we’ve done—it’s actually not about the availability of vehicles; funnily enough, the availability of car keys. So we needed to use our vehicles more efficiently. There are some vehicles that needed to be available 24/7. There are some vehicles that just sat in places that weren’t available. So we’ve made sure that the whole fleet is more available, right down to people that are sitting in headquarters—that their vehicles are used for operational purposes. So it’s just something we did 3 years ago. It’s something that’s been reasonably seamless in terms of how we operate. We do want our people out on the street walking, as well, engaging with New Zealanders.

McKelvie | I just want to carry on to two other topics that are relevant to that. One is you’ve made an effort to estimate the efficiencies you’ve picked up through new methods of deployment. I wonder if you’ve ever done any work on the lowering crime rates. Is that having an effect on your efficient use of staff as well or your ability to use staff more effectively and efficiently?

Marshall | Thank you. I’ll ask deputy commissioner Bush to focus on this question in terms of our new deployment regime. It’s very appropriate and it’s working well.

Bush | Thank you, commissioner. The answer to that question is a very firm yes. The less crime that we have to attend, the more we can put our efforts into preventing other crimes, and especially preventing the more serious crimes—particularly around family violence, shall we say. So we have a totally new deployment regime within the New Zealand Police service, which was implemented quite recently, and it really has changed the way that we understand and deploy to our business and take every prevention opportunity as it arises. Again, that allows those efficiencies that we’ve achieved through less crime and enables us to deploy into those things.

One of the other efficiencies we’ve gained through our command centres and a more centralised workforce management framework is we’ve actually saved over the last year or so $13.4 million in accrued annual leave, time off in lieu, and other such provisions that we can then re-invest in other parts of the business. Those other parts of the business that we’ve been able to fund—you heard the commissioner talking about mobility devices. We’ve now rolled out the second phase and we’re up to, I think, 9,313 mobile phones to all of our staff in the business and the 3,900 iPads you heard about, which means our staff are absolutely out there in the community, engaging with the public with a more visible police presence out there. So those efficiencies and those reductions in crime have enabled us to do those things.

Goff | Thank you, Peter. The reality is, isn’t it—just to follow up Jacinda’s point—that for 2 to 3 years now, you’ve had real cuts in expenditure each year. The dollar sums that have been put in the police budget are less than the
increase in costs, and that’s reflected in a whole lot of different areas. I mean, one of them is in staffing. The report from the Audit Office shows that you’re down over 300 staff this year—half of them front-line constabulary staff. The answers to our questions here show you’ve cut your training—and training’s critical to your staffing—from 4 percent of your budget down to 2.9 percent. The truth is people are becoming, on the front line—I was at the Police Association last night and people were saying: “You know, we’ve had a gutsful of this, and we’re starting to vote with our feet.” You lost 71 police to Australia in this year, and that’s up from 5 just a couple of years ago. The truth is, isn’t it, that the real cuts in budget expenditure—and that’s not your fault; it’s a Government decision—are starting to hurt. They are making staff more discontented. You’re losing staff. You’re putting less into training.

Marshall Well, we were not the subject of a 6 percent budget cut a couple of years ago. We were able to maintain that position on the basis that we achieved certain results under the Policing Excellence in terms of the 19, the 13, and the 4 percent. That’s a point I make from the outset. In relation to personnel going to Australia, we acknowledge that the Northern Territory Police and other jurisdictions have made an attractive offer. We have a number of those police officers actually wanting to come back to New Zealand Police. I travel up and down the country, I speak to the staff every week, and I do not get any sense of discontentment in that regard.

Goff They might be more open with us, commissioner, than with you.

Marshall Well, I have lots of people telling me things out there and I get a pretty good sense. I haven’t been around this long not to understand the nuances of the staff, and I have a good relationship, I believe, in terms of getting to the bottom of that in a very personal way.

In relation to the recruitment and in relation to the training, we do, as the deputy commissioner said, work out our business in terms of the changing environment we have. We look at different training regimes to suit going into the 21st century. We have a very rigorous recruitment process going through. The number of recruit wings, the number of personnel—we have hundreds waiting to join New Zealand Police. So I do not see it in that light whatsoever, but I’ll ask deputy commissioner Rickard just to elaborate. Thank you.

Rickard So there are a couple of things in the question. One’s around the movement of people. The attrition rate is one piece. So that’s always based on an assumption you make early, before the start of the financial year. So over the previous years, we’ve had closer to a 3.1, 3.2, and in the previous year 3.5. So we made an assumption around 4 percent. The Australians, in a number of their jurisdictions, saw fit to grab some of our people, and on one part I’m quite happy about that, because our people are excellent police officers. We’ve got half a million New Zealanders in Australia, and they’re going to police in that environment. Our sense is a lot of those people, as the commissioner said, are starting to come back. So what we’ve done at the moment is we’ve put on another wing to actually accommodate for the fact
that my assumption was actually wrong in terms of where we thought the attrition would be.

The police college, the training issue, is actually again about challenging the assumption. We’ve had the same approach to training for 30 years. So adults learn differently now, you know, in terms of how we give them skills, knowledge, and the competency to do the role of policing. So, for instance, experiential learning is more prevalent for us, so simulator training. What it does, taking firearms as one example, is they learn how to shoot on a simulator. There’s no cost in terms of ammunition in terms of that. And it’s better for them in terms of decision making—long term, it’s actually better and it does bring some efficiencies, but that’s not the driver for it; it’s actually about effectiveness, but it brings efficiencies with it.

So we’re consistently looking at our business to try to work out how to be more effective to get better outcomes, and at the same time if there’s efficiencies, we’ll grab those as well.

Goff Having said that, what is the real level of cuts over 3 years in police budgets—the real level, inflation-related budget. You’re way down, aren’t you?

Rickard Well, you know what the CPI is. We haven’t had any cuts. We’ve just been cutting our cloth accordingly.

Goff Well, you’ve had real cuts. In dollar terms they’ve maintained you—you’re a couple of million up. In real terms, taking into account the costs over the few dollars extra that you’ve got, you’re way down. You’re several percent down.

Ardern And a wage increase next year.

Rickard As I say, we’re no different than any other Government organisation. The difference is with us, we never had the 6 percent dividend, as the commissioner’s said.

Ardern And you can’t strike, that’s the difference.

Rickard We’ve cut our cloth accordingly, and we’ve operated. Hopefully, people appreciate the fact that we’re getting good results for New Zealanders and we’re being efficient as well.

Goff Sure, but there’s a cumulative effect of having a budget cut year after year after year. And I’m getting that feedback, and I’m sure, Peter, you’re getting that feedback from your people on the ground. When’s this going to stop? When are we actually going to get a real increase in expenditure rather than a cut in real expenditure?

Marshall Well, we, as I said before, deal with the budget that we get. And we are very proud of the fact that our results, whether they be in trust and confidence, whether they be crime—everything is going in the right direction. I’d be concerned if it wasn’t, but we are achieving excellent results across a whole range of indicators, so that’s my primary focus.
Thank you, commissioner. On the subject of firearms, I’ve been advised that training for non-AOS staff has been cut to 30 live rounds per officer per year. Is that correct, and, if so, is that a wise allocation or prioritisation in terms of resources? I mean simulators are all well and good, but when you go out in the field and fire a weapon in real life, you’re not firing a simulator.

So, as per my previous answer, the reality is they actually shoot more, if that makes sense, in terms of the simulator. It puts them into red situations—it’s not just about the accuracy. When we were trained we were taught to stand there and shoot at a target. A simulator brings in real-life experiences and you make choices and decisions. So what you do is that there might be the decision not to actually back off. It might be a decision to use the Taser. It might be the spray. So the simulator brings more opportunity around decision making. It’s not about efficiency; it’s actually about putting people there and giving them the right skills to make good decisions and they still shoot as well. So that’s an and/and rather than an and/or, and it actually develops better police officers. This is the research internationally in terms of this sort of training. So I think it’s quite exciting, actually, the fact that we’re going down this path. We’re doing it with driving as well—not because we’ve got less cars. We’re doing it with driving because it’s the same philosophy. We need to do this. And we’re actually doing the same in terms of training at the higher level around a device called “Manoeuvre”. So these are positives, I think.

Can we have a go? I’d love a go at that.

But at the same time, you know as well as I know that a real firearm doesn’t behave the same as a videogame.

But let’s just put it this way, though: the reality is that if we just have them looking down a range, firing at a target, the reality is a police officer may only use their firearm—you know, if you have 100 police officers, one of them might be called upon to pull out their firearm and use it once in their whole career.

And you want to hope that he knew what he was doing and got the job done right.

One hundred percent. And we know that because of the research and evidence that suggests that you need to put them into live situations where they’re confronted with maybe a domestic, maybe with a number of people in front of them, and the situation changes on them, and they need to make decisions. We’re trying to keep our people safe, and we’re trying to give them the skills and the competency and the knowledge to do their job. Experiential—as close as what they might encounter in reality—is the best way to do that.

You’re not concerned that at the end of that programme they will have a good understanding of the potential live situations and a good ability to choose strategically or tactically what course of action they take and get everything right, apart from being able to actually handle a firearm?
Rickard Remembering they still shoot on the simulator and on the range—they live fire.

Prosser Thirty rounds a year.

Rickard Yes, but let me just tell you that from a training point of view, you can teach them better in terms of what their faults are on a simulator than you can from the trainer doing it in terms of seeing them live firing, because you have the evidence in front of you. You can go back and replay exactly what happens in terms of the trigger pressure, what they’re doing with pulling the trigger, what’s happening in terms of where their rounds are going. So in terms of actually teaching them to shoot, it’s actually better on the simulator, but we assess them on the range. So they don’t get qualified on the simulator; they’re assessed on the range. And guess what? Our people are shooting better.

Clendon Yes, just to return to Phil’s point earlier, he’s hearing officers grumbling at the Christmas drinks, the commissioner maybe not hearing that same story. One metric you do have is the engagement index, which has slipped back this year, some 5 percent or so. You’re getting fairly close to public sector averages, which is probably not where you want to be. I just wonder what you’re doing to reverse that trend.

Marshall Certainly. Well, we are above the public sector grading, and we’re pleased about that. We put in place significant change in the last 12 months in relation to our police employees. That’s our non-sworn personnel in relation to HR—human resources—and finance. We brought those particular personnel—each of the 12 districts had its own sort of functioning HR, finance. We brought that down to Police National Headquarters with a view to getting the district commanders to not worry about those sort of transactional matters but to focus on crime and crash reduction, and the results speak for themselves. So as a consequence, there’s been a lot of change within these districts. We’ve had a lot of staff who were there for 10, 15, 20 years who suddenly found themselves having to compete for other positions, not necessarily in their traditional HR and finance portfolios.

At the same time, the Policing Excellence work streams have been in full flight for implementation by 30 June. That did occur, and we’re talking about the crime reporting line, we’re talking about district command centres, we’re talking about the mobility and the technology coming in—big change. And our HR experts said well before that: “You’re going to get a dip because of the change. That’s what the international research says.” We are acutely conscious of that. How long we have that change for is something that is the subject of a lot of focus by the police executive and the district commanders, but we are very intent upon getting that earlier rating. But it’s essentially because we’ve turned New Zealand Police on its head in terms of the processes, at the same time achieving the results that we have.

McKelvie I just wanted to change the topic a bit, commissioner, and get on to, I guess, you’ve mentioned earlier family violence and domestic violence
issues. I was interested in whether you think there’s potential for community partnerships, through the likes of Neighbourhood Support, Neighbourhood Watch and things, to be much more at the forefront of that type of activity from a community point of view and from your perspective.

Marshall Well, very much so. We are intimately involved with a raft of NGOs and support groups for that particular purpose. The community patrols, for argument’s sake, out in the towns and cities every night, and we host them at the Royal New Zealand Police College. We talk about that. The mantra is aligned to what support these organisations can give police in terms of our issues over family violence. We have prevention managers in each of the districts as part of the new process. We have a victim-focused approach in each of the districts. And those particular people, those districts, those areas, are intimately involved with the groups. I’ll ask deputy commissioner Mike Bush to elaborate on any specifics he might want to.

Bush I can only endorse your comments, commissioner, and say that we work with a wide range of community, NGOs, partners in the family violence space—excellent work being done right across the country, and there’s always a place for other people. When it comes to the interventions—probably not the right place for them in the initial response, because that’s probably really a primary police role, but in the follow-up intervention I see real scope for further agencies to help prevent further family violence and manage those interventions.

McKelvie So I just wanted to extend the question, I guess, into parts of rural New Zealand like I represent, which—you can’t expect to have a police station on every corner. And I guess my question then is with respect to the community-based organisations in those isolated areas. Is there a bigger role they can play in assisting you to deal with issues in places where you’ve got very restricted resource?

Bush Absolutely. If you look back to the basic principles of policing, we are the community and the community are the police. So we encourage every possible partnership with members of the community. We work very closely with those people, and the rural community is another space where we can leverage those relationships and we do. There’s many examples right across the rural sector in various parts of New Zealand where we absolutely do that.

Marshall I signed an MOU with the Federated Farmers some time ago in terms of approaches, in terms of the way we deal with issues, their interaction with us, and very positive in that regard. But everything from mountain clubs through to local fire service, volunteer service brigades—intimately involved with communities, and that’s been a feature of our approach over many, many years.

Bush And one I was going to add was Rural Women networks. They’re very, very powerful in those communities and we work closely with them. We have some formal agreements in place.
Ardern Thank you. I wanted to come to a few questions around the investigation and handling of the Roast Busters case, and my first question is is there anything that you would, in hindsight, have done differently in the handling of that case?

Marshall Well, certainly, the situation involving the initial response that there hadn’t been a complaint, and then we found there had been a complaint—not that that affected where we were at that stage—was something that we should have been sharper on, in terms of the communication, and that excited, naturally, members of the public, and we accept that. But all I can say is that there is a multi-agency investigation currently under way under Detective Inspector Karen Malthus, who was the crime manager for Auckland City district. I would rather not deal with what is happening in that regard, (a) because I don’t know the finer points, but with absolute due respect to the young victims, who may be in the process of interaction with that particular group, and I’m also conscious that there is an Independent Police Conduct Authority Review. We await the result of that with interest. So, with your indulgence, I wouldn’t want to go into that because I don’t want to deter young victims feeling comfortable outside the media glare, in terms of that. It’s progressing well.

Ardern In general, though, obviously, we’ve seen that police confidence has taken a hit in the last month. Do you put it down to the handling of the Roast Busters case?

Marshall I think you have to put things into perspective. It was 82 percent in October. It was 76 percent in November. It was 76 percent in November last year. It was 80 a few months prior to this month. It has a margin of error of plus or minus 3 percent. We are ahead of where we were this time last year in relation to the trust and confidence of the public. By international standards, we are exceptional and my overseas colleagues are envious of that and the fact that over 80 percent are satisfied or very satisfied with the police service.

Ardern So, commissioner, you don’t think it had an effect?

Marshall Well, it could have—we will never know. But we put a high-profile matter before the courts, 2 years of investigation—I’m talking about Mr Meyer. We actually put him before the court. We spent 9,000 hours. I’d rather not, but it was important that we put that person before the court. We knew there would be commentary. You can’t win one way or another. So there were a number of factors, but I look at it in a 12-month period. I don’t take a snapshot of 4 weeks, and I reiterate that over the 12-month period we’re doing better than we did last year.

Ardern You reflected there on the Meyer case, and obviously you’d be as aware as anyone else that sometimes one rotten apple can therefore cast a shadow over an otherwise well-functioning workforce. In that regard, then, when will you release the report into Meyer and also the police working alongside him, who are currently operating under a shadow until that report is released vindicating their actions in this situation?
Marshall: I'll just confer with my deputy. I'm not sure of the status of that report, in all honesty. I will have to get back to you. I don't know when that particular report will be released.

Ardern: Would you agree that for the wider police force in that area, sooner rather than later would be beneficial?

Marshall: Very much so, and I will get up to date with that particular one, but I am very proud of the police officers who investigated Meyer, and they do well.

Ardern: Was he picked up by the early intervention system that you've introduced? I understand it's been operating for a few years now and has raised 79 occasions where there should be an intervention around the actions of officers. Was he picked up through that?

Marshall: No, that was a complaint, as I understand it, to police by a victim and she was spoken to by police, and her complaint was taken and that was the catalyst for that particular investigation. And I've got to say, it's a tribute to the level of evidence that was obviously available through those victims that he pleaded guilty.

Ardern: Do you think the early intervention system is working? I mean, in 2 years there have been 79 interventions as a consequence of that system, which was recommended, I believe, as a consequence of the Bazley report, but you have been informed 159 times of serious complaints being made against staff. So there's a bit of a mismatch there. Do you think the net is wide enough for your early intervention system?

Marshall: Well, I do. Bear in mind, when I first joined police, we were reactive—a complaint against a police officer. And bear in mind we have 12,000 police personnel in our organisation. So the number of complaints is very small in the overall scheme of things. But in those days you would receive a complaint and then you would be reactive to it. Any intervention, any signal that a staff member needs to be spoken to, whether in terms of any situation—and most of them are comparatively minor in the context of interactions with staff and supervisory ability, for argument's sake. Any intervention has got to be helpful. Whether they're going to capture everybody—probably unlikely, but we do our best, and we have a real intention to be proactive in that regard.

Goff: Commissioner, 9 months ago you came before the committee to examine this report from the Deputy Auditor-General, which was the third monitoring report on Dame Margaret Bazley's report. And I remember being fairly critical at that stage of what some of the things were that were suggested there—for example, and this is really interesting in light of subsequent events, “Progress against recommendations about adult sexual assault investigation is relatively poor.” That relates directly to the problems that we faced with the so-called Roast Busters case. It said that “There is still an unacceptable, although low, level of inappropriate behaviour of a sexual nature, and of harassment.”, and that relates to the Gordon Meyer case. In retrospect, would you now agree that while progress has been made, the progress in implementing the recommendations of that 2000
Marshall

Well, in terms of the progress that we’ve made in recent times, we have approximately 1,200 CIB investigators in this country, and 99.9 percent, or thereabouts, have been trained in relation to adult sexual assault-related matters, interviews—big progress in that regard, and big progress in relation to our interaction with Louise Nicholas and the pamphlet, and the nationalisation standards.

But if I could just refer to the covering report of the State Services Commission—in the latest report it says: “Police are continuing to make progress in many focus areas. Overall, work engagement continues to exceed benchmarks, and the workplace survey reports a number of strengths.”

Not mentioned in the report, but regarded by SSC as evidencing best practice are other initiatives, including the police’s approach to talent management and leadership development. Essentially, I think we are making very steady, conscious, determined approaches in relation to the recommendations of the commission of inquiry.

I think the fact that we are able to report, in relation to this fifth occasion, indicates a degree of confidence by the State Services Commission and maturity in terms of police. I think we’ve come a long way, and I will ask deputy commissioner Viv Rickard to elaborate, if there’s any point that he may wish to.

Rickard

I think the only thing to say is, you know, it sort of reiterates in part what we said last year. Dame Margaret’s report is really about changing culture—some of the recommendations in there. We will continue those recommendations and the indication of them and the intent of them past 2017. Cultural change won’t happen overnight in an organisation where you have passionate people, but remembering the environment has changed. We didn’t have a focus on victims in 2007 when her report was written. We didn’t have multi-agency centres for sexual abuse when her report was written. We did not have an adult sexual assault framework. We did not have specialist investigators.

Last year’s report focused on—the real critical piece was at the time they did their report we didn’t have enough people trained in terms of the reporting. There was still an issue to sort out with the DHB in the eastern area. Those matters have been dealt with.

Are we going to want more things? You bet. We want more focus on this, but the culture is about supporting our organisational direction and organisational strategy around prevention and victims. That COI report helps that.

Goff

But wouldn’t you say—I mean, this report was absolutely predictive and insightful in saying that mixed progress presents some risk to the trust and confidence in the police. The lowest rating they gave was your “relatively
poor progress”—their words, not mine—in sexual assault investigation. Isn't that exactly what the Roast Busters case has pointed out?

Marshall In relation to Mr Meyer, for argument’s sake, and you referred to him earlier on, that investigation occurred 2 years earlier and had been ongoing. In relation to the Roast Busters, we will wait and see whether there’s any criticism of police in terms of that. The criticism that I have alluded to was in terms of the communication of whether there had been a previous complaint, not that that made any difference whatsoever to the decision at that stage. So I think we just need to take a bit of a pause in relation to the Roast Busters as to whether there is any commentary, whether there was any adverse criticism of police, until Judge Sir David Carruthers delivers his report. As I said, I don’t really want to add more commentary, for reasons that I mentioned, but I think we’re assuming too much.

Goff I don’t want you to comment on that, but just the last point, Rape Prevention Education, Dr Kim McGregor in Auckland, told me that probably about one in 100 serious sexual assault cases ever ended up in a conviction—one in 100. Part of the problem—not the whole problem—is a lack of confidence that when you make a complaint to the police, you’ll be treated sympathetically—you won’t be regarded as a cause of the crime; you will be regarded as the victim of the crime—and clearly that’s not the impression that victims of that sort of sexual violation and assault have if they turn up at the police station. There is a real problem with perception, as to how they’re going to be treated, isn’t there?

Marshall There are all sorts of reasons why people don’t want to make complaints to the police—a whole lot of reasons. We work very hard to ensure that there is a safe environment for people to be interviewed, in relation to our dedicated areas with dedicated professionals, social workers, trained people, our multi-agency centres—whether you’re talking about Koru House at Pētone, whether you’re talking about the multi-agency centre in South Auckland, places up and down the country. We have come a huge distance. When I joined the police there was no offence for a man to rape his wife. It’s night and day.

We are absolutely committed to doing the right thing. We have thousands of complaints of sexual assault being dealt with by our staff, up and down the country—some of the most impressive police officers you would ever want to come across. We do our best. Whether people actually—there’s a lot of process, a lot of thought, that goes into it before they actually come to a police station. The interaction with police will obviously be one factor, but there are a range of other factors, and internationally our statistics are very similar to the rest of the world.

McKelvie Just an extension of that. I’m kind of interested in how complex for you the use of IT or technology is in some of this crime that goes on now, given that I don’t really get it myself. But it must be very complicated and it must move very quickly for you.

Marshall Well, it does, and we are at the cutting edge, if you like, in relation to the Australasian environment—certainly in terms of the iPads and the iPhones
that are given to our staff. I interact with my Australian counterparts every quarter, and a number of them have actually been expressing a lot of interest in terms of how we have developed to the stage we are. At least one jurisdiction has come across specifically to have a look at the technology environment in New Zealand.

But in a practical way, in terms of our staff and how difficult, or otherwise, it has been for them, I will pass to deputy commissioner Mike, who will give you a bit of a feel for how it’s been received on the front line.

Bush

Sure, hugely positive, but I was wondering if your question was more around cyber-crime.

McKelvie

It was—

Marshall

Oh, I beg your pardon.

McKelvie

—and the issue that came out of crimes like the Roast Busters type of thing, because it graduates from what it is to where it goes to.

Bush

Absolutely. We’re operating in a whole new world, and one that we are very much trying to stay ahead of when it comes to either cyber-related crime or stuff happening in social media, which is, as I say, a whole new world for us. We have a lot of expertise within the business. We share experiences and expertise with our international colleagues, and we are part of a number of international forums, programmes, and networks that keep us upskilled in relation to cyber-based crime.

One thing we’re doing in the new year is we’re going to be part of the new Interpol Global Complex for Innovation, based in Singapore. We will have a person on a seat in that place who will be able to keep us informed of all of the new trends and investigative methodology in relation to cyber-based crime. So we’re very much trying to stay ahead of it.

We have cyber-based teams here in New Zealand. We have people absolutely dedicated to that. We have good technology. We have been developing our technology in this space for some years, and would like to suggest that some of our people are very much state of the art in this space. But of course it continues to evolve.

Mitchell

Commissioner and deputies, I just wanted to first of all just point out the fact that some of the line of questioning today has been around whether or not you actually are in touch with front-line staff. I just want to say I think it is unprecedented the amount of engagement you all have with front-line staff, and certainly talking about my own electorate of Rodney I know that you’ve been at Wellsford, Orewa, and Warkworth stations this year, fully engaged with the front-line staff there. I just wanted to acknowledge that.

The other point that I wanted to make is in—I guess, talking specifically, I want to use an example from my own electorate, Wellsford police. Well, actually it’s in Mike Sabin’s electorate, but I have a fair bit to do with them. Wellsford police have got a very good strategy and they have been very proactive at the moment in trying to tackle the Headhunters gang and the criminal network that they’ve set up. We’ve heard some previous evidence
in front of the committee today from the Department of Corrections that we as a country do have a real problem, or we have a bigger issue around young people being recruited into gangs and gangs’ influence. I’m just wondering in terms of what the police strategy is or whether you have a strategy around how you’re dealing with this.

Marshall  Yes, the sergeant at Wellsford, she is extremely energetic and focused. I have visited her a number of times and we are very impressed with Kelly. But this is an area that is close—

Ardern  I hope to visit her one day, too.

Marshall  She’s fantastic.

Mitchell  She’s very good.

Ardern  When the ban is lifted.

Marshall  You’re welcome any time. But this is a subject that is close to Mike Bush’s heart, and I’ll ask him to elaborate.

Bush  Can I first say you’re absolutely right. The impact that gangs and organised crime have on New Zealand is extremely harmful, and it’s becoming more sophisticated and more complex. So we do need a national strategy in relation to gangs and organised crime. We are in the middle of developing a national gangs and organised crime strategy, and it’s being led ministerial, so our Minister, Minister Tolley, is, in fact, leading that at a ministerial level.

We have documents before Cabinet, or we will have documents before Cabinet in the new year, proposing a range of strategies, and they cover the spectrum. Your point about how we discourage young people from entering gangs in the first place is very much at the heart of that. So we will continue to attack the heads of those organised crime groups, as we did in Operation Ghost last week. But we will also think a lot more widely in respect of keeping young people out of gangs in the first place, so that we lessen the impact that they can have, we lessen their leverage on young people in our community. So it’s got to be a wide, long-term, almost a generational strategy to address this issue, because, as we said at the start, it’s increasingly sophisticated and complex and requires a national strategy. All of the public sector need to be involved in this. It’s not just law enforcement. We need to keep people out, and we’ve got strategies planned in respect of that.

Mitchell  So it’s interesting you say that. So inter-agency and even—because I notice even the strategy that Kelly has put together involves our council and identifying ways of whether they have been non-compliant in terms of gang signage and things like that. So you see that as being a big part of the strategy going forward?

Bush  Absolutely. It’s got to involve not just the public sector but NGOs and local government. Local government in, say, Los Angeles, has played a big part in decreasing the impact of gang violence in Los Angeles, so multi-agency, multi-partner. As I say, the issue is so important and so complex that it requires a range of initiatives and a range of people to be involved in it. But good coordination and collaboration are the key.
Ardern I look forward to plenty of visits in the new year. The quick question, the final question, that I have is around the policy of reporting and protect, the ability of a police officer to raise where inappropriate behaviour is occurring within their own team, of any type I guess, and be protected in doing so. The report that was released yesterday, though, said that whilst staff increasingly knew who to report to, that there was a general sense of—in fact, three-quarters of staff believed that when they had reported, the issue had not been dealt with effectively. I wondered if you had any intentions to change the way that you deal with complaints and how they are responded to.

Rickard I think there’s a couple of things in the report. What the report doesn’t actually mention is that a number of the larger matters that we’ve dealt with have actually come forward from our staff. So our staff are feeling more confident to come forward and actually tell us about when things happen. So at the extreme level we deal with someone that may be in the criminal court, but it may be just around some performance issues, it may be around behavioural issues, and that’s part of the whole trying to—you know, our philosophy is around prevention, so we’re trying to do that.

There’s work to do in this space. We want to put more energy into that. We have 12,000 people in 380 locations. Can I say that we trust our people, too. This is following up from the discussion before, in terms of are we connected. We’re connected with our people. We sort of get the pulse of our organisation, and we actually trust them, and we have to trust them in order for them to use their discretion. We trust them in terms of their judgment to bring things to us, and our job is to create the environment where they feel safe to do so.

Ardern Is there a case, though, that they might be bringing forward those issues, but they’re not feeling like they’re being adequately responded to?

Rickard Funnily enough, the issues are actually coming forward to the top level. The commissioner gets more emails from our people directly on these issues than anyone else. So they will email us. I’m not sure how he replies to most of them and how many he would get a day, but I guess he would get 20 or 30 a day—20 giving him advice on how to be the commissioner, and 10 on a particular issue, positive or negative.

As I have said earlier, our people are quite passionate about this, but we need to do more in that space, so don’t take my response as everything is perfect. We need to do more.

Ardern Of course, I imagine creating an environment where people feel willing to report an incident is one thing; the response is the other.

Rickard Yes.

Ardern Are you concerned, though, that the survey also noted that one of the reasons that they weren’t likely to raise an issue of harassment or something like that was because 23 percent feared retribution. Is that something that you’ll be looking to address as well?
2012/13 FINANCIAL REVIEW OF THE NEW ZEALAND POLICE

Rickard Yeah, remembering that that’s their perception of it, and perceptions are realities, so I accept that. So what we’ve tried to ensure is that if you’re not confident reporting it to the person above, you can put it to the person above, and the person above that. So that’s what is tending to happen. More than anything at any time in my career, and the commissioner is 41 years and Mike’s done 35 years, that we’ve seen that, our judgment is they are more likely to.

But is it a concern? Yes, of course we’d be concerned if people don’t feel safe to do that. But what we’ve seen is they’re actually coming forward more often, and we’re trying to put in mechanisms so that they are confident that when they do raise something, it will be raised in confidence, they won’t be targeted, and we’ll take action.

Ardern And, finally, only 30 percent of your staff believe people are appointed based on merit. That’s incredibly low.

Rickard Our engagement survey—

Dean Same as politicians.

Ardern You never want to use politicians as a yardstick. That would be my suggestion.

Rickard We’ve talked about it earlier, in some ways. In policing, our people are egalitarian, you know. Fairness is a big issue in our place, and there is some perception stuff. What we do do is we put the right people in place to make the decisions. Our people, they do back themselves, and they feel that they should actually get roles. So when someone else sometimes is appointed, that sort of commentary comes out.

Ardern So 70 percent of your staff at some point have been shafted. Is that what you’re saying—that they’re all individually bearing a grudge?

Rickard Could I say to you that all three of us here have applied for jobs in the police previously and missed out, and that’s the reality about the organisation that we’re in. You know, we all have aspirations to do things as we’re coming through. If there’s only one person who can get the job, there might be 20 people who apply, and that’s exciting—that 20 people might be interested. But that leaves you in a position where 19 people won’t get the job. I hope that they are disappointed, because they applied for the role because they are passionate about it, they really want it, and when they miss out, that they should feel that, actually, I’m a bit disappointed with this.

Ardern You’ve got a lot of expectations to manage with the new commissioner appointment then, obviously.

Mitchell So just a quick supplementary on that because I think it is important to get some context around that number. I think what you’ve covered off very well, deputy commissioner, is that the type of people who are drawn to the police normally are quite competitive. They want to do the best they can. They’re aspirational. So when these jobs come up, you often do have a lot of applicants, and unfortunately you can only pick one. Of course, the others are always going to feel—it’s only human nature—that they were the
best person for the job. So you have explained it well. There’s some context around where that number comes from.

Marshall

We’re very competitive by nature.

Mitchell

Exactly, yes.

Dean

Thank you very much for appearing before us today. We do appreciate you taking the time out to come to our committee, and we do look forward to receiving several pieces of information from you. However, the clerk has noted that. So thank you very much.

**conclusion of evidence**
The Intelligence and Security Committee has conducted the financial review of the 2012/13 performance of the New Zealand Security Intelligence Service. The committee heard evidence in public from the New Zealand Security Intelligence Service and received advice from the Office of the Auditor-General.

The committee has no matters to bring to the attention of the House and recommends that the House take note of its report.

Hon Christopher Finlayson
Acting Chairperson
2012/13 financial review of the Ministry of Pacific Island Affairs

Report of the Government Administration Committee

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Ministry of Pacific Island Affairs

Recommendation
The Government Administration Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry of Pacific Island Affairs and recommends that the House take note of its report.

Introduction
The Ministry of Pacific Island Affairs is the Government’s adviser on promoting the social, economic, and cultural development of Pacific people in New Zealand. In 2012/13 the Ministry’s total revenue was $6.569 million, and its total expenditure was $6.310 million, resulting in a surplus of $259,000.

The Ministry of Pacific Island Affairs received ratings of “good” from the Office of the Auditor-General for its management control environment and its service performance information and associated systems and controls. It received a rating of “very good” for its financial information systems and controls.

Pauline Winter has been the chief executive of the ministry for just over 12 months.

Policy delivery
The ministry works with seven diverse Pacific communities, providing policy advice and service delivery in collaboration with other Government agencies. Ms Winter told us that she is seeking to ensure the ministry offers relevant, accurate, and timely advice that contributes towards the achievement of the Government’s Better Public Service goals.

The ministry is about to begin a review of its policy framework and delivery, with a view to ensuring the development and delivery of policy advice that is consistent with Pacific values. Ms Winter expects to see a number of benefits from this review in the coming year.

Language support
We heard that Pacific communities are growing; the latest census figures indicate 11 percent growth since 2001, making them collectively New Zealand’s fastest-growing community. It is also one of the youngest communities in New Zealand.

We heard that in response to the challenges of this rapid population growth, the ministry has been expanding its support for Pacific languages. This year for the first time seven individual Pacific language weeks were held. The ministry considers that language is a source of strength in the communities, and it has developed action plans with community groups to support languages.

We asked whether Fijian Indians are considered to be part of the Pacific community and are offered the same level of support as other groups. Currently the ministry offers various facilities and support to the Fijian community as a whole, which includes Fijian Indians, but support for Indian languages is not provided.
**Education**

The ministry co-authored the *Pasifika Education Plan 2013–2017* with the Ministry of Education. A ministry staff member has been seconded to the Ministry of Education to help implement the plan. We inquired about the Ministry of Education’s decision to stop producing Pacific language resources for use in schools, and whether this has affected support for Pacific school students. The Ministry of Pacific Island Affairs explained that language support is now community focused, and community groups are developing their own publications; but it also said that while publication has ceased, large numbers of existing resources are still available for use by schools. We asked about the quality of these resources, particularly in the less widely spoken languages. The ministry admitted that resources for some languages were “light”. We are concerned about the strength of these languages, and the possibility that ceasing publication of resources in them has sent a message that these particular languages are not important.

A joint review of Pacific language resources is being undertaken by both ministries, and the Ministry of Pacific Island Affairs hopes that this will result in new, up to date publications. The ministry confirmed there is funding for new resources, but it is under the control of the Ministry of Education.

We wanted to know if the ministry has relationships with schools in Pacific countries to ensure that students coming to New Zealand to study are well prepared. The ministry told us that responsibility for this lies with the Ministry of Education, and New Zealand tertiary education providers.

We asked how the ministry balances the desire to affirm and support national and ethnic identity with the need to ensure sufficient English literacy in New Zealand’s Pacific communities. The ministry said it utilises its government and community relationships to advise and exert influence in this regard.

**Pacific people with disabilities**

We wanted to know if the ministry works with Pacific people with disabilities. The ministry does not have any disability-specific programmes, but said that many of its programmes benefit Pacific people who have disabilities, and it has relationships with support service providers, and offers advice to the Ministry of Health when appropriate. We asked if the ministry was aware that many Pacific people are reluctant to admit their disabilities and to access support services. The ministry acknowledged the need for specific resources to inform Pacific communities about disabilities and support services. The ministry also advises Workbridge, an employment and support service for people with disabilities.
Appendix

Approach to financial review
We met on 11 December 2013 and 29 January 2014 to consider the financial review of the Ministry of Pacific Island Affairs. Evidence was heard from the Ministry of Pacific Island Affairs and advice received from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Chris Auchinvole
Kanwaljit Singh Bakshi
Hon Trevor Mallard
Mojo Mathers
Eric Roy

Evidence and advice received
Ministry of Pacific Island Affairs, Responses to written questions, received 4 December 2013 and 24 January 2014.


Organisation briefing paper, prepared by committee staff, dated 11 December 2013.
The Local Government and Environment Committee has conducted the financial review of the 2012/13 performance and current operations of the Parliamentary Commissioner for the Environment, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Nicky Wagner
Chairperson
2012/13 financial review of the Parliamentary Counsel Office

Report of the Justice and Electoral Committee

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Parliamentary Counsel Office

**Recommendation**

The Justice and Electoral Committee has conducted the financial review of the 2012/13 performance and current operations of the Parliamentary Counsel Office and recommends that the House take note of its report.

**Introduction**

The Parliamentary Counsel Office (PCO) is a non-public-service department under the control of the Attorney-General. The PCO drafts Government bills (other than revenue bills), regulations, and amendments for Ministers and select committees; and it is responsible for ensuring that New Zealand legislation is readily accessible.

The Chief Parliamentary Counsel is David Noble, who is responsible to the Attorney-General.

**Financial and service performance management**

The total revenue of the PCO for 2012/13 was $20.735 million (down from $21.122 million the previous year), and its total expenditure was $19.673 million, resulting in a net surplus of $1.062 million.

**Pressure on PCO staff**

We asked about the sources of pressure on PCO staff, and were told that the need to draft quickly, sometimes in parallel with the development of policy, is challenging. However, involving staff early in the process allows the office more input in the drafting of the legislation.

**Pacific drafting assistance**

We asked about PCO’s three-year contract with the Ministry of Foreign Affairs and Trade to provide legislation drafting assistance to the Cook Islands, Niue, and Tokelau, which is coming to an end. We heard that the PCO and the ministry are discussing a more permanent arrangement. The office has also worked independently with Samoa and is beginning discussions with Tonga.

**New Zealand Legislation system**

In 2010, users were surveyed about the usability of the New Zealand Legislation website, and feedback from users is collected regularly. We were pleased to hear that PCO is forming an external reference group to provide further feedback on access to legislation, and we look forward to following its development.

In early 2013, PCO completed a tender process to select providers for the hosting, development, and support of the New Zealand Legislation system. The office incurred costs relating to its disengaging from Unisys New Zealand Limited, and transitional services provided by Revera, the successful tenderer. For this reason the year-end actual figure was $962,000 higher than the estimated $2.310 million figure in PCO’s annual report.
Value of assets

We asked why $4.288 million of PCO’s current assets for 2012/13 do not appear in the estimates or in the 2011/12 balance sheet. PCO explained that to ensure liquidity it monitors its forecast cash requirements closely, against expected cash draw-downs from the New Zealand Debt Management Office, and maintains a target level of available cash to meet its requirements. As the PCO had enough working capital during the 2012/13 financial year, it decided not to draw down a budgeted $4.288 million. As a result, this figure is listed in the debtor-Crown category on PCO’s financial statement, and the organisation’s bank balance is correspondingly lower. This had no effect on the PCO’s assets total of $10.476 million as at 30 June 2013.
Appendix

Approach to financial review

We met on 14 November 2013 and 30 January 2014 to consider the financial review of the Parliamentary Counsel Office. Evidence was heard from the Parliamentary Counsel Office and advice received from the Office of the Auditor-General.

Committee members

Scott Simpson (Chairperson)
Paul Foster-Bell
Jo Hayes
Raymond Huo
Alfred Ngaro
Denis O’Rourke
Hon Maryan Street
Hon Kate Wilkinson
Holly Walker

David Clendon replaced Holly Walker for this item of business.

Evidence and advice received

Parliamentary Counsel Office, Responses to questions, dated 14 November 2013.


Organisation briefing paper, prepared by committee staff, dated 12 November 2013.
2012/13 financial review of the Parliamentary Service

Report of the Government Administration Committee

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Parliamentary Service

Recommendation

The Government Administration Committee has conducted the financial review of the 2012/13 performance and current operations of the Parliamentary Service, and recommends that the House take note of its report.

Introduction

The Parliamentary Service is responsible for providing administrative and support services to the House of Representatives and to members of Parliament, and for administering funding entitlements for parliamentary purposes. Its mission is to “Help Parliament get on with the business of Parliament.” The Acting General Manager at the time of the financial review hearing was David Stevenson. We have subsequently been made aware that he has been appointed to the position of General Manager.

Financial and service performance

The service’s total revenue for 2012/13 was $69.672 million, and its total expenditure was $68.151 million, resulting in a surplus of $1.521 million. The service’s management control environment was assessed as good by the Office of the Auditor-General. Its financial information, and service performance information and associated systems and controls ratings improved from “needing improvement” in 2011/12 to “good”.

We asked how the service is seeking to reach the efficiency savings target of $1.8 million per annum recommended in the triennial review of appropriations. We heard that improvements in ICT services for members of Parliament, the provision of ICT services to the Office of the Clerk, and improvements to the service’s financial management systems, have resulted in savings. This year the organisation transferred $1.4 million to the 2013/14 year.

Henry inquiry

Considerable media attention was focused on the service’s release of email, phone and swipe card information regarding Hon Peter Dunne and Andrea Vance, without their consent, to the inquiry into the leak of the Kitteridge report on compliance at the Government Communications Security Bureau. It resulted in the resignation of Parliamentary Service’s General Manager, Geoff Thorn. We asked whether the service had apologised for the release of personal information, and heard that the Acting General Manager had apologised verbally to the Privileges Committee, and the previous General Manager had apologised verbally to Hon Peter Dunne and Andrea Vance. The Acting General Manager told us that Parliamentary Service accepts the findings of the Privileges Committee in its interim report on the use of intrusive powers in the parliamentary precinct.

The service asked KPMG to review the service’s policies and procedures regarding access to, and the release of, information from the parliamentary information and security systems. The service has established an Information Governance Group to implement
KPMG’s recommendations, which include the development of an information management framework.

Remuneration

Support staff

We inquired about the remuneration of members’ support staff from 2008 to the present, and learned that between 2008 and 2011 the average increase was 4.16 percent. There has been no increase since 2011, and the service is currently negotiating with PSA delegates on the collective agreement for members’ support staff. We will continue to monitor developments in this area.

Severance and redundancy payments

We noted that 27 redundancy, severance, or other termination packages were paid out in 2012/13, including two of between $90,000 and $119,999. We sought clarification on how anyone could be entitled to such a large payment, and heard that staff members with long service (over 20 years) might be eligible for such a payment, but that individual situations are analysed very carefully before payments are made.

Release of bank account details

We were concerned to hear that nine members of Parliament had had their bank account details sent to Vodafone, and asked how this had happened. We were informed that it had been caused by an electronically generated system error. A manual system is now being used to stop this happening again, and the service has formed an internal group to improve risk awareness. We urged Parliamentary Service staff to inform MPs by phone if such situations occur, even if members are overseas at the time.

Capability

We commented on the high dollar value of contracts commissioned by the Parliamentary Service, and heard that the service is a small agency with necessarily limited capability. We recommend that the service discuss with the State Services Commission the possibility of seconding staff from other public-sector agencies to secure necessary capability.

We asked whether the service has the capability to respond to the findings of the Privileges Committee in its interim report on the use of intrusive powers in the parliamentary precinct. The service is drawing on the expertise of the Office of the Clerk, and is confident that the findings can be responded to internally.

Customer service

We asked whether the service looks at other organisations’ customer service. We heard that the Parliamentary Service aspires to be as good as the best, and looks closely at private-sector organisations, like Kiwibank. The service recognises there is room to improve its customer service, particularly in the finance and human resources areas, and it acts on issues raised in its customer satisfaction surveys.
Appendix

Approach to financial review
We met on 4 December 2013 and 29 January 2014 to consider the financial review of the Parliamentary Service. We heard evidence from the Parliamentary Service and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Chris Auchinvole
Kanwaljit Singh Bakshi
Hon Trevor Mallard
Mojo Mathers
Eric Roy

Evidence and advice received
Parliamentary Service, Responses to written questions, dated 4 December 2013 and 17 January 2014.
Organisation briefing paper, prepared by committee staff, dated 3 December 2013.
2012/13 financial review of the Ministry for Primary Industries and of the non-departmental appropriations for Vote Primary Industries and Vote Food Safety

Report of the Primary Production Committee

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Ministry for Primary Industries, and non-departmental appropriations for Vote Primary Industries and Vote Food Safety

Recommendation
The Primary Production Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry for Primary Industries (MPI), and has reviewed the reports on the 2012/13 non-departmental appropriations for Vote Primary Industries and Vote Food Safety; the committee recommends that the House take note of its report.

Introduction
The Ministry for Primary Industries works with New Zealand’s agriculture, fisheries, food, and forestry sectors among others to promote sustainable management of New Zealand’s agriculture, forestry, fisheries and biosecurity interests.

The ministry is an amalgamation of the Ministry of Agriculture and Forestry, the New Zealand Food Safety Authority, and the Ministry of Fisheries; it became the Ministry for Primary Industries on 30 April 2012.

Financial performance
In the 2012/13 financial year, the ministry was funded through Votes Primary Industries and Food Safety. In 2012/2013 its total revenue was $380.872 million, and its total expenditure was $375.869 million. The agriculture, food, forestry, and fishing industries generated approximately 70 percent of New Zealand’s merchandise export earnings, and around 12 percent of GDP in the year to 31 March 2013.

The Office of the Auditor-General rated the ministry’s management control environment and financial information systems and controls as “good”, noting a significant change in MPI and steps taken in response to problems with meat exports to China. But it assessed its service performance information and associated systems and controls as “needing improvement”. All the ratings achieved were the same as those in 2011/12.

Non-departmental appropriations
The Vote Primary Industries non-departmental appropriations expenditure was as follows:

- Afforestation Grant Scheme, $5.36 million.
- Management of the East Coast Afforestation Grants Scheme, $0.889 million.
- Climate change research, $8.281 million.
- Global Research Alliance on Agricultural Greenhouse Gases, $1.955 million.
- Primary Growth Partnership, $37.161 million.
- Sustainable Farming Fund, $7.759 million.
• Irrigation Acceleration Fund, $5.994 million.
• Control of TB vectors, $30.85 million.

The ministry’s income from the management of Crown forestry assets was $124.584 million, against expenditure of $94.682 million.

Non-departmental expenditure under Vote Food Safety was $2.1 million, which covered the development by Food Standards Australia New Zealand of joint food standards, codes of practice, and guidance material in accordance with the Joint Food Standards Setting Treaty.

Performance since the merger

We heard that in the 18 months since its inauguration the ministry has made progress towards its goals of completing its strategy for 2030, with an aim of doubling exports of primary products by 2025. During the past year, the ministry has accomplished the following:

• The continued growth of the Primary Growth Partnership, with a recent agreement with the wine industry for research and development on low-calorie wine, with large domestic and export potential.
• The signing of new trade agreements with Taiwan and the separate customs territories in China.
• The development of an 18-month foot and mouth preparedness programme, part of significant developments in the way MPI and stock industry organisations are prepared for emergencies.
• The progressing of government-industry agreements on biosecurity preparedness.
• The development of an action plan to address shortcomings in the certification of exports to China by July 2014.
• The development of a market recovery plan to assure consumers following the Clostridium botulinum scare in whey products.
• Planning for the introduction of a stakeholder advisory group comprising primary sector businesses and organisations.

Ministry resources and focus

Following recent certification incidents with China and a suspected botulinum scare, there has been much speculation about the adequacy of resourcing in industry groups and MPI. We asked for the ministry’s view on this issue, and heard that it considered current resourcing adequate to deal with normal business, and with the immediate implications of these recent issues. We were told that local resources in China were being increased, and that the ministry can send additional personnel if necessary to deal with fallout from issues arising.

The ministry attributed such problems to failure to foresee the rapid, dramatic increase in exports to China following the signing of the free trade agreement and to ensure that the
regulatory and support environments kept pace. However, MPI is confident of its ability to act upon the lessons learned and to meet these expanded requirements. For China and other markets in the region, MPI has doubled its export team, which concentrates principally on meat and dairy products as the primary exports for New Zealand, but can also cover markets for other products. The ministry recognises, however, the need to plan for expansion and to maintain the right alignment and competencies to respond to changing markets and needs.

We asked if MPI’s range of responsibilities was too broad. The ministry agreed that its area was very broad, but considered it manageable; it was suggested that if the marketing of primary production were to be fragmented as it was previously, the synergies achieved in places like China would not be possible.

**Forestry**

Some of us have a view that for some areas of primary production, such as forestry in particular, MPI is failing to ensure that New Zealand realises expected values. We asked about the ministry’s priorities in such areas. We were told that it was seeking better engagement with domestic and international stakeholders; and it assured us that it was well aware of issues in the forestry industry. We also heard that it had no intention of reducing its emphasis on forestry.

We were told that the total value of New Zealand’s primary-sector exports increased by an annual average of 6 percent in the 10 years to 2013, to $32.4 billion. Forestry exports increased by an average of three percent per annum, half the annual average for all sectors, over the past decade, and have now reached $4.5 billion, due mainly to the export of logs. This growth occurred despite the global financial crisis, which significantly reduced international trade volumes, and the strong New Zealand dollar. Log exports increased by an annual average of 15 percent in the ten years ending June 2013, to $1.9 billion, driven by increased demand from China.

We asked about the effects of changing tariffs on exports to China generally, but with particular reference to forestry products. We heard that New Zealand’s forestry exporters face a complex array of tariffs in specific markets and on particular product types. While recent trade agreements have reduced the tariffs on value-added forestry products, they still represent a material constraint on trade to some countries. The situation is further complicated by the fact that many export destinations, especially in South East Asia, have domestic logging bans, which increases their need for imported logs.

We heard that tariffs on value-added forestry products such as sawn timber and panels have fallen over the past decade, and exports have declined in value over the same period. We heard that the statistics disguise increases in New Zealand’s sawn timber and panel exports to some markets.

It is a concern to us that the value of processed forestry exports has not risen in line with that of logs. Overall, the decline in forestry tariff rates has not resulted in an increase in exports because other factors have outweighed the impact of lower tariff rates. In particular, demand for timber and panels in many of New Zealand’s traditional export markets have been subdued since the onset of the global financial crisis in 2007.

**Primary Growth Partnership**

We have noted the continued growth of the Primary Growth Partnership (PGP) has been noted by the committee and we asked if the ministry can assure us that the funds allocated
to these ventures was being wisely allocated and monitored. MPI said it has full confidence that the funds are being allocated correctly, with sufficient checks and balances in the auditing process. However, we remain concerned about the lack of feedback on the progress of projects, and of the planned quarterly reports. We were told that in recent months the ministry has recognised the need to improve the transparency of the PGP, and is aware of the many questions being asked. We were assured that the ministry had seen nothing to suggest that any current or approved projects were in trouble or failing; all PGP funding allocations were approved by the director general and the board, and the minister was informed of each project.

Some of us feel that some of the PGP partnerships are a subsidy for existing business, but we were assured that government funding through the PGP is driving high-level research which could confer advantage on New Zealand in large and expanding markets. It is doubtful whether there would have been such an impetus without this funding which allows innovation in those areas that are assessed to be of most potential benefit to the country. The scheme is regarded by the ministry as greatly benefiting innovation in the sector, although it is recognised that some projects may not be successful, or as successful as envisaged.

We expressed concern that although the PGP may benefit the New Zealand economy overall, forestry and fisheries are insufficiently visible to politicians and ministry staff, and these industries felt unable to work beneficially within the scheme. We were told that the ministry is aware of this issue, and is willing to encourage participation in order to help increase exports and employment in these sectors. In order to fully explore points raised on this issue, we asked MPI to provide a comprehensive briefing on Māori agribusiness at a future date.

The committee notes that the Auditor-General is currently conducting a comprehensive enquiry into the PGP scheme, and we look forward to hearing the results of this enquiry.

**Biosecurity issues**

We are of the view that the importance of biosecurity for the viability and growth in the primary sector is of paramount importance.

**Government Industry Agreements**

The Government Industry Agreements for Biosecurity Readiness and Response set out categories of response to various types of incursions. The agreement provides an opportunity for industry groups to identify the biosecurity risks of greatest concern to them, and to invest jointly with the government in managing them. We asked for an update on the success or otherwise of this process. We were assured that the agreements were working impressively well, after initially mixed success. Most of the 32 industry groups were now showing interest in engaging in these agreements, recognising that government cannot act effectively in isolation. The ministry stressed that biosecurity was a whole-of-nation responsibility, and it aims to coordinate the intelligence obtained from many sources to ensure early advice of threats. Intellectual property concerns were taken into account by these agreements, and there now seems to be more willingness by industry to share intellectual property as a result.

We were concerned by a perception that the government is seeking to “impose” agreements on sectors and that some small sectors will not be in a position to engage in an
agreement. The ministry is very confident that any outstanding issues will be resolved and
the finalised process will accommodate concerns.

We asked how the ministry was engaging with industry on improving border security, and
heard that a border advisory group has been set up. It has discussed matters of concern
such as the importing of beef from Canada. We were assured that there is a robust process
in place to answer industry concerns once they have been notified; in many instances
imports have been stopped until the overseas supplier has proved that their product is not
contaminated with threat organisms. The ministry is confident that concerns such as that
raised by onion growers about Chinese garlic imports were not ignored, but acted upon
and followed up. We heard that this incident was reported for review of the risk of exotic
flies in the imported garlic. No further notifications were received, and with no evidence
of wider incursion, no further action was recommended.

The ministry has been in communication with China since the reported detection of the
garlic fly. China has traced the infected consignment, and suspended a treatment facility. Its
assessment of the risk involved will contribute to the ministry’s review of phytosanitary
measures in the relevant Import Health Standard.

Some of us were concerned that the ministry had not reacted with enough vigour to certain
biosecurity incursions including Theileria orientalis, which causes anaemia in cattle, and the
Great White Butterfly which is a threat to commercial and home-grown brassica crops.
This lack of action could result in the heavy use of chemical pesticides, and even export
trade problems. We were told that the Ikeda strain of T. orientalis which is causing most
damage is still being investigated, and the ministry suggested that it would be difficult if not
impossible to eradicate. We were assured that there was a comprehensive action plan to
help farmers to manage the problem, and that the ministry was acting appropriately to
ensure the safety of one of the country’s largest export earners. Some of us feel that the
ministry could have eradicated this strain if it had acted more decisively at an earlier stage.

Theileria orientalis

MPI’s overall response to Theileria orientalis was to gather as much information as
possible on the effects of the disease, its risk factors, and how they might be reduced, and
make the information available to the industry to manage on its own behalf. During May
2013 the ministry provided situation reports and impact assessments for discussion with
industry, and conducted a communications campaign to inform farmers on awareness and
disease management. All cattle farmers registered on the National Animal Identification
and Tracing database were given an information sheet, and information was also provided
to Beef and Lamb and Dairy New Zealand to pass on to their members. Vets were
provided with information on tick distribution and activity.

The Great White Butterfly

We heard that the Great White Butterfly was the subject of study by an independent
advisory group, which will report on 12 December 2013 on the management of the
problem and whether the current programme will be effective in the long term.

Black grass

We noted that another biosecurity issue centred on the eradication of black grass, a
seriously invasive plant. More than 2000 seeds of the invasive weed were spilt from a
vehicle between Ashburton and Methven on 3 July. Black grass, also known as slender
meadow fox tail, affects winter crops in Europe and could harm New Zealand agriculture
by competing with winter crop production. This could reduce yields and increase cultivation costs, and may affect the purity of seed lines, which would affect seed markets internationally.

The ministry said it was managing the problem with partners from industry. A robust investigation into the seed spillage was continuing, but so far there have been no prosecution. No germination of the seed has yet been discovered and the ministry cannot comment on the likelihood of eventual prosecution. Valuable lessons have been learned from this incident and we were told that the ministry followed the correct procedures in dealing with the matter.

**Sustainable Farming Fund**

The Sustainable Farming Fund invests in projects led by farmers, growers and foresters that deliver economic, environmental and social benefits. We noted that the fund was reviewed in 2010 and another review is now being carried out. We were told that the first review found that the fund was delivering tangible benefits to the farming community. The current review is seeking to ensure that the fund is continuing to do this, and that its administration is efficient and effective so that benefits are delivered where they are most needed. For example, work on eradicating Chilean needle grass has been well received by the farming community.

**Marlborough fisheries**

We raised the issue of resource consents for Marlborough fishermen quota owners. We were told that MPI was well aware of problems caused by the Marlborough District Council requiring consents, and was holding discussions with the fishing community and the council, to make sure that the concerns highlighted by the fishing community are addressed. We heard that the ministry has been discussing water quality issues with the council to ensure that everyone who has an interest is informed. An MPI-administered aquaculture fund is currently being used to ensure that all stakeholders have a good understanding of water quality issues, and any further aquaculture development.
Appendix

Approach to this financial review
We met on 5 December 2013 and 30 January 2014 to consider the financial review of the Ministry for Primary Industries and of non-departmental appropriations for Votes Primary Industries, and Food Safety. Evidence was heard from 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
Minister for Primary Industries, Response to committee questions, received 5 and 20 December 2013.

Office of the Auditor-General, Briefing on the Ministry for Primary Industries, dated 5 November 2013.

Organisation briefing paper, prepared by committee staff, dated 14 November 2013.

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Department of the Prime Minister and Cabinet

Recommendation
The Government Administration Committee has conducted the financial review of the 2012/13 performance and current operations of the Department of the Prime Minister and Cabinet (DPMC), and recommends that the House take note of its report.

Introduction
The Department of the Prime Minister and Cabinet’s core role is to provide impartial advice and support to the Executive (the Prime Minister, the Governor-General, and the Cabinet). It is also one of three central agencies responsible for coordinating and managing public-sector performance, and particularly New Zealand’s intelligence system, national security priorities, and crisis management.

The Department of the Prime Minister and Cabinet received a rating of “good” from the Office of the Auditor-General for its financial information systems and controls, and its service performance information and associated systems and controls. It received a rating of “very good” for its management control environment.

The department is funded through Vote Prime Minister and Cabinet. Its total revenue in 2012/13 was $20.771 million and its total expenditure $20.49 million, resulting in a surplus of $281,000.

Resourcing
We note that the department’s Performance Improvement Framework report concludes that the DPMC is under-resourced, particularly for its national intelligence and security role. We asked about the resource implications of large pieces of work, such as the Henry inquiry and legislation on the Government Communications Security Bureau, and how resourcing issues had been addressed. We heard that the department was recruiting for the new position of Deputy Chief Executive Security and Intelligence to provide leadership and coordination of the national security system, as recommended by the Performance Improvement Framework review’s report. To cope with a demanding policy programme during the year the DPMC also strengthened its intelligence policy function, seconding staff from the Ministry of Justice and the Ministry of Foreign Affairs and Trade.

Henry inquiry
We asked what the DPMC had learned from the Henry inquiry into the leak of the Rebecca Kitteridge report on compliance at the Government Communications Security Bureau. The department was awaiting Parliament’s Privileges Committee interim report on the use of intrusive powers in the parliamentary precinct, which has since been presented. We wanted to know if the DPMC had developed guidelines for dealing with information involving the media, and what the appropriate authorisation would be for DPMC to access a private email. We were told that the department does not have access to the emails of people in the Parliamentary complex other than those sent to and from the DPMC’s own ICT system. Information held on this system is managed according to statutory requirements, and in particular the Privacy Act 1993, the Official Information Act 1982, and the Public...
Records Act 2005. The chief executive said that the department treats the Press Gallery’s and individuals’ privacy with utmost respect.

**Delay of CabNet project**

The CabNet project to replace the Cabinet’s current paper-based document system with a secure electronic platform has been delayed. We heard that the project was paused in June 2013 following a review of increasing costs. It was found that the original business case had underestimated the scale, scope, and complexity of the project. A revised business case is being finalised, with updated cost estimates for the development, delivery and support of the project, and discussions are being held with ministers.

**National Security Framework**

We asked about the National Security Framework, and heard that DPMC takes an “all hazards” approach to national security, examining risks and hazards of all kinds from cyber risk to natural hazards, with the objective of improving New Zealand’s resilience and response. The department’s role is to orchestrate and coordinate, while the lead is often taken by other agencies, and to share lessons learned.

A National Cyber Policy Office was established in July 2012 to lead the development of cyber security policy for the public sector. In May 2013 it led the second national cyber security awareness week. We will follow with interest the work of this office.
Appendix

Approach to financial review
We met on 13 November 2013 and 29 January 2014 to consider the financial review of the Department of the Prime Minister and Cabinet. We heard evidence from the Department of the Prime Minister and Cabinet and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Chris Auchinvole
Kanwaljit Singh Bakshi
Hon Trevor Mallard
Eric Roy
Mojo Mathers

Evidence and advice received
Department of the Prime Minister and Cabinet, Responses to written questions, received 11 December 2013 and 17 January 2014.

Office of the Auditor-General, Briefing on the Department of the Prime Minister and Cabinet, dated 13 November 2013.

Organisation briefing paper, prepared by committee staff, dated 11 November 2013.
2012/13 financial review of the Serious Fraud Office

Report of the Law and Order Committee

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Serious Fraud Office

Recommendation

The Law and Order Committee has conducted the financial review of the 2012/13 performance and current operations of the Serious Fraud Office and recommends that the House take note of its report.

Introduction

The Serious Fraud Office was established as an operational department by the Serious Fraud Office Act 1990. It is a specialist law enforcement agency, which detects, investigates, and prosecutes serious and complex financial crime. In 2012/13 its total income was $10.26 million, and its total expenditure was $10.21 million, resulting in a net surplus of $54,000.

Global financial crisis

We asked the Serious Fraud Office if it expects a reduction in capacity as its budget is reduced following the global financial crisis. It said the crisis resulted in a large volume of urgent work, and the office has found it difficult to predict its workload as the situation returns to normal; but it expects the number of referrals to fall to the level preceding the crisis, and early signs are that this is happening.

The office intends to manage the budget cut by reducing what it believes is spending on non-essential services first. It does not intend to reduce its staff, who are experienced and not easily replaced. It is intending to save on rent by housing its entire staff on one floor, quitting the other partial floor of the same building that it currently occupies. It intends to manage its workload more strategically, adjusting its tactics to the nature and scope of the cases it receives. It anticipates being slightly better resourced than it was before the crisis.

Some of us expressed concern, however, that preventative work might lessen as a result of resource constraints.

The office is confident on the basis of experience that in another such crisis it would be given the resources it needed.

Fraud in Canterbury

The office has previously said that the rebuilding in Canterbury represents a sizeable opportunity for fraud. To prevent fraud, the office has begun to educate people proactively about the kinds of fraud that are likely in that environment. In June 2013 it hosted a seminar to raise awareness of potential financial crime involving the rebuild. It monitors complaints and receives intelligence from Canterbury. A bid to the Justice Sector Fund for money for intelligence and investigation was unsuccessful.

The office continues to prioritise cases from Canterbury, moving quickly to preserve assets upon receipt of a complaint. About 85 percent of investigations are completed within six to twelve months (which compares favourably with international counterparts) in Canterbury, and elsewhere in New Zealand.
South Canterbury Finance

We asked the office whether it had suffered any damage to its reputation following the public announcement that two of the five defendants in the South Canterbury Finance case were to have charges against them dropped because the office failed to consider key evidence. The office could not answer this fully, as the case is still before the courts, but it did not consider this necessarily a reflection on the efficacy of the investigation. It examines every case at its conclusion to see what can be learned from it.

Staff and resources in Canterbury

The office does not have staff permanently in Canterbury, but holds regular meetings there, and sends staff there for investigations. It considers it more efficient for a small office to have its staff in one place; duplicating the resources elsewhere would be expensive. Forty percent of its cases are in Auckland and 60 percent in the upper North Island.

Proportion of reported cases investigated

The office investigates six percent of the cases referred to it; it said this does not reflect any lack of capacity or capability. Some cases fall below the threshold for investigation and are referred to other agencies; some are without substance or out of jurisdiction. It does not believe that any cases were not investigated for budgetary reasons that should have been. The office said it takes a strategic approach when prioritising cases, prosecuting some of lower value for purposes of deterrence.

Against a target of 20 self-initiated evaluations per year, in the year under review the office initiated 24. Its evaluations team, which determines whether matters merit investigation, is separate from its investigations team, so evaluations will continue regardless of the number of complaints under investigation, or any reduction in budget.

Deterrence

The office told us that research has shown that white-collar offenders are more deterred by the threat of imprisonment than by financial penalties, and ongoing financial penalties can be ineffective if the offender has no capacity to pay them. In the course of its investigations it examines the availability of assets, and assists the Police asset recovery unit where necessary. It has no capacity to access family trusts, for either reparation or repayment purposes, so offenders can hide assets in them.

Financial literacy

The office said it thought that increasing general financial literacy and education would help prevent fraud, by making the public better able to recognise fraudulent approaches. It cautioned, however, that people in general trust financial advisers as experts, and will often accept advice they do not fully understand.

The office observed that recent amendments to the law regarding financial advisers aimed to ensure people received clear and concise information about their investments, but could not ensure they understand it.

Reviews

We asked the office when we would be able to examine its performance improvement review and its efficiency review, both of which were due before the end of the year and have Budgetary significance. It said the final report of the performance improvement
review is intended to be ready at the end of March 2014. The expenditure report will start after the performance improvement review is largely completed, and will probably be made available in April 2014.
Appendix A

Approach to financial review

We met on 4 December 2013 and 29 January 2014 to consider the financial review of the Serious Fraud Office. Evidence was heard from the Serious Fraud Office and advice received from the Office of the Auditor-General.

Committee members

Jacqui Dean (Chairperson)
Jacinda Ardern
David Clendon
Hon Phil Goff
Hon Todd McClay
Ian McKelvie
Mark Mitchell
Richard Prosser
Lindsay Tisch

Evidence and advice received

Serious Fraud Office, Responses to written questions, received 29 November 2013 and 29 January 2014.

Serious Fraud Office, Output Plan for the period 1 July 2012—30 June 2013

Office of the Auditor-General, Briefing on the Serious Fraud Office dated 4 December 2013.

Organisation briefing paper, prepared by committee staff, dated 4 December 2013.
Appendix B

Corrected transcript of hearing of evidence 4 December 2013

Members

Jacqui Dean (Chair)
Jacinda Ardern
Shane Ardern
David Clendon
Hon Phil Goff
Hon Todd McClay
Ian McKelvie
Mark Mitchell
Richard Prosser
Lindsay Tisch

Witnesses

Graham Gill, Serious Fraud Office
Julie Read, Serious Fraud Office

Good morning. Welcome to the Law and Order Committee. [Introductions]. We are being webcast for this examination, which means that there is a camera sited behind you there. The camera will not move. If you look behind Ciara’s shoulder or Diana’s shoulder, you can see the shot that’s going out there live. This is being done with the agreement of the committee. It’s a bit of a pilot to see how it goes.

So thank you for coming. We’ve set aside an hour for this examination. If you would like—particularly since you are new in the role—to give us, perhaps, a few minutes’ introduction, and then we will go into questions.

We have, obviously, answered the set questions, and I won’t seek to canvass those any further. You’ll all be aware that I’ve been in office since 21st November—I keep saying that; it just seems like that—21st October. I’m delighted to say that I’ve found an office of very highly skilled, professional, and dedicated staff, who I think have an enviable record in the work that they do, in particular, most recently, in the GFC financial company prosecutions. That doesn’t mean, of course, that we don’t look forward to improving what we do and seeing how best we can serve the New Zealand public. To that end we are engaging in two matters immediately. One is our Performance Improvement Framework assessment, and an expenditure review.

The expenditure review will, in part, be relevant to an anticipated reduction in our budget from approximately $10 million to $7.5 million. That’s a consequence of the completion of the financial company prosecutions, for which we were given $7.5 million over 3 years. That tranche of work has
been completed, and the funding, therefore, is not continuing. However, we anticipate that the PIF will give us some valuable information that we can use to improve what we do and to see what’s coming in the future. Thank you.

Dean So, that is all you would like to say in the meantime?

Read That’s all I’d like to say at this stage.

Ardern Thank you very much. I want to start by going back to—I think it was the annual report in 2012—where you stated, well, at that time Adam Feeley stated, that the Serious Fraud Office would complete the first ever cost of economic crime report. I think much was made of the work that the Serious Fraud Office was going to do in that regard. I was wondering if you could give us an update on that work, the work that was being done to quantify the cost of economic crime in New Zealand.

Read I know that the work has been completed, but beyond that I’m afraid it’s not something that I’ve come to grips with at all in my time in office. If there’s particular information that you’d like about that, of course we can provide it after this session.

Dean Actually, if I may—because I think it’s a very good question—the SFO did indicate to us that there was a report coming in the early stages of 2013 and that it would be made available to our committee if it were made public. That would be helpful to see that, wouldn’t it?

Ardern It would, but in the interim—because I’m aware that, obviously, as you say that you believe the work has been completed. I accept that it hasn’t been publicly released yet. But what then was the figure that was established through that work? What is the cost of economic crime in New Zealand?

Read I don’t know the answer to that, myself.

Ardern I know it’s been bandied around internally in some presentations where the Serious Fraud Office has been presenting.

Read I’m sorry. I beg your pardon—I’m sorry. I’ve just checked with my colleague, and I apologise for the fact that I probably need to do that in response to some of the questions this morning. The report hasn’t been released yet. It’s gone to justice for review, and I don’t know at this stage when it will be released. On that basis I don’t feel that I can disclose the content of it.

Ardern Do you have a time line for release?

Read I don’t, but I can come back to you about that.

Ardern That would be very helpful, because my understanding—it was completed at the end of last year. So that would be—

Dean Jacinda, do you want to park that thought and we’ll have a discussion about where we might want to take that—

Ardern Yes, I would be very much interested in both the stage and completion date.
Dean All right, OK. So we’ll—maybe we’ll write a letter coming out of this, asking for further information. So we will be following up on that.

Ardern I’ve got a number of other questions. I’ll come on to a second one because I think then it might lead on to your one a little bit. Obviously, regardless of where we come to on the exact cost, we know that it’s significant and something, of course, that we should be concerned about.

You’ve talked about the boost in funding that you received for some specific, I guess, periods of time—the GFC, in particular—that enabled you to beef up the work that you were doing. My understanding is now that you’re facing what is essentially a 25 percent reduction in budget, I was wondering if you could tell me, though, what that reduction represents in real terms, because you will have fixed costs, I imagine. What reduction are you thinking this will have in terms of your capacity? Are you anticipating a loss of staff; if so, how many?

Read Yes, you’re correct. It’s approximately 25 percent of our budget. Our early figures would indicate that the number of referrals that we’ve had have reduced to at this stage—and it’s very early—approximately pre-GFC levels. Having said that, the GFC was unusual, because it was a big event that caused a whole lot of things to fall over all at once, which might otherwise have fallen over in sequence over a much longer period, as Ponzi schemes and other similar ventures do.

So we had that big load of work that we had to complete in a short time and that was very unusual to have to—

Ardern Why, then, did you make a Budget bid in 2013 for ongoing funding, if that funding wasn’t needed?

Read Well, at that stage I guess it hadn’t been plain to start with—that the referrals would fall back to pre-GFC levels. I think it’s fair to say. To an extent, while I have some brief understanding of the Budget bids which were made, I’m really not in a position to second guess Mr McCarley, who was acting in my position, beyond his anticipation that the workload would continue.

So having said that, and to go on to some of the other parts of your question, I think there will be a number of strategies that we will adopt, and, in part the PIF review and the expenditure review will assist us in determining exactly how we’ll go about that. Of course, the expenditure review may also indicate that we ought to not lose $2.5 million or that that’s an appropriate figure. Certainly, I understand that the expenditure review will look very closely at what’s appropriate for the office.

In terms of where we’re going to cut, we’re obviously looking to cut non-essential services and aspects of our budget first. By that I mean not the people first. Obviously the people in the SFO are our greatest assets. Their expertise is not easily replaced and they’re what we need to do our job.

Ardern What are the non-essential services of the—
Read

Non-essential services in aspects of our budget—we’re just looking to see if we can reduce rent. So, for example, at the present time we’re occupying two floors—or not two floors, one and a bit floors of the building that we’re in, in Zurich House in Auckland. We’re looking to see if all of the staff can be housed in the one floor, so we’d reduce rent by an amount over a number of years. I don’t know the precise amount. We’re also looking at how we might manage our work. So if there is additional work, whether we can be more strategic in a way that we take things on. For example, that might include where there’s a number of relatively low level cases—we might do two of six in an effort to deter others from conducting themselves in the same way. But also we might employ some non-actual prosecution responses to some of those things. That’s something that we’d need to discuss with the Justice and Electoral Committee.
So we’re looking to do our work more strategically, a bit smarter, and keep as many people as I can.

Ardern But it might mean having to pick and choose the cases that you focus on.

Read Yes, but some will choose themselves, so I wouldn’t expect that we would—a big matter of importance would not be put to one side as a consequence of any reduction in our budget. I certainly don’t anticipate that that would be the case.

Mitchell Just a very quick supp. on that. You definitely moved into a contingency type of environment with the GFC, and you needed the additional funding without a doubt. I’m sure that your planning was around—you knew that that would be for an infinite period of time, and then you’d moved back into sustainability. So when you’re looking at cases and you’re prioritising them, is anything going to change to how you prioritised cases before the GFC and how you’re going to prioritise cases now? So are you going to be able to prioritise in the same way, and have you got the same resources or will you have the same resources available to you that you had prior to the GFC in that contingency type environment?

Read My present anticipation is that we will have slightly more resources than pre-GFC, even with a reduced budget. I think it’s fair to say that the way in which we prioritise cases probably changed at the beginning of the GFC overall—not just for those GFC cases—and I’d anticipate that that foundation would continue, but we may have to adopt some additional tactics depending on the nature and scope of the cases which come in.

Mitchell Excellent. Thank you.

Tisch Just a continuation of that previous—the nature of the complaints that you’re getting now, have they changed since South Canterbury’s gone? Has the nature of the complaints—you’ve said there’s less referrals now—become more serious or are they of a similar vein, and what impact has the Financial Markets Authority had in the recently passed legislation on money laundering, which Parliament passed recently? Is that going to impact on the way that you operate in the future?

Read I’ll ask Mr Gill to respond in relation to the nature of the complaints we’re getting. But if I might first say, with regard to the FMA, that we work very closely with the FMA. The FMA is an agency that obviously has a greater jurisdiction than the Securities Commission did previously. But we’re looking in a way to leverage our collective resources in order to address a broader range of misconduct.

Obviously, the FMA has largely a regulatory mandate to regulate its population in the misconduct, which affects their governance of the markets. From our perspective we are more interested in the fraud and corruption sides of things, plainly.

So I would expect that while we would still be collaborating with the FMA, it wouldn’t necessarily reduce the number of cases or the type of cases we’re doing. It would just mean that both agencies would collaborate more on more cases, and make sure that we’re maximising our resources in doing so.
In relation to the complaints—

Gill In relation to complaints over the last couple of years, we’ve actually seen a significant increase. We’ve gone from around about 200 to around about 430-ish complaints a year. It tends to be more of a volume increase, necessarily, than we’ve seen any increase in, for example, a bubble of finance company complaints or investment advisers or the like. My observation is we are starting to see more corruption and bribery – related complaints, often at a lower level, than we have in the past.

Goff First of all, Julie, congratulations on your appointment and welcome to the job.

Can I ask, firstly, a couple of quick-fire questions that came out of the questions asked by my colleague Jacinda. The efficiency and the performance improvement reviews—they were due before the end of the year. When do you think we might be able to have access to those?

Read We’ve only just started the PIF review this month. I understand that in the normal course of events that means that we would expect a final report in about March.

Goff OK.

Read We’re aiming to have the expenditure review kick off probably after we’ve gotten through the major part of the PIF review work, and that will also be due before the end of the year. But I would hope in about shortly after the PIF report came out—in maybe April.

Goff OK. But it’ll be important to have those reviews out and analysed before you put your Budget bid in, which would normally take place in February.

Read Yes. With the PIF review, of course, there’s nothing to prevent us from adopting some efficiencies and recommendations before the report’s actually published, should that become obvious that that was the appropriate way to proceed. As I said, we will be looking to have the expenditure review kick off as soon as we can after that majority of the PIF review work’s been done. We’ve been looking at setting that up, ready to go. So it’s not that we’ve done nothing about it; I’m just not in a position at the moment to say precisely when we might get that. And you’re right. If February’s when the budget estimates are required, then we may need to push that on.

Goff The second supp. was just—you said that you’re losing 25 percent of your budget, which is big. You said you’d try and cut back on the non-essential items, but my guess is that personnel would be a very high percentage of your total expenditure. What percentage of your total budget is expenditure on personnel?

Read I’m not sure that I know the answer to that, other than what’s represented in our response to the questions in terms of staff numbers.

Goff I don’t think that figure appears in those answers.

Read It may not. I’m sorry.
Could we have that in writing? Do you want that in writing?
Yes.
Yes, certainly.
Could you provide us with that.
Certainly.

I think you see the significance of the question is: if you’re cutting 25 percent of your budget, you’re going to be losing staff, nothing surer, which means you’re going to be losing capacity. Now, the substantive question is this: in the glossy annual report, which is a bit like a company report in a way, the assessment of the SFO of itself is pretty glowing. In fact, I think Simon McArley said: “Stakeholders give us 7.7 out of 10.” But one of your predecessors, Adam Feeley, said in relation to the South Canterbury Finance case that this was—I can quote, actually: “The value of fraud alleged to have been committed exceeds anything in the history of white-collar crime in New Zealand.”

So it was big, and he said it was the most resource-intensive and time-consuming inquiry in recent history—so, really big, throwing the resources into it, yet we find that before the trial process even begins two out of five of those who were to be defendants have had the charges against them dropped, allegedly because the Serious Fraud Office “failed to consider key evidence”. That’s not a seven out of seven score; that’s a very poor track record in a very important case. You’re new to the job, but can you give us an explanation as to why the Serious Fraud Office has clearly not done an effective job before bringing charges against five key players in South Canterbury Finance?

First, I don’t feel that I can comment on that case because there are three cases still before the court to be run in a very big trial, in which trial the conduct of those defendants who have now been discharged will be part of the evidence, and it would be inappropriate of me to comment on the reasons why those charges were dropped and therefore, indirectly at the very least, on the conduct of those particular defendants.

Generally speaking, though, it’s not always the case that a prosecuting and investigating agency can understand the full import of everything that they have before them when they lay charges. A lot of evidence and information and understanding of a case is clearly within the province of the defendants themselves and not something that they are compelled, necessarily, to share with us. That’s not meant to be a comment on that case, for the reasons that I previously articulated, but it’s not necessarily, in my view, a reflection on the quality of the investigation. Sorry, the fact that two defendants have been discharged is not a reflection on the quality of the investigation or the decision to prosecute.

I appreciate the sensitivity of the case and I don’t want you to in any way intrude upon the ability to try that case, but I guess the general point I’m making is that the allegation is out there in the public that you didn’t consider—or the office rather than you didn’t consider—key evidence, and
yet this was the biggest case you’ve ever dealt with. Now, it’s not a good look, is it?

Dean: Look, I’ll just bring us to order here and just note that you are entitled, if you don’t feel you can answer the question, to decline to answer the question. And I believe the reason—well, I think I can anticipate the reason why you might decline to answer the question, but if you want to take that course, then I invite you to give us the reason for declining to answer the question. So the question’s been put.

Read: Thank you, Madam Chair. I don’t think I can answer the question more fully than I already have. I think in the interests of justice it’s important that these cases be brought before the court and that if we failed to do so, whether people are convicted or acquitted, or whether a case is properly withdrawn when it comes apparent to the prosecutor that the case can no longer proceed, it’s not in the interests of justice not to pursue these matters in the first instance, even if some of them don’t succeed. Beyond that, I would decline to answer because I don’t feel I can answer more fully without traversing the issues that will be before the court.

Goff: Sure, I understand that, but presumably in your efficiency review, looking back retrospectively on this, that will be one of the things that you will examine.

Read: We examine every case at its conclusion to understand what lessons we should learn from those cases—good and bad—and certainly that will happen with this particular case, and in so far as it is relevant it will be considered in the performance review as well.

Ardern: Thank you. I want to come back to another area that the Serious Fraud Office has flagged as being a potential risk area, and that is the Canterbury rebuild. I believe that you’ve proactively said that there’s an estimated figure of between $1 billion to $2 billion of potential fraud as a consequence of this rebuild, and that’s something that—I think even in 2012 you brought out an expert who talked about the need to be very proactive in preventing that kind of fraud. I wondered if you could share with the committee what you are doing to proactively anticipate that fraud and prevent it.

Read: That is addressed in part in a response to our questions—at question 151—thank you, Mr Gill. So there are a number of bodies that we set up very proactively to inform people about the sorts of frauds that might be perpetrated in this environment, to collect the collective wisdom of various entities that are involved, and we also, as you can see, in June 2013 hosted a seminar to raise awareness of potential financial crime in the rebuild. So we’ve done all of those. We very actively monitor complaints and actively monitor intelligence from Christchurch to understand the scope of potential fraud and the scope of the misconduct that all the agencies involved are seeing—and that answer goes across to the next page. I don’t know if you’ve had a chance to look at that too.

Ardern: I wonder, did you make any Budget bids in order to bolster the degree to which you are able to do a bit more than just form cross-sector, I guess,
collaborative meetings and hold seminars? Have you requested any funding to assist you with this work?

Read   I’m sorry, I’ll ask Mr Gill for that because I don’t know the detail.

Gill   In December—I think—2012 we made a bid to the Justice Sector Fund for an amount of money, looking at intelligence and investigative resources. That was unsuccessful.

Ardern   Any other bids?

Gill   Ah, no.

Ardern   OK, OK. And so how much was that for? Do you recall?

Gill   I would need to come back to you with the answer—

Ardern   Because I guess the point is that while I accept that there are a couple of little initiatives there, obviously in your minds, given you made a Budget bid around this area, perhaps you were taking on board what Peter Dent had said about being proactive. So have you been able, in lieu of not having that additional funding, to do any proactive data analysis at an operational level? Are you simply having to wait for complaints?

Gill   Look, what we’ve done is engaged with a wide range of the players in the market, both public and private sector. So a very good example is setting up an insurance fraud analysts’ working group. So we’re quite well connected and so we are becoming a lot more aware of the intelligence and the alleged misconduct that might be going on. So, obviously, in lieu of receiving additional money you need to work for smarter—

Ardern   And I’ve just got one last little—what would you have done with that Budget bid had you been successful?

Gill   The Budget bid was made to set up an intelligence function and some investigative resource, and that was to be shared between ourselves and the Police. So it was a joint agency approach.

Ardern   Right. It seems a shame.

McKelvie   So are you able to tell us whether in any way this inhibits—in the questions that have just been asked—your ability to act as quickly as you might wish to act on these sort of cases that are reported to you?

Read   In the sense that cases are reported to us, no, it hasn’t inhibited our ability to act. We give Canterbury rebuild cases quite a degree of priority in the office. So, certainly, they’ve been given immediate attention, and the resources have been allocated to them.

McKelvie   So can I just ask one more supplementary? So I noticed in your figures that you’re pretty timely on that sort of stuff, and in the targets you’ve set yourselves, you’ve achieved reasonably well. But I want to extend that beyond Canterbury. So in all cases that come to you, do you think you are able to act in a quick enough manner on pretty much everything you investigate, to prevent—what I’m getting at is there is a prevention of further damage, I guess.
Read Yes, so the prevention of damage is affected largely by the time at which the complaint comes to us, more so than the time it might take to investigate, which is not to suggest that the time to investigate can’t also have such an impact. But in my experience over about 20 years, these are very quick investigations that are conducted by the SFO. To conduct complex investigations within 6 and 12 months, which is the 85 percent of our cases are conducted in that time, is extraordinary compared to overseas experience.

McKelvie So I take it from that that triggering an investigation will temper the behaviour of the investigated?

Read Yes, and in certain circumstances, for example, in the Ross case, the FMA got preservation orders to ensure that assets weren’t further dissipated immediately the complaint came to light. So the timing affects that capacity to preserve assets as well as to deter further conduct.

Tisch I note that your staff are based in Auckland; you mentioned that earlier. In regards to Christchurch, where you’ve established a fraud prevention team, do you have anyone on the ground there, or are you just working out of Auckland, with the Police and other agencies—Commerce Commission and others—in Christchurch? What’s the relationship there, or do you have people on the ground in Christchurch?

Read We don’t permanently have people on the ground in Christchurch, but Mr Gill attends various meetings and as the previous acting director attended meetings. I haven’t had an opportunity to do that in my first 6 weeks so far, but, obviously, in the New Year that will be one of my priorities—to go to Christchurch and get an understanding of how those committees are working. And in addition to attending meetings we obviously send investigative staff down there in relation to operational matters.

Tisch In terms of having all your staff located in one location, Auckland, is that a best use of the resource, or do you think that you should have them more widely distributed—when the cases that you’re dealing with, the nationwide cases as opposed to, say, Auckland-based cases?

Read Certainly, we do deal with cases nationwide, and that will be one matter I should think that we will consider in the PIF, but my first blush view is that it’s probably more effective to have everyone in one place in Auckland because we’re such a small office. There are only 50 of us at the present time. We need a number of resources such as interviewing, transcribing. There’s a lot of things that go with that office, and to duplicate those in a number of different sites would be very expensive for us. As I say, subject to what might come out of the review, I think that that duplication is probably not warranted and it’s more efficient for us to be in one place.

Gill So if I could just add something. Around 40 percent of our investigations are in Auckland and around 60 percent are in the upper North Island, so—

Goff Just looking at the key activities that you’ve listed in the report, I notice that probably all the complaints you receive, you’re able to investigate maybe 6 percent. Now, I presume that you look at the cases that you believe that
you’re going to get a result from most effectively, because you’ve got to allocate your money. But I’m just thinking about Jacinda’s earlier question about the cost of economic crime and what we’re funding your office with. You’re going to go down to $7.7 million. The cost of the alleged fraud in South Canterbury Finance alone was $1.7 billion. So we’re talking about a drop in the bucket of the investment in your office compared to the scale of the frauds that you’re investigating. Now, if you were to be given a significantly increased—rather than 25 percent reduced—budget, what do you think you would achieve with that money in terms of dollars returned or saved in proportion to dollars invested in your organisation?

Read A number of questions there—perhaps if I could start at the beginning. The complaints versus the number of investigations that we begin are not a reflection of any weeding out of complaints with substance that ought to be investigated as a consequence of our limited budget. Certainly, there are a range of complaints. Quite a large number would be below our thresholds, for example, and they would be referred to other relevant agencies. So much of that work gets done but not by us. Some of it is found to be without substance. Some of it is, obviously, matters that we investigate, but certainly the large proportion of complaints that arrive are not within our jurisdiction or if they are within our jurisdiction are found to be below our limits—generally referred or without substance. So I think it would be fair to say that the size of our budget doesn’t result in important matters being not pursued.

If we had a bigger budget—sorry, the second question I’d like to address is in relation to the size of the frauds versus the size of our budget. I don’t think there is a correlation, to be honest. I think that it’s really a matter of expertise and having the appropriate number of people to do the investigation, and the sheer size of the money lost doesn’t necessarily correlate with that.

Goff Well, is that necessarily true? I mean, the bigger the fraud, the more you think—whereas a country might invest in pursuit of holding people to account for that, we spend a fortune chasing up beneficiaries who have wrongly claimed, stolen if you like, you know, $10,000. But in the cases that you’re dealing with, you’re talking about hundreds of millions of dollars. So surely wouldn’t you invest more in chasing perpetrators of alleged crime valued at hundreds of millions of dollars than tens of thousands of dollars?

Read I think it would be fair to say that we’ve not needed to have more invested, because we’ve been able to pursue, for example—and, admittedly, we were given that extra funding for the GFC, but we’ve been able to pursue all of these matters within the scope of our current funding. And, as I’ve said, I don’t believe that there are any significant matters that ought to have been pursued that were not, as a consequence of the size of our funding.

Mitchell Just a supp. on that because you made a very interesting statement earlier on in your submission to the committee. And you said that, actually, when you’re going through a prioritisation process, you may choose some cases that may not have a high dollar value attached to them. However, it will
send a very clear message out to everyone else that you are looking at this area and thereby you’re actually doing preventative work, and you could prevent that problem from becoming much bigger. So when you go through your prioritisation, it doesn’t necessarily need to have a dollar value attached to it.

Read That’s correct. And I would also say at the present time we have prosecuted most matters, as opposed to taking that more strategic approach to selection. But with the reduced budget that’s one of the options which is available to us—is to look at how, strategically, we might select some cases as an example to provide deterrents to others.

Ardern Yeah, interesting question there that my colleague has asked around complaint-driven investigation versus the degree to which you’re doing proactive work. Could you give us a sense of the division of your staffing time in investigating complaints versus the amount that you proactively seek out to prevent or investigate potential serious fraud?

Read We do self-instigate some of our investigations, some of our—

Ardern Can you quantify that for us?

Read And I’ll ask Mr Gill to respond to that, but I would also say that that’s a relatively new part of our work.

Gill Yeah, we have a target for self-initiated evaluation, which is 20 per year. We achieved 24 last year.

Ardern Twenty cases?

Gill No, 20 evaluations.

Ardern Oh, 20 evaluations.

Gill So that’s evaluating something to determine if it’s something that we should recommend an investigation of. I couldn’t tell you how many of those moved forward to investigations.

Ardern Will that continue with your budget cut?

Gill Yes. I would say, actually, that we would become stronger in that area—

Ardern How? I mean, you’ve just said that you’re going to have to forgo some complaints. You’ve said that you’ll use some as deterrents, but potentially won’t investigate others now as a consequence. So how will you actively continue that piece of work when you’re having to cut back on even complaint-driven investigations?

Gill The answer to that is because the evaluations are conducted in a separate team to the investigations. So they can deploy more resources to self-initiated work. Secondly, if and when the budget is reduced, we will still need to be very connected with the business and public sectors so that we’re able to detect and become aware of serious and complex fraud. So we actively need to engage more, arguably.

Ardern How many in that team, in that self-instigated—

Gill Five people in that team.
Mitchell

Actually, I wanted to come back to the line of questioning that Phil had earlier. And I just wanted to see whether or not there needed to be a correction in the perception here with the committee, because—obviously, the SFO has undertaken investigation, three individuals have been prosecuted, two for whatever reason. We don’t know the reasons yet because, as you point out, the prosecution is ongoing. But I’m just interested to hear from you. I don’t want the perception being left with the committee that you feel that there were gaps in the investigation; just that you undertook the investigation and you will review cases like this after the prosecution has finished. Is that correct?

Read

Yes, that is correct. We certainly review every case, successful or otherwise, and at this stage I think we haven’t formed a view, certainly at this stage, that there was a gap in the investigation or that the investigation was not properly conducted.

Prosser

You’ve touched on aspects of this already. Are you confident that if there were to be a repeat of GFC or multiple finance company collapses, something of that type, additional resourcing would be available expeditiously to you in terms of both budget and personnel? Are those people actually there? I mean, I guess, you know, having the ear of the Minister, you’d be able to make a case and that would be partially self-evident. You’re confident that that would happen and also that you could get the extra people if you needed them?

Read

I think, you know, the budget fundamentally is a matter for Government, but I am confident, given the past funding of the office, that should that be necessary, the funding would be available.

In terms of the people, we do have a very specialised workforce, but assuming that we do have a reduced workforce with the reduction in the budget, we will still have a solid core, a very strong core of very talented and specialised staff, who will easily be able to assist other people who may need some development to move into those very specialised roles. Which is not to say, of course, that there aren’t forensic accountants outside our office; there are, and we would look to recruit them. It’s just a bit of an unknown. But I would not expect that that would be a difficulty for us.

Goff

Yeah, it’s interesting that whenever you have a global financial crisis, you get these series of exposures of people who are behaving fraudulently. I’m just wondering whether that fraud is a consequence of the global financial crisis—that people get into trouble because they’ve overreached themselves—or whether we simply expose business practice, behaviour, and poor ethics that were there all the time, but you don’t generally find out because prosperity covers it over.

Read

It’s a bit of both. I think it was Warren Buffett who said that in times like these the tide goes out and you see what’s left on the beach, and certainly they are some of the people who were engaged in fraud at the outset. But also, as you’ve said, there are those who get themselves into a difficulty as a
result of reduced financial flows and, you know, downturn in business, which leads them to engage in misconduct. So it’s a bit of both, I think.

Goff I was also interested in—obviously, your approach in your report is that we need to be able to act in a deterrent, in a preventative role rather than just high-profile cases that we pick up after the damage is done. And you get a rate of two-thirds of your people are custodial sentences, and I think that the average imprisonment sentence is 4.6 years, and that probably equates to—they’re serving about maybe 2 years on average, I guess.

I’m wondering whether we actually do have a deterrent effect and whether the deterrent effect of imposing financial penalties that are ongoing on these sort of offenders would be even greater than a short term of imprisonment, because some of the people that are out in business now were the people that I remember being convicted when I was in Government in the 1980s. Does the Serious Fraud Office have any opinion on how you can more effectively deter, which might mean a greater chance of capturing or it might be the nature of the penalty that you don’t actually escape the penalty with a short-term custodial sentence?

Read I think there are two aspects of that. The research shows that white collar offenders are more deterred by the prospect—

Goff By imprisonment.

Read —of jail and imprisonment than some other classes of offenders. In terms of sentencing, one of the difficulties with ongoing financial penalties is that the general principles relating to sentencing constrain a judge in a number of ways if the offender has no capacity to pay. And, generally speaking, these people are bankrupt. And certainly in the course of an investigation we do our best to determine whether there are any assets. It’s—

Goff Family trusts are the—I can think of the same people that you’re probably thinking of right now that are apparently bankrupt, have no funds to their name, but, by God, their family trusts are packed.

Read Yes. And the difficulty with that is if we can’t get to it for the purposes of reparation, you probably can’t get to it for the purposes of an ongoing fine either. And so there are some principles there that—you know, sentencing should be completed. It should be finite. Someone should be able to pay their debt and move on, and I mean debt as in debt to society as opposed to necessarily a monetary debt. Imposing some sort of very long-term, ongoing financial penalty would potentially be contrary to the general approach to sentencing, which is not to say that that’s not something that could be reviewed. However, that’s not my job.

Goff I’d be interested in your ideas on that. What grates with a lot of people is that when they’ve lost their money—they’re often elderly—they’ve lost it for ever and the guys that have taken it will be back driving their high-powered Mercedes within 3 or 4 years and making a lot of money because they have the skills and the qualifications to do so. And that to me doesn’t seem like justice and doesn’t seem like deterrence.
I agree. Reading the victim impact statements from the Ross matter, for example, is a very sobering and sad experience. It’s devastating for those people who’ve lost all their money. They have no ongoing capacity to redeem that investment, and it’s most unfortunate. As I said, we certainly go to some lengths in the course of our investigations to determine if there is any money which is available, but at the end of the day that proceeds of crime part of investigation is not specifically our jurisdiction. But I can only say that we empathise with the victims of these crimes. It’s an appalling situation to find yourself in.

Just on that—sorry, Madam Chair—the Proceeds of Crimes Act, is that a big part of how you approach and look at the investigations and recommendations that are generated?

I’m sorry, I’m not sure that I—

The Proceeds of Crimes Act.

Yes, I understand. We don’t get referrals as a consequence of proceeds of crimes actions, I think—if that was your question—and we don’t specifically have jurisdiction to bring actions for proceeds of crime. Generally, that sort of work takes place later.

Separate, I think, is it? Is it separate?

If I could just answer, as well. We make a number of referrals to the Police asset recovery unit in relation to our investigations, and as part of our investigation planning at a very early stage we consider the assets of the suspects so that we can gather that information and assist the Police asset recovery unit on an ongoing basis. So, we don’t reach the end of the investigation and then suddenly make a decision to look at assets.

OK. So there’s a strong liaison coordination with the Police to make sure that you’re using all the tools available to them to make sure that there are assets and property seized or taken as a result of that proceeds of crime.

I’m sorry. That is correct. That’s part of the purpose for which we look for assets. It’s so that we can make sure that any information which is within our possession goes to the assets of crime people.

I want to go back to where you talked about the victims of crime impact statements. Do you think that financial literacy and education in that field would help avoid some of your work?

I think financial literacy is very important—very important indeed. I would have to say that sometimes some people in our society at present are so substantially disadvantaged that general financial literacy work at the moment probably doesn’t reach them. But I think it’s tremendously important to educate the general public and young people about financial literacy in the hope that they will hear and understand words such as “if it looks too good to be true, it probably is”. Certainly, we would hope to get to people like that.

I think the reality is that for many people, financial advisers are a bit like their doctors—they tell you something that you don’t quite understand, and
a lot of people would be embarrassed to say “I’m sorry, I didn’t understand that, but you’re the expert and I’ll go with that.” Unfortunately, that’s the case, but it’s not a reason, I think, for not trying to educate people.

McKelvie Just with respect to financial advisers, the amendments to the law in the last 2 or 3 years should have tidied that up—well enough?

Read Well, yes, I think, certainly, that the amendments to the law aimed to give people clear and concise information about the financial investments that they make. Unfortunately, I don’t think it necessarily means that they understand it still. It’s like anything, I guess.

Ardern I wanted to come back to a figure that you used earlier. You talked about there being 200 complaints now rising to 430 complaints. When was the 200 figure from, just for clarification, comparatively? A few years ago?

Gill It’s approximately 2010-11.

Ardern 2010-11, and so you’ve kind of roughly doubled. And you talked about there being more corruption and bribery complaints. I wondered if you could talk to us a little bit about that trend and the nature of some of those complaints: how many of them you were able to substantiate versus how many are referred on to other agencies. But it’s an interesting trend, I think, if this is something that we’re likely to see continue. That’s a shift from, I suppose, the way at least New Zealand perceives itself in that regard.

Gill Yes. Look, that is very true. It is a shift as New Zealand perceives themselves. Look, I mean, I don’t want to be alarmist. I’m saying when we see an increasing trend—you’re talking about low numbers, but a still noticeable trend—they tend to be lower level, you know, kick-backs, secret commissions. For example, we investigated a $5,000 alleged bribe not so long ago. That didn’t result in a prosecution. So we are seeing those kind of lower level matters, and you’ll obviously be aware there is an investigation in relation to Auckland Transport—not into Auckland Transport but related to it—which is in the public domain. So we’re starting to see more kind of procurement-related alleged corruption or secret commissions.

Ardern Is that something then that you are waiting to be complaint driven, or is that something that’s part of the self-instigated work that you’re doing?

Gill Some of it is complaint driven. Some of it is active engagement and awareness building. I suspect because of the awareness building we’re starting to see more people coming to us, saying: “Is this an issue? Is this something you’re interested in?” So I would expect that to build.

Read Some of the work around Christchurch would raise people’s awareness of corruption as well—and specific cases. So there’s quite a lot of work there, which is no doubt part of the reason that we’re getting some more information in these areas.

Mitchell So, that’s a good question—on Jacinda’s question—is that, you know, prior to the global financial crisis, a lot of these finance companies had these elegant financial instruments that they were using and, actually, with a harsh blast of sunlight they turned out to be pretty clunky financial instruments
that were, sort of, very finely balanced on being legal/illegal, often covered up, maybe, by an accounting firm, or lawyers, or whatever who may have had an interest in that. Are you finding now that you’re getting more information, that people are actually starting to come forward, even professionals like accountants or lawyers, and putting the red flag up and saying: “We’re not too sure about this”?

Read Before I ask Mr Gill to respond more specifically about the complaints we’re receiving, I would expect that that’s information which primarily goes to the FMA, because they are, obviously, responsible for disclosure in relation to financial instruments, but, specifically, I’ll ask Mr Gill to respond.

Gill Look, I don’t think specifically we’re receiving an increase in those types of complaints. It’s a general, across-the-board increase of any range of matters really, and none specifically around financial securities and the like.

Goff I’m just trying to reconcile on this question of bribery and corruption. Graham, you’ve tended to play that down a bit, but I read in the report “significant rise in the number of corruption and bribery complaints resulting in significant investigations”. Yesterday we once again, for the fifth year in a row, became the least corrupt country in terms of our ranking by Transparency International. I’m trying to reconcile whether this is significant or whether it’s just a bit of a lift from a very low base, and I suppose the second question is to explain why that lift has occurred. The examples that you’ve given might tend to suggest that—not exclusively, of course, but to some extent—it might be attitudes brought into New Zealand by people that are new to this country and are operating, maybe, on the standards of the countries that they have left. I’m just wondering if you’d comment on those two aspects.

Gill Firstly, in relation to the lift in complaints, I would say it is a significant lift, because I think anything from a low base is significant. I think the potential impact of even five or 10 corruption-related matters is significant to the reputation of New Zealand. I think that that’s a very important—

Goff So it’s a “nipping in the bud” - type approach that you’re looking at?

Gill Absolutely. We take a zero tolerance approach to it. So, as I said, we did investigate a $5,000 bribe, which most people would say: “Well, that’s fairly low value” and it’s well below our usual loss figures, but it’s highly important.

Goff But it’s setting a standard, very clearly.

Gill Absolutely.

Goff And what do you put that down to? Is it a case of people that haven’t grown up in New Zealand with the ethics that we have because they’ve simply come from countries—I get people who come to my electorate office that want to pay me to do immigration cases. And they don’t understand why I say, “Gee, we don’t do that.”

Ardern Away with the cheque book.

Goff Yeah, yeah.
Tisch That’s too much information.

Goff Yeah. Well, I mean, any urban MP will have had the same experience—

Ardern That doesn’t happen in Morrinsville.

Goff Auckland Central? Yes. Morrinsville? No. But is that the factor? I’m not trying to cast an aspersion that it’s a factor just of migration—there are people that have lived here all their lives and are third generation that are equally culpable—but I wondered whether the lift was disproportionately those that were new to New Zealand.

Gill I think it’s a fairly sensitive area, and I’d be reluctant to dive into casting aspersions on groups of people—

Goff Well, I’m trying myself not to do that, but I’m looking for an explanation of why it’s happening.

Gill —but I think it is a potential factor, because people come from countries where there are not necessarily the accepted levels of business behaviour and they haven’t, maybe, the education. But I don’t think that’s the whole answer. I think part of the answer is simply that once you start raising awareness and start shining the torch into dark places, you start to see and hear about more corruption.

Read I think there are two other things about that. There’s an education issue with people coming from other countries. When Graham says that they don’t have the same standards, sometimes it’s really not even a question of standards. This is how people operate.

Gill It’s the day-to-day reality in the countries that they come from.

Read And it’s not even considered corrupt. So, initially in the public service in China, for example, many years ago—many, many years ago—a public servant was not someone paid by the State, but they were someone paid by those who sought their services. So if they were the public servant who had the job of issuing licences, their income came from those who sought licences paying them for them, which in our societies is just not how we work. It’s in Western society, which is the basis upon which something like Transparency International sets its standards, it’s not acceptable. It’s no longer acceptable in any society, generally speaking, I think it’s fair to say, but that doesn’t mean that these approaches and mind-sets don’t remain in those places. And, of course, when those people come to New Zealand, that’s, I guess, part of the whole financial literacy thing—well, not so much financial literacy, but this is how we operate here. So I think it’s fair to say that. Of course, as you said earlier, part of maintaining our rating as number one in the world for lack of corruption is to make sure that we stamp on that which we do find.

Mitchell Can I just have a quick supp. on that, because I think you make a very good point, and I agree with you entirely, having done business myself overseas. But I think the important thing is that it is incumbent on the person that’s coming to, say, New Zealand to learn what the rules are and then adhere to them, rather than us have flexibility around—because you’ve come from a
different country or different business environment, then we’re going to make exceptions around that. I feel strongly, personally myself, is that’s no defence.

Read

Absolutely. It isn’t a defence, but I guess I would think that’s it’s helpful to understand where those perspectives come from, rather than jump to the assumption, for example, that someone is dishonest. And I’m not suggesting that anyone here was proposing that that was the case. But I think it’s useful to understand that, because that allows you to inform people too. It puts you in a position of being able to provide the appropriate information to people.

Mitchell

I totally accept your point that someone may come to New Zealand and very innocently do something that is very acceptable as part of general business practice in another country. However, it is incumbent on them to learn quickly what’s acceptable in New Zealand. So thank you.

Dean

Thank you very much. It’s been a very useful hour. Julie, thank you. I understand you’ve only been in the role for 6 weeks, so I want to thank you for the evidence you’ve given us today. We look forward to seeing you at estimates time. Thank you.

conclusion of evidence
2012/13 financial review of the Ministry of Social Development and the non-departmental appropriations for Vote Social Development

Report of the Social Services Committee

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Recommendation

The Social Services Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry of Social Development and of the non-departmental appropriations for Vote Social Development, and recommends that the House take note of its report.

Introduction

The Ministry of Social Development is New Zealand’s largest government department and the principal provider of social policy advice to Government. Its responsibilities include the care and protection of vulnerable children and young people, the provision of support and advice to families, employment and income support services, superannuation services, delivery of funding to community service providers, and student allowances and loans. The ministry is expected to lead the social services sector, and to work with other organisations, communities, and iwi to improve social outcomes.

The ministry is also responsible for monitoring four Crown entities: the Office of the Children’s Commissioner, the Families Commission, the New Zealand Artificial Limb Board, and the Social Workers Registration Board.

In 2012/13 the ministry’s total revenue was $1.209 billion and its total expenditure was $1.202 billion, resulting in a surplus of $7.046 million. In the 2012/13 audit of the ministry’s environment and systems and controls for measuring financial and service performance, the Office of the Auditor General rated the ministry’s management control environment as “very good.” The ministry received a “good” rating for its financial information systems and controls, and its service performance information and controls, as it had in the previous year. The audit acknowledged that this aspect of the ministry’s performance had improved, but specified further areas for improvement.

Vote Social Development contains non-departmental appropriations. The committee considered a report on eight of these: Connected Communities, Counselling and Rehabilitation Services, Education and Prevention Services, Family Wellbeing Services, Services for Young People, Strong Families, Vocational Services for People with Disabilities, and Youth Support Services. Other non-departmental expenses canvassed in the report were the Employee Assistance and Out of School Care Programmes. A total of $462.331 million was appropriated for these non-departmental appropriations in 2012/13, and the total non-departmental expenditure was $458.548 million. No issues regarding expenditure under Vote Social Development were raised during the hearing of evidence, so these appropriations are not discussed in this report.

Better Public Services

The Government is seeking to change the way government agencies organise themselves in order to reduce operating costs, make services more accessible, and to become more effective at improving outcomes for those who use these services. The Better Public Services initiative requires government agencies to collaborate more to achieve outcome targets specified by the Government. The ministry is responsible for leading the effort to achieve four of the key targets: reducing the number of people who have been on a working-age benefit for more than 12 months, increasing participation in early childhood education, increasing infant immunisation rates and reducing the incidence of rheumatic fever, and reducing the number of assaults on children. The ministry’s chief executive is
also chairing the Social Sector Chief Executives’ Forum, providing leadership of the Better Public Services initiative across the sector.

In 2012/13, the ministry made progress against the four BPS targets that it is responsible for coordinating. For example, in 2012/13 substantial work was undertaken on implementing the Children’s Action Plan, via the Social Sector Chief Executives’ Forum and the Vulnerable Children’s Board.

**Protecting and supporting vulnerable children**

*Children’s Action Plan*

In October 2012 the Government released its White Paper for Vulnerable Children, which set out possible measures and reforms to improve the child protection system in New Zealand. The ultimate aim of the proposed measures is to identify children most at risk of neglect and abuse more effectively, and to target services so that they receive adequate support and protection.

The Children’s Action Plan, which stems from the White Paper, sets out 25 specific actions and activities planned by the Government to protect vulnerable children, and a timeline for achieving them. We were pleased to hear that progress on principal elements of the plan is on track. Work has also progressed on the development of a predictive risk model to help identify vulnerable children.

We heard that at the start of the financial year approximately $8 million was available for the implementation of the plan by all the government agencies involved (including the ministries of Health and Education, and the New Zealand Police). Some of us consider that the Children’s Action Plan is “severely under-resourced” if it is to meet its goals. We were told that the plan is still in its initial implementation phase and further budget discussions are expected as the roll out continues. We also heard that existing resources are being utilised to support work on vulnerable children. In addition, approximately $6.8 million has been allocated in Vote Health for a public awareness campaign on child safety, and to help fund the Children’s Team initiative (discussed below).

The National Children’s Director, in consultation with government and non-governmental organisations and practitioners, is working on a more detailed implementation plan and operating model for the Children’s Action Plan. This is scheduled to be presented to the Vulnerable Children’s Board and relevant Ministers in early 2014.

We intend to monitor closely the progress of this initiative and expect the chief executive to provide us with an oral update at the hearing for the 2013/14 financial review.

*Children’s Teams*

The Children’s Team initiative seeks to provide “joined-up” support for children recognised to be at risk of harm, with local education, health, and social-sector professionals collaborating to deliver a comprehensive support service. The Rotorua Children’s Team began providing services in July 2013, followed by one in Whangarei in October 2013. About thirty children altogether are being cared for by the two teams. We accept that as these trials have just commenced it is too early to measure outcomes for the children involved. However, we expect some outcome data to be made available at the time of the next financial review.

Funding totalling $90,000 was specifically allocated for developing the Children’s Teams in 2012/13. We were told that it was used to provide orientation training for the lead
professionals at the two demonstration sites. The ministry clarified that the two trial sites are operating on baseline funding, and that no further funding has been specifically allocated for the Children’s Teams in 2013/14. Some of us are concerned that the ministry will not be able to expand the trials and develop the provision of frontline services for vulnerable children without additional funding. We were told that there is an expectation that more funding will be made available as the Children’s Teams roll out and that some funding for the Children’s Teams is also provided from outside the ministry, for example, through the non-departmental appropriations for Vote Health discussed above.

**Welfare reform programme**

The Government’s welfare reform programme was advanced in 2012/13. It seeks to reduce benefit dependency, to encourage work and self-reliance, and to provide a safety net for those who need it. The programme is aligned with the Better Public Services target of reducing the number of people who have been on a working-age benefit for more than twelve months.

The new “investment approach” to welfare adopted by the ministry is central to the changes being made to the benefit system. Its rationale is that financial liability will be reduced if services are directed to welfare recipients proportionally to their risk of long-term welfare dependency.

Considerable progress was made on developing the investment approach in 2012/13. The ministry increased its internal actuarial capability to determine the drivers of costs, to gauge more accurately which of its support services for welfare recipients are working, and develop ways of supporting them more effectively. More emphasis has been placed on skill and trade training of welfare recipients to help them gain sustainable employment.

Legislation to support the reform package included the Social Security (Youth Support and Work Focus) Amendment Act 2012. The Social Security (Benefit Categories and Work Focus) Amendment Act 2013, which came into force in July 2013, introduces measures to make the welfare system simpler to understand and more work-focused. For example, the number of benefit types has been reduced to three, to reflect more clearly the work expectations applying to welfare recipients. Sanctions have also been introduced for job-seekers who fail pre-employment drug tests or have an outstanding warrant for arrest. IT systems were upgraded throughout the ministry in 2012/13, and front-line staff were trained and prepared for the July 2013 changes.

Some of us raised concern that the welfare reform programme could undermine the ministry’s ability to protect and support vulnerable children. Specifically, the reforms have imposed new part-time and full-time work obligations on parents in receipt of a benefit, and introduced a sanction halving benefit payments to recipients who do not comply with work obligations or social obligations related to parenting. We asked whether these sanctions might adversely affect the well-being of the children of beneficiaries. We heard that it has been “challenging” for the ministry to balance the welfare reform work against providing protection and support for vulnerable children. We heard that the ministry works with sanctioned welfare recipients to understand the circumstances preventing them from complying with their work obligations, and to help them to re-engage with these obligations. Some of us expressed concern that the measures being used to evaluate the reforms only measured whether someone was in receipt of a benefit or not, and did not measure the social security of those in need.
Youth Service

The ministry’s focus on young people is central to the welfare reform package. A new Youth Service from August 2012 introduced new sanctions and obligations for approximately 3,000 young people aged 16 and 17, and parents aged up to 18 years who receive financial assistance. The ministry has been using school enrolment data to locate young people who have disengaged from education and are not yet receiving financial assistance but are at high risk of becoming welfare-dependent. They are offered the opportunity to engage voluntarily with the Youth Service and receive individual mentoring to connect with education, training, or work-based learning. So far 8,000 young people have opted into this service.

There are currently about 11,000 young people engaged with the service, and 80 percent of them are engaged in educational training of some form. The ministry told us that it is difficult to draw comparisons between the impact of the Youth Service and the former Youth Transition Service, as the Youth Service specifically targets young people at risk of welfare dependency, where the previous service was for young people in general. The ministry expects to see the impact of the Youth Service in the first quarter of 2014, and is “hugely optimistic” that the service can make a significant difference for young people “at risk of negative outcomes” in New Zealand. We intend to monitor this initiative closely.

Home visit policy

In late 2013, the Government announced all new Sole Parent Support beneficiaries would be visited at home within 14 weeks of their benefits commencing. We heard that the ministry put the cost of “relationship fraud” in 2012 at $17.7 million, and that addressing relationship fraud is one of the ministry’s important areas of work. The new home visit policy is one way in which the ministry is seeking to reduce the opportunities for welfare recipients to commit fraud. Initially, the visits will be conducted as a small trial and the ministry does not expect further funding to be necessary for this purpose. If the trial is successful it will be rolled out to all new Sole Parent Support beneficiaries receiving financial assistance for caring for children. Some of us were concerned that the ministry has yet to determine how many welfare recipients will be involved in the trial, and the areas in which the trial will take place, yet advised that the cost of the trial will be absorbed by current resourcing. Some of us were also concerned that there is potential for the privacy of beneficiaries to be compromised by the home visits. Should the trial be successful and rolled out across the country, we would expect that additional funding for the home visits will be necessary.

The Social Security (Fraud Measures and Debt Recovery) Amendment Bill, which is currently before us for consideration, is also intended to target and reduce relationship fraud.

Social housing assessments

In 2012/13 a social housing strategy was added to the ministry’s reform agenda. In April 2014, the administration of social housing needs assessments will be transferred from Housing New Zealand Corporation to the ministry, although the corporation will retain all other functions related to social housing. This decision was made as the ministry holds substantial information about clients’ circumstances which is unlikely to be known to Housing New Zealand Corporation. Most of us consider that this places ministry staff in a
better position to complete assessments to ensure that healthy, suitable, affordable housing is provided for those most in need.

The cost of taking on the social housing assessments will be announced in Budget 2014. We will be scrutinising the adequacy of the appropriation for resourcing and training ministry staff to undertake this new function.

**Investing in Services for Outcomes project**

The ministry is working towards a more streamlined and consistent approach to the funding and contracting of external providers. The aim is to eliminate duplication in these systems, to gain efficiencies and thus improve the ministry’s ability to achieve good outcomes within its current funding.

In 2012/13 a single cross-ministry contract was introduced, and a uniform streamlined monitoring and reporting framework for providers receiving annual funding of more than $1 million. Previously, 72 of the ministry’s major providers, such as the Salvation Army, delivered services under 437 different contracts. In 2012/13 the number of contracts was reduced to 96, and the intention is to continue to rationalise them until each provider operates under a single contract. Such major providers account for just over half the ministry’s spend on funding third-party providers. While we support the consolidation of contracts to reduce compliance costs for the relevant organisations and clarify expectations regarding service delivery, some of us are not convinced that this process will deliver these outcomes.

The ministry is undertaking consultation with the social services sector on the Investing in Services for Outcomes project, and discusses proposed changes with a non-governmental advisory group, which allows feedback from providers. We heard that providers feel “anxious” about the changes to process being made, but are “excited about the possibilities of working differently with Government.”
Appendix

Approach to financial review
We met on 4 December 2013 and 29 January 2014 to consider the financial review of the Ministry of Social Development and the non-departmental appropriations for Vote Social Development. Evidence was heard from the Ministry of Social Development and advice received from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Hon Phil Heatley
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Hon Peseta Sam Lotu-Iiga
Sue Moroney
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Hon Chris Tremain
Louisa Wall

Hon Michael Woodhouse was present for most of the item of business.

Evidence and advice received
Ministry of Social Development, Responses to written questions, received 29 November and 3, 9 and 18 December 2013, and 15 January 2014.

2012/13 financial review of the State Services Commission

Report of the Government Administration Committee

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State Services Commission

Recommendation
The Government Administration Committee has conducted the financial review of the 2012/13 performance and current operations of the State Services Commission, and recommends that the House take note of its report.

Introduction
The State Services Commission is the Government’s lead adviser on New Zealand’s public management system, and works with Government agencies to support the delivery of public services to New Zealanders. In 2012/13 its total income was $28.033 million, and its total expenditure was $26.538 million, resulting in a net surplus of $1.495 million.

The State Services Commission received ratings of “good” from the Office of the Auditor-General for its management control environment, and “very good” for its financial information systems and controls; but its service performance information and associated systems and controls were rated as needing improvement. We heard that staff engagement in the commission has improved, placing it in the top third of public sector agencies.

Better Public Services
We asked about the commission’s role in the Better Public Services programme, and its performance following a report in 2012 by Ernst & Young that was critical of the commission’s progress. The commission helps coordinate efforts by public sector organisations to achieve 10 public service results. It describes its leadership performance as patchy but improving. It is seeking to improve its support to chief executives, its development of second- and third-tier leaders, and its provision of graduate programmes for aspiring public servants. It is also developing an emerging leaders programme for new managers, and providing technical leadership development. The commission is currently recruiting a chief talent officer to head this area of work.

We asked whether the commission engages regularly with the PSA, and learned that the PSA is represented on an advisory group for the Better Public Services programme. We heard that the commissioner has good working relationships with PSA leaders, and that the commission worked particularly closely with the PSA on the State Sector Reform Bill.

Challenges to ministerial decisions
We noted several recent cases where ministerial decisions, for example on the closure of Salisbury School in Christchurch, have been successfully challenged. We asked why this had happened so often lately, and whether the commission has reflected on this. The State Services Commissioner considers that communities expect a different kind of engagement from what they accepted 10 or 20 years ago; on reflection he acknowledged that some of the situations could have been managed by public-sector agencies so as to get results without litigation; he suggested that the capability of the public service to support ministers is very important in this respect. The commissioner has also observed that the courts are not averse to supporting citizens where cases are brought against the Crown.
Appendix

Approach to financial review

We met on 13 November 2013 and 29 January 2014 to consider the financial review of the State Services Commission. Evidence was heard from 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
Mojo Mathers
Eric Roy

Evidence and advice received

State Services Commission, Responses to written questions, received 11 December and 23 December 2013.


Organisation briefing paper, prepared by committee staff, dated 12 November 2013.
2012/13 financial review of Statistics New Zealand

Report of the Government Administration Committee

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Recommendation

The Government Administration Committee has conducted the financial review of the 2012/13 performance and current operations of Statistics New Zealand, and recommends that the House take note of its report.

Introduction

Statistics New Zealand leads the Official Statistics System and is the principal producer of official statistics in New Zealand.

The department is funded mainly through Vote Statistics, with five percent coming from other sources. Its total revenue in 2012/13 was $164.538 million and its total expenditure $163.316 million, resulting in a surplus of $1.222 million. The Office of the Auditor-General assessed and graded Statistics New Zealand’s management control environment and its financial information systems as “very good” and its controls as “good”.

Census 2013

Statistics New Zealand held the 2013 Census of Population and Dwellings on 5 March 2013. We were interested to learn that 35 percent of about 2 million census forms were completed online, which compares well internationally. In Oamaru a default online approach resulted in a higher online completion rate of 65 percent. This approach is favoured for the next census, and the department is exploring its costs and benefits. We look forward to a decision.

We asked whether the department had considered holding the census every 10 years instead of five-yearly. We heard that Statistics is undertaking research to determine the extent to which information needs can be met by readily available administrative data, and what additional information is needed from censuses, and at what frequency.

We asked about the census questions on disability, and were told that they seek to identify people with disabilities, for follow-up with a more detailed disability survey.

We understood that the 2013 census results show that Hindi is the fourth most widely spoken language in New Zealand, but were concerned that people identifying their language on the census form as Mandarin or Cantonese rather than Chinese may have distorted the figures. We heard that data can be regrouped, allowing, for example, speakers of Chinese to be identified by aggregating Mandarin and Cantonese speakers. The census classifications are also reviewed in consultation with community groups. We heard that the census questions provide for people to describe themselves in terms of their ethnicity and the language/s they speak, as they like; people can nominate as many ethnic groups and languages as they choose, and are not confined to the categories provided.

Statistics 2020

The Statistics New Zealand Strategic Plan 2010 to 2020 (Statistics 2020) outlines the department’s programme for achieving an informed society using official statistics. The department has estimated savings from the Statistics 2020 programme at $96.3 million over
10 years. In the responses to our additional questions, Statistics New Zealand explained that these savings will be made through staffing reductions from various initiatives, and a 1.5 percent annual budget reduction.

The first part of the Statistics 2020 programme is due to be completed in June 2014. This part has involved removing legacy systems and building standardised data delivery systems and processes. The next part of the programme will focus on consolidating the benefits of the first part through new business systems and processes. We look forward to progress.
Appendix

Approach to financial review
We met on 4 December 2013 and 29 January 2014 to consider the financial review of Statistics New Zealand. We heard evidence from Statistics New Zealand and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Chris Auchinvole
Kanwaljit Singh Bakshi
Hon Trevor Mallard
Mojo Mathers
Eric Roy

Evidence and advice received
Statistics New Zealand, Responses to written questions, received 4 December 2013 and 28 January 2014.
Office of the Auditor-General, Briefing on Statistics New Zealand, dated 4 December 2013.
Organisation briefing paper, prepared by committee staff, dated 3 December 2013.
The Transport and Industrial Relations Committee has conducted the financial review of the 2012/13 performance and current operations of the Ministry of Transport and has reviewed the report on the 2012/13 non-departmental appropriations for Vote Transport; it has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

David Bennett
Chairperson
The Government Administration Committee has reviewed the report on the 2012/13 non-departmental appropriations for Vote Arts, Culture and Heritage and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
The Education and Science Committee has reviewed the reports of the 2012/13 non-departmental appropriations for Vote Education and Vote Science and Innovation, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Dr Cam Calder
Chairperson
2012/13 financial review of the non-departmental appropriations for Vote Housing

Report of the Social Services Committee

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Non-departmental appropriations for Vote Housing

Recommendation
The Social Services Committee has reviewed the report on the 2012/13 non-departmental appropriations for Vote Housing, and recommends that the House take note of its report.

Introduction
For the 2012/13 financial year, the Minister of Housing is required to report on three appropriations in Vote Housing: Canterbury Earthquakes: Emergency and Temporary Accommodation, Social Housing Fund, and Wellington City Council Social Housing Assistance. The Minister was invited to appear for the hearing of evidence, but delegated this role to the Ministry of Business, Innovation and Employment, which administers Vote Housing.

In the 2012/13 financial year, a total of $109.838 million was allocated to the three appropriations, which fund initiatives to increase the supply of housing for those in need, and to provide housing assistance services.

The Canterbury Earthquakes: Emergency and Temporary Accommodation appropriation was established to provide emergency and temporary accommodation for Canterbury residents while earthquake-damaged homes are repaired. The initiative’s broader purpose is to support disaster recovery in Canterbury, and ultimately the rebuilding of the region.

The objective of both the Social Housing Fund and Wellington City Council Social Housing Assistance appropriations is to increase the supply of affordable housing in New Zealand, to ensure that New Zealanders are supported for the duration of housing need and are helped to achieve housing independence, while the Crown’s resources are managed efficiently. Ultimately, these appropriations seek to provide quality regulation of the housing market. The Social Housing Fund is for purchasing services from, and supporting, third-party providers of social or affordable housing services. The Wellington City Council Social Housing Assistance appropriation was established to help Wellington City Council upgrade its social housing portfolio.

We focussed our consideration on the Canterbury Earthquakes and Social Housing Fund appropriations.

Canterbury Earthquakes: Emergency and Temporary Accommodation
The 2012/13 appropriations for temporary accommodation at the Linwood Park, Kaiapoi, Rawhiti, and Rangers Park villages totalled $6.05 million. In addition, $10.23 million was brought forward from the 2011/12 year. However, $5.897 million was transferred forward to 2013/14 and beyond, and adjustments totalling $7.64 million were made. The actual expenditure in 2012/13 was $5.96 million, significantly less than what was available to Canterbury Earthquakes. We heard that this was partly due to the amalgamation of several
Government departments to form the Ministry of Business, Innovation and Employment. The amalgamation has resulted in some of the costs related to housing in Canterbury being accommodated by the ministry’s departmental budget for operating activities. In addition, some savings resulted from efficiencies achieved by the amalgamation.

While 212 temporary Crown-funded housing units were budgeted for in the 2012/13 year, only 83 were operational in that financial year. The discrepancy reflects unforeseen aspects of the housing environment in Canterbury after the earthquakes. Specifically, there was a shift away from providing emergency accommodation (which was the basis of the budgeted expectation), to providing longer-term temporary accommodation while planned earthquake damage repairs are undertaken.

Some of the expenses appropriation ($6.47 million) was transferred to capital expenditure to acquire the Rangers Park development. Eighteen housing units have been completed at Rangers Park, and a further 22 are scheduled for completion in early 2014. This, along with a further unit at Linwood Park, will bring the total number of Crown-funded housing units in use in all the villages to 124 in 2013/14. No further units are planned after the completion of the Rangers Park complex.

We explored the question of whether the number of temporary accommodation units available is sufficient. Some of us consider that there is a housing crisis in Canterbury, with around 7,400 people officially homeless, 60,000 to 70,000 in temporary accommodation, 20,000 to 30,000 temporary workers moving to the region, many people paying extremely high rents, and those at the bottom end of the rental market living in sub-standard conditions. Most of us dispute this view. The ministry monitors demand for temporary accommodation, and says the temporary accommodation villages have a high transition rate, with households occupying the units for an average of four months. As at September 2013, 462 households had resided in the temporary housing units since the initiative was established in 2011.

We were pleased to learn that other accommodation solutions are available for displaced Canterbury residents. A matching and placement team help people find appropriate accommodation in both the private rental market and the temporary villages, and the ministry is working to increase the supply of accommodation provided by the private sector. For example, some of the planning restrictions regarding resource consents have been relaxed in the Canterbury region to allow more new building. The ministry is not providing accommodation for workers involved in rebuilding, but is assisting the private sector in servicing demand.

Statistical modelling by the ministry suggests that housing demand in Canterbury will not ease until 2016. Although no more housing units are planned, continuing operating expenses are expected regarding the temporary accommodation villages: repairs and maintenance, insurance, rates and other council fees, management services, and depreciation. The appropriation for operating the temporary accommodation villages is $3.44 million in 2013/14, $3.5 million in 2014/15, and $3.38 million in 2015/16.
Social Housing Fund

This multi-year appropriation commenced on 1 July 2012 and expires on 30 June 2015. The appropriation available for the 2012/13 financial year totalled $68.79 million, which included $34.78 million of unspent funding carried forward from the 2011/12 year. The fund is being allocated according to a plan agreed by the Minister of Finance and the Minister of Housing. In 2012/13, $27.97 million was allocated against the allocation plan target of $34.50 million. The actual expenditure for the financial year was $16.47 million.

We heard that the discrepancy between the budgeted expenditure of $27.97 million and the actual expenditure of $16.46 million for the year was largely due to delays between the approval of funding and the commencement of the projects it covered. There were some delays relating to land acquisition and resource consenting. We were pleased to learn that asset transfers planned in relation to the 2012/13 allocation are currently progressing.

In terms of the planned allocation of the appropriation to specific sub-funds, there was an overallocation of funding for the Pūtea Māori and Auckland funds. In 2012/13 the planned allocation for Pūtea Māori providers totalled $4.6 million, the actual allocation was $7.02 million. The planned allocation for the Auckland fund was $8 million, the actual allocation amounting to $10.48 million. Only $4.22 million of the $8 million planned funding for the Canterbury region was allocated in 2012/13. We heard that the remaining $3.78 million of 2012/13 grant funding for Canterbury will be awarded when appropriate projects are found in subsequent financial years.

The Social Housing Fund seeks to contribute to growth in the supply of social and affordable housing by means of targeted stock transfers to third-party providers of such housing. In the 2012/13 financial year, a process was developed for allocating the fund and making stock transfers in accordance with Government and probity requirements. The grant funding allocated in the period under review supported eighteen pre-qualified non-government providers, and the delivery of 165 new social or affordable housing units. A large proportion (39 percent) of the allocation was invested in Auckland, the market with the highest demand for social and affordable housing.

We are pleased that the uptake of the Social Housing Fund in the community has been gathering momentum, and it is expected that the multi-year fund will be fully allocated by 2014/15.
Appendix

Approach to financial review
We met on 20 November 2013 and 29 January 2014 to consider the financial review of the non-departmental appropriations for Vote Housing. We heard evidence from the Ministry of Business, Innovation and Employment and received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Hon Phil Heatley
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Hon Peseta Sam Lotu-Iiga
Sue Moroney
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Hon Chris Tremain
Louisa Wall

Hon Michael Woodhouse was present for most of the item of business.

Evidence and advice received
Ministry of Business, Innovation and Employment, responses to written questions, received 5 December 2013.

Office of the Auditor-General, Briefing on the non-departmental appropriations for Vote Housing, dated 20 November 2013.
# 2012/13 financial review of the non-departmental appropriations for Vote Treaty Negotiations

Report of the Māori Affairs Committee

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Non-departmental appropriations for Vote Treaty Negotiations

Recommendation

The Māori Affairs Committee has reviewed the report on the 2012/13 non-departmental appropriations for Vote Treaty Negotiations and recommends that the House take note of its report.

Introduction

In 2012/13, Vote Treaty Negotiations funded one non-departmental other expense appropriation, Claimant funding. This appropriation is intended to provide financial support to mandated groups for the negotiation and settlement of historical Treaty of Waitangi claims.

Estimated expenditure for 2012/13 was $12.602 million, and the appropriation was increased to $16.083 million by an expense transfer from 2011/12 to 2012/13 of $3.681 million for processing expected funding applications. This was partially offset by a fiscally neutral transfer of $200,000 to fund costs associated with a new non-departmental other expenses appropriation for Contribution towards Northland Waitangi Tribunal hearings.

Actual spending under this appropriation for 2012/13 was $10.977 million.

Progress of claims

The Minister for Treaty of Waitangi Negotiations told us of progress on Treaty settlement negotiations around the country. So far in 2013, 15 deeds of settlement have been signed between claimant groups and the Crown. The Minister believes there is a good chance of concluding all agreements in principle in 2014. He expects about 60 more deeds to be signed before all historical Treaty claims will be settled.

Funding for the Office of Treaty Settlements has increased to cover the workload generated by the growing number of negotiations, but he noted that it takes time to develop the specialised knowledge required to undertake this work. The office is working with the Parliamentary Counsel Office at present to streamline the process of enacting settlement legislation. Despite the heavier workload, the Minister said the office is still committed to handling the negotiation process properly to ensure robust settlements are reached. Though the Government is keen to progress negotiations as quickly as possible, the Minister emphasised his commitment to ensuring all settlements are full, final, and robust. Parties to negotiations, particularly regarding overlapping claims, are required to participate fully in the negotiation process and cannot skip forward to the agreement in principle stage.

Claimant funding

We asked the Minister to explain the significant underspending relative to what was budgeted for the year in question. He attributed it mostly to timing issues in negotiations with claimants. Claimant groups are diverse and the issues dealt with are complex, making
it difficult to predict the rate of progress. Some groups were not ready to receive funding, so it is to be carried forward to the next financial year.

We questioned the $1.4 million provided to claimants who had an “exceptional circumstance”—the Office of Treaty Settlements does not have a clear criterion for eligibility for this funding, deciding it case by case.

The report on this appropriation does not set out clearly the purpose for which claimant funding is distributed. We were told that the money is mostly spent on legal and advisory fees for parties to negotiations.

**Relativity mechanism**

We asked if the relativity clause in the Treaty settlements with Ngai Tahu and Tainui is viewed as a contingent liability for the Crown. The clause provides for the two iwi to receive top-up payments if the value of all Treaty settlements between 1994 and 2044 reaches $1 billion. The Minister said arbitration is about to start to determine the value of all historical Treaty settlements. There is disagreement between the parties as to which settlements should be included in the final calculation.

We were assured the arbitration will not affect the way the relativity mechanism is triggered; the Minister said it was limited to determining “what’s in and what’s out”.

We asked if the Minister had a view on the adequacy of settlements containing relativity clauses compared with other settlements. He said that the relativity clauses reflected a desire to progress the settlements concerned; relativity mechanisms were “a product of their time” and unlikely to be a feature of future Treaty settlements, but the Crown was committed to upholding its obligations undertaken by earlier governments.

As the $1-billion trigger point has been passed, we asked the Minister about the probable value of the predicted 60 Treaty settlements, and their implications for the relativity clause quantum. He declined to speculate, and said that he did not want the issue to affect his approach to future negotiations.
Appendix

Approach to financial review
We met on 20 November and 4 December 2013 to consider the financial review of the non-departmental appropriations for Vote Treaty Negotiations. We heard evidence from the Minister for Treaty of Waitangi Negotiations, Hon Christopher Finlayson, and received advice 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
Meka Whaitiri
Jonathan Young

Evidence and advice received


Organisation briefing paper, prepared by committee staff, dated 4 November 2013.

Arotakenga pūtea o ngā wāwāhanganga moni ō-waho tari mō Te Pōti Whiriwhiringa Take Tiriti o te tau 2012/13

Pūrongo a Te Komiti Whiriwhiri Take Māori

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Kupu Whakataki 2
Nekenga whakamua o ngā kerēme 2
Huarahi ōwehenga 3
Tapiritanga 4
Ngā wāwāhanga moni ō-waho tari mō Te Pōti Whiriwhiringa Take Tiriti

Tūtohutanga
Kua arotakengia e Te Komiti Whiriwhiri Take Māori te pūrongo e pā ana ki ngā wāwāhanga moni ō-waho tari, mō Te Pōti Whiriwhiringa Take Tiriti, ā, ka tūtohu kia aronga tana pūrongo e Te Whare.

Kupu Whakataki
I te tau 2012/13, nā Te Pōti Whiriwhiringa Take Tiriti te pūtea āwhina mō ngā wāwāhanga moni ō-waho tari kotahi, me tētahi atu whakapaunga wāwāhanga moni, ko Te pūtea āwhinahunga kerēme tērā. Ko te koronga o tēnei wāwāhanga moni, he hoatu pūtea hei tautoko kohinga kua whakamanahia mō te whiriwhiringa me te whakataunga i ngā kerēme hītori o Te Tiriti o Waitangi.

E $12.602 miriona te whakapaunga tata mō te tau 2012/13, ā, e $16.083 miriona te wāwāhanga moni i tikia atu mā te whakawhititi whakapaunga utu e $3.681 miriona, ati i te tau 2011/12 ki te tau 2012/13, hei whakahātepe i ngā tononga pūtea āwhina kua whakaarotia ka puta ake. I āhua pai ai tēnei, nā tētahi whakawhitinga moni e $200,000 miriona noa, he pūtea āwhina i ngā whakapaunga utu e haere ana i te taha ō-waho tari hou kotahi, ā, me etahi atu whakapaanga utu wāwāhanga moni mō te kaupapa, Contribution towards Northland Waitangi Tribunal hearings.

E $10,977 miriona te whakapaunga tūturu i rapo i tēnei wāwāhanga mōni mō te tau 2012/13.

Nekenga whakamua o ngā kerēme

Ka kōrero mai te Minita mō ngā Whiriwhiringa o Te Tiriti o Waitangi ki a mātou, mō te nekenga whakamua o ngā whiriwhiringa whakataunga Tiriti huri noa te motu. Ki tēnei wā i te tau 2013, e 15 ngā whakaaetanga whakataunga kua hainatia i waenganui nui ngā kohinga kaikerēme me te Karauna. Ko te whakapono o te Minita, te āhua nei ka tutuki pai katoa pea ngā whakaaetanga mātāpono i te tau 2014. Ko tōna tūmanako, ka tata atu pea ki te 60, neke atu, ngā whakaaetanga kia hainatia, ā, kātahi anō ngā kerēme Tiriti hītori katoa ka oti kia kōrero mai te Minita no ake kia whakaritoroa ki tōna tino ngākau hōnei ki te whakatipu tātahi, kia whakatupua tūturu ātahi i te taha ō-waho tari hou, kia whakatūturu kia whakatau tōna kei te kaupapa, Contribution towards Northland Waitangi Tribunal hearings.

E mahi ana te tari i te wāhi o Te Tari Tohutohu Pāremata i te wā nei, ki te whakanikoniko i te hātepe whakamana whakataunga hanganga ture. Ahakoa te taumaha rawa atu o ngā māhia, ka kia te Minita e ū tonu anana tōna hana i te taha ō-waho tari noa, kia whakabura tōna kei te kaupapa, Contribution towards Northland Waitangi Tribunal hearings.

Kua whakapikia te pūtea āwhina mā Te Tari Whakatau Take e pā ana ki Te Tiriti o Waitangi, kia kapi a ngā māhia tauwha i puāwai mai nā te māhia haere kē ake o ngā whiriwhiringa ēngari, ko tōna tūturu ātahi i te hātepe whiriwhiringa, kia pūmā i akorangi i te taumahanga ēngari, kia whakataunga, kia whakatūturu kia whakatūturu ēngari i te taha ō-waho tari noa.
Pūtea āwhina hunga kerēme

Ka tono mātou ki te Minita kia whakamāramatia koatia mai te hiranga o te ōwehenga, e pā ana ki te waihi i te whakapaunga moni ki raro iho i te pūtea kua whakaritea mō te tau e pātaitia nei. Ki a ia nei, ko te nuinga o ngā take, ko ngā wā whiriwhiringa i te taha o ngā kaikerēme. He kanoru ngā kohinga kaikerēme, ā, he matatini ngā take i whaitia ake, ā, nā runga i tērā, ka tau te tere o te nekenga whakamua te waitohu. Nā, kīhai ētahi kohinga i rei ki te whiwhi pūtea āwhina nā reira, ka kawea whakamuatia atu ki te tau pūtea ka tū mai.

Ka uiuitia e mātou te e $1.4 miriona i hoatu ki ngā kaikerēme, he “āhuatanga tino motuhake nei tō rātou”—kāore he paearu mārama a Te Tāri Whakatau Take e pā ana ki Te Tiriti o Waitangi ki te āheinga mō tēnei pūtea āwhina. Nā, ka whakatauhia, kēhi, mā te kēhi.

Kīhai te pūrongo mō tēnei wāwāhanga moni e whakatakoto mārama i te kaupapa i tohaina ai te pūtea āwhina hunga kerēme. Ko tērā i kōrerohia mai ki a mātou, whakapua hunga whiriwhiringa i nuinga o te moni mō ngā whakapaunga utu e pā ana ki te taha tika, ki te taha whakamaherehere mā ngā taha ki ngā whiriwhiringa.

Huarahi ōwehenga

Ka pātai mātou mehemea ka tirohia atu te rara ōwehenga i ngā whakataunga Tiriti i te taha o Ngāi Tahu me Tainui, hei mea āhuaranga taunahatanga mā te Karauna. Hoatu wāhi ai te rara mō ngā īwi e rua ki te whiwhi utanga-whakakapi ake, ka eke ana te uara o ngā whakataunga Tiriti katoa i waenganui i te tau 1994, me te tau 2044 ki te $1-piriona. Ko tā te Minita, kua tata ōmata te whakawātanga ki te whakatau i te uara o ngā whakataunga Tiriti hitorī katoa. He whakahē kei reira, kei waenganui i ngā taha, ko ēhea whakataunga kia whakaurua kia roto i te tātaitanga whakamutunga.

Ka whakatūturuhia mātou e te Minita i tana kitanga mai ki a mātou, kīhai rawa te whakawātanga e tukituki i te āhuatanga whakatīmata i te huarahi ōwehenga; ko tā te Minita i kī, ka whakawhāitia noatia atu ki tērā “he aha kei roto”, ā, “he aha kei waho”.

Ka tono atu mātou ki te Minita mehemea he whakaaro anō ēna mō te rawaka o ngā whakataunga, he ōwehenga kei roto, ka whakatauritehia ana ki ētahi atu whakataunga. Ko tāna i mea mai, e whakakatu mai ana ngā rara i tētahi awhero, kia nekea whakamuatia ngā whakataunga e pā ana; “he whakanaonga o ō rātou wā” ngā huarahi ōwehenga, ā, kore rawa pea e mutu mai he āhuatanga mō ngā whakataunga take Tiriti mō āpōpō. Häunga tērā, i herea tonutia te Karauna ki te tautoko i āna herenga i kawea e ngā kāwanatanga i mua.

I te mea kua hipa te wāhi whakatīmata e $1-piriona, ka pātai mātou ki te Minita mō te uara pea o ngā whakataunga take Tiriti e 60 i matapaetia, ā, me ō rātou whakahīrautanga e pā ana ki te rahinga rawa o te rara ōwehenga. Kīhai ia i hiahia tūtōhu noa, ā, me te kī, kīhai rawa a ia i hiahia kia tukitukingia e te take tōna ahunga ki ngā whiriwhiringa kei mua i te aroaro.
Ahunga ki te arotakenga pūtea

I hui mātou i te 20 o Whirlinga-ā-rangi me te 4 o Hakihea i te tau, 2013, ki te whakaaroaro i te arotakenga pūtea o ngā wāwāhanga moni ō-waho tari mō Te Pōti Whiriwhiringa Take Tiriti. I rongo taunakitanga mātou, nō mai i te Minita mō Ngā Whiriwhiringa Take Tiriti o Waitangi, a Hōnore Christopher Finlayson, ā, me te whiwhi whakamaherehere, nō 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
Meka Whaitiri
Jonathan Young

Taunakitanga me te whakamaherehere i whihi

Whakatakotoranga mō ngā wāwāhanga moni ō-waho tari mō Te Pōti Whiriwhiringa Take Tiriti i te tau, 2013, a te Minita mō Ngā Whiriwhiringa Take Tiriti.

Ngā urupare ki ngā pātai-whai muri whakawātanga mō ngā wāwāhanga moni ō-waho tari mō Te Pōti Whiriwhiringa Take Tiriti, i te rā 4 o Hakihea i te tau, 2013, a te Minita mō Ngā Whiriwhiringa Take Tiriti.

Whakatakotoranga tohutohu mō Te Pōti Whiriwhiringa Take Tiriti i te rā 20 o Whirlinga-ā-rangi i te tau, 2013, a Te Tari o Te Tumuaki o Te Mana Arotake.

Pepa whakatakotoranga tohutohu mō te rōpū whakahaere, nā ngā kaimahi o te komiti i takatū i te rā 4 o Whirlinga-ā-rangi i te tau, 2013.