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Introduction

This is a compendium of all the select committee reports on the 2014/15 Estimates. The Fiscal Strategy Report 2014, the Budget economic and fiscal update 2014 and the Investment Statement: Managing the Crown’s Balance Sheet, 26 March 2014 are included in a combined report by the Finance and Expenditure Committee. The reports for Votes Sport and Recreation and State Services are not included in this compendium. The Finance and Expenditure Committee’s reports on the 2013/14 Supplementary Estimates will be printed in the Appendix to the Journals – Select Committee Reports 2014.

The votes for the security agencies are examined by a statutory committee, rather than a select committee. The Intelligence and Security Committee was established by the Intelligence and Security Committee Act 1996. The committee’s report on the examinations of Vote Communications Security and Intelligence and Vote Security Intelligence is inserted as an addendum to this compendium for ease of reference. Its report on the 2013/14 Supplementary Estimates for Vote Communications Security and Intelligence and Vote Security Intelligence will be printed in the Appendix to the Journals – Select Committee Reports 2014.
The Transport and Industrial Relations Committee has examined the 2014/15 Estimates for Vote ACC, and recommends that the appropriations in respect of this Vote for the year ending 30 June 2015, as set out in Parliamentary Paper B.5, be accepted.

David Bennett
Chairperson
The Government Administration Committee has examined the 2014/15 Estimates for Vote Arts, Culture and Heritage, and recommends that the appropriations in respect of Vote Arts, Culture and Heritage for the year ending 30 June 2015, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
2014/15 Estimates for Vote Attorney-General and Vote Parliamentary Counsel

Report of the Justice and Electoral Committee

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Vote Attorney-General and Vote Parliamentary Counsel

Recommendation

The Justice and Electoral Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Attorney-General, administered by the Crown Law Office, and for Vote Parliamentary Counsel, administered by the Parliamentary Counsel Office, as set out in Parliamentary Paper B.5, be accepted.

Vote Attorney-General

The Attorney-General, Hon Christopher Finlayson, is responsible for the appropriations within Vote Attorney-General, which is administered by the Crown Law Office. The total appropriations sought for Vote Attorney-General for 2014/15 amount to $64.674 million, a 2.1 percent decrease from the estimated actual expenditure for 2013/14. This is due to the transition to a new funding model for Crown prosecution services, continuing the decrease in funding in 2013/14.

Cut-price justice allegations

The Attorney-General was concerned to address allegations of “cut-price justice” and “adopting American-style plea bargains” in an article published in the Herald on Sunday on 18 May 2014. These allegations were made in the context of changes to the funding of Crown Solicitors, and amendments to the Criminal Procedure Act 2011. The Attorney-General denied the allegations, saying they were wrong and unfair. He told us there is no evidence that inappropriate charges have been laid by Crown Solicitors as a result of cost considerations since the new prosecutions funding model was introduced. We heard that the level of monitoring of Crown Solicitors by Crown Law has increased significantly since the model was introduced; changes in charges are tracked, and disposals are reassessed every four months.

We pointed out that the amount sought for 2014/15 for the multi-category appropriation for the Supervision and Conduct of Crown Prosecutions and Appeals is $39.005 million, slightly less than the estimated actual expenditure of $41.119 in 2013/14. We were told that the funding levels have been reduced to those of 2006/7 to reflect case volumes.

We asked whether the current funding model incentivises faster disposal of cases rather than a consistently considered approach. The Attorney-General said while speed and saving costs are laudable objectives, the most important factor is justice, and he is alert to anything that might undermine justice being done. The Attorney-General said that there was a need for change; the costs of prosecutions had been mounting over some time, and the 2011 review of public prosecution services found that more rigorous control of costings was needed.

Government Legal Network

We asked the Attorney-General for an update on the Government Legal Network, a unit within Crown Law that seeks to inform, engage and connect the 800 lawyers working in central government. The network is proving to be productive, and is being used to
promote employment opportunities, and to provide continuing legal education and support. Sir Paul Jenkins, who developed a similar model in England, will be coming to New Zealand to give advice on the development of the network.

**Alcohol and Other Drug Court**

We asked about new one-off funding of $232,000 that was approved for 2014/15 for defence counsel and prosecution costs for the Alcohol and Other Drug Court. We were told this money is to be spent on the current pilot, which concentrates on Police cases.

**International Court of Justice representation**

We asked what the Attorney-General had learnt from representing New Zealand in July 2013 at the International Court of Justice. Australia had taken Japan to the International Court of Justice for whaling in the Southern Ocean, and New Zealand intervened to present arguments on this country’s interpretation of the international whaling convention. The Attorney-General was very happy with the outcome, and the extent to which New Zealand’s thinking went into the judgment delivered in April this year that Japan must end its “research whaling” programme. We commend the New Zealand team on its contribution.

**Vote Parliamentary Counsel**

The Attorney-General, Hon Christopher Finlayson, is responsible for the appropriations within Vote Parliamentary Counsel, which is administered by the Parliamentary Counsel Office. The total appropriations sought for Vote Parliamentary Counsel for 2014/15 amount to $23.435 million, a 5.4 percent increase from the estimated actual expenditure in 2013/14. This additional funding is due to the return of savings of $600,000 from the Access to Legislation category, and the return of savings of $600,000 from the Law Drafting Services category in the 2013/14 year.

**Staffing**

We asked what is being done to address risks concerning PCO’s sustainability and succession planning. David Noble, Chief Parliamentary Counsel, acknowledged that select committees and governments have always put pressure on drafters of legislation. However, in the last two years a number of senior drafters have retired, resulting in the need to recruit drafters at junior and more senior levels, New Zealand-wide and internationally. This recruitment effort will continue next year.

We acknowledge that the Justice and Electoral Committee has placed considerable pressure on the PCO this year, particularly regarding the Judicature Modernisation Bill, and would like to thank the office for the extra work it has undertaken and the support it has provided.

**New Zealand Legislation system**

We are interested in improving access to legislation, and asked about further improvements to the online New Zealand Legislation system, and in particular the search function. We heard that the PCO is holding discussions with groups of users to determine their needs and wants. There has been little feedback on the search function, although consideration is being given to linking court judgments, when they are available online, with the relevant statutory provision being considered. People want to be able to download sections of Acts and individual regulations in the form in which they appear in the statute. This is not
currently possible, but a solution is being worked on. The system is also being developed to improve access for people with disabilities.

This year the New Zealand Legislation system was made an official source of legislation, which can be used in the courts.

**Legislation revision programme**

The Attorney-General told us that the Legislation Act 2012 provides scope, at the beginning of each parliamentary session, for the Attorney-General to submit a programme of revision of legislation. This involves making sure legislation is clear and accessible. For example, the Legislation Act might afford an opportunity to consolidate all the legislation regarding contracts into a contracts act.

We wanted to know whether delivering the first three-yearly programme of statute revision is likely to result in cost pressures on the PCO. We were told that the PCO has made a best estimate of the drafting resources needed for the first revision programme. It is expected to be funded from the office’s existing Law Drafting Services appropriation.

The size of the programme and its success depends largely on the PCO’s capability. However, it is also dependent on Parliament and the Standing Orders Committee agreeing on a procedure that constrains the use of parliamentary time, otherwise worthy bills to tidy up the statute book by consolidating legislation will never get through the process. The Attorney-General is aware that the Standing Orders Committee is looking at a streamlined process. We consider the statute law revision programme to be an important area of work, and would like to see good progress made.

**Pacific assistance**

We asked if the PCO intends to continue providing drafting assistance to Pacific Island nations beyond 31 March 2015, when the contestable funding it has been receiving from the Ministry of Foreign Affairs and Trade’s aid programme comes to an end. The PCO is optimistic that its discussions with the Ministry will result in a permanent solution, although the constant nature of the drafting activity does not fit well with the Ministry’s contestable funding criteria. Although the PCO also provides drafting training, it is difficult for Pacific countries to achieve self-sustainable drafting resources. The cost of providing the drafting assistance is about $250,000 each year, including travel.

This year the PCO has been working with the Cook Islands and Niue. It has also worked with Fiji on a United Nations Development Programme funded project to create new standing orders and legislation for the Fijian parliament. The Attorney-General regards the drafting assistance as a very important, practical form of foreign aid New Zealand can provide to our Pacific neighbours.
Appendix

Approach to this examination
We met on 29 May and 19 June 2014 to consider Vote Attorney-General and Vote Parliamentary Counsel. Evidence was heard from the Attorney-General, Hon Christopher Finlayson, the Crown Law Office, and the Parliamentary Counsel Office, and advice received from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Paul Foster-Bell
Joanne Hayes
Raymond Huo
Andrew Little
Alfred Ngaro
Denis O’Rourke
Hon Maryan Street
Hon Kate Wilkinson

Evidence and advice received
We considered the following evidence and advice during this examination:
Attorney-General, Response to standard Estimates questionnaire.
Attorney-General, Response to committee questions, received 30 May 2014.
Attorney-General, Response to additional questions, received 30 May 2014.
Office of the Auditor-General, Briefing on Vote Attorney-General, dated 29 May 2014.
Office of the Auditor-General, Briefing on Vote Parliamentary Counsel, dated 29 May 2014.
The Finance and Expenditure Committee has examined the 2014/15 Estimates for Vote Audit, and recommends that the appropriations in respect of Vote Audit for the year ending 30 June 2015, as set out in Parliamentary Paper B.5 Vol.5, be accepted.

Paul Goldsmith
Chairperson
2014/15 Estimates for Vote Canterbury Earthquake Recovery

Report of the Finance and Expenditure Committee

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Recommendation

The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Canterbury Earthquake Recovery as set out in Parliamentary Paper B.5 Vol.1, administered by the Canterbury Earthquake Recovery Authority, be accepted.

Introduction

The Vote provides funding to support the activities of the Canterbury Earthquake Recovery Authority (CERA) in coordinating the earthquake recovery effort. It should be noted that it does not include all of the Crown’s earthquake-related spending, of which significant amounts are covered by other Votes.

Estimated spending under the Vote in 2014/15 totals $570.407 million, compared with estimated actual spending of $788.907 million in 2013/14. The bulk of the expenditure relates to anchor projects in Christchurch, under several multi-year appropriations. About $86 million is to fund the operations of CERA.

Earthquake costs

The Treasury now estimates the total investment likely to be needed in earthquake reconstruction at $40 billion, with costs to the Crown through to July 2018 expected to total $15.4 billion.1 Some of us are surprised by the reduction in earthquake-related spending in the current Budget, given the scale of the spending needed and the reported comment by the Prime Minister that an additional $5 billion may be needed because of cost escalation. To some of us, this suggests that the Government is simply adjusting its budgeted figures to suit its aim of recording a surplus.

The Minister rejected that assertion and said that much of the Crown’s costs relate to its share of rebuilding horizontal infrastructure: roads, and underground pipes for fresh water, storm water, and sewage. He said the budgeted figures reflect the best-effort assessment of the damage, and a careful calculation of what the Crown’s share should be. However, he said there is inevitably a high degree of uncertainty about the eventual cost of repairs, as excavation is needed to determine the extent of the damage. Another key variable is the extent to which work should focus on repairs, or include an element of improvement, as the restored pipes will be expected to last for decades to come. He believes the Prime Minister’s comment simply reflects the reality that Canterbury’s rebuilding is likely to be a $40-billion endeavour extending over 10 years, so some element of cost escalation is to be expected.

Anchor projects

Much of the funding being sought in 2014/15—$402 million—would go toward the Crown’s share of several major public projects in central Christchurch, which are expected to “anchor” and help stimulate private-sector development in the city centre. The budget

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1 Budget economic and fiscal update, 15 May 2014, p. 34.
total includes two new initiatives, for an earthquake memorial ($10 million, of which $8 million is expected to be spent in 2014/15), and a replacement stadium ($4 million, to be spent in 2014/15).

The full amount of funding needed for the anchor projects is still being finalised, subject to scoping and agreements with lead contractors. We note that the Treasury has highlighted the uncertainty about the Crown’s share of final costs for the anchor projects as a specific fiscal risk.

The Minister said that after necessary planning work, good progress is now being made in the city centre. Work on the Avon River precinct is well under way; business cases have been completed for the convention centre and the bus interchange, with work on the latter due to start soon and be completed by winter 2015. Business cases are largely completed for development of the metro sports facility, and for the east frame and south frame developments.

A business case has yet to be commenced for the stadium; while $4 million is budgeted for the Crown’s contribution in 2014/15, the Minister said he could not say much except that progress will depend on the Christchurch City Council’s resolution of insurance issues about the existing AMI stadium. He told us that public consultation about plans for the stadium is the council’s responsibility.

It is clear that with large amounts of public funds at stake, sound governance of the projects is vital. Some of us queried the fact that the business cases for the projects are not being released for public scrutiny. The Minister said this was for governance reasons, to protect the Crown’s position in its commercial dealings with private contractors over tenders.

Risk of fraud

We are very aware of the risk of fraud given the scale of spending on the rebuilding, and sought the Minister’s assurance that no serious instances are occurring in Canterbury. The Minister said CERA and EQC are constantly on guard against fraud; the Office of the Auditor-General is also well aware of the need to be vigilant. He said that anecdotal reports are checked out, and EQC has undertaken some successful prosecutions; he is not concerned about the sufficiency of vigilance.

CERA’s future

We asked about plans for the future of CERA, since the Canterbury Earthquake Recovery Act 2011 is due to end in 2016, but work on the anchor projects and recovery will clearly continue well beyond. The Minister said the Act’s expiry would end CERA’s special powers, but not its existence as a department of state. He believes CERA will have a continuing role, and said that thought will be given in 2015 to the form it might take, and what agencies might take on some of its current functions.

Future of the red zone

We asked whether the public is being consulted about future use of red-zoned land. The Minister said that time was first needed for consultation with the Christchurch City Council and Waimakariri District Council about planning considerations. Water and power networks cannot simply be cut off at the boundaries of the red zone, and there may be a need for through roads. Public consultation will take place once this foundational work is completed, which should be within seven weeks or so.
Red zone and insurance issues

Some of our discussion with the Minister ranged beyond areas covered by the Vote, as there is inevitable overlap between CERA’s responsibilities, which include management of the residential red zone programme, and issues to do with insurance settlements, which are the responsibility of the Earthquake Commission and private insurers.

Court challenge

Some of us expressed strong concern to the Minister on behalf of the Quake Outcasts group, comprising owners of uninsured properties and bare land in the red zone, who have seen no option but to take legal action—now in the Supreme Court—to question the legality of the Crown’s offer to pay only 50 percent of their rateable values. The Minister said the group had not allowed the Government enough time for reconsideration following the case in the Court of Appeal, and the Government could now not work to reach a settlement with them while the legislation itself was under judicial review.

Insurance cases

We discussed at some length with the Minister the number of insurance claims lodged with EQC and private insurers that have yet to be resolved, and the number likely to end up with the courts for resolution. It appears that about 5,500 of EQC’s larger claims and about 9,700 claims with private insurers are not yet settled. Of the 376 earthquake-related cases lodged with the courts, about 200 have still to be resolved.

The Minister said there are numerous reasons why claims may still be in process, including the need to resolve important land-related technical issues, on which it is worth homeowners’ waiting for decisions before settling claims. He considers that with the Government funding residential advisory services, and the help CERA provides, it is highly unlikely that many of the claims still in process will end up in the courts. He believes most of the properties still awaiting even a settlement offer from insurers are likely to be multi-unit dwellings, where the issues are particularly complex, and likely to result in legislative change.

Some of us are of the view that even if only a fraction of the claims yet to be settled end up in legal proceedings, it could overwhelm the existing court system.
Appendix A

Approach to this examination

We met on 18 and 25 June to consider Vote Canterbury Earthquake Recovery. We heard evidence from the Minister of Canterbury Earthquake Recovery, Hon Gerry Brownlee, and the Canterbury Earthquake Recovery Authority, and received advice from the Office of the Auditor-General.

Committee members

Paul Goldsmith (Chairperson)
David Bennett
Dr David Clark
John Hayes
Dr Russel Norman
Simon O'Connor
Hon David Parker
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Hon Kate Wilkinson

Ruth Dyson replaced Grant Robertson for this item of business.

Evidence and advice received

We considered the following evidence and advice during this examination:


Office of the Auditor-General, Briefing on Vote Canterbury Earthquake Recovery, received 16 June 2014.

Minister of Canterbury Earthquake Recovery, Response to standard Estimates questionnaire.

Responses to additional questions, received 16 and 23 June 2014.
Welcome, Ministers, and thank you very much for coming. I understand you’ve got a video, but maybe you could, while they’re setting that up, begin your introduction.

Yeah, so the video’s part-way through, and it’s really just for people who are here, in one capacity or another, to get a sense of some of what’s happening in Canterbury. I think the first point I’d start with is that what we are projecting here is the continuation of Government support for Christchurch, and if you think about the objectives that we discussed here last year and the two preceding years, we’re not in bad sort of shape. So we have in Christchurch, or Canterbury, roughly 5.6 percent regional growth. If you think back to the 2011 estimates hearing, there was a lot of talk around at the time that the economy was on the brink of collapse, depopulation, etc. So that certainly is a very different picture now.

Also, looking at employment—3.3 percent unemployment, with 6.2 percent nationwide, so it’s quite a different picture there. There are two groups in that, of course: 2 percent male unemployment, which is a good result, but 4 percent female unemployment, so we need to do more. Sorry, I don’t have the demographic on an ethnic basis. There have been 11,000 new company registrations since the earthquakes in Canterbury, and I think that indicates the intensity of work that’s available for small contractors. So while some of the criticism was out there a while back about the big players getting all the
action, the reality is that a lot of small businesses are getting a huge boost out of all of this.

The quarterly construction expenditure for Q4 of 2013 hit about $800 million, and so we expect that to rise. If you think about the fourth quarter of 2011, it was around about $260 million, and a lot of that $260 million was based on emergency work that was done at the time, so a huge increase over that period of time, and $1.7 billion of commercial building consents. It’s all very, very pleasing. If you look at investor confidence in Canterbury, it’s running at twice any other part of the country, so that’s at about the 60 percent mark—a very pleasing result.

Central city progress has been one that there’s been a lot of criticism about. People can lose sight of the fact that there was a very big job cleaning that up, getting it ready to replace it, and the man hours that were worked in that area with only one injury, I think, is a significant result. So we have the innovation precinct now with an active tenant, and all of a sudden, a lot of other interest going in there. The Government’s come to the party with the Callaghan Innovation taking space there. New Zealand Trade and Enterprise will take space there, as well as the new initiative around encouraging that type of innovation.

We’ve relocated the Re:Start mall, and the good thing about that is that it indicates that the block, for those of you who are familiar, in the retail precinct down at Colombo Street, Hereford Street, Oxford Terrace and Cashel Street is very shortly to be entirely under construction, and reported difficulties for developers there, I think, are somewhat overstated. The developer concerned, Antony Gough, has no debt on this project. He had a management structure that he’s reviewing. The Avon River precinct is well under way. The bus exchange is due to start, and the justice precinct, similarly, is well under way.

We have the residential project for the East Frame out in the engagement phase—14 applicants looking to do something there—and, in general, we’re getting to a position now where the CBD is quite tidy.

Just reporting on the residential stuff, it’s hard to separate out at times some of the activity of EQC from the concerns at CERA. So EQC at the moment is sitting at about an 83 percent settlement rate. At a different review I’d happily answer some questions about that. But that work is progressing and across the city you’re seeing a high degree of optimism about the future, which I think is very important.

So if we are aware for that video—I’m not doing any soft sell here, but one of the important things is that we even tell people in Christchurch City about the level at which activity is happening. Sometimes, I think, it is easy for me being down there so often and the members from down there seeing incremental progress, but to see the vast progress, I think, is a little harder.

So if we roll that video now, that would be good. [Video presentation]

Brownlee That video was prepared for the numerous unsolicited bids that we are getting for people to participate in the rebuild, and the expectation that
Government might be able to hand out contracts. As you know, we have very significant and quite binding procurement arrangements. I do say—

Peters Who did the video?

Brownlee CERA.

Peters Who did they hire to do it? I presume they’re not a video—

Goldsmith We can come to your questions in a moment.

Peters It’s pertinent. I’d like to know who did the video?

Brownlee Animation Research.

Peters It was not CERA?

Brownlee Well, CERA contracted them to do it. CERA paid for it.

Peters I asked you who made it, not who contracted it.

Brownlee That’s what I said.

Peters Why’d it take you so long?

Brownlee Well, largely, this is a financial review and I thought you’d want to know who paid for it. So I told you. CERA paid for it; Animation Research did it. Roger’s not very good with the coloured pencils!

Goldsmith Mr Peters, we’ll go through the details. You’ll get your chance to ask questions.

Brownlee You will have a view about where it should go, but the reality is that we have to give confidence to people down there that things are happening and by demonstrating clearly what is happening, we’re doing that. I could go on and on, but I think it’s better that I just answer the questions.

Dyson I’ve got a little bundle of questions that I want to ask. Firstly, in relation to the Quake Outcasts case. So that case had a determination in the court and now it’s back in the court. What did you do, Minister, in relation to complying with the court decision in the Quake Outcasts case, between the first determination and now? Why is it back in court? Why isn’t it settled fairly as the court required you to?

Brownlee Well, the court required that we go through the process again, and the Quake Outcasts representative contacted my office very shortly after the court decision and said that if we did not make a 100 percent offer to Quake Outcasts by 28 January, which was the drop-dead date for the appeal, then they would appeal. We made it clear to them that, given the time of year, we could not go through the process again and satisfy the court’s requirements by that date, and so they appealed. Once it was appealed and the appeal went further than just asking for a review, the appeal actually questioned the legality of the entire process, then it would have been, I think, quite a—

Dyson I’m asking what you did.

Brownlee How do you mean? I asked my department—
“What did you do?” means what did you do between the court determination and them taking the appeal or now? What action did you take?

Probably read it.

Yes, I’m sure he read the court decision, but I want to know what you did, not what their lawyer did.

I’ve just said: I asked my department to undertake the reconsideration, as the court directed.

How long did that take?

Well, it wasn’t completed by 28 January. When the appeal was lodged and the appeal, as I’ve said, went further than just asking us to review the decision.

Has it been completed now?

Well, if I was to answer that, I would risk a contempt of the court, in my opinion, so I’m not answering that.

Has the officials’ advice to you on the original Quake Outcasts decision been reported to you?

I have had reports on some of the parameters for reconsideration.

Have you thought about acting on it to save the costs of those people going to the court?

Isn’t it sub judice now?

No, it’s not.

I don’t think that’s a reasonable question, given that those people have actually now questioned the legality of what we’re doing. So I would be, I think, in a very awkward position by going to them and saying “Look, OK, here is an offer. Will you accept it?”, when in fact they may continue with the action, which questions the entire legality of what we’ve done.

They had no choice but to lodge that appeal at the end of January—

No, I don’t think that’s true.

—because you hadn’t come back to them with an offer.

No, with all due respect, it had been conveyed very clearly to them that there was going to be a reconsideration.

So why don’t you make them a decent offer now?

Well, there’s your point—

It’s under appeal now.

It doesn’t have to be.

No, there’s your point. You have a prejudiced position about what the offer should be.

You can always make an offer. Why don’t you do that?
Brownlee  I’m not going to do that while they are taking us to court to question the illegality of decisions that have been made in the favour of nearly 8,000 people who’ve accepted the offer.

Dyson  You could settle and take it out of court.

Brownlee  You can’t settle this—it’s questioning two things. One is they are questioning the process and that is judicial review. If they’re asking the court to offer an opinion on whether or not everything we’ve done today under the CERA Act has been legal.

Dyson  What about the people who are on the Port Hills that have been red zoned and haven’t received an offer. By the time that court determination is out, it’ll be 4 years since the quake and over 3 years since the red zoning with no offer.

Brownlee  I take this view—

Dyson  Have you thought about giving them even a partial offer so they might be able to get on with their life?

Brownlee  How can we do that?

Dyson  Easily.

Brownlee  Well, that’s your opinion, but when we’ve got a court that is hearing and going to make a determination about the legality of the use of an Act of Parliament, I think that puts us in a very difficult position. And remember that the offer remains open to people other than vacant land and commercial property owners.

Dyson  People on the Port Hills haven’t had an offer from you yet. They’ve been red zoned for over 3 years, they’ve had no money, they can’t do anything with their land—you could make them an offer.

Brownlee  How many people are you talking about, Ruth?

Dyson  You know how many people are on the Port Hills.

Brownlee  How many people are we talking about?

Dyson  You know how many people are on the Port Hills. You red zoned them.

Wilkinson  Why don’t you tell us how many, Ruth?

Dyson  It’s bare land and they’ve had no offer.

Brownlee  That’s right, bare land. It’s a very small number of people.

Peters  How do you know that?

Brownlee  Because it’s public information, Mr Peters.

Dyson  It is, so why ask me?

Brownlee  It’s public information, but what’s not being pointed out here is the scale of the problem.

Dyson  So can I ask one more part to that in terms of the red zone information? You’ll know that the new valuations were issued quite recently. Quotable
Value issued new valuations on the land, and they revalued red-zoned properties at dramatically lower value than you might otherwise have thought they were worth if they weren’t red zoned. I asked you written questions in relation to the information about red zoning being passed over to the organisation that calculated the rates, and you said that you didn’t give it to them until 17 December, which was the day that the red zone was made public. Yet those rates are struck in accordance with the zoning of the land on 1 November, according to QV. Who’s lying: them or you?

Brownlee Well, the first point I’d make is—

Dyson Well, who’s incorrect?

Brownlee Well, I can’t answer for QV, but I would imagine that when their valuers did their analysis and went around, saw the damage, and saw the public information that was out there are the time and recognised that there was going to be significant difficulty, whether it was red zoned or not, in using those properties moving forward, they would’ve probably, unlike a lot of people, recognised that you can’t change the geology by the policy it was under.

Dyson You know that a lot of people were stunned on 17 December when they were turned from green to red. They were further surprised when they got a valuation that was based on 1 November zoning status, which clearly knew they were red zoned. That information could only have come from you.

Brownlee No, that’s not right.

Dyson Where else could it have come from?

Brownlee Well, the zoning maps were public at that stage.

Dyson No they weren’t zoned; they were zoned green until 17th December.

Brownlee No, no, sorry you’re right. The risk map’s public.

Dyson No.

Brownlee Yes, they were.

Dyson No, not on the ones that were zoned green to red and hadn’t been asked for their point of view.

Brownlee If you think about what happened, so the first assessment was done on trying to assess the risk factors, and then there was a review process on top of that and people were invited to submit to that if they wished to have their property reviewed one way or the other. But inevitably in the review process there was consideration of all of the information that had previously been amassed by the geotech engineers and others who were involved in those assessments. The risk maps were public. They’d been made public for a time. So if QV used those, so be it. But there was no direct, as I understand it, communication between CERA and Quotable Value. Christchurch City Council, of course, was also a partner with CERA in the whole of the Port Hills assessment and very much involved in that right from the word go, from mid-2012, in fact.
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Dyson Will you revisit your answer to my written question—when you told QV the zoning decisions?

Brownlee No, I assume that the information provided to me is correct. But QV doesn’t only get its information from us. Remember that QV—

Dyson No, on zoning they did.

Brownlee With respect, QV works for the Christchurch City Council. They strike the Christchurch City Council’s valuation. Christchurch City Council was at all times in possession of all information that was being amassed about the Port Hills.

Wilkinson Thank you, Minister. I want to sort of get an update really on the difficult insurance cases because we know they’re going to get harder and harder. There was an interesting letter to the editor from the Chief District Court Judge which said that back in February 2012 she issued a fast-track procedure for earthquake cases. Basically it gives earthquake cases priority over any other civil cases.

Dyson Oh, that’s great.

Wilkinson It has to have the parties before a judge within 15 working days. It’s not too bad. And the interesting thing is, too, if you’ll forgive me giving—I am getting to it, thank you, Winston. Since February there have been 76—

Peters We’ve only got 1 hour here.

Wilkinson Yes, and I’ve got my time as well, thank you. It’s better than your question. Since February 2012—

Peters Well I haven’t asked mine yet, have I?

Wilkinson —there have been 76 cases filed, and only 33 are on hand. All bar one of the 43 disposed of settled without the need of a full hearing. Of the current cases, 17 are on a managed list, which is to achieve resolution—

Peters And the question is?

Wilkinson —without the need for hearing time and costs. Well, my question is, aren’t they doing a good job? Why on earth do we need an earthquake court?

Brownlee Well, I don’t think we do.

Dyson What has this got to do with the matter before the committee?

Goldsmith The Minister’s response, please.

Peters This is a serious committee.

Brownlee Well, largely because—

Wilkinson Your question wasn’t serious.

Goldsmith No, no.

Brownlee I think the courts are doing a good job getting through those cases. I think they’re establishing good case law, and I think it’s unfortunate that some of the more difficult cases are actually before the courts because of the conveyancing of properties over a period of time without reference to those
properties being part of a body corporate. So you’ve got in the multiple units in Christchurch and, frankly, it’d be the same throughout New Zealand, you have in Christchurch a huge difficulty. Potentially throughout New Zealand you’ve got the same difficulty.

Wilkinson I think unit titles have always been tricky. Is there any—it’s probably not your department. Is there any thought of amending the Unit Titles Act to cope with the difficulties that have been encountered by insurance earthquake issues?

Brownlee So CERA’s been very much in the process of trying to resolve the issues around the multiple units, and inevitably out of that there will be some recommendations about law changes. The Law Society, I believe, are involved in it too, trying to sort it through, to try to get some better methods, and I have got to say insurers have been very cooperative and have said: “Well, we know it’s unders and overs, and we’ll have to wear it.” Just going back to the court, too, I think it’s worth noting that a very, very disproportionate, large number of cases have been brought by one lawyer.

Wilkinson And we know who that will be.

Brownlee I believe his name is Mr Shand. I don’t know him personally, but he seems to have a huge number of cases that he’s putting through the courts.

Parker Kate Wilkinson’s question there of the District Court said that since that process has been in place, since 2012, 76 cases have been through it—76 cases in 2 years, 33 of which have been settled. And we know from the High Court figures—

Wilkinson No, 43.

Parker Forty-three have been settled. Sorry, I am 10 out. In respect of the High Court, we know that 300 cases have been filed and 130 have been resolved according to their earthquake list. So the court system in Christchurch over the last 2 years has dealt with approximately 200 cases. You’ll also be aware that in the whole of New Zealand, in a normal year the court system in the civil arena in all courts handles about 1,000 cases a year, and yet we’ve got about 10,000 unresolved insurance cases of significance and insurance disputes not in court but unresolved in Christchurch.

Brownlee No, that’s a grossly inflated figure that one of your spokesmen chose to use. Analysing that down, it is a fraction of that amount, probably less than 2,000. Now, 2,000 is still a large number, but let me put it to you this way: a couple of things—when we first went to make purchases of red-zoned properties, and there was option 1 and option 2 available to people, we expected initially a lot of people might go for option 1 because it was a clean way to get out. In the end, people overwhelmingly went for option 2. Part of the reason for that is that option 2 left them dealing with their own insurer. And what we discovered is there were more than 70 different types of insurance policy offering home replacement. So you could be in a street of houses here, all with a replacement policy but all with different triggers, and I think it’s very instructive that cases that have gone to the court at the
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moment have not been all that favourable to the applicants. And if I take you to the—

Parker Could I just go back to the numbers of Kate. That’s a different issue.

Brownlee No, if I take you to the case of the O’Loughlins, for example.

Parker No, no; you can give a speech in the House. I’m just trying to ask questions about unresolved questions, Minister.

Brownlee Well, you’ve come up with the wrong information.

Parker No; you’ve just said that there’s only 2,000 cases approximately unresolved.

Brownlee Possibly.

Parker Well, can I read out—

Brownlee No, no. Hang on.

Goldsmith Just let him clarify first.

Parker I cannot—

Brownlee I’m fighting against your choice of using inaccurate information and silly terminology.

Parker And I’m just trying to ask you questions about your assertion that there are only 2,000 cases unresolved, and I read out—

Brownlee No, not unresolved.

Parker —a press release from the Insurance Council on 15 May, which says that of the 22,455 over cap dwellings, 9,800—44 percent—have been settled; 43 percent, 9,700, were pending settlement, i.e. still in negotiation at different stages; and 2,800 had still to be made an offer. That’s just the insurance company ones; that’s excluding EQC. EQC say that in respect of theirs—and again this is report that was in the NBR because we can’t seem to get accurate information any other way—in respect of the larger claims, and this is not the tens of the thousands of smaller claims, they said that 5,573 claims were yet to be resolved; and that there were, and it’s not clear whether this is within that number or above that number, 700 near to cap properties which have yet to have to their cap status confirmed. So whichever way you look at it, there’s far more than 2,000 claims unresolved.

Brownlee No, I think that’s quite wrong, and I’ll tell you why.

Dyson Everyone’s wrong.

Brownlee No, not at all. You’ve said 9,800 are settled. That means that the repairs or the rebuild of those properties are completed, and the keys are handed over.

Parker We’re not disputing that.

Brownlee Well, of the 9,300 that are pending, that means—

Parker 9,700 pending.
Brownlee: Well, 9,700 is a better number from my point of view, because what it means is that those are in a process and they are not considered settled until the keys are handed over.

Parker: But a lot of those people haven’t said yes to the deal.

Brownlee: No, no.

Parker: They think they’re being squeezed.

Brownlee: There may be some in there like that, but the point is—

Parker: Well, the 2,800 who haven’t even got an offer—

Brownlee: No, sorry. Go back to your assertion.

Parker: They’re the people that haven’t got an offer.

Brownlee: If you go back to your original assertion—

Bennett: Let’s talk about the estimates.

Brownlee: —and the assertion that was boldly made by Labour was that there are 10,000 cases to go before the court.

Parker: You just told us after 2,000 that aren’t settled.

Goldsmith: OK, right.

Parker: You just told us that only 2,000 are not settled.

Bennett: That’s not true. You’re not letting him get away with that.

Brownlee: No, no. Mr Parker—

Parker: Yet the figures I have read.

Brownlee: No.

Goldsmith: Could we just stop for moment? If we can just approach this with courtesy and with the opportunity to have answer, and then—

Brownlee: Well, it gets difficult for people when they misrepresent the figures.

Parker: Can I ask a question then, Mr Chair?

Brownlee: Hang on—I haven’t been able to answer yet.

Goldsmith: Well, if we have short and succinct answers, and then we’ll have a short question.

Parker: No, no; I thought our job was to ask—

Brownlee: I’m sorry, Mr Chairman. I’m not staying if you’re not going to let me answer questions.

Goldsmith: He’s actually answered your questions.

Brownlee: No, I haven’t.

Parker: I’ve only asked two questions.

Brownlee: What was my answer?

Goldsmith: You haven’t answered your question, Minister?
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Brownlee  Well, I would like to answer the question.
Peters  Mr Chairman, point of order.
Goldsmith  Yes.
Peters  I raise a point of order. It is not fit for a Minister to come here and say if he doesn’t like the way he’s being questioned, he’s not going to stay.
Dyson  That’s right.
Peters  With respect, you will stay, because this committee’s—
Brownlee  Mr Peters, I’m here to answer questions, not take a barrage from the committee.
Peters  No, I haven’t finished. I am raising a point of order and you will keep quiet while I’m doing it. You’re a witness here.
Brownlee  I’ve heard your point of order.
Bennett  Point of order, Mr Chair.
Peters  Could we address that, because we’ve just now been threatened.
Goldsmith  No, no. OK.
Peters  He said he won’t stay if that’s the way it’s going to be.
Goldsmith  It’s very clear. We can just carry on with good governance. If the Minister can answer the question, then we’ll have the next question. That would be good. Thank you.
Brownlee  The answer to my question is that your 9,700 are in a process. They’re not waiting to go to court.
Parker  I didn’t say they would.
Brownlee  Well, you did. You used the figure of 10,000, and you’re wrong.
Parker  Can I ask another question now, Mr Chairman? You just told us that only 2,000 significant claims in Christchurch are still outstanding, yet in May—
Brownlee  No, I didn’t say that. You said—
Parker  Well, then how many are?
Brownlee  I’m sorry, but you in a very emotive way said there are 10,000 claims that will go court.
Parker  I didn’t say that. I did not say that.
Goldsmith  Well, they’ve a disagreement.
Parker  Minister, I actually pointed out that the only amount of claims that were in the court were 76 cases in the District Court and 300 in the High Court, a fraction of which have been settled. You said that 2,000 claims were outstanding. The Insurance Council’s own figures say that 2,800 have not even had an offer; 9,700 they say are in process but not completed.
Brownlee  Mr Parker—
Parker That shows that even excluding the EQC unsettled claims, of which there are many thousands, the claims are many thousands more than you admit.

Brownlee Mr Parker, your assertion was that there needs to be a special court in Christchurch.

Parker Could you please just answer my question?

Wilkinson He is. Let him answer it.

Bennett Let him answer.

Parker I did not ask him then about court processes. I asked him about the number of claims that have not been settled. Minister, you just told us earlier in this hearing that there are only 2,000 of them.

Goldsmith We’ve heard the question.

Parker How do you justify that given that the Insurance Council says 2,800 of the over cap claims have not had an offer, and 9,700 are pending settlement they say?

Brownlee Mr Parker, you were making a case that there had to be a court in Christchurch to deal with—

Parker This is not my question.

O’Connor He’s got to have a chance to answer.

Goldsmith He’s addressing the question, and give him a chance in the first subclause of the sentence.

Brownlee It had to address—

Peters We’ve had 5 minutes, for goodness’ sake.

Goldsmith Continue please, Minister.

Brownlee You’re making a case there was a need for a court in Christchurch to address 10,000 unsettled claims in Christchurch. What I was saying is that it’s highly unlikely that there’s going to be anything like that number ending up in the court, and I think the misrepresentation of the 9,700 private insurer claims as being likely to go to court is wrong. Those are cases that are in the settlement process; they’re not considered settled until the keys are handed over. The 2,800 you talk of will be people—and believe me, I’ve got very, very close personal experience of this—who are in discussions with their insurance company and likely to go into the pending settlement column. Further, when you talk about the EQC issue, you raised 700 who haven’t had an offer. I’ll put dollars to doughnuts that those are people in multiple units where there are issues that need to be sorted out with the private insurers as well as EQC.

Parker The Minister’s made an assertion that I’ve said 10,000 cases are going to court. I have not said that. I have said that there are close to 10,000 cases that are yet to be settled—

Wilkinson Unresolved, you said.
Parker: Yes, that’s right. They are unresolved cases, and if a fraction of those were to end up in court and it is likely that they will, if they can, then you overwhelm the court system.

Brownlee: Well, I don’t think that’s going to happen. I think that the money we’ve put into the Residential Advisory Service and the resolutions coming out of that are very useful. I think the work of CERA in getting alongside people who are in vulnerable circumstances, helping them through a process, putting them in touch with the right people, but not offering financial advice as we’re prevented from doing, is also going to see that number dwindle.

I make the point too, that when you say “unresolved”, if they are pending, you would say they are “unresolved”. I would say they are moving towards settlement, because you can’t get settlement until the keys are handed over.

Parker: Do you think that 3½ years after the first quake and more than 3 years after the second quake, the insurance companies are in breach of their obligations to the people they insure by not having settled their claims?

Brownlee: No, because there were a number of variables or information that they needed, and frankly had they settled earlier a lot of people would have been a lot worse off. Now you might find that an odd thing to say, but from someone who is very close into it, can I tell you that had we not waited for an understanding of what you can do around TC3 foundations, for example, and some of the costs involved in that, I think we could have seen a lot more people in difficult circumstances. Frankly, I’m not allowed to offer financial advice, but I would say, and happily be challenged on it by anyone who wants to challenge me, that people who cash settle need to think very, very carefully about that. It’s an unwise thing to do.

Sage: The estimates have more money being provided for development costs for the stadium. Does that mean there is the intention to proceed with the stadium despite the severe cost problems for the city council and a desire in some quarters to have a cost-sharing agreement renegotiated?

Brownlee: What I think it means is that one way or the other there is some considerations that have to be made around the stadium. I’m a little bit strained in what I can say because the existing AMI Stadium is part of an insurance claim from the council and that’s proving difficult in many ways. So we’ve got some flexibility there to look at the whole issue, and potentially get some resolution around it. But I can’t say much more than that. That’s not a commitment to a new stadium; it’s not a commitment to the old one.

Sage: Given the $500 million estimated cost, is there any intention to consult the public of Christchurch as to whether they want $500 million of Crown funding going into the stadium?

Brownlee: Well, I presume that when the council comes to put up their money they’ll have to go through a process that lets them do that.

Sage: Well, the bulk of the stadium cost is not coming from the Crown?

Brownlee: No, that’s not stated.
Sage: Well, even with the Crown funding—so are you saying you’ll proceed with the Crown funding potentially for a stadium without—

Brownlee: No, I haven’t said that.

Sage: So what public consultation would there be about whether the Crown contributes to the funding of the final cost of the stadium.

Brownlee: You’d need to talk to the Christchurch City Council about that. That’s not my responsibility.

Sage: Just another in Christchurch. What business cases have been completed for which anchor projects.

Brownlee: Well, a number of them. I’ll ask Warwick Isaacs or perhaps Roger.

Sutton: The convention centre business case has been completed. The bus interchange business case has been completed, the East Frame business case is largely completed. The South Frame is nearing completion. The Metro Sports facility business case is somewhere in the order of 80 percent complete, but hasn’t left the council or CERA’s offices at this stage, and the Avon River precinct business case was completed sometime ago, and the stadium business case has not yet commenced.

Sage: Given that your answers to questions say that “the cost of projects are further refined once the business case process for the projects are completed.” Given the scale of expenditure that’s involved, why won’t you release any of the business cases? I’ve asked written questions seeking the Avon River business case, for example and it’s been declined every time. Why won’t CERA go public with the business cases?

Brownlee: Because we’re providing private contractors to contract parts of that. So it’s a bit like the problem that you’ve got with all Government procurement, and I can use transport for example. You go out and say the average cost of a kilometre of road is $100, within a very short time that $100 will be coming under pressure for all sorts of reasons from a contracting community that’s able to look at what the Government’s prepared to spend.

Sage: Well then, what assurances can you give us that the hundreds of millions of dollars that are being spent on these projects, there’s good governance, given that the cost estimates seem to be quite flexible and there’s another comment that the final amount that each of the projects will be subject to scoping agreement with the lead contractors. So without providing a business case for public scrutiny and then having negotiations with contractors about cost, there doesn’t seem to be any assurance that there is clear scrutiny of just preventing cost blowouts?

Brownlee: Because we’re providing private contractors to contract parts of that. So it’s a bit like the problem that you’ve got with all Government procurement, and I can use transport for example. You go out and say the average cost of a kilometre of road is $100, within a very short time that $100 will be coming under pressure for all sorts of reasons from a contracting community that’s able to look at what the Government’s prepared to spend.

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Brownlee: Well, with respect, that’s entirely why we’re not releasing the business cases.

Wilkinson: Just by supplementary on that: what’s happening with private sector involvement in some of these projects? How much of it is that? Because I know I’ve had several people with investment funds who just are dying to get into the action—it’s a great time in Christchurch for that. There’s a two to three waiting list to get into some restaurants. But the private sector involvement—how do you encourage that?
Sutton There’s about 120 new ones.
Brownlee Well, that’s a good point. Roger’s pointed out there’s actually 120 new bar/restaurant facilities in Christchurch post the earthquake.
Wilkinson I haven’t been to them all yet.
Brownlee No, you’ve got time coming up.
Wilkinson I know. I’m looking forward to it.
Brownlee One of the problems that we have is that a lot of investors come to town and say: “Look, where are all these opportunities? We want them.” But they don’t necessarily want to participate in the, I have to say, somewhat convoluted Government process that we’re obliged to follow for procurement. At some point I think there’ll need to be a discussion about that, but it’s not happening at the moment.
Sage Your video noted that a number of these projects wouldn’t be finished until after 2016. What is the future for CERA then, given that it’s supposed to end in 2016?
Brownlee The Act itself and the powers that are in the Act cease to exist after 2016.
Sage So you envisage CERA continuing?
Brownlee CERA is constituted as a Department of State and I think it will have an ongoing role, particularly as probably during 2015 some assessment is made of who can take over what aspects of the work that CERA’s doing at the moment.
Peters The Prime Minister recently said that there’d be another $5 billion spend required because of escalating costs. Do you agree with him?
Brownlee I think what the Prime Minister’s indicating is that the Government’s not closed to there being higher costs involved in the Government’s aspect of recovery.
Peters He said that he thought about $5 billion extra spend because of escalating costs. Do you agree with that or not?
Brownlee Well, I agree with him that the spend is likely to be higher, and, look, Peter Townsend from the Chamber of Commerce has made the same comment. It is not an unusual comment to make.
Peters Do you agree with him?
Brownlee I think there is going to be great expense, because—
Peters Do you agree?
Brownlee If I can finish.
Peters Do you agree?
Brownlee Well, yes, for the simple reason—
Peters I’m presuming, because you’re the Minister, the Prime Minister might have asked you.
Brownlee: Yeah, we talk about it.

Peters: Do you agree or not agree? I just want to know.

Brownlee: Well, Mr Peters, I think you try to put the Prime Minister’s comment in the context of the Government having to go and find another $5 billion.

Peters: Well, that’s what the Prime Minister said.

Brownlee: He said that he expected costs could escalate over time. Remember that our costs around the education plan are, for example, over 10 years. The hospital plan’s over—

Peters: I’ve got all that; I just asked you a simple question.

Brownlee: Our New Zealand Transport Agency is over a period of years. Of course there’ll be escalations.

Peters: Can I take it that you agree with him. Now the next question is: if that’s the case, why was the budget for Canterbury earthquake matters therefore reduced in this current Budget by half a billion dollars?

Brownlee: That’s not my understanding of what’s occurred in that arrangement. What you are seeing is, firstly, I think you’re probably referring to the horizontal infrastructure costs.

Peters: All earthquake matters is down by half a billion.

Brownlee: That’s right.

Peters: In the current Budget. That’s right, isn’t it?

Brownlee: Yeah, that’s right.

Peters: So there goes your surplus, isn’t it, for the next Budget? It’s that clean.

Brownlee: Look, come on, you’ve been at Treasury; you know how the estimates system works. So the first part is that a big significant part of the cost is involved in the horizontal infrastructure, which was initially estimated at around about $3.4 billion. And we had to get started. We couldn’t wait, and the processes I’ve been critical of had to be set aside and they were. So we came up with the alliancing structure that I think’s worked extremely well. But it did mean that you had to get to a point where you had to have more accuracy about the figure that is going to be actually expended by Government or by the council on that horizontal infrastructure given you’ve got a high-trust model to get it done.

So over a period of about 14 months it was engagement with Treasury, CERA, the SCIRT contractors, the Alliance board, etc., and that figure was revised down. It was revised down I think initially—I think I’m correct at saying 2.8 was the additional figure and we said “Have another look at it.”, and took it back to 3, and at 3 we struck a cost-sharing agreement, and the cost-sharing agreement has a proviso in it that we can look at it, but in the end we don’t want to be saying to, with all due respect, the contractors that this is a $3.5 billion job when it may not be. So there were a number of variables there to consider.
Peters I’ve come to the conclusion that earthquake matters is down seriously by hundreds of millions of dollars with particularly the current Budget, and we’ve got a $5 billion escalation of costs which the Government is going to have to take care of into the future. Can you reassure the committee that there are no serious concerns of fraud happening in the Christchurch earthquake rebuild?

Brownlee I think there has always been a serious concern to ensure there is no fraud in the Christchurch earthquake rebuild. So very early on I asked the Office of the Auditor-General to be involved not only with processes that CERA was involved in, SCIRT, and other expenditures, but also the expenditure of EQC. And the Auditor-General has reported several times. We take those reports very seriously. EQC have a very strong mandate to prosecute where they find there is fraud. Now I can tell you that you get anecdotal stuff provided all the time and whenever it is provided I insist that it is checked out, and the cases that have been bought to court so far have been as a result of either EQC themselves fighting those things. I don’t know if CERA have had any inside the SCIRT programme, but it’s something that we are constantly are on guard for.

Peters So is that an assurance?

Brownlee Pardon?

Peters Is that an assurance to this committee that you have no serious concerns about fraud happening in the Christchurch earthquake rebuild?

Brownlee I have no concerns that the vigilance—hang on, that the vigilance on potential fraud is efficient.

Goldsmith Thank you. Right, we’ll come to Jami-Lee Ross.

Brownlee I just want to make the point on the comment from Prime Minister about the $5 billion—that’s not anticipated cost; it’s an acceptance that over a long period of time, there will be cost escalation.

Goldsmith Jami-Lee Ross.

Ross Minister, you mentioned the employment figures in your presentation. Can you repeat those unemployment figures in Christchurch, please?

Brownlee 3.6 percent is the unemployed. Two percent male unemployment, 4 percent female unemployment, and I don’t have the ethnic background.

Ross So those unemployment figures are fairly low compared with the rest of the country?

Brownlee Yeah.

Ross It’s obviously quite a tight job market down there. Can you tell us about the Government’s plans to encourage people to move to Christchurch so that you have got sufficient workforce to complete the rebuild?

Brownlee In the end, it’ll be the opportunities that are there that will bring people in. And, you know, we’ve made some concessions around immigration, but you’re seeing a whole lot of people coming particularly from other parts of
the South Island initially, into Christchurch. And I think there were proposals that we should have all sorts of incentives in place, and we have that incentive for young people; I think that’s a good one. But we’ve also upped the number of skills places available in the polytechs to give opportunity to young people as well.

Ross Glad you mentioned immigration because one of the political issues at the moment is immigration, and some parties in the Parliament wish to reduce the number of migrants—

Goldsmith We’ll keep the order please.

Ross Can you tell us about Christchurch and immigration, and how a significant reduction in immigration would seriously impact the Christchurch rebuild?

Brownlee Well, I think the biggest concern that we had initially was cost escalation for private households, and Mr Peters has quite rightly raised the issue of that cost escalation. The only way you’ll keep that in check is if you can hold rates at what are commensurate with the rest of the country. And by-and-large, that has occurred in Christchurch. So, on labour market issues, particularly skilled people—while you can train New Zealanders, that takes time. So, there’ve been a lot of people come in from Ireland, quite a few from the Philippines, a lot of New Zealanders coming back from Australia—quite a large number in fact. And where are the other places, Roger, that you’re aware of that people are coming from?

Sutton If you go off to the large engineering and consulting firms, they’ll talk about having 20 or 30 different nationalities now in their firms. So they’ve come from across, you know, right across the spectrum. I mean, yeah, the city council have taken quite a number of Canadian building inspectors on, because a lot of their building Act is similar to ours. So it’s just, you know, different groups have come in for different areas.

Brownlee So, without those options, we would be going much, much slower.

Ross I’ve got further economic questions around the Christchurch rebuild. The rebuild will be completed at a certain point in time, but you’ll potentially want to continue with economic progress down in Christchurch. So can you tell us about your view in terms of how you’d expect to sustain economic progress past the rebuild stage.

Brownlee Well, there is a theory always that a population itself has an ability to sustain at a particular level, because of the needs of that population. But I think the biggest thing for Canterbury is going to be irrigation projects on the plains, and we’ll see perhaps a doubling of output while you’re getting the environmental upside of water storage. That, I think, is a very important—

Parker Is this part of your CERA responsibilities?

Brownlee No, he asked me a question about what is CERA thinking about beyond the other thing. Well, economic recovery for Christchurch is one of CERA’s responsibilities.

Goldsmith OK, thank you. Jami-Lee Ross you got a final question?
2014/15 ESTIMATES FOR VOTE CANTERBURY EARTHQUAKE RECOVERY

Ross
Last question is in terms of the economic recovery and economic work going on in Christchurch, how much, in your view, is construction-related, and how much is all of the other issues and all of the other work going on down there in Christchurch?

Brownlee
Well, I mean, you can’t have the sort of expenditure we’ve got going on there—$40 billion to $45 billion over time—and not have just about all services in the community somewhat related to that activity. But because it is over time, it’s over a long period of time, and probably a longer period than people would want to acknowledge, I think you’ve got to have something coming in behind it to fill up that gap. And that’s part of our thinking as well.

Goldsmith
We have a question from John Hayes.

Hayes
Yeah, I’ve got a couple actually. My first is to the Minister. You’re just reflecting back on the impact of irrigation you’re talking about on the hinterland. Much of the material from—well, much of the production from that irrigation surplus would be processed in Christchurch, wouldn’t it?

Brownlee
Christchurch and the hinterland. So you’ve got Darfield, which is also affected by the earthquakes. Now you’ve got the world’s largest drying plant—a huge vote of confidence from Fonterra in the province.

Hayes
And has there been an impact on Ashburton?

Brownlee
Yes, I think Ashburton’s growth is also on the up. One of the things that was interesting about where population did move in the 12 to 18 months where we were down on population is that small towns throughout New Zealand experienced some degree of growth.

Goldsmith
Simon O’Connor.

O’Connor
I just wanted to turn actually away from the insurance and economic side of things to the red zone and what CERA in your position is around consultation and continuing consultation with the community around the red zones?

Brownlee
Yes, the red zones are essentially in Christchurch City and in the Waimakariri District and the town of Kaiapoi. What we’ve asked the local authorities there to do, because we want to work with them on what happens with all that land is, first, do an analysis of what their infrastructure needs are. So in all of those lands, there are sewerage wastewater, freshwater networks as well as electricity networks that if you just cut them off from the boundary, you’ve got a real problem, because they’re all interlinked. So we want to know what they need inside those areas where they are preserved from other activity or reserved from other activity. Once we’ve got that—and both councils have welcomed that. The Waimakariri District, they’ve got theirs done. theirs is a much, much smaller proposition than Christchurch. We think that Christchurch City Council will probably get that done in the next 7 weeks or so. The mayor and I have talked about it. We’re both pretty relaxed about where we go with the public consultation process in the short term. What we do need though is to have that nailed down for a start so that all the appropriate easements and other
considerations can be put down—even down to what roads do you keep open through those areas, etc., those types of service accesses. It's not a simple overnight thing to do that.

O'Connor So it's primarily around things like the horizontal elements, as you say, and the roading, water, pipelines, and so forth.

Brownlee Yes and once that's done, then there will be a public consultation process.

O'Connor So it's a foundational discussion—

Brownlee Yeah. I think what's pretty encouraging is that there's a lot of NGO groups out there at the moment thinking about what you could have in those areas. I don't want to be disparaging about it. Christchurch's pride in sorts of big park-type area—and two places I could think of where they have ended up with ongoing difficulties and quite often unexpected expense. So you've got to be a bit careful about how you line all that up going forward. The council are very mindful of that.

Parker I just want to follow up on one of Winston Peter's questions. The words that Mr Key said were that the extra $5 billion that might be needed would be money into the rebuild. Are you saying that that's not right? That it wasn't money into the rebuild?

Brownlee No, I said that if you take something like the education plan, it's projected over 10 years, projected at a billion-dollar cost at the moment. Over 10 years you'd expect it might have some escalation in it. You've got a big hospital rebuild programme down there. We've acknowledged that in the SCIRT programme there is a December review. All of those things are material, these things. We're also building a convention centre. We're building a justice centre. We're building this bus interchange, and all of that will have some expense potentially that is an escalation.

Parker Because those things are already planned, you're just saying the costs are going to up and that's why—

Brownlee I think what Mr Key is acknowledging is that the Government has not got its blinkers on, thinking that if someone says it's a dollar today, it will be a dollar in 10 years' time.

Parker The memo that we got given to us from the Christchurch City Council has a minute of 11 February last year where it was said that following discussions with—and I'm reading from the memo—the Minister for Canterbury Earthquake Recovery it was felt that due to the positive/negative impact on the cost of borrowing for the Government following an audit opinion that highlighted the uncertainty of the Government's share of response and recovery, that they wouldn't go through a long-term planning process which would have triggered relooking again at the council cost and therefore the Crown's share of that cost.

Brownlee It was effect on their costs, not ours. If the memo says it's ours, it's wrong. It's on their cost.

Parker OK. None the less, following that, you dropped your estimate in this year's Budget of the contribution of the Crown to horizontal infrastructure costs
of the council, and yet even before the Budget the council was saying their share had gone up. Now we’ve got the Prime Minister saying the Crown’s costs are going to go up in Canterbury but you’re pretending that cost, as rightly shown in the Budget, is going down. Hard to believe.

Brownlee No. You try to pull a whole lot of things together in a very disparate way to create a picture that’s pretty for you.

Dyson Called the Budget.

Brownlee Well, the Budget is accurate.

Peters You’ve been caught out, Gerry.

Brownlee No, we haven’t been caught out.

Peters Yes you have.

Brownlee Listen, you tell me: if you are putting in new infrastructure in the ground, where does repair and replacement stop and betterment start? Where does—

Parker It’s all cost.

Peters It doesn’t start with creative accounting.

Brownlee I’m sorry, you’re asking me in a few minutes to explain what has been a 14-month process and is ongoing. So the levels of serviceability are very important. If it’s done right, Christchurch City Council will have significantly less maintenance budget requirements for quite some years. This is 60 to 70-year infrastructure. We’re replacing in some places infrastructure that could be up to 100 years old. So you’re going to get a big, big benefit out of that, and it’s only reasonable—

Peters The costs are going up but not just this year. This year we’re going to have a fictional surplus. It’s obvious.

Brownlee Look, you’re actually showing your lack of knowledge about how Crown accounts work, frankly.

Dyson No, we know very well how you’re working them.

Brownlee No, can I just say this is a very important point—that the cost-sharing agreement was properly worked out and the Budget reflects that proper discussion. Mr Key’s comments were indicating that certainly this Government, should it be returned, is not closed to the fact that over a period of time costs may rise.

Goldsmith Thank you very much for coming in. We appreciate your time.

Brownlee Thank you.

**conclusion of evidence**
2014/15 Estimates for Vote Commerce and Consumer Affairs

Report of the Commerce Committee

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Recommendation

The Commerce Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Commerce and Consumer Affairs, administered by the Ministry of Business, Innovation and Employment, as set out in Parliamentary Paper B.5, be accepted.

Introduction

Two previous Votes—Vote Commerce and Vote Consumer Affairs—have been merged to form Vote Commerce and Consumer Affairs. Its purpose is to create a more effective regulatory environment for businesses, to ensure trusted, competitive, well-functioning markets. The Vote includes appropriations for consumer matters.

Appropriations sought in 2014/15 increase slightly to $150.317 million, from $148.862 million estimated actual expenditure in 2013/14.

Legislative reform

A substantial programme of consumer legislation was progressed in 2013/14; we congratulated the Minister on this result. We asked about the Consumer Law Reform legislation, which is soon to be enacted. The Minister said the reforms will increase protections for all types of consumer transaction, including online trading, and improve consumers’ access to redress. A panel of experts has been set up to draw up a Responsible Lending Code under the Credit Contracts and Consumer Law Reform Bill, and the code is expected to be completed within 12 months of the bill’s enactment.

We asked the Minister whether he would support an amendment to the Commerce (Cartels and Other Matters) Amendment Bill to amend section 36 of the Commerce Act 1986 with regard to intent and market power. The Minister said that he would be unlikely to support a supplementary order paper because it would require a full public consultation policy process, and the bill was currently before the House. The Minister has not instigated a consultation process regarding SOP 408. Some of us note that the chair of the Commerce Commission has called for changes to section 36 of the Commerce Act.

We heard that the Commerce Commission has been advising non-governmental organisations and budget advisory groups of the changes to consumer legislation. The Minister said that the success of the reforms would be difficult to measure statistically because much financial activity, relating to lending in particular, occurs “outside of the standard regulatory environment.” However, he was confident the Commerce Commission had carried out due diligence and would enforce the changes effectively.

An appropriation of $1.35 million in 2014/15 is sought for the introduction of the Patents Act 2013 (the same amount will be sought each year until 2017/18). We were told the Intellectual Property Office of New Zealand will spend most of the appropriation on upgrading its systems and infrastructure in order to meet its obligations under the Act. The Minister said the legislation introduces a common patents process with Australia, and allows companies who register trademarks in New Zealand to have their trademarks’ validity cross-checked with 92 countries, thus lowering their business costs.
We asked about the expected benefits from the enactment of the Accounting Infrastructure Reform Bill. The Minister said this legislation will reduce costs for New Zealand businesses and consumers by increasing competition in the accounting sector.

**Small businesses**

The Minister said that under the Financial Reporting Act 2013, approximately 90 percent of small businesses will no longer be required to provide full generally accepted accounting practice accounts, creating significant savings. We heard that the Financial Markets Conduct Act 2013 has also increased regulatory certainty regarding the raising, investing, monitoring, and reporting of capital, indirectly benefiting businesses of all sizes.

**Insurance**

Some major insurance companies have changed their home insurance cover from total replacement cost (in the event a house needs to be rebuilt) to sum insured, where a replacement amount is agreed with the insurance company on the basis of a questionnaire customers must complete about their property. We raised reports that in some cases the sum calculated by this method falls up to 40 percent short of actual replacement costs. The Minister said that his main responsibility is to ensure that everyone is complying with the legislation he is responsible for; if insurance companies were misleading consumers, redress was available through disputes resolution schemes and the insurance ombudsmen. The Minister said that $5.7 million a year of funding is provided to improve consumers’ financial literacy, which included their understanding of insurance contracts.

We asked whether the Minister would instruct officials to gather information about sum insured home insurance. The Minister said that he would wait for the outcome of the review of the Earthquake Commission before making decisions about the wider insurance sector. We were told that the Minister has not received any complaints about this matter; he encouraged anyone with pertinent information to make a written request to his office.

**Crowd funding**

We were interested in initiatives to facilitate crowd funding, or peer-to-peer lending, as a source of early-stage and growth capital for which many small contributors receive shares in the businesses in which they invest. The Minister said that changes under the Financial Markets Conduct Act allow businesses (if they obtain a licence from the Financial Markets Authority) to seek funding without having to produce a prospectus, resulting in significant savings. Funding raised by this method will be capped at $2 million a year per organisation. We heard that the new regulations make New Zealand a leader in this respect among Asia-Pacific nations.

**Competition in the grocery sector**

An appropriation for $13.935 million is sought for general market regulation. We asked the Minister about the Commerce Commission’s investigation of alleged anti-competitive behaviour by the Countdown supermarket chain. The Minister said he had met with two large supermarket chains, but had not yet met with the Food and Grocery Council, who were awaiting the commission’s findings. The Minister said he did not believe the legal action taken against Coles Supermarkets in Australia was comparable, as that case related to fair trading and consumer legislation, whereas the Commerce Commission’s investigation relates to competition.
We asked if the Minister would support the introduction of a compulsory code of conduct for supermarkets. The Minister said he supported self-regulation in the sector through the establishment of a voluntary code; he did not want to make a decision about a mandatory code until the Commerce Commission’s findings were published.

**Informed consumers**

An appropriation of $2.277 million is sought to increase consumer awareness via advice, information, and education. We were pleased with the Kiwisaver Fund Finder, a joint initiative with the Commission for Financial Literacy and Retirement Income. The Fund Finder is a web-based tool for comparing Kiwisaver funds, in terms of their investment profile, fees, available services, and past performance.
Appendix A

Approach to this examination
We met on 29 May and 19 June 2014 to consider Vote Commerce and Consumer Affairs. Evidence was heard from the Minister of Commerce and the Minister of Consumer Affairs, Hon Craig Foss, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)  
Kanwaljit Singh Bakshi  
Hon Clayton Cosgrove  
Clare Curran  
Kris Faafoi  
Julie Anne Genter  
Mark Mitchell  
Hon Chris Tremain  
Dr Jian Yang

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

 Estimates briefing paper, prepared by committee staff, dated 26 May 2014.


Office of the Auditor-General, Briefing on Vote Commerce and Consumer Affairs, received 26 May 2014.

Minister of Commerce, Annual and Permanent Appropriations Chart, received 29 May 2014.

Minister of Commerce, Response to standard Estimates questionnaire.

Minister of Commerce, Response to additional written questions, received 27 May and 13 June 2014.
Good morning, Minister. We’ve got 75 minutes with you because we do cover commerce and consumer affairs, which, as we know from this committee, are two pretty intensive portfolios. We are going to ask if you could do a presentation for up to 7 minutes and then we’ll come to some questions. Thank you.

As you know, David Smol, I think, was here for the previous session, and Iain Cossar will be with me, and there’s security detail behind me, as well. Thank you, Mr Chair, and thank you, committee. Thanks for the opportunity to speak with you here today. One of the key priorities of the Government is to build a more competitive and productive economy. Businesses today are looking for ways to be more innovative, taking advantage of global opportunities. The latest forecasts by Treasury show that our annual GDP growth is expected to be between 2 and 4 percent per year up until 2018, but of course what matters to families is jobs and higher wages. To this end, the average annual wage growth is expected to increase by $7,500 to $62,200 by 2018, if we achieve our economic growth forecast. To have a competitive and productive economy we need both well-functioning businesses and confident consumers who are aware of, and know how to enforce, their rights. The work that we are doing in the commerce and consumer affairs portfolios contributes to that.

These two portfolios have had a busy legislative programme in the past year. The highlights were the passing of the Financial Markets Conduct Bill, Financial Reporting Bill, Patents Bill, Consumer Law Reform Bill, and the Credits Contracts and Financial Services Reform Bill just this week. The Financial Markets Authority and the Commerce Commission also play a
critical role in monitoring the health of our markets. The FMA continues to
deliver excellent results and value for taxpayers. The FMA’s latest survey
shows that 61 percent of investors were very or fairly confident in our
financial markets compared to 59 percent in 2013, and 24 percent of
investors also felt more confident over the past year. With the passing of
the Financial Markets Conduct Act, the FMA faces new challenges of a
broader remit and new functions. The implementation of the FMC Act is
on track and well received by the market.

The Commerce Commission is doing an exemplary job, securing $39
million in penalties and $64 million in compensation for consumers.
Looking ahead the key areas of focus for the Commerce Commission are
the implementation of the consumer law reforms, the operation of the
construction sector, completing the final pricing principles reviews for
copper-based broadband services, and engaging more with communities to
increase their understanding of competition and consumer law.

As the Minister of Commerce and Consumer Affairs I can ensure that the
policy and legislation that I am responsible for promotes confident
participation of businesses, investors, and consumers in our markets. To
support this it made sense this year to combine the previously separate
votes of commerce and consumer affairs. This combined vote now reflects
the common objectives across the commerce and consumer affairs
portfolios. The structure of the vote has changed. The three new multi-
category appropriations and three new multi-year appropriations have been
created. These new appropriations are funded by the movement of funds
from the 2013-14 appropriations. The new structure gives greater flexibility
and also gives us the same transparency. It is important to note that the
total vote size is consistent from 2013-14 into the 2014-15 and the out
years. The appropriations remain broadly the same. No work areas have
been removed or reduced between 2013-14 and 2014-15 as a result of the
new structure.

For the commerce portfolio, the No. 1 priority is creating the right
regulatory environment for businesses so that they can concentrate on what
they do best. We are achieving this through the Financial Reporting Bill,
which has been passed and substantially reduces compliance costs for small
and medium-sized companies, and by removing their requirement to
produce complex financial statements.

There are also a number of other bills I want to see passed in the near
future. The Commerce (Cartels and Other Matters) Amendment Bill
enables pro-competitive collaboration between firms. The Companies and
Limited Partnerships Amendment Bill strengthens the integrity of our
companies’ regime by tightening the rules for company directors and
company registration. The Accounting Infrastructure Reform Bill is also a
priority.

Priority two is smoothing the paths to internationalisation for New Zealand
businesses. We passed the Patents Bill to align New Zealand’s intellectual
property framework more closely with those of our trading partners, including, of course, Australia, and to promote genuine innovation.

Our third priority—looking ahead, officials from MBIE and other core agencies will be closely following and monitoring the Australian financial system inquiry and the Australian competition review. Our third priority is promoting investment in New Zealand. Over the past years we’ve seen significant progress in the commerce portfolio to encourage new capital flows, including, of course, the Financial Markets Conduct Act.

New growth-focused initiatives, such as crowdfunding and peer-to-peer lending, have been introduced and have received strong interest from the market. The much anticipated new disclosure requirements, on-line registers, licensing obligations, and improved governance of managed funds offered to retail investors will come into force from 1 December this year.

We’ve seen a marked increase in companies coming to market in the past year. We’ve also seen the launch of the Sorted KiwiSaver Fund Finder site. It is important to have tools like that to help encourage Kiwis to make active and informed choices about their retirement savings.

For the consumer affairs portfolio, the reforms in the consumer and credit law space aim to strengthen consumer rights, simplify business compliance, and make consumer legislation more accessible and understandable for consumers and businesses. The No. 1 priority in that portfolio is to implement the consumer law reforms, with most of those changes coming in on 17 June. Information about those new laws has been promoted through different media channels and community networks, and the Commerce Commission will be stepping up its consumer outreach and engagement to inform ordinary New Zealanders about the consumer law rights. MBIE will also be delivering training programmes for community agencies from June.

Another key priority is the implementation of the Credit Contracts and Financial Services Law Reform Bill, which was passed just this week. The Bill promotes good consumer credit practices, which are vital to the New Zealand economy as they underpin consumers’ confidence and trust in our financial markets and the integrity of our financial system.

Finally, another key priority is to promote access to a consumer dispute resolution regime so that consumers understand their rights when in dispute and know where to get support. Over the past year MBIE has done excellent work in educating our communities, through campaigns such as the recent Talanoa campaign at Pasifika fest in South Auckland, Creekfest in Porirua, and through church Ministers and Pasifika communities. Promotional material that highlighted the 0800 campaign number as well as 60,000 newspaper inserts and fliers were delivered directly to targeted areas.

To date, MBIE managed over 1,000 complaint inquiries. Thirty percent of those calls were referred to a budget service, 18 percent were referred to a disputes resolution scheme, and 8 percent were given advice and referred back to the creditor.
Finally, Mr Chair, MBIE has also scheduled 22 credit law training sessions across New Zealand with the New Zealand Federation of Family Budgeting Services. The training is aimed at assisting budgeting services staff to understand the responsible lending practices and avenues available to them to erase and/or address concerns with lenders who do not comply with the current law.

Mr Chair, I’m happy to answer questions now. For the benefit of the committee—it’s entirely up to the committee if they want to discuss it—I will give to the clerk, with your permission, just a chart that shows the various breakdown of how the Vote Commerce and Consumer Affairs is broken down for the committee’s information.

Cosgrove Minister, in your commerce role, have you taken any interest in the developments that are occurring within the insurance industry in respect of consumer protection?

Foss In so far as the changes in the recent bills or—

Cosgrove No, in so far as moving from total sum to capped.

Foss No, not particularly. I’ve concentrated on the changes with the particular consumer bills that I mentioned earlier, so as far as total finance and full replacement—no, I haven’t been particularly active.

Cosgrove You’re aware, of course, that the industry has moved from total replacement to capped insurance. Are you also aware—and there’s been much discussion in the media and evidence provided—that people are being provided with their insurance bills which, when those who have the means to employ a person to analyse them, in some cases, and in a number I know, they fall 40 percent short of what it would take to replace their home. And those who don’t have the means to employ somebody to critique both the policy and the online calculator, which are also in that range as well, are left high and dry. Isn’t that something you should take some notice of and do some work on?

Foss What you ask me is commerce, but I will just cross both portfolios.

Cosgrove Yes, I don’t mind if you cross portfolios.

Foss So the key is are organisations operating within the Acts, laws, and regulations that they’re supposed to adhere to? So that’s one point, and by and large I’ve got no reason to believe they’re not unless something else is going on somewhere else. Informed information, such as the websites that you talk about, that’s more how they’re operating in the market. I can’t recall receiving any complaint or correspondence—I don’t think—about the issues that you’ve raised. But you do raise a very good point about information by participants in the market, regardless of what the market is, and informed decision-making by the purchasers of those services.

Cosgrove Let me give you a case, because it seems what the insurance industry has done is capped their risk and then de-risk, and there’s a point one could make that they’re actually now selling product under false pretences. I will give you a practical example. So an individual gets their insurance bill. It’s
now capped. They’re told—I’ll round the figures—that it’s about $450,000 to replace their home. They pay a couple of grand. They go and get a professional to look at it, and the total comes back $750,000. They look it and go “This is crazy.” until they actually go through it—for instance, no GST, no allowance for consent, no allowance for demolition and removal, and the list carries on. And the insurance industry has told me that, well, every house is different—that’s an argument—but the questions they’re asking in terms of how many rooms, what’s on the roof, double garage, blah, blah, blah, they’re asking the same questions that they asked when it was total replacement.

What I put to you is that if you don’t have the means to hire a professional person, then you’re plucking a number out of the air. I’ve got people who’ve gone to the calculators, and, again, they’ve found a 40 percent gap. We’ve got a history of using total replacement, so you just sign it off—doesn’t matter; it will be replaced, allegedly, although that’s fallen over in Canterbury. Don’t you think that leaves people in a highly vulnerable position? And just on that point, do you agree with Tim Grafton, who is the CEO of the Insurance Council, who said this morning “Ultimately, it’s on the homeowner to ensure the insured value of their dwelling.”

Foss Whether I agree with him or not is by the by. It’s the Acts that I’m responsible for being adhered to? So if someone is selling something, be it a good or service, and what’s portrayed is a misrepresentation as to the actual contract which is about to be entered into, or is entered into, then under either under the Fair Trading Act or various Acts that I’m responsible for they may be found wanting. And there’s redress available, and there’s also redress available to the various dispute resolution schemes, for example, the insurance ombudsman, in that space. I think the member makes a really good point, though, when he mentioned Canterbury in there; that all the issues in and around insurance in particular that have come to the fore as a result of the very unfortunate earthquakes in Canterbury do still seem to be playing out and have brought a lot of issues to the fore, such as the discussion that you’ve raised now.

Cosgrove OK, the Acts, but this depends on part of consumer protection—and you’ve passed some legislation—is to protect people either from themselves, from a level of ignorance, perhaps, no disrespect, or to help those who don’t have means, as others do, to get independent people in to provide information. So would you consider asking your officials to look at this specific issue?

Foss Well, everything—

Cosgrove And it goes beyond Canterbury, by the way; it’s happening to everybody. It could be happening to you, it could be happening to me, in terms of we’re all getting our insurance bills.

Foss Sure. The issues in Christchurch, in particular, have flushed these issues to the top. Look, it’s a very, very worthy topic. There are still issues playing out here. For example, in portfolios beyond mine there’s, of course, the review of the Earthquake Commission and how that’s playing out. So any decisions
in and around the insurance sector, as far as my legislative requirement is concerned, will wait until those reviews have settled down.

Your point about informed consumers, again I reiterate, I agree—for consumers to be as informed as possible. Is it of interest to me? Yes. What’s first and foremost of interest to me is, is something happening out there where an organisation is not acting under the Act prescribed to them, and therefore is the appropriate agency looking at it, or investigating it and taking action?

Cosgrove Could I put it to you that there’s actually no connection with the EQC review at all? This is simply insurance companies that quite legally change the way they do business. But they are putting a product in the market, I put to you, which purports, which does say, to consumers that if your house goes pop, this is the value to rebuild it. I acknowledge it’s only an estimate, but you’d think there might be a variance of, say, 2 or 3 percent. When you’re getting cases which are often almost double or close to 40 percent out, wouldn’t you say that’s something that you need to look into rather swiftly?

I’ll just put this scenario. On the example that I’ve given you, that person’s probably not going to build, if an earthquake or disaster came, a one-bedroomed tree hut, let alone an ordinary three-bedroomed house that they possess. It will be the taxpayer or the Government that’s then called upon to fill a gap through public pressure if we do have a natural disaster.

Foss You asked me would I be asking officials to look at it, or something along those lines. But part of doing that, before doing that—because it’s a worthy point—is actually the Government’s obligations across Government. A key one of those is actually final decisions—an evaluation of the Earthquake Commission now that it’s essentially paid itself out re Christchurch and the replenishment, or whatever, of that as far as a larger look at the insurance sector, which are some of the issues that you talk about.

Cosgrove But again, Minister, they’re not connected. What you were saying is you may alter the quantum for the future—the EQC might lift the cap. OK, that’s fine, but this is happening today as people are signing off their insurance documents. They’re looking at them, and many of them—no disrespect—may not have been around the track as we have, have faith in their insurance company, and they’re signing off documents which in many cases would mean they wouldn’t get half the money they needed to rebuild their house.

Foss Sure, but the key is the documents, right? You’re talking about a fairness observation and your earlier example—so the key is the document. So a lot of those documents will be picked up with the Consumer Law Reform last year—so many of those are standard form documents—and so that is the test of the documents themselves. Your point about if it is fair or not and the unintended consequences of some uninformed purchasers—and you’ve got examples of those, and that is fair, and there are many unfortunate stories coming out of Christchurch in particular as they are playing out. But at my portfolio level, actually the work that I thought you were asking
about—will we get officials to look at this—from a larger context, eventually, yes, post the Earthquake Commission evaluation we’re doing under Minister English and one or two other Ministers. Then, from that, there will be a starting point about where Government starts and stops regarding insurance.

Your point about “the now” for the people in the examples you talk about, if there’s misrepresentation by companies that are regulated in some way by the Government, then there’s redress available to people. Again, so much of this is a re-education, in fact, of how things in insurance, in particular, have changed. Much of what I do kicks in once a contract, or just leading up to a contract—your example where someone was led to believe, and I can’t remember what you said; $400,000 and it came out at $600,000 or $700,000 or so. So there’s the contractual discussions leading up to that and then when the contract is actually signed. So if there is misleading representation going up to that, there’s redress under various consumer laws.

Cosgrove Two questions. You talk about consumer education. Firstly, are you prepared to put some effort in your financial literacy area into specific education about this? I put this to you: people get the fact that they’ve gone from total replacement, open-ended, to sum assured. They get it. They don’t need any education, right? They are then presented with a dollar figure, which purports to say that “Your house is worth X to rebuild.” They either accept that, and if they do the evidence piling up now is that it will be in the order of—in the extreme case I’ve talked to you about, which is real—40 percent difference, and these are people who may not have the wherewithal, and in most cases they don’t, to hire a professional, either a QS or an analyst, to go through and vet it. There’s a couple of K, then on top of that they’ve got to pay their increased insurance premium. Wouldn’t it be better for you to be proactive and have a bit of a poke around the insurance industry and say “Guys, why is your margin of error 40 percent when it should probably be more likely about 3 or 4 percent, because it is an estimate?”, and actually proactively help people? What’s stopping you doing that?

Foss Well, actually, the portfolio proactively helps people in a lot of ways, giving them certainty under the law, of course. You mentioned something very, very important right at the start there, particularly that financial literacy, or insurance literacy in this sense. And, actually, that is quite a very keen area of work for myself ever since I got the portfolio—

Cosgrove How much money have you committed to that part of it?

Foss About $5.7 million per annum—

Cosgrove To insurance literacy?

Foss —no—so hold on. So about $5.7 million per annum goes into financial literacy, and the work led by the Retirement Commissioner in that space actually has been very good, because there’s now something called the exchange—I’m not sure if you’re aware of that—covering all things financial literacy. Of course, financial literacy at one level will start to
include things such as understanding what an insurance contract is and what the obligations are under that. But I praise, actually, the commission for the work they’re doing in that space, because they’re now gathering in other work from particularly the private sector and across Government, such as the Ministry of Education, in the financial literacy space, and that is getting broken down in particular areas.

I fully appreciate the concerns that you’ve raised, I quite genuinely do. As I said, we’re keeping an eye on things, we are watching things, as we do for any events or issues that start to arise. But as far as a Government legislative or regulatory-type programme, that will kick in once we’ve finished the Earthquake Commission review and make any final decisions there.

**Cosgrove**

Well, could I make this formal request of you. Could you ask your officials—because I just don’t get it; because the difficulty you’re going to have if you wait is that if we have another disaster, it will splatter back on to whoever is in Government in terms of a dollar figure gap, and a huge one. So I would have thought it would have been smart. But could I request this: that you ask your officials to meet with the Insurance Council and ask for specific examples, and I’ll try and send you some as well, and ask them for some explanations around this issue. I just simply put it to you: people don’t need education. What they need to know is that the product they’re purporting to purchase is accurate—not $450,000 when the replacement value is $700,000. I think this should be a real worry—and this is not a political thing—for anybody who’s in Government or purports to be in Government, because if the big one comes again there is a massive gap for many of those folk, and they think they’re going to get their houses replaced. And most of them, Minister, don’t have the money to hire a professional. They go on the calculator, and they believe what they’re told. So could I ask you to ask your officials to go and interact with the Insurance Council?

**Foss**

Earlier I said that one of the key decisions in that space is to understand where the Earthquake Commission starts and ends. I’m not sure if you want to write to me as an MP or as a committee, but if you would like to do that, then we’ll give you the response.

**Cosgrove**

Why do we have to write to you? I’ve made a request.

**Foss**

You’ve requested me, we’ll take it verbally; we just want to formalise it in response.

**Cosgrove**

I verbally asked you—I need some information.

**Foss**

So we’re here to help.

**Bakshi**

Minister, my question is how are you planning to help the small businesses to reduce their accounting cost to progress their businesses?

**Foss**

The small businesses? A lot of what we do indirectly assists small business—well, large and small, of course. One of the biggest gains for small businesses is the Financial Reporting Act, which passed unanimously across the House, and I thank the committee for their work on that. But that simply translates to about 90 percent of small businesses, SMEs, across
the country no longer have to produce full gap accounts. So that is money and time resource they either won’t spend on their accountant or have to do it themselves, and they can concentrate on whatever they do best. They’re working with Inland Revenue, who are producing their disclosure documents for things that will be required to be reported for tax. So that’s one example in that space.

Of course, sometimes it’s hard to see, but these massive changes under the Financial Markets Conduct Act actually allow more certainty, pathways of capital, and a firmer, more consistent regulatory environment—because these organisations are very reliant on either personal capital or borrowed capital—to give them more certainty of the reporting of that, the monitoring of it, the raising of it, for investment, etc. So, much of what we do, particularly in the commerce portfolio, helps build, it’s an enabler, and on their own each of them indirectly are game shifters, if you like, for industry big and small across New Zealand. Often some small industries struggle to see the benefit, let’s say, of the FMC Act to them. The FR Act is a great example of what we’re doing to assist small businesses.

Yang New Zealand is one of the freest economies in the world, so when you say “internationalisation”, what exactly are you trying to, I mean, push or call for—maybe regulation or whatever? So can you elaborate on that?

Foss Sure. My portfolios are domestically focused, that’s absolutely right. But unless the regulatory environment within which New Zealand businesses, financial system, operates—unless that is right up there with the best in the world, our costs will be higher than the rest of the world, because at the end of the day we have to export or we die, in New Zealand. If we want the new hospital, the new school, the new anything, we must export to grow our way out of here.

So, particularly in the financial sense, New Zealand owes the world about $180 billion to $200 billion—we’re a debtor nation. We know that. Regardless of how we got to that space, we are. So we need that capital to be as priced as low as possible for New Zealand borrowers and those lenders. What do those lenders consider? Integrity, trust, robustness of our financial system.

At the end of the day, it all translates into, hopefully, a lower risk premium on New Zealand, which means lower mortgages, lower working capital for businesses. So when we talk “internationalisation”, it’s those kinds of things that we’re talking about, to make our rules and regs and operative environment for New Zealand almost as acceptable and as fungible as possible for those that are looking to buy services or goods from New Zealand and invest into New Zealand.

Yang Are these likely to be connected?

Foss Oh, everything, Jian.

Yang The transition and free market economics.

Foss Absolutely. I’ve worked with Mr Joyce, who was just here—very much part of the Business Growth Agenda documents, and if the committee’s seen
those you’ll see various KPIs, if you like, and/or targets that we have across our portfolios to help create an environment within New Zealand which allows us to grow our exports, to be a confident nation competing internationally and leveraging up off the great story New Zealand already has to sell.

But we’ve got a long way to go, and as Mr Joyce may have mentioned, or not. For example, in the export sector we’re looking to grow our exports to GDP to 40 percent. It’s currently around 33 percent. To get there, as the BGA papers will show, that’s about $150 billion to $200 billion new dollars invested, and needs to be invested, into the productive sector. It would be helpful if that’s priced as low as possible to help New Zealand achieve its gains.

Young So just regarding that fungibility that you’re talking about, in terms of, for example, the Accounting Infrastructure Reform Bill, which is back in the House, who gains the greatest advantage—Australia or New Zealand—in your mind?

Foss As far as the accountants are concerned?

Young Yeah, or is it just neutral in that regard?

Foss Well, at the end of the day, when Australia does well, we do well, in a larger sense; slightly less, but generally vice versa. As far as the accountants are concerned, the NZICA merger that the members voted very much in support of—I think it was 75 or 80 percent voted in support, as did the Australian equivalent—actually, it’s entirely up to them if that’s a good deal or not, and they have voted in favour of it, making a decision that therefore it is a good deal for them. So as far as those organisations are concerned, I am silent on if it’s better for NZICA or the Aussie equivalent.

But, again, like so much of my portfolios, I am more than comfortable to have an enabling environment to allow them to have the freedom to follow through on the decisions that their members make, as well as, in fact, allowing competition in that space, such as CPA coming into New Zealand, and some other changes that we’ve made along the way. So, at the end of the day, all of that translates into a lower cost of doing business within New Zealand and lower prices for New Zealand consumers, individuals or businesses.

Tremain Minister, you’ve had a huge legislative agenda, and you’re to be congratulated for getting that through the House. You talked today about the re-entry environment and actually making that best practice, and a couple of initiatives that have come through, particularly the crowdfunding and the peer-to-peer stuff. I would be really interested in some comments around that. With the market behind it internationally in that regard, what are the opportunities there going forward in that space and what we’ve seen overseas?

Foss Huge opportunities. Particularly, I’m a huge fan of crowdfunding and the peer-to-peer lending. I am on record saying that New Zealand actually can be the lead in the Asia-Pacific for crowdfunding. In an ideal world it would
be fantastic if foreign capital came into New Zealand, crossing the various regulatory thresholds. It’s got to do that to be regulated here, where you have, let’s say, a crowdfunding aggregator from within New Zealand or afar, but regulated here; basically capital and Kiwi ideas—a bit of a dating agency. It is a high-risk area, but actually that pathway to capital in New Zealand—remember we’ve NZX, your big companies. NZX have also talked about a new growth market, a different tier down. You’ve got your early start-ups, but that right in-between, that halfway to capital, in growing ideas is right before us now.

There’s been a lot of excitement and a fair bit of envy, actually, around our competitor nations as to how far we have moved to enable crowdfunding to take place. We’re ahead of Australia. The American equivalent has all sorts of restrictions around it, and a lot of it is state-based. China is actually looking at what we’ve achieved down here and how we’re doing it. Japan is also looking at that. So the trusted regulatory environment I talked about earlier—let’s say the FMC Act, and this is from the FMC Act—allows a certain environment within New Zealand organisations to grow, to “idea meet capital”, to partner up, to release equity, to grow equity, and to attract equity, the pathway for growth, which means jobs, etc.

Tremain So this is actually a step forward from the pledge-type environment that we already have. This is an equity play crowdfunding initiative.

Foss That is peer to peer, as peer-to-peer lending. The real difference here is up until the passing of the FMC Act, essentially anyone that wanted to raise equity had to produce a bit prospectus—huge cost, all the lawyers, you know, they win at the end of the day. Actually, crowdfunding—yes, it’s high risk, but there’s information disclosures which the entities involved need to abide by, and they will be licensed by the FMA and monitored by them. So the cost of going to market, if you like, is much, much lower than, say, trying to list on NZX or one of their markets. So in that sense that is very, very exciting, and I am very, very optimistic that New Zealand will stake out a very good financial niche in exactly that space right there: New Zealand ideas meet capital.

Tremain Is it the domain of start-ups? Do you see it being utilised by companies with longer and stronger track records? Where do you see it playing?

Foss A bit of both, actually. They can be start-ups. Most of them have already started up. It’s actually, they’re at that next level of wanting to expand, distribution, or a manufacturing line, or whatever it might be. So there are some rules around it. One organisation can only raise $2 million per annum, which is actually quite a significant sum for a small company like that. Or an existing company may want to expand one part of its business and peel that off for something. So some of the aggregators, as I said, some New Zealand ones, have already started up and some are specialising in, say, the agricultural space, and some of those investments may be quite small—a few thousand dollars to larger sums. The key to it is open disclosure of risk, disclosures as necessary under the FMA to make sure it’s a confident and certain environment. Some will fail in that space; some will also succeed.
Tremain This is the last question in this space. When do you expect this market—did I hear you say by 1 November?

Foss No, so 1 April this year they are beginning to formally apply for their licences with the FMA. I don’t think any licences have been—no. No licences have been allocated or granted yet. I believe they are well down the track, and I’m very much looking forward to the first few.

Tremain And that should be in the very near future, well, depending on—

Foss There are two things: (a) subject to FMA requirements for those organisations, and by and large those conversations have been going very well, and then (b) having investment prospects, and then having a platform that people become aware of on line—this is all on-line, this stuff—and then the capital finding its home there.

Cosgrove Minister, you said you were keeping an eye on a number of Australian reviews and bits and pieces. Are you keeping a watching brief on the ACCC’s prosecution of Coles in Australia and their continued investigation of Woolworths?

Foss Yes, as I said, we do keep an eye on what’s happening over in Australia, and yes, it must have been a month or so ago, I think, they announced that. So, yes, we’ve been watching the progress of that. It has been a long time coming, I think, where they’ve landed, taking that action. I think that’s been about 2½ years or so since they first started looking at that sector, if I’m right.

Cosgrove Have you modified your view in terms of your level of concern or otherwise that those practices are currently being adopted in New Zealand?

Foss Well, you’ve got to remember that the action the Australians are taking is under their equivalent of the Fair Trading and Consumer Act, not their Competition Act. And the issues that were raised here by your colleague Mr Jones were very, very serious, as I said at the time. Now the complaint has been made and picked up and the Commerce Commission are doing their actions. So, yes, very concerned at those allegations and watching, like everybody else I guess, to seeing what outcomes we have from our Commerce Commission.

Cosgrove But you’ve done more than watching, haven’t you?

Foss Well, as far as the Commerce Commission is—

Cosgrove No, no, in terms of the stakeholders, because you’ve met with the party being investigated on a number of occasions, haven’t you?

Foss Ah, no—

Cosgrove Yes, you’re on public record, because you met with them to discuss a voluntary code of compliance.

Foss Yes, but you said a number of occasions—

Cosgrove So how many times have you met with them?
So I haven’t met with the Food and Grocery Council. They’re a key stakeholder here. They want to wait until the end of the Commerce Commission inquiry.

So they won’t meet with you until after the Commerce Commission?

Well, you’d have to ask them that, wouldn’t you?

Well, you’ve just made that statement.

But publicly they’ve said they want to wait for the—

Have you asked to meet with them?

Do you want me to finish?

No, I would like you to answer the question.

You don’t want me to finish?

Have you asked to meet with them?

Have I asked to meet with who?

The Food and Grocery Council.

Yes, I invited them to meet with me—I don’t know—earlier this year. They chose not to meet because they will await the outcome of the Commerce Commission. You asked about some of the other participants. I’ve met the two large chains here in New Zealand, the two large companies, earlier this year, and I’ve met each of them once.

I want to read you something, and I will be interested in your reaction to it, and this is in relation to the Commerce Commission inquiry: “The Commission has already issued its section 98 notices to a number of companies requiring them to cooperate, even if they weren’t the original complainants, and there’s not much likely to be forthcoming from those companies whose relationship with Countdown is critical to this market. For many small companies forced to become involved, they could probably kiss goodbye to a portion of their business, because Countdown simply doesn’t have to buy from them.” That was from a Peter Mitchell, who’s the publisher of the *Supermarket News*, May 2014, volume 7, No. 5. Do those comments concern you?

They do. I don’t know who that gentleman is. They do, and I guess I can assure New Zealanders, small businesses, particularly in this area at the moment and this issue, that the Commerce Commission is the place to take a complaint and discuss it. You mentioned section 98, which your colleague was vocal on also. So, all the protections for New Zealand entities and individuals in this space are there. I would stress that they trust all of those parameters that are in place to protect a lot of the concerns that you’ve just spoken about.

Doesn’t it concern you, and I’m asking you for an opinion, that in the middle of a Commerce Commission inquiry the leading *Supermarket News* magazine is overtly—well, not overtly, directly—suggesting that if any players interact with the commission, they’ll lose their business?
Foss: Well, I would just respond by saying I can assure all New Zealanders, be it large supermarkets or small suppliers, that they can have confidence in the Commerce Commission, and the Commerce Act, using all the tools available to them to investigate the very serious complaints and issues that have been put before them in recent weeks.

Cosgrove: I accept that, and I agree with you, but my comments aren’t around the integrity of the Commerce Commission; I think they’re doing an excellent job thus far. My comments were around an industry stakeholder that represents the supermarkets, who, you could argue—if this was another forum, perhaps a criminal forum—that the suggestions made in here are sort of encouraging people to pervert the course of justice. They’re saying “If you front up, you’ll lose your business.” Doesn’t that concern you, that the major stakeholder publication here that represents supermarkets, it’s called the *Supermarket News*, is making those claims—they’re not even suggestions; it’s overt; nothing subtle about it—at the same time as the Commerce Commission is trying to do its job?

Foss: Sure, well, I have no responsibility for whoever they are, that magazine—if it’s a public magazine, but whatever it is—therefore I’m sure the Commerce Commission themselves are well aware of those discussions and will take account of those, as they see fit, during their investigations, which, like the member, we will just have to wait and see the outcome of.

Young: Yeah, I certainly don’t want to stem the flow. Clayton, you can ask questions, but I think the Minister has identified that he is not responsible for a private sector magazine, so in terms of scope would you bear that in mind. Carry on.

Cosgrove: Thank you, I appreciate that level of expert advice. Do you support, at least in principle, an all-encompassing compulsory code of conduct as, say, the British do? You’ve already confirmed you’ve had discussions, ironically, with those being investigated about a voluntary code, and the general consensus in the public seems to be that that’s been killed off; the voluntary code won’t work. So would you entertain a compulsory code of conduct? Have you asked your officials to even have a look at those policies?

Foss: Well, I’m always in favour of any solutions which come from within a sector, such as voluntary codes and whatever it might be. And you’re right, there’s been a varying degree of demand for that, or not, but it’s—

Cosgrove: I mean a compulsory code.

Foss: Yeah, I will get there—voluntary code, so that’s fair enough. But unless you ask, you don’t know. But I am on record, and I’m right now very comfortable with any organisations coming up with voluntary codes which their stakeholders all want and abide to—absolutely fantastic. To have a firm position right now on any mandatory code, well, that’s predetermining whatever the outcome of the Commerce Commission comes up with, so I won’t pass comment on if there should be one in New Zealand or not.

What I have done is inquired into, to gain information myself, about how as such the various codes are working in other jurisdictions, such as the
Australian voluntary code, which they may have moved on from recently, and the UK one that you talk about there—remembering that those markets, particularly the UK, are quite different to what we have in New Zealand, but nonetheless they’re about the same sector.

Cosgrove You’re right. They’re different. In the UK there are, I think, 10 to 15.

Foss Seven or eight, or something.

Cosgrove No, I think it’s about 10 to 15 major players. In our market there are two. I would have thought if it’s good enough for a compulsory code to be in Britain, where there is an immense amount of competition compared to New Zealand’s duopoly situation, that there would be an open and shut argument. But putting that aside, have you asked your officials to do any work, make any inquiries, around these codes?

Foss We’ll just go back to the duopoly for a moment. So we used to have three chains here, and that was changed—I think, was it in 2001—under the previous Government, when three became two.

So, again, I won’t predetermine any outcome of the Commerce Commission. Let’s just wait and see what they come up with, and let’s just wait and see whatever they come up with, because, as you noted earlier, the Australian inquiry and the actions of the ACCC are actually not under competition law; they’re under consumer law.

Cosgrove So when you met with Progressive and Foodstuffs to talk about a voluntary code, did you ask them if they were in favour of a compulsory code; if so, what was the reaction?

Foss Specifically the meetings actually weren’t about voluntary codes, but at the time, of course—this is a very hot topic, if you like. Most of those meetings were not about the codes at all. In fact, one of them, it might not have even been mentioned. So, no, I think, is the answer to your question about mandatory codes or otherwise.

Cosgrove But they were, what? In favour of a voluntary code?

Foss No, we didn’t really discuss it, and the general discussion was: since this issue has now gone or before the Commerce Commission—or whatever it might be at the time, I can’t remember quite the absolute dates—then we’ll just wait and see what happens there.

Cosgrove Well, you met with them after it was put to the Commerce Commission. You met with them whilst it was before the Commerce Commission, so how does that stack up? You seemed to be happy to meet with them whilst it’s on, but you seem to be reluctant to provide us with a view, in an open forum here.

Foss I’m happy to meet with anyone. I always am.

Cosgrove How do you reconcile those two things?

Foss An issue that comes up—it is actually incumbent on me to learn about whatever the issue is. You will remember, at the same time, that the
Australian competition review really started to be announced even further and all sorts of situations like that.

We’ve got to remember here, look, issues in and around supermarkets have been around for quite some time. With respect to Mr Jones raising the very serious issues in January last year—Mr Jones also talked about issues in and around the supermarket sector, I think, in August/September last year and was looking for and demanding inquiries. So, obviously, he was concerned about something, but yet the complaint wasn’t made until, I think, late January or early February.

Cosgrove You’ve just made an interesting comment. You said that when these issues come up, it’s incumbent upon you to learn about the issues. We just had a discussion about insurance, and you didn’t seem sort of enthusiastic about it being incumbent on you to learn about that.

Foss I’m enthusiastic about my portfolios, Mr Cosgrove.

Cosgrove So you’re now coming around to that?

Foss Sorry, I can’t hear what he says.

Cosgrove I apologise for my colleague. He keeps interjecting.

Tremain He acknowledged your point.

Cosgrove Sorry, the Minister is hard of hearing. He would like to hear the question. So are you going to be—

Foss Mr Chair, excuse me. My hearing is more than adequate and I will respond to reasonable questions in a reasonable way, if I can.

Young Can I please ask that no derogatory comments are made.

Cosgrove I didn’t mean it as a derogatory comment. The Minister said he couldn’t hear because your colleague was interrupting. So I apologise on behalf of your colleague.

Foss I don’t accept your apology on behalf of someone else.

Cosgrove I’m trying to be helpful. Will you have the same level of commitment to those insurance issues? As you’ve just said how you met with two of the players, will you go and meet with the Insurance Council?

Foss As I said, issues come up all the time. When I said it’s incumbent upon me to be informed about issues, of course—it is an issue that’s been ongoing, a long-burner, a slow-burner, whatever it might be, or something that might pop up today, this afternoon, or last week—to inform myself about what are the parameters of the issue, what are the key concerns, and beyond what’s been reported in the media or wherever, what do these stakeholders say? So I do that in finance, I do that in this thing.

I’ve actually engaged with the Insurance Council quite a few times, I think, on the various bills that have come through. The specifics of, again, the issues that you raised earlier—no, I haven’t, but as I said, yes, I’m interested in that and I understand your concerns. You asked if we could have a look into it and respond back to you. As I said, I’m really trying to help.
My suggestion, if you put it in writing—not to actually hold anyone to
account, but just to understand the issues in some of your examples,
because you set them out, and then get a response to them from my
officials at MBIE, of course.

Cosgrove  Just a final question before we move to—
Tremain  It’s now time, time to change.
Young   Yes, you’ve gone over your time. And we’re going to Chris, all right?
Tremain Thank you. I just wanted to ask you, Minister, about a future appropriation,
or the one for this year, which is the $1.35 million for the introduction of
the Patents Act. How is that going to be spent? How is our patents market
at the moment? My understanding is that the number of patents has been
falling away. Can you just give us a bit of an indication on the spend of that
money, and what we’re doing to encourage that space.

Foss Yes. So the extra spending on patents is related very much to the putting in
play of the Patents Act, which was passed—I think it was in the middle of
last year. I’m very proud of where we got to on that Act. I’d realised there
were one or two contentious items in it, and its progress was slowed down
perhaps, but I’m very proud of how we landed and, again, I think, like
almost all of my legislation, I worked very hard to get it into a place where
we have almost good stakeholder support and mostly cross-parliamentary
support.

The Patents Act, where we landed, actually it’s now being looked at and
referenced from other organisations around the world, because in their eyes
we’ve solved a problem which many of them are still grappling with,
particularly in and around patents on computer software.

The Intellectual Property Office itself, IPONZ, looks after that, and
trademark registration and you name it. They are a very, very good
organisation, and I think they’ve won some awards or accolades for the way
they carry out their work to help the management of intellectual property in
New Zealand. So the funding that you talk about—that is part of the
enactment of the Patents Act, as well as them modernising their systems
and infrastructure to follow through on their obligations under the Patents
Act.

Tremain As a result of that initiative—and it may require some expert stuff here—
are we seeing any patents from outside New Zealand being registered here
because of the new model we’ve got?

Foss Well, they’re New Zealand patents, even if they’re copied and pasted from
somewhere else. They’ve got to go through our process within New
Zealand.

Tremain So we can’t register in other jurisdictions?

Foss No, we can’t, but we have things in place such as, in trademarks, the Madrid
Protocol, isn’t it? The Madrid Protocol. So a New Zealand entity now, and
these are some of the changes we’ve made in the last couple of years, as
well, can apply to IPONZ to register a trademark, but actually at the same
time they’re essentially checking that trademark validity in, I think it is, 92 other countries. So that’s the internationalisation—building that framework, that platform for growth so that organisation doesn’t have to hire lawyers in all these different countries. It’s a one-stop shop. Those are the things where IPONZ, in particular, is very advanced and building that platform to allow New Zealand intellectual property to be commercialised/protected.

We have seen gains in the gaming industry, actually, which was concerned about the interpretation of the original Patents Bill and are now very comfortable with where it landed.

The other part is with the Patents Act. We also now have a common patents process with Australia. We’re working through that with Australia, so again a patents application in New Zealand will also be tested in Australia, but only one engagement from the New Zealand entity and vice-versa. So, doing business and making it easier.

Yang Yes, Minister, I’m looking at actually what is the KiwiSaver Fund Finder.

Foss You’re comparing one, are you?

Yang No, not in my own scheme, but to compare. It’s very informative. I just want to know the feedback on it.

Cosgrove What is it?

Foss The KiwiSaver Fund Finder—if you go on to the Sorted website. Until we made changes in the middle of last year to the periodic reporting of KiwiSaver, there was no kind of apples and apples comparison of various KiwiSaver funds, and so there were different interpretations of their fees, upfront fees, and all sorts of things. To the absolute credit of the Retirement Commissioner, the Commission for Financial Literacy and Retirement, they’ve built that, and, actually, it’s a very, very worthy resource to help inform Kiwis to compare their circumstances, their age, etc., what type of fund they like—balanced, conservative, or growth. There’s other discussion pages in there that talk about what might be appropriate for an individual. It’s not financial advice. And then individuals, because there’s a lot of KiwiSaver funds out there, they can narrow it down and then they can go away and talk to those organisations and make a much more informed decision.

It’s all part of the financial literacy work that we talked about earlier—remembering KiwiSavers are, obviously, Kiwis. There are some higher-salaried people, of course, in KiwiSaver, but particularly some lower wage or salary people who are actually starting to build up a quite significant savings pool and are now taking an interest in the ongoing performance of their equity, their KiwiSaver funds, which on its own helps financial literacy as people learn about their own circumstances, their own fund.

Young So the KiwiSaver Fund Finder is doing a comparison of performance between different—

Foss Yes.

Yang Returns, fees?
Foss Yes, it’s not judgmental in any way. It’s a neutral place.

Yang But that will give you the information, right?

Foss To compare, and then individuals can go away to the various fund manager, whoever it is, and discuss their more individual circumstances and take financial advice from an approved adviser.

Young Coming to the enormous amount of legislation, reforming legislation, that’s gone through over the last couple of years—the Consumer Law Reform Bill’s due to come on stream next month—what sort of effect is that going to have on consumers?

Foss I will take a moment to thank, again, the committee for its fine work on that bill. It’s a biggie. That’s the largest change in consumer law in many, many years. Interesting that one of the key features of that bill, I think, is that so much of it people think is already in place, and it’s not. So our previous law didn’t contemplate this thing called TradeMe, it didn’t contemplate things called credit cards, and all sorts of things. So it’s much more generic now, so that at the end of the day the consumer law reform will allow for New Zealand consumers to be more confident in their purchasing, to have more modern and robust protections in and around their decision making, and being able to have redress where they believe necessary.

One of our little anecdotes is when someone buys something from a shop or online and the thing doesn’t turn up. It’s supposed to be delivered to your home, whatever it is. Actually, in the previous Act the responsibility for the courier or the responsibility of the seller ended when it left their door, their gate, the shop gate. So the consumer had to chase down couriers, and things like that. Well, that’s not right nor fair. So, of course, the Act changes that, coming into play in a couple of weeks now. The obligations are on the seller and their agent who delivers the product.

It might seem a small, interesting example, but, actually, so much of purchasing is online within New Zealand, etc., that it’s just a modernisation or a codifying of what we all thought was proper practice for individuals. Door-to-door sales got changed, the Auctioneers Act got changed—you name it. Essentially, the Act changed blind to how the transaction happened; it’s just the intentional mischief and the parameters under which there can be redress around that transaction.

Cosgrove Just a couple of quick questions and then I’ll hand over to my colleague Carol Beaumont to deal with you. In respect of SOP 408, which I said to you—this is in respect of section 36 of the Commerce (Cartels and Other Matters) Amendment Bill—

Tremain Of course.

Cosgrove Indeed; I knew you’d get it.

Tremain Just came to me immediately.

Cosgrove Will you be supporting that?
Foss: If it’s SOP 408, that would probably take and demand a full policy process. That’s the effects test. Is it that one?

Cosgrove: It’s in terms of intent and market power.

Foss: That’s right. Yes, so probably not, no. But for the reason being that first of all, going down that route, bringing that in, would require, should require, a full public consultation policy process, and we have that bill before the House at the moment.

Also, at the same time, around section 36, of course the Australians are doing their root and branch of their section 46, and so we’re also keeping a very close eye on where they travel and where they land, because, like it or not, their competition law will have an impact over here, and we need to make sure that our law and rules and regulations are able to enable New Zealanders to operate robustly and across the Tasman where necessary.

Cosgrove: So, finally, from me—are you aware that there has been widespread support for that change from key stakeholders, and, secondly, how long would a public policy process take, given you’ve had that SOP for a number of months?

Foss: I won’t know how much support there is, because there hasn’t been any public consultation upon it.

Cosgrove: There’s been plenty of public commentary on it.

Foss: That’s different from consultation and draft and the implications and how it may fit with the bill. So a public policy process, I think from your history you’ll know, can take quite some time or can be an abbreviated time.

Cosgrove: Why don’t you start one?

Young: The thing is this is an estimates question.

Foss: There was public policy process in and around the cartels bill itself, which is before the House. That’s now pretty much bedded down. Your SOP brings in a whole new element, and that would have to undergo a consultation process.

Cosgrove: My final question: why didn’t you start a public consultation process when you received it?

Foss: Because the bill you’re trying to amend is now before the House. It’s been through its select committee. My advice is, and I agree, that what you’re advocating would take a full consultation process, and right now we’re concentrating on the consultation process that led the bill to where it is now, keeping a watching brief on what happens, in the Australian sense, and keeping a watchful eye on everything in and around section 36. I haven’t triggered a full consultation process because you’ve submitted an SOP.

Cosgrove: Are you aware that the chair of the Commerce Commission has actually called for changes to section 36? I would have thought, given you’ve got a bill tracking through the House, if that vehicle wasn’t acceptable, it’s not beyond your resources or the department’s to embark upon another consultation process perhaps, incorporating this in perhaps another bill,
given the chairman of the Commerce Commission has called for amendments to section 36.

Foss There are varying opinions on section 36, actually—if it’s working or not. The Commerce Commission have succeeded in two out of their five cases they’ve taken through the courts, and using section 36—

Cosgrove (inaudible) court changes to it?

Foss The most recent one they took, they achieved the highest fine ever. It was $12 million against Telecom on the data tails case. There are other interpretations that section 36 actually may be working as intended, so right now, if there was to be any change there, it would have to go through a full process.

Beaumont The changes to consumer credit, what work is planned and in what time frame for things like the code development, resources to educate people about the changes, and resources to enforce the changes?

Foss Yes, trying to start with the big one first, which is the code development. I know that the committee was very much of a mind that that begins as soon as possible. So I can let the committee know that there’s a panel that’s been pulled together, or is about to be pulled together, and I can assure you that they will include your financial professional bodies, as expected, and NGOs, which I think you’ll be very familiar with. It is my expectation that that will be well bedded down well in advance of the 12 months, to provide certainty.

The next question was around education, I think, and in and around the bill. It’s a very interesting question, actually, and I do thank you for that and for your work in this space. The Commerce Commission, now that the bill has been passed, are about to pick up and do similar work that they’re doing in the consumer law reform changes to proactively engage with your budget advisory services, all your NGOs, so they now become aware of the changes that must happen when someone engages in a consumer credit contract.

I’ve actually asked them, because I know it’s of interest to yourself: do they have adequate resources to carry this out? They assure me that they do. They have hired one person in particular who has a lot of knowledge particularly of South Auckland instances in this space, from one of the Māngere services, but as well as her contacts, her ability to gather intelligence from that community—I think there’s about 11 staff from the Commerce Commission on the ground in Auckland, at any one time—around consumer matters.

Beaumont Does that include enforcement? The 11 staff, are they going to be able to follow up all the new provisions and actively get out there and do things like find out whether people are registered, etc.?

Foss I’ve been advised the answer is yes.

Beaumont Just in terms of monitoring the impact of this legislative change, because there was quite a lot of commentary about how you expected interest rates,
for example, to be impacted by some of the changes other than the potential interest rate cap—what plans are in place to actually work out where things are now and monitor over a period of time the actual changes, not just in that area, but interest rates and other areas? What are you going to do?

Foss And, again, that’s a good point. How do we measure success once this bill has landed in play, I think, is kind of what you’re saying there. The assumption there is we’re measuring things now. I think, actually, with the current arrangement so much is outside of the standard regulatory environment or outside the reasonable fees test that it’s actually very hard to measure what the starting point is, in its statistical sense. But, as mentioned in the House, I think every MP—and some more than others—have tragic examples of predatory and exploiting behaviour by some in this space. I guess at the end of the day it will be members themselves and what they get in their communities will be a bit of a measure of the success.

Beaumont Anecdotal, effectively.

Foss I’m just saying the hard point is the starting point.

Beaumont I did ask in the House, though, whether you were willing—or the comment that you were willing to get officials to determine some sort of baseline so we had something other than anecdotal.

Foss Yes.

Beaumont Are you willing to do that?

Foss To do a bit of a stocktake of where things are at, yes and no. I’m not trying to be smart in any way. But with reference to what I just said, when the Commerce Commission tell us that they are ready and able to put resources into this space with new obligations, then I’m sure that they have undertaken work to understand where the core problems are.

Beaumont Would it be possible to get information back, not now but from officials, about what that looks like—getting that stocktake or baseline?

Foss So I can write back to the committee, if you want, having gained—but just to clarify it, I will ask of the Commerce Commission what they’re intending to do now that the bill has passed, to achieve positive results.

Beaumont That would be good.

Tremain So what are you specifically trying to get to here, Carol? People who are in default of—

Beaumont The specific things that people—

Tremain Or the number of loans under a certain level, or—?

Beaumont No, no. Things like the number of financial providers that are currently registered and what impact this legislation has on that, on interest rates. What are the sorts of levels in that third tier? What will they look like in a year’s time? What sorts of disputes? How many people—

Tremain I imagine there’s quite a bit of information in the public domain already.
Cosgrove  With respect, this is a sort of off-line thing. The Minister is here to answer questions. We can have a discussion afterwards.

Foss  First and foremost, I will get what I can to you from them, which is kind of a stocktake of where things are at now. I don’t think they will be monitoring interest rates and things like that. It’s things such as cases gone to dispute resolution services, engagement with budgetary services, and maybe closing some of those loops—those kinds of things I’m sure are of interest to you. And I’ll be asking them and I’ll share back with the committee as soon as I get their reply.

Beaumont  OK. Another area is product safety and the increased operational capability in this area, mitigating current and emerging marketplace risk. You may not have time to answer it, so it might be something you come back to us on, but I would be very keen to know what the risks that you currently think are there, the emerging risks, and what specific things are going to happen to mitigate those risks.

Foss  OK. So you’re particularly looking at that increase in funding, which is about $2 million, I think, the trading standards fund—

Beaumont  What are the risks that have been sitting there that you (a) see, (b) are emerging, and (c) what specifically are you going to be doing about it?

Foss  I will come back to you, if you want, but I can tell you now that some of those are in and around chemicals, textiles, clothing, and children’s products. I can give you a better, more informative brief as to where this money is intended to be spent and why it needs to. OK?

Beaumont  And then there’s also—you talk about in the statement of intent that there is a desire to improve the quality of information, advice, resolution, and regulatory services. I am wanting to know specifically what work will be undertaken to improve services for consumers. How do consumers interact with MBIE, if at all? How do they get advice? What are you going to be doing out on the ground? I don’t just want to know that you’re going to give information to citizens advice bureaus. I know that’s part of it, but how do you interact with consumers?

Foss  And particularly the Commerce Commission, actually, because they will be charged—look, some of this is a new area for the Commerce Commission, who are traditionally at the wholesale end, and the more retail-type obligations that they now have because of the passing of these two Acts, it is a new area for them, and I have been very interested as to how they will streamline access for individuals and/or NGOs, budget services, to be comfortable and confident that any complaints and actions they take are followed through. I understand that. I might just build this into the reply to your earlier question, if you like.

Beaumont  Last question—what’s happening with the legislation around Standards New Zealand?

Foss  A lot of work has gone into that space, and we anticipate there’s drafting of a bill to enable some of the changes with Standards going on right now. I
think it’s very close to being finished. It may be introduced this year, or at least in this Parliament, but work is well under way in that space.

Cosgrove: Just one point. Your information was that if there are any stakeholders in the room that require a copy of the transcript, because there was some confusion over the last time we talked about grocery issues. It will be available publicly when we report back to the House. Just to help people.

Young: Thank you, Minister.

**Conclusion of evidence**
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Vote Communications

Recommendation
The Commerce Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Communications, administered by the Ministry of Business, Innovation and Employment, as set out in Parliamentary Paper B.5 Vol. 1, be accepted.

Introduction
The appropriations sought for Vote Communications for 2014/15 total $82.137 million, a decrease of 36 percent from the estimated actual expenditure in 2013/14 of $127.985 million. This reflects planned changes to funding for the rollout of the national fibre infrastructure, and transfers of underspending from 2012/13 to 2013/14.

Vote Communications in 2014/15 amounts to $282.137 million, if estimated spending from multi-year appropriations is taken into account. This total is a 14 percent decrease from estimated actual expenditure in 2013/14.

Ultrafast and rural broadband initiatives
In 2014/15 an estimated $200 million is to be invested in broadband via the multi-year appropriation Broadband Investment (Crown Fibre Holdings Capital Costs). This appropriation was established in 2011/12 to fund Crown Fibre Holdings for the construction of broadband infrastructure. The appropriation runs until 30 June 2016, and will provide total funding of $1.182 billion.

In addition, in 2014/15 the Government seeks appropriations of $4.53 million for fibre drop costs for purposes including connecting schools to broadband networks, and $10.533 million for funding grants or consumer subsidies for deploying rural broadband infrastructure in New Zealand.

Increasing the coverage and speed of broadband connectivity in New Zealand is intended to bring economic, educational, health, and social benefits to all New Zealanders. In particular, we heard that connectivity mitigates the “tyranny of distance” and improves access to export markets. The Minister for Communications and Information Technology told us that already in Whangarei—the first New Zealand city to be fully connected to the fibre network—increased connectivity is benefitting the local economy and society.

Fibre rollout
The Government has set targets for the percentage of rural and urban New Zealanders with access to ultrafast or rural broadband. Seventy-five percent of New Zealanders should be able to connect to ultrafast broadband by the end of 2015, and 86 percent of rural homes and businesses should be able to connect to improved rural broadband service via copper, wireless, or fibre broadband by the end of 2016. Once the rollout is complete New Zealand will be one of the most connected countries in the OECD. The Minister stated that by the end of 2019, 97.8 percent of New Zealanders should be able to connect to rural or ultrafast broadband.
The Minister told us that New Zealand’s fibre network rollout compared very favourably with that of Australia, where there had been cost blowouts, a slower rollout, and a reduction in the broadband speed to 25 megabits per second. New Zealand’s network will provide speeds of 100 megabits per second to 75 percent of New Zealanders by the end of 2019. The Minister also pointed out that any cost overruns would fall to the private sector rather than to the Government.

**Uptake of rural broadband**

We are very interested in the uptake of broadband in urban and rural areas. In its *Six-Monthly Performance Report to Ministers: Vote Communications* the Ministry for Business, Innovation and Employment stated that more than 179,161 households can connect to fixed wireless services, and over 60,230 have access to improved copper broadband services. The report also said that after a recent direct mail campaign to rural households to promote awareness of fixed wireless broadband, uptake increased by about 300 percent, or 777 extra subscriptions.

We asked the Minister for the total uptake of fixed wireless broadband. She stated that it was very hard to obtain accurate figures, as the ministry is reliant on data provided by retailers, which are under no obligation to disclose the number of customers they have. Although some provide figures, much of this information is commercially sensitive and thus not for public consumption. The Minister said that “the uptake across the fixed wireless service is at least comparable with the UFB uptake numbers”. Some of us expressed concern that the Government had no way of accurately measuring rural broadband uptake.

Without uptake statistics, it is very difficult to judge the success of the initiative. The Minister said that the Government’s objective was to increase the availability of broadband to rural New Zealand—fixed wireless broadband being only one component of rural broadband services—and this was happening.

**Multiple dwelling units**

Some multiple dwelling units have presented barriers to the rollout of ultrafast broadband. Any engineering work required to connect such premises to ultrafast broadband needs the consent of all title holders, which may be difficult to acquire. The Minister is working with interested parties on recommendations for a code of practice for ultrafast broadband access to multiple dwelling units. The Minister said that any legislative changes to address this issue would not be minor, as they would have significant effects on property rights. We look forward to this issue being addressed expeditiously.

**Submarine cabling**

The non-departmental appropriation *International Connectivity* of $15 million was appropriated in 2013/14 for the purchase of an anchor tenancy on a trans-Tasman and trans-Pacific submarine cable; however none of this appropriation was spent. The Government is not seeking appropriations in 2014 for this purpose, and intends to carry forward $15 million as an “in-principle expense transfer … to reflect a procurement activity commenced in 2013/14.”

We asked for an update on this project. The Minister said it was progressing, and assured us that money to pay for the anchor tenancy was “still available.” She said that negotiations between Research and Education Advanced Network New Zealand Ltd and Hawaiki Cable
for an anchor tenancy were continuing, and the $15 million would be sought once a contract was signed.

**4G mobile technology**

The Government is about to conclude the auctioning of the 700MHz band; this is the optimum frequency range at which new 4G (fourth generation) mobile technology can be delivered to rural areas. Telecom, Vodafone, and 2degrees were all successful bidders, and all have spectrum in the 1800MHz band, which is best for 4G signals in urban areas. 4G technology will bring faster mobile broadband data speeds and wider mobile coverage, and the Government expects 90 percent of New Zealanders will have access to this technology in five years. We heard that the spectrum management team at the Ministry of Business, Innovation and Employment were recently judged to have the best spectrum management regime in the world, and we congratulate the ministry on this achievement.

**Telecommunications Act 2001**

Under the Telecommunications Act 2001 the Minister must undertake a review of the policy framework for regulating telecommunications services in New Zealand, to be completed no later than 31 March 2019. The review’s scope is wide, taking into account market structure, technology developments and competitive conditions in the telecommunications industry. Last year the Ministry for Business, Innovation and Employment released a discussion document, inviting comments on the review and on options for setting network access prices during the transition between copper and fibre networks.

We questioned whether the review had stalled awaiting the Commerce Commission’s final decision on Chorus’ copper pricing. The Minister disputed this, saying that work on the review has continued following the release of the discussion document.

**Policy advice**

We noted that for 2014/15 the Government is seeking $3.658 million for Policy Advice – Communications, less than the estimated actual spend of $4.093 million in 2013/14. We asked whether this constituted a drop in funding for policy advice at a time when the amount of policy work, on the review for example, appeared to be increasing. The Minister said baseline funding was similar, but there had been a funding increase in 2013/14 for advice on specific issues relating to the spectrum auction and rollout of UFB. She pointed out that policy work relating to the review will be spread over a number of financial years.

**Copper pricing**

We asked the Minister whether she would rule out overturning the Commerce Commission’s final price determination on copper. The Minister responded that the Government had already ruled out setting the price of copper via legislation and there was no expectation that this would change.

**Domestic market**

We note that the trend in New Zealanders’ internet usage is a rapid increase in both the amount of data used and time spent on devices since the mid-2000s. This trend is not slowing down. We are pleased to hear that the market has so far worked well; retail prices for data are declining as providers compete for business, and there is no longer talk of data
caps as a solution to increased demand; retailers are offering some very competitive rates for uncapped data.

However, information about the content of retail broadband packages has sometimes been difficult to compare. The Minister recently announced the introduction of a code of practice, developed with industry input, which will give consumers standardised information about fixed and ultrafast broadband plans. The Minister hopes the code will be extended to cover mobile and wireless broadband providers. We believe this initiative will benefit consumers.

**Internet neutrality**

We asked the Minister about internet neutrality issues in New Zealand. She said that results of a 2012 survey of the industry indicated that there were no significant issues with internet neutrality in New Zealand. She noted that consumer law in New Zealand is fit for purpose to manage issues that arise.

The Minister stated that although there is no immediate problem she keeps abreast of overseas responses to this issue.

**Espionage and cyber crime**

We asked the Minister about the security of New Zealand’s ICT infrastructure from cyber-intrusions, including espionage and crime. The Minister said that the recently enacted Telecommunications (Interception Capability and Security) Act 2013 has helped the Government and the telecommunications industry to find and resolve weaknesses in the system.
Appendix A

Approach to this examination
We met on 29 May and 19 June 2014 to consider Vote Communications. Evidence was heard from the Minister for Communications and Information Technology Hon Amy Adams, and the Ministry of Business, Innovation and Employment. Advice was 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

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


Office of the Auditor-General, Briefing on Vote Communications, received 26 May 2014.

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

Minister of Communications and Information Technology, Response to additional questions, received 27 May and 17 June 2014.


Vote briefing paper, prepared by committee staff, received 26 May 2014.
Appendix B

Corrected transcript of hearing of evidence 29 May 2014

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

Witnesses
Hon Amy Adams, Minister for Communications and Information Technology
Andrew Crisp, Ministry of Business, Innovation and Employment

Young Welcome to our Commerce Committee and officials. We would like to give you up to 7 minutes for a presentation, and then we will come to questions.

Adams OK. Well, thank you, Mr Chair and members of the committee. I’m just going to start with a few prepared introductory comments I have, and then, obviously, I’m open to the questions.

Look, it’s good to be able to report very strong progress in communications and IT in New Zealand. What we’re seeing is consumers benefiting from the major structural changes that the Government’s made in this sector. We’re seeing these changes delivering increased competition, innovation, and investment, and this is leading to lower prices and better services to consumers.

The Government’s two flagship infrastructure investment programmes—the UFB and the RBI—are on track. And, of course, the Government has recently successfully cleared the 700 megahertz radio spectrum and auctioned it for use in building new 4G cellular networks that will deliver faster speeds and increased coverage for consumers, particularly in rural areas.

The market place for telecommunication services is becoming increasingly competitive. There are now more than 60 retail service providers offering a wide range of broadband packages, while the rapid growth of 2degrees since it entered the market in 2009 has provided a welcome boost to mobile competition, particularly in the prepay segment. As an example of the benefits to consumers, back in 2009, a base broadband offering was around $99 a month—10 gigabits of data. Today a basic proper broadband package starts at $75 a month, with 40 gigabits of data, starting at around $85 a
month for fibre packages. Interestingly, most retail providers now also offer unlimited broadband packages, with the cheapest of these at just $89 a month. So to give you some context, what you’re getting on the entry level broadband plan today for $75 would have cost you nearly $1,000 a month back in 2005, and would have been delivered at much slower speeds.

On the mobile side, what you can get now on an entry level plan—which is around 300 minutes, a gig of data, and unlimited texts—would have cost you nearly $900 a month back in 2009. So, in other words, consumers now are getting a lot more for a lot less.

Tremain

What would that one cost you now, Minister?

Adams

That one would cost you now—the entry level plan is through to $30 a month.

The structural separation of Telecom in 2010-11, as part of our broader reform package to deliver UFB and rural broadband, has allowed competition to flourish at the retail level. At the same time, Chorus now has greater incentive to drive uptake and improve the functionality of its network without the distraction of owning the dominant retail provider. This has delivered new packages of wholesale fibre and boosted commercial copper services that Chorus launched earlier this month. These new packages are priced well below the price caps that were agreed in Chorus’s UFB contract with the Government.

So by the end of 2019, 97.8 percent of New Zealanders will have access to faster broadband, thanks to the Government’s decision to invest $1.35 billion in broadband, with further investment in our UFB partners, and a further $300 million in rural broadband, again with further investment by commercial partners.

Early access to world-class broadband networks supports increased productivity and more jobs, as well as better health and education services. Our latest figures show that the progress is well on track, with more than 420,000 end-users now able to connect to the network across 29 towns and cities. In just this month, of course, we celebrated Whangarei becoming the first New Zealand city to be fully connected to fibre.

The uptake of UFB is continuing its steep upward trend, increasing by about 37 percent last quarter, direct to more than 27,000 connected users. This pattern is entirely consistent with overseas experience in broadband uptake at similar stages of deployment.

More than 86 percent of the programme to target schools has now been reached, and 2,100 schools in urban and rural areas have now been fibre-installed and are ready for service. The Network for Learning, of course, is now well under way to provide schools with safe, predictable, fast, premium data, content filtering, and network security services. It also provides access to a growing collection of high quality teaching and learning resources. We’ll have 700 schools connected to this programme by the end of this year, with all schools being able to be connected by 2016.
In remote rural areas, faster point-to-point wireless broadband has been provided to 40 small schools, which are beyond the effective cost reach of fibre. Thirty-two rural hospitals now have access to fibre, and more than 66,000 households can access faster rural broadband over copper, and about 187,000 rural households can now access faster wireless broadband.

With the freeing up of the 700 megahertz band of spectrum, the next generation of mobile phones is set to be rolled out over the coming year, bringing mobile broadband speeds up to 10 times faster than the present. Under the implementation requirements this Government has set, 90 percent of New Zealanders will gain 4G coverage within 5 years, and a number of existing towers will have to be upgraded to 4G as well.

There have been other important recent developments within the ICT portfolio. These include the Government’s agreement that New Zealand Post can reduce the frequency of its postal deliveries from July next year to 3 days a week in urban areas. This change affects the need to balance the immediate interest of postal users with the longer-term need for greater flexibility for New Zealand Post, given the dramatic fall in postal volumes over the last 11 years. The Government has also initiated a review of the telecommunications regulatory framework, as it’s important for investors to have long-term certainty about future structures post-2020.

So, looking at the sector as a whole, employment in IT firms is growing strongly, driven by growth in mid-size and large firms. Since 2010 the number of employees in IT firms increased by about 4,500, with 3,300 of these jobs in large firms. Overall, job numbers in IT firms have increased by nearly 70 percent since 2003. The number of IT firms has grown by almost 50 percent, increasing by 3,200 in the last 10 years. They’re also expanding their international presence, and the value of exports last year continued its steady rise to $682 million. The sector is also attracting significant interest from investors at the earlier start-up stages. Consistent with recent years, the majority of venture capital funding in 2013 went to IT, health, or bioscience. A small but growing cohort of IT businesses are listed on the NZX.

The increasing role played by IT in every sector of the economy means the boundaries between ICT and other sectors are becoming increasingly blurred. Digital technologies are revolutionising the nature of business in all sectors, with enormous potential for a future further rapid growth.

Overall, the sector is in good shape and is delivering for consumers. Other highlights of the portfolio in the last 12 months include: the completion of the Chatham Islands broadband procurement project, the first wired marae being delivered by Ngā Pū Waea up in Whangarei, the announcement of the confirmation of the $30 million Māori ICT development fund in Budget 2014, the launch of the CapTel remote video interpretation services for the hearing impaired, the launch of the mobile text relay service, and the completion of the disputes scheme for the multi-unit complex scheme are now effective and in place.
Curran Minister, I’d like to go to the part of your 6-monthly performance report to Ministers, which was provided to the committee, which talks about progress on the international cable and ask a couple of questions. The first one is that it’s a little bit confusing, because in Vote Communications the appropriation for the $50 million has mysteriously disappeared—

Adams Yes.

Curran —and, yet, in the estimates examination, the standard estimates questionnaire, it is actually in here as an in-principle expense transfer of $15 million. Can you give us an explanation of where that money is?

Adams Sure. Yes, absolutely. Well, it’s absolutely still available. I listened to the discussion that we had at some length with Treasury in the preparation of the estimates document, and insisted that there’s no way to describe the current status of that money within the estimates framework. But what I can assure the committee is that that money is still available, and, as you’ve noted from the report, is an in-principle expense transfer. So the net effect of that is that it’s still there, it’s still available, but because of the current technical positioning of the funds, they don’t show it in the estimates.

Curran It’s in-principle available—so does that make it less available than it was last year?

Adams No, it certainly doesn’t. It gets down into the vagaries of how Treasury completes the estimates document, and if one of you guys wants to talk about the specifics of it. The net effect is it is there, it is available, and it remains available. So what we are working through at the moment is a negotiation of a potential contract. So at the moment we’re working with Hawaiki Cable. There’s no secrecy about that, and we’ve indicated that, subject to entering into a sensible contract with them, then that money will be available. But until such time as it’s legally committed, it sits in the slightly in-between stages for estimates purposes. But I can assure you it’s very much still there.

Curran So can you guarantee to the committee that that money is still available?

Adams Yes. Absolutely.

Curran You can? Good. So with regards to the Hawaiki situation, which is also mentioned in your 6-monthly performance report, is the Government formally endorsing the Hawaiki Cable with REANNZ as an anchor tenant?

Adams So what we’ve said is that we were prepared to work with Hawaiki in the same way we did with Pacific Fibre, and we’ve been negotiating with them in the same way that we did with Pacific Fibre. We’ve always said that we are very happy to work with a provider of a separate cable, and any contract we would enter into would be subject to a number of performance milestones, obviously, so that if it didn’t proceed, as happened with Pacific Fibre, we don’t want the Crown’s money to be exposed.
So where we are at the moment is working through a period of negotiation through REANNZ with Hawaiki about the terms of that contract. If and when the board of REANNZ and the shareholding Minister sign off on it, then it would move to the next stage, but we certainly are working with them in principle as to how that could be shaped.

Curran  So can I just try and tease that out a little bit, because is it seen—that $15 million—as being an investment, plus REANNZ being an anchor tenant, or have I got that wrong?

Adams  So, no, the entire commitment would come from REANNZ in its capacity as anchor tenant. The $15 million is the amount of the upfront contribution they would make towards that anchor tenancy contract.

Curran  So the Government wouldn’t be an investor as well as—

Adams  There’s no equity stakeholding in the proposal.

Curran  So is there a proposal to have any more than the $15 million?

Adams  So the terms of the contract between Hawaiki and REANNZ is exactly what they’re negotiating now. It would cover, as I say, a long-term anchor tenancy, which would be made up of the $15 million upfront contribution and then an ongoing obligation as an anchor tenant. The exact numbers in terms of that are what is being negotiated now.

Curran  OK. Just turning to the RBI, I note also in the 6-monthly report, where it’s reported that during August and September 2013 the ministry ran a direct mail campaign to 60,000 households to promote awareness of the RBI fixed wireless broadband, and as a result of that, 777 extra subscriptions were gained, was that 777 more on top of what existed, and what is the actual total of subscriptions to the RBI?

Adams  Yeah. So the point of that mail-out was that I was aware that there was a low level of understanding and awareness in the rural community of the service, and we wanted to do something to help promote that. The number that they tracked there was the number that they attributed to the direct mail-out campaign, and it was in addition to what was happening at the baseline levels.

In terms of the total number of subscriptions for RBI, it becomes quite difficult to track on the fixed wireless service for a couple of reasons, firstly because the number of subscriptions is determined, obviously, at the retail level, and, as the member will be aware, there are the Vodafone towers that provide the fixed wireless service. While they’re Vodafone towers, they have to contractually make that service available to any retail provider who wants to use it, so the retail connections don’t just come from Vodafone. There isn’t a central point of connection the way there is with Chorus or other LFCs that we can go to for the base data.

What that means is that to know the total number of connections, we would have to have that information supplied to us by every retail service provider in the country, and, of course, they’re under no obligation to do that. So while we do get some indications, particularly from Vodafone,
around the numbers that have come through, those numbers are provided to us on a commercial-in-confidence basis, and so we don’t disclose them, but what I can tell the member is that the uptake across that fixed wireless service is at least comparable with the UFB uptake numbers. But, actually, at the moment MBIE are working through a process of market research to further enhance the knowledge around how that’s been taken up in the community.

Curran Minister, this is fairly extraordinary, given that this is public money being provided into the RBI, that there is no accountability back to the public as to what the uptake of fixed wireless is.

Adams No, I don’t think so.

Curran And with the 777 subscriptions, to my knowledge that’s the first time that there’s ever been an actual figure attached to the RBI, which makes one wonder whether the actual figure is much higher than that, because if it’s needed to be marketed by the Government paying for a marketing campaign for its own programme, which it gave the money to Vodafone to do, why wasn’t it Vodafone that paid for that marketing campaign? Why was it the Government?

Adams OK. So Vodafone are marketing the scheme, as well, and it was an initiative. It was hardly a full-scale marketing campaign; it was a mail-out and it was intended as a bit of a trial to see what sort of uptake we would get from it, so we tracked the uptake numbers that came from it.

But, actually, to your point about accountability, it’s very clear what the money in the RBI scheme pays for, and there is very clear accountability around the delivery of those targets. So we know absolutely the number of towers that—

Curran How can there be accountability?

Adams Well, I’m just getting to that. So we know absolutely the number of towers that have been installed. We know absolutely that a number of towers have been upgraded. But remember, of course, the money being spent on the RBI towers part of the programme is not simply to drive the uptake number of fixed wireless connections; it also provides significantly enhanced cellular coverage, which we regard as a significant benefit to communities.

And by enhancing the fibre connectivity to connect those towers, you also generate a lot of retail competition from other providers, who are then competing in it. So what we’re seeing is a significant increase in the amount of retail competition for those customers, prices coming down, service standards going up, data limits going up—so we’re seeing a significant uptake in the amount of retail competition in those markets, which is a good thing. And, as I said, we certainly do get indicative numbers through from Vodafone. They are provided to us commercial-in-confidence, so I am not going to—but what I can say is that it is at least comparable to the UFB uptake.
Curran Well, Minister, I have to challenge you on this because in the ministry’s own website, talking about rural connectivity, it says that the RBI will bring high-speed broadband to 252,000 customers and 86 percent of rural houses and business. Yes, that is a total, so one has to therefore be able to measure how many are actually getting it. The only figure we’ve got at the moment is 777, which was achieved through a marketing campaign which was paid for by the ministry. Is the Government so dissatisfied with the performance of the RBI providers that that subsidy is now extending to running marketing campaigns for the RBI fixed wireless service?

Adams No, not at all, but we want to enhance it. The numbers we do have are the numbers that have access to that service, so we know that 187,000 homes and businesses now have access to that service. And remember, of course, that the total under the RBI is not just made up of the fixed wireless component. You’ll be aware that a large portion of it is also delivered by enhanced fibre to the node and enhanced copper servicing, and we know that another 66,500 people have access to enhanced broadband over that. So wireless broadband is one of the components that makes up the package. I would argue that our objective is to deliver higher broadband availability to that proportion of New Zealand, and we’re absolutely doing it.

Curran Well, of that 187,000 who now have access to it, if they’re tracking along the same line as the UFB uptake, which is around 6 percent of those able to connect, are we then looking at around 6 percent of rural New Zealanders actually connected to the RBI?

Adams No, because, in fact, the part of the RBI that supplies fibre to the node and enhanced copper—what New Zealanders are seeing is that their internet just gets faster. They don’t have to do anything, they don’t have to sign up; they’re just suddenly getting a significantly increased service. With the fixed wireless, it is a specific subscription service. And, as I’ve explained to you, to get the total number of people who are connected to it, we would need to have every retail provider in New Zealand—

Curran Well, why aren’t you collecting those figures?

Adams Because at this time they’re not required to give us that information. We can seek that from them. Some do on a voluntary basis, but the numbers—

Curran Do you seek it from them?

Adams We seek it from some, and I have indications that it is at least as high as the UFB level of uptake.

Tremain Minister, this has been a huge, transformational investment for our economy. Can you just give—my question is around how the roll-out is going vis-à-vis other countries, particularly against, say, Australia, across the Ditch. And, secondly, international benchmarks in this space are pretty important, particularly in regards to attractiveness of New Zealand for overseas investment and businesses moving here. How will this transformation pitch us internationally? So—just interested in those two areas.
Adams: Yeah. OK, well, I think that’s a really important question to ask because, fundamentally, we’ve always taken the view, because of New Zealand’s location in the world—we’re very remote from our markets because of our small population size and because of our very remote distribution of our population—it’s probably even more important for a country like New Zealand to have high connectivity than it is for some of our trading partners. And increasingly, of course, we make a living selling to the world, and being able to be connected real-time to our markets is fundamental to our success.

So when we started, New Zealand had a very average level of connectivity across its population and no real ability to access at a real-time way to the rest of the world. So where this takes us internationally is right up into the top portion of OECD countries in terms of our UFB rollout pattern. So to have 75 percent of our population connected to UFB is an incredibly impressive target compared to our international partners.

So if you look at what is happening in Australia, not only are they behind us on build time frame, they have suffered a massive cost blowout, and are rolling it out in a much more difficult, slower way. What we’re seeing in Australia is that they’ve now had to scope down their project so that, in fact, they’re only offering 25 megabits per second as the underlying part of their platform, where we’re going to be saying 100 megabits to 75 percent of our population and, obviously, the rural broadband component taken out to 97.8.

So, look, there’s always more to do in this space. Ideally, in a perfect world, you’d like to have fibre up the driveway of every home, but, of course, the cost of that increases exponentially once you get outside the large urban areas. But the targets under the UFB and the RBI programmes leave New Zealand very, very well positioned, and certainly in comparison to Australia. Most of the media commentary I’ve read suggests that the Australians would be very grateful to have a system like ours.

Tremain: So when you’re saying “take us into the top number of countries in the OECD”, would that put us into the top five?

Adams: Well, we wouldn’t be in the top five, because you’ve got countries like South Korea that offer a ubiquitous one gig service all around their population, but when you’ve got a population of 80 million-odd in an area the size of Taupō up, the economics of rolling out a network are quite different. But it certainly puts us in a very, very respectable place ahead of most of the main competitors that we would benchmark ourselves against.

Bakshi: So what’s the trend like in ultra-broadband usage in New Zealand—how it’s going?

Adams: It’s really interesting and what you’re seeing in New Zealand is very, I guess, similar to what you’re seeing around the world, which is that there is a massive explosion in the way we’re using data and the way we’re using our devices, actually. I saw a stat just recently that said back in 1975 we spent an average of 16 hours a week in front of our screens—2012 that was up to 44
hours a week. So just as a society we are much, much more dependent on our devices, and in fact the use of our data is just increasing at exponential rates. So if you look at fixed connections, back in 2009 we were using an average of 7 gigabits a month per connection. Last year that was up to 26 gigabits, and actually all the indications are that even that is now being absolutely left in the dust.

Similarly, on mobile, you know, back in 2009 we were using per connection about 19 megabits a month. Now we’re up to 132. So what we’re seeing is New Zealanders are increasingly data hungry and, actually, that growth in mobile data is going at an even faster rate than the fixed data connections. And I don’t see that trend slowing down any time soon, which is why it’s been really good to see the reaction from the retail sector to move increasingly away from data caps.

I remember I was here a year or two back and the big discussion was around data caps and what was going to happen with them, and what’s happened is sort of what we predicted, which is that actually the market would come in and it just wouldn’t be sustainable. As I said in my introductory remarks, now you’ve got pretty much all of the major players offering uncapped packages and some of them at pretty competitive prices like $89 a month. So it’s pretty in reach of most New Zealanders.

Young

Minister, just on that aspect, in terms of the competition that’s happening and, I mean it’s quite amazing, you know—$75 back in 2005 would have bought $1,000 worth of data etc. So what sort of mechanisms do consumers have to actually compare what’s out there in the market?

Cosgrove

Maurice’s Samsung is going strong, obviously.

Adams

The thing that I was really concerned about when I took the portfolio on was that increasingly the move into this digital world is becoming a lot less than just for the sort of tech-savvy players. When I saw my 70-year-old mum get her first iPad and try to figure out how it all worked, it was sort of apparent to me that the language in which this stuff is being described and talked about made no sense at all to the average consumer and it was increasingly harder for them to work out what they were buying and how it compared.

So one of the things I did was sit down with the sector and say look, we need to have a much better way of comparing apples with apples across product ranges, so that consumers can understand what they’re getting and what you’re offering. So working with the TCF, they’ve developed the product disclosure package, which all of their members—which includes all of the major RSPs in New Zealand—have to comply with, which obliges them to give very clear and, more importantly, comparable information around things like fees, termination charges, any traffic management and traffic shaping policies, offerings, and use rates, and we developed a very robust comparable speed measurement, because you know we see all sorts of claims about what speed and how it compares and consumers—it’s going to get very difficult. So we needed to boil that down into a really simple,
comparable tool that consumers could look at to assess what they were buying.

Young
So is that accessible to consumers? Or coming?

Adams
So that went live on 1 March. The speed testing component of it they're working through developing now and I think details of that are going up on their website this week, I think they said, or in the next little while anyway. And that's a big step forward. It's really difficult to perfectly describe a tool to compare products, but what we've got now is a significant step forward so that consumers will be able to look—apples with apples and understand what they're buying for their money—

Young
Right, very similar to power bills.

Adams
Yes, it's kind of like that, but particularly some of the hidden things like whether they have traffic shaping or traffic management rules that they're not disclosing, whether there are hidden costs, and of course speed and metering and all of those components that go with it.

Yang
I was talking to a quite unique important player in the 4G market. He was saying that the New Zealand Government was doing very well in terms of managing the spectrum at auction. I was just wondering, compared with other countries, what we have done better than other countries—the best practice, basically, in New Zealand?

Adams
Well, I'm probably biased, but I think we've done it very well, but what I can say which is not biased is that the spectrum management team at the ministry—and I'm not taking any credit for this; this is just a good job from the ministry. That division of the ministry was recently awarded the best spectrum management regime in the world. So we have world-leading people running this thing and we can be really proud of the work they do in this space. So the most recent project that they've been working with, obviously, is that allocation of the 700 megahertz block, which is often referred to as the digital dividend, which effectively is the bit of spectrum that was cleared through the change from analog to digital television.

The reason this is so exciting, this particular block of spectrum, is because the propagation characteristics of it effectively mean that you can get very, very high speed mobile data. So this is the 4G LTE data networks, which already are offering speeds up to 100 megabits down, and actually some of the advanced iterations are already well in excess of that. But, more importantly, because you can get that now in the existing spectrum, what it allows them to do is offer that sort of speed over a very, very wide coverage area.

So for a country like New Zealand, which we all know the demography of, having that really wide propagation and coverage is potentially revolutionary to some of those rural and remote areas that don't get the ultra-fast fibre. So even the communities that are on the fixed wireless or the enhanced copper, as that 4G gets rolled out more and more, that's going to be a transformative benefit, particularly in the rural sectors where, obviously, they're running businesses out. They're not sitting at their desk with their
computer in front of them. So the advantages we’ve got in that are that we’ve had it auctioned successfully. We have auctioned it quite early compared to a number of countries, and we’re in a position to get it out to the market as soon as possible, because the transformative and economic benefits from that are extensive.

Where we have to sit and wait a little bit, of course, is: companies don’t develop handsets just for the New Zealand market on the whole. So we’ve had to be careful to position ourselves both in a band plan that other countries are using and just the timing of that is joined up with other countries, so that the handsets become available. But, actually, the indications are that the handsets will become available even sooner than predicted. So the good news is that New Zealand will be ready to take advantage of that as soon as it happens.

Young Julie Anne, do you have any questions?

Genter Yes, thank very much, Minister. I was wondering if the Government was taking any step to ensure net neutrality in New Zealand, and if so, what?

Adams So net neutrality is a really interesting discussion, and it’s one that the international forum we’re involved in is looking at quite closely and it’s one I’m watching pretty closely, actually. So the starting point for us, really, is that in 2012 the Commerce Commission went out and surveyed stakeholders and said, look, do you consider we’ve got an issue that needs immediately to be dealt with, and the feedback that came back from that was no, we didn’t have a significant net neutrality issue in New Zealand.

At the moment, the way it’s set up, our consumer laws are actually quite well designed to manage it. So there was an issue a while ago where allegations were being made around the way Sky handled some of their content and, obviously, there was an ability for the Commerce Commission to get in and have a look at that. So our commerce anti-competitive practices already cover it reasonably well, and I think the challenge here is not to get ahead of the problem. So we watch it closely and I’m certainly watching what’s happening in the EU and the US, particularly, who are looking at developing some of these net neutrality rules. In both cases, there’s a huge amount of debate and discussion around it, and in both cases we have got a long way to travel before they’re bedded in. So it’s certainly interesting to watch how that debate plays out.

It’s also sort of a bit of a line drawing exercise, because there is a difference between what you’d regard as valid commercial practices like Zero mentioned some content against data caps, which has been happening for a while and the Commerce Commission has indicated it’s quite happy with, or potentially offering a premium service at a premium price for delivery of certain content as long as it doesn’t degrade the provision of other content, which is normally regarded as OK in most of those jurisdictions, but when they get into blocking or limiting or slowing access to competitive products, that’s obviously when it becomes an anti-competitive issue.
At the moment, we’ve got no indication that the Commerce Commission provisions aren’t already adequately resourced to dealt with that, but, as I said, it’s certainly an evolving area and I wouldn’t want to say it’s something we won’t have to respond to at some point in time. Right now, I’m comfortable that there’s no immediate pressing problem and I think the appropriate thing for New Zealand to do given that is to watch closely how those EU and US developments play out and see what we can take from them.

Genter What is the Government doing, if anything, to ensure our information infrastructure is protected from overseas spying?

Adams That’s a really good point. So in the last year we passed the TICSA legislation, the Telecommunications (Interception Capability and Security) Act, and a big part of the reason for that was because prior to that we had no way of knowing what vulnerabilities there were in our overseas network—our network to overseas or domestic threats. So what that allows us to do at an infrastructure level is identify and work with the network operators to identify vulnerabilities in the system and to try and resolve the approaches to that. That had been happening on an ad hoc, informal basis, but actually what we were discovering was with the fragmentation of the market there are a number of players who weren’t aware of the abilities—that we had to work with them to identify weaknesses and address it. And I think that regime will give us a much more stable platform to ensure that our network isn’t subject to unauthorised backdoor entry.

Curran Minister, will you rule out overturning the Commerce Commission’s final price determination on copper when it comes—

Adams Well, we’ve already ruled out that we won’t be legislating to address it. So, as you know, I put out a discussion document when these issues first came to light to look at potential ways through this. We discussed whether there was sense in using a legislative solution there to avoid the years of litigation and uncertainty. The clear feedback from that was that that wasn’t going to happen so we’ve ruled that out and I don’t see that position changing.

Curran You ruled out the process as of up to now, but what I’m asking you is should you—

Adams Well, no, I think—

Curran No, no—can I just finish my question? Should you still be in Government after 20 September and the Commerce Commission comes down with its final pricing determination next year, will you rule out using legislation to overturn that decision?

Adams So what we’re ruled out is using legislation to set the copper price level. I don’t think that’s a backward-looking statement. I think it’s a reasonably clear statement and I can’t see any reason that that would change if we are in fact re-elected.

Curran So that’s a yes, we will rule out.
Adams: Well, it’s a “We have ruled out legislating to fix the copper price over this process.” and I don’t see that changing.

Cosgrove: Sorry, if I may—it is a relatively simple question. Could you address that with specificity? Will you rule out—

Mitchell: She’s answered the question twice.

Cosgrove: I didn’t know you were the Minister.

Mitchell: Well, I’m not, but she’s answered the question twice, so why ask it again?

Young: Well, I am the chair and I think the Minister has adequately answered that.

Cosgrove: Well, could you chair it and not him?

Young: Yes, I’ve just said—thank you. I think you need to have a different line of questions rather than repeat the same questions.

Cosgrove: I just wanted a clear, definitive answer.

Young: I think she’s made it clear.

Cosgrove: OK, thank you.

Curran: So, given that your review of the Telecommunications Act has gone into suspended animation, what is the time frame for the full review of the Telecommunications Act, which is actually required by the Act itself?

Adams: Well, the review isn’t in suspended animation. It’s carrying on. So the first discussion document that we put out will be picked off the review, which is, you’re right, required under the legislation. That initial review, the first part of it, was looking at whether there was a need to intervene on copper pricing and we’ve discussed that. The rest of the document talked about other aspects of the review that would be required and those other aspects are now being worked through.

Curran: That review document did not go to other issues. It was primarily concerned with the options around whether there should be intervention and what sort of intervention that would be. And all three, essentially, required legislation—all three of those options.

Adams: OK. So you’re right, a lot of the document talked about that part of it, but it also referred very clearly to other aspects of the review and those aspects are still carrying on. So, as you mentioned in your question, the legislation requires us to have carried out a full review of telecommunications regulations, which has to be completed by 2019. Actually I remember, I think it was last year at this committee, we were talking about this and there was a discussion around the fact that while that is absolutely critical, we also have to be careful that we don’t try and resolve what the answers will look like post-2020 too soon before that. So, there’s a lot of work that we’re doing on it and it’s covering matters like how the wholesale prices for copper and fibre are going to be set, convergence and content regulation, regulatory consistency with Australia, net neutrality, migration from copper to fibre, the regulatory tools available to the Commerce Commission, and the merits review process. It has to look at the whole market structure—
technology developments, competition outcomes. So there’s a wide range of issues that it’s looking at and officials are continuing their work.

Curran So, is that being undertaken now? Is that work—

Adams The work is continuing. Officials are carrying on that work now.

Curran So, can I ask then, in that context, why is it that the appropriation for policy advice for communications is actually dropped quite considerably? That would seem to be at odds with the increased amount of work that’s going on within your area.

Adams Well, no, look, it hasn’t. My understanding—and I’ll pass to Andrew Crisp to talk about it in technical detail, but my clear understanding is that the base level of funding for the policy unit is much the same. What you saw was the one-off increase over the previous entity to deal with the specific set of factors we were dealing with. Again, that is removed but the underlying core level of funding has remained unchanged.

Curran So, it was an underspend? So, there was an underspend on policy advice?

Adams No, it received a one-off increase in funding in the last year to deal with that year’s issues. The core level of policy funding into the agency has increased and I’m just—

Curran That would then presume that the amount of advice that you need has dropped and yet it would seem that the amount of work that needs to be undertaken through this telecommunications review is actually quite considerable. The two just don’t add up.

Adams Well, no, it is a considerable piece of work but it’s a considerable piece of work spread over a number of years that the ministry is well positioned to deal with and well resourced to deal with. And the funding that they received in the last year was for an unrelated project, which is now completed, so that funding has stopped. That’s very normal.

Curran So what was that unrelated project?

Adams That was for the 700 megahertz auction and it might have been the completion of that extra part of the RBI, the Chatham Islands, and pieces. There were some projects finishing last year, specifically the 700 auction, that required extra funding.

Crisp So there was an increase in funding in the UFB. It was a very good set-up. The concept was there, so—

Curran Was any of that extra money being spent on extra advice being brought in or provided around the TICS bill?

Adams I don’t believe we had any extra funding for the TICS bill.

Crisp No, I don’t think so. I mean, it gets treated all as one appropriation.

Curran OK, so just moving on—can I ask: does the Minister support Gigatown?

Adams Well, it’s Chorus’s retail competition. It’s good to see them out there trying to stimulate interest, but it’s not something I have any involvement with or a formal position on.
Curran No formal position on it. Do you have any concerns that Gigatown will only have one winner? Shouldn’t it be for the whole of the country?

Adams Look, it’s a private, commercial undertaking by Chorus. I’m not going to comment on how they’ve designed it.

Curran Is any of the funding being used by Chorus to market Gigatown coming out of public money?

Adams No, the funding that we give Chorus is very specifically linked to the roll-out of ultra-fast broadband and is on a very defined basis in their contracts.

Curran It’s undertaking quite considerable marketing. So are you telling me that none of that money is coming from the public purse?

Young Minister, you’ve been asked questions to answer around a commercial-private company, so obviously you can’t go into those particular areas.

Curran It’s related to public money.

Cosgrove Point of order—with respect, we are free to ask any questions we like and the Minister, with respect, as she has done, to be fair to her, previously over another series of questioning, has said “I can’t comment on that because it’s commercial, in confidence, or whatever.” It is actually for the Minister to decide what she can and cannot answer, not for you to direct her.

Young However, it was nearly a repeat question and so it’s becoming repetitive.

Curran No, it was asking for clarification and I think that’s perfectly reasonable.

Young Well, I believe the Minister did give you clarification to a prior question and then the question was nearly a repeat. Minister, we’ll come back to you.

Adams Well, all I can say is that it’s a private initiative being undertaken by Chorus. It doesn’t involve UFB money and I don’t have a position on it.

Curran Right, a couple more questions—is MBIE part-funding or funding any studies into why the uptake of UFB is so low?

Adams Well—

Curran Into update of UFB.

Adams Yeah, I heard the question. I reject your assumption that it is low and that we would be looking at why that is. I have always said consistently that both the projections that MBIE and the LFCs and Crown Fibre used at the time they carried out the contracts, and our international comparators around how uptake has worked in other jurisdictions, tell us that it’s absolutely where we would expect it to be. So, by comparison, we know that when Singapore was 20 percent complete in its roll-out, it had 2 percent uptake.

Curran That wasn’t the question.

Adams Your question was premised on the fact that it is lower than it should be, which is just not correct.

Curran OK, well, we’ll have to agree to disagree on that one. But is MBIE funding or part-funding any studies into the uptake of UFB?
Adams Not that I’m aware of.
Curran I’m aware of three studies that are being undertaken. Is MBIE funding, part-funding, any of those studies?
Adams We collect data on what uptake is, so if that’s your question, but your initial question was funding studies to work out why it is so low. We don’t believe it is so low, so the answer is no.
Curran Well—
Young Sorry, we need to go to this side now. You’ve had a good run, OK?
Bakshi My question is that this Government is quite focused on Business Growth Agenda, and I thank you for your role in helping to achieve that. My question is that you briefly touched upon Whangarei as the first town wholly connected with fibre. How is it benefiting the local economy with this connectivity?
Adams Yes, it’s really interesting to see what happens, particularly, I think, in regional and provincial New Zealand with connectively. Because Auckland, Wellington, and Christchurch have always been at reasonable levels of connectivity from the urban areas, but I’m a rural, provincial MP, and I think actually that is when you get out into some of those places like Whangarei and Ashburton and Timaru and New Plymouth that you really start to see towns realising the potential of this. So what this platform enables them to do is to run agendas for both their business and their social growth that previously weren’t available to them. So we’re seeing some of the most clever towns develop some very good digital leadership at a local level and think about how they can harness that to really position themselves.

So it means that towns like Whangarei and Wanganui are doing a really good job. There are others around the country who are doing this very well. They’re seeing the potential to then position themselves both as hubs for extensive new businesses based on the digital economy. Whangarei is obviously pitching to become the landing point for the Hawaiki Cable and off the back has got plans for a number of data centres to go into the town with incredibly growth around with it. It also means that people can be living in parts of provincial or rural New Zealand and working anywhere in the world. Really exciting, too, it means that students and the elderly and people who wouldn’t have access, perhaps, to all the big-city services can get that wherever they are in New Zealand, and it’s a great leveller.

So when we were up in Whangarei we went back to Manaia View School, which is where we kicked off the programme back in 2010. To see the principal there talk about the fact that the children in her school—most of them—have never had a day at school without access to ultra-fast broadband and they were actually struggling to understand what learning would have looked like if they hadn’t had it. When you see the way it is changing the way they can operate and the way they are learning to adapt to a digital world, I think the transformative potential is astounding. Actually, in my view, I don’t think we can even begin to imagine yet all of the ways
that this is going to be changing the way we live and work over the next 10, 15, 20 years.

Bakshi So how is the response from the schools and the health system in the rural area about this?

Adams Yes, so that’s where it gets really exciting. So, obviously, my job as ICT Minister is to make sure that connectivity is rolled out and then I have a sort of oversight role as to what other agencies are doing, and of course the Ministers of health and education are leading the work programmes. But in both cases we’ve seen some really clever initiatives now starting to think about how you can use it, because fundamentally fibre is just a network; it’s a highway. So building it is the foundation, but it’s what you do with it that triggers these benefits.

So I talked in my introductory remarks about the Network for Learning, which is really opening up not only just cheaper ways of accessing the internet but is allowing them to think quite differently about how they teach, how they provide resources—I was at a school on Great Barrier Island when we were seeing kids there learning Mandarin through the UFB. You just couldn’t do that in a small, remote school of I can’t remember how many kids—30 to 40-odd kids in the school. So the chances to do things of that nature are huge. But I keep pointing out to them that it’s not just about being digital users; we’ve also got to get our kids much better positioned to be digital creators and thinking about how they go into the modern world, not just using technology but really getting into that IT sector, which is just exploding. And, as I said, the exciting thing is when you see some of these smaller towns realising it’s such a huge leveller in the tyranny of distance and size that we previously had.

Yang Schools are particularly important, because, if I understand correctly, by the end of this year 700 schools, and then by the end of 2016 all schools—so how are they responding to the programme?

Adams Look, incredibly well. I know the schools in my electorate that I’ve visited who have it are just raving about it and finding it really exciting. If anything, I think it’s a problem of success, in that all the schools want to be on it immediately. It’s a bit like the UFB programme, most of complaints I have are “Why is it taking until 2019 to get us, or to 2018?” It’s great when the problem is that everyone wants to get on to it sooner rather than later, but the fact that we’ll have 700 schools getting free, uncapped managed network services by the end of this year is, I think, absolutely revolutionary for the education sector.

Yang Who is a priority, of the other sectors?

Adams Sure—also the medical sector, again, is really interesting. Some of the initiatives that are being developed in New Zealand and overseas around telehealth, around remote video support and diagnosis and assistance—we’ve got a situation in my patch where the Canterbury District Health Board has a working agreement and a very good high-speed hook-up with the West Coast District Health Board and they are using that video
connectivity to use specialist paediatricians and the like in Christchurch to assist GPs locally on the West Coast, meaning a lot fewer kids have to be shipped back to Christchurch for treatment. So in that sense, but also in terms of elderly being able to stay in their homes longer and be remotely monitored, and clinicians being able to access results instantaneously on their systems, electronic patient records and the workability of that—it opens up quite new ways of doing things.

The business community, obviously, is a significant part of it as well. A lot of work and thinking is going into how we can assure that particularly the SMEs, who often don’t have the skill sets to adapt to this, are able to understand where they are on the digital journey programme—where they are on that and how we can help them take advantage of some of those opportunities.

Young
In terms of our build compared to Australia’s build, can you give us some comparators and how we’re going in comparison?

Adams
Yes, OK, so I can tell you that as I mentioned, I think, earlier, the Australian NBN programme initially was designed to be a fibre-to-the-home programme, as we have in New Zealand, which would have given Australians 100 megabits to their home, as we have for our UFB programme. They have now had to revise that down because of cost escalation so that now they’re only offering a 25 megabit guarantee under their programme, which obviously is a quarter of the speed of New Zealand. Some Australians will still have the faster speed, but actually the programme is only offering the 25 megabit guarantee. They’re doing it. Ours is a quicker build than theirs. They started 2 years before us, and yet we’re ahead of them on build. We’re certainly ahead on premises passed, and we haven’t had the cost escalation of public funds because of the way that ours has been set up. The public funds going in are set at time of contract—

Young
So if there’s any overruns—

Adams
Any overruns fall to the private sector so that the taxpayers’ component is set and protected. And, actually the uptake is tracking—well, the uptake in Australia is different, of course, because they have a situation where they’ve paid Telstra $11 billion to rip out copper pylons, so we haven’t done that. We’ve used an enforced migration strategy and, of course, there is a significant saving to the public purse in not doing that.

Young
That’s great. So you made the comment before, I think, when Clare was asking some questions around our uptake compared with other nations. How are we tracking in comparison to other nations?

Adams
Yes, I’ve got some stats here if you’ll just let flick to them and if I can find them. Of course, you can never find them when you’re looking for them. But what I can tell you is that we know that most countries at the end of what will be the end of our build period—so about 6 to 8 years after it’s available—are tracking around 35 to 45 percent uptake. We’re projecting that we think by the end of the build period we’ll have total uptake of
around 37 to 42 percent, and that’s what we’ve always been pitching for. What we see overseas is that actually it is not until the service has been available for 4 or 5 years that we see the dramatic uptake increase. But the exciting thing for me is that over the last two quarters that we’ve reported publicly—and these numbers are estimates from my head but as far as I recall them—in the first quarter of this year uptake increased by about 40-odd percent over the quarter and then in the most recently reported quarter it increased by about 37 percent over the quarter. Remember, at the moment, while we are seeing these steady increases in uptake, that is while the build is also picking up speed. So the faster the build goes, the more and more connections you have to have to push that number up, and it’s going up steadily. As I said, I’m pretty happy with that.

Young And, of course, the way the Kiwis are using data in terms of just the quantum is significantly changing.

Adams That’s right.

Young So is that driving some of this?

Adams Yes. And the reality is with fibre is that it’s one of those things that until you have it, you can’t quite understand why you need it. So it’s like a cellphone—until you had one, you couldn’t think why you needed it; once you’ve had one for a while, you can’t be without it. I was talking to a chap the other day—he’s in his 70s—who has 120 service to his home. He’s selling his home, and he said to me “I don’t want to be shown anything that doesn’t have a fibre connection.” Now that he has it and is used to that speed and being able to stream movies easily without thinking about it, he won’t go back. It takes a while for Kiwis to understand we’re not talking about them just doing what they do now but quicker; we’re talking about a whole new way of operating.

Young So slightly sort of outside of your scope, but in terms of house designs and intelligent buildings, are architects taking advantage of all of this new technology in creating fibre-rich homes?

Adams It certainly gives them the opportunity to do a lot of that. There’s some really clever technology around about smart grids within the house and even the ability, with electric vehicles, to use the electricity vehicle and the home smart grid to work as almost a community storage facility, which is really exciting. This enables stuff. Intelligent traffic management systems become possible. You get, obviously, the ability to have very, very computer-enabled homes.

In terms of the home design, the critical thing really is to think about the quality of the cabling within the home when you’re building it. So the ultra-fast broadband programme takes the fibre to your home and into your computer room, but it’s important, of course, that people understand that their internal wiring, if it is old and out of date, will slow that down. It’s like a pipe, and if you have a very narrow bit of hose on the end, that will slow down performance. So it’s important that people are thinking about having high-quality cabling through their home.
But once you make this enabling foundation technology available, you see an explosion in the applications and uses that come off the back of it. Things like intelligent transport systems and smart grid networks and mesh networks of those smart grids just wouldn’t be possible without a very high level of connectivity and spectrum allocation, and that’s why getting this in place is so critical. But it’s the usual thing that unless you have the connectivity there, the applications don’t develop.

Genter Yeah, my question’s related in a way. I understand that overseas fibre uptake is the highest amongst multiple-dwelling units like apartments. And I also understand that we’ve had some difficulty rolling out ultra-fast broadband to MDUs here in New Zealand. What is the Government doing about that? Do you think it’s going to continue to be a problem?

Adams Yeah, so we’ve done a few things. So, you’re right. When you’re rolling out fibre to people’s homes, you have to be careful to respect obviously the property rights of the people whether it’s down a shared driveway or in a multiple-dwelling unit. And what we’ve done for the multiple-dwelling units is a couple of things. We have commissioned the regulatory code of practice, which took effect last year, which works through how they get access. It’s a deemed consent basis in this provision for people to not to consent and then go through to a disputes process. And the disputes scheme of that took effect, I think, it was December or March, just quite recently, anyway—the dispute scheme for that MUC code, which now means we have a fully effective scheme to address the access issue into MUCs. So that’s the first thing that’s happened.

The second way we’ve addressed it is to look at whether the MUC has a very high level of internal cabling already that allows no degradation of the service for them to supply the fibre to the basement of the building and use that high-quality fibre throughout the building so you don’t have to re-engineer the layout.

Now those two things have considerably helped the issue with MUCs. There are still some residual issues with body corporates and the like, just with them having to sign up on the design particularly when there isn’t existing high-quality fibre or high-quality cabling through some of the older designed buildings. But it’s always that balance of the property rights of the owners and getting services into those who need it.

Curran Just following on from that question, Minister, there are a wide range of issues attached to land access, right-of-way access, and multi-unit dwellings, which are being raised across the country as being quite high barriers to connectivity. Are you opposed to the necessary small law changes that are required to fix that?

Adams So, it’s something we’re certainly looking at really closely, and you’re right—the consent issues have created certain delays for people to get through. I think we’re tracking at the average—I saw a figure somewhere as I was going through my notes of about 21 days resolvable average. Some are taking longer.
Curran 6 months.

Adams Well, some are taking longer, as I said. I was talking to someone the other day—one of the owners down the right of way was somewhere very remote overseas, and just couldn’t be reached. It wasn’t that they necessarily objected. So what we’re looking at is how we can address that in a way that doesn’t override copyright. So you describe it as a small law change, but effectively what we would be doing is legislating across indefeasibility of title, which is a pretty core tenet of property law.

Curran So are you opposed to that?

Adams No, no, I’m not. What I’m saying is we’re looking very closely. So where it’s at at the moment is the industry is working on a set of recommendations as to what they would like as a solution to it. That’s coming to me in June—I’m expecting it—and then we’ll consider that. But it’s something we’ve been talking to the industry about for some time to try and get through those issues. But I do have to be very careful not to ignore the valid property rights that people have in terms of digging up driveways and the like.

Curran Well, just to put that into context though, Minister, it’s my understanding that those issues have been raised with you for quite some time and that they could have been fixed through small law changes. At the present time the uptake of UFB is around 2 percent of the total 1.34 million households in New Zealand and the percentage of premises passed is around 6 percent—maybe just a wee bit higher than that. That’s not exactly tracking towards uptake of 37 percent to 42 percent and it would seem to me that addressing the barriers to uptake could be something really practical and something that the Government could actually achieve. Why haven’t you acted on that before now?

Adams Well, there’s a lot in that question so if you let me try and work through all of the issues you’ve raised. First of all, it is something we’ve been discussing with the industry for a while and we have been looking at a number of issues. You can describe it as a small law change, but actually it is a significant impact on private property rights and indefeasibility of title for me to legislate, saying that people can lay fibre across your land at will and you have no say over it. I’m sure that the member’s own constituencies would have people who were very worked up about that. So, absolutely, it’s an issue we’re discussing.

Curran It’s a utility.

Adams There is a range of options. I’m very willing to look at some changes, but we have to be careful to balance that. So, I’m absolutely indicating that we are looking at it. To your point around uptake, uptake at the last reported numbers is 6.5 percent and actually is continuing to track up. You’re taking it against the total of where the project will get to, which is a bit unrealistic. You can only track it against the ones that are available.

Curran Well, I gave two figures, which I thought was fair.
So, it’s 6.5 percent at the last date and tracking up from that and we’re going to continue to see it track up. As I said, I think that is entirely in line and all the data we have backs it up with international equivalent experiences. I do acknowledge that the consenting issue does slow down some connections. In the main they are being worked through and resolved and yes, it adds to it being a bit longer, but it’s not stopping people being connected; it means that it’s a delay in it. Yes, we would like to see that addressed. We’ve worked through the MUC issues as best we can. We’re now working through the right of way and the private land issue, and I am very willing to look at all options around that, but I don’t think you can categorise it as a small, simple law change that would—

But, Minister, it’s something that you could practically do to ensure that uptake was quicker. Why is that you won’t take action?

Well, if you want to campaign on cutting across private property rights, you can. And I haven’t said I won’t take action. I’ve said that we’re absolutely—

Isn’t that a philosophical opposition that you’re—

Well, I think you’re categorising my position. I’ve been very clear. I’m absolutely looking at it and willing to take action, but you have to be very careful to simply cut across people’s private property rights by legislation.

Thank you, Minister. Our time is now up. We thank you very much for your appearance at the committee today and for your answers.

Thank you.
2014/ 15 Estimates for Vote Conservation

Report of the Local Government and Environment Committee

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Recommendation

The Local Government and Environment Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Conservation, administered by the Department of Conservation, as set out in Parliamentary Paper B.5, Vol. 3 be accepted.

Introduction

The appropriations sought for Vote Conservation increase to $430.812 million in 2014/15 from $411.717 million estimated actual expenditure in 2013/14 ($437.313 million was budgeted). For the 2014/15 year, Crown revenue in Vote Conservation is estimated at $17.804 million, excluding capital receipts.

Conservation partnerships

The outcomes desired for Vote Conservation in Budget 2014 include more people engaged with conservation and valuing its benefits, and more gains to conservation from business partnerships. During our consideration of the 2013/14 Estimates for Vote Conservation, we discussed the potential for the department to be influenced in its decisions by donors. In 2014/15 the Department of Conservation will undertake pest control on Great Mercury, a privately owned island off the coast of the Coromandel Peninsula. The operation will be funded jointly by the department and the owners. We queried the decision to prioritise a pest control programme on private land such as Great Mercury ahead of those on public land.

The Minister said that, while the department must ring-fence its statutory mandate, it should also be flexible in prioritising conservation work if there are partners willing to put up funds for projects that would otherwise have a low priority. We note the point that changing technology can allow efficiency and cost savings, and that, for funding areas such as biodiversity, members differ as to the priority that should be given.

The beech mast

The appropriation Management of Natural Heritage includes the new performance measure “Hectares of land under active restoration this year—beech mast response”. A rodent and stoat population explosion is expected to take place in 2014/15 following high levels of beech-seed production in 2013/14. The increased numbers of rodents and stoats will turn on endangered species. The target is for 613,000 hectares to be restored, as a measure of the success of work done in 2013/14 when the beech mast occurred. The beech mast programme is the biggest pest control programme yet undertaken by the Department of Conservation. It is due to run for five years, ending in the 2017/18 financial year.

Funding in the first year (2013/14) came from savings from lower redundancy costs than expected following the department’s restructure. No funding has been budgeted for the 2014/15 financial year. We heard that, while the work will mostly be done from July to September 2014, the expense was incurred in the 2013/14 financial year when the department entered into its commitments regarding the beech mast programme. There
remains some concern that savings from staff redundancies is an insecure way to fund such an important programme.

**Pest control**

The department undertakes many pest control programmes each year. Some, such as those targeting deer, goat, and possums, have specific measures in the appropriation *Management of Natural Heritage*. Tahr, a goat-like animal introduced into New Zealand in the early 1900s, does not have a specific measure. While the department’s planning and reporting system does not record tahr control, we were told that there are active control programmes around the country. The Minister noted that there is a range of views as to the value of game animals. He assured us that no direction regarding tahr numbers has been given to the recently formed Game Animal Council.

**Ruataniwha Dam irrigation scheme**

We have previously discussed the department’s role regarding the proposed Ruataniwha Dam irrigation scheme, on which a board of inquiry recently released its draft decision. We questioned the Minister about his role in the board of inquiry process, and learnt that the Minister for the Environment is taking the lead. While the Minister of Conservation thought it inappropriate to comment on the board’s decision, he expressed confidence in the overall process. We heard that the department is working with the Hawkes Bay Regional Council regarding a piece of conservation land that might be needed if the scheme goes ahead that could be sold or swapped depending on the board’s final decision. He asserted that no-one had approached him about the issue.

**Marine protected areas**

We have previously considered the Marine Reserves Bill, and are currently considering the Kaikōura (Te Tai-o-Marokura) Marine Management Bill. In the light of this, we questioned the Minister about progress with a new marine reserves bill. The Minister considers that the responsible legislation, the Marine Reserves Act 1971, has not worked well and has led to recent reserves being created through separate legislation. When we asked him whether separate legislation, such as the Kaikōura (Te Tai-o-Marokura) Marine Management Bill, was moving away from national policy, he said that local solutions were sometimes necessary. He went on to say that the ultimate goal is to have a representative sample of marine habitat in permanent reserves.
Appendix

Approach to this examination

We met on 5 and 18 June 2014 to consider Vote Conservation. Evidence was heard from the Minister of Conservation, Hon Dr Nick Smith, the Associate Minister of Conservation, Hon Nicky Wagner, and the Department of Conservation, and advice received from the Office of the Auditor-General.

Committee members

Maggie Barry (Chairperson)
Kelvin Davis
Jacqui Dean
Paul Goldsmith
Claudette Hauiti
Hon Phil Heatley
Gareth Hughes
Moana Mackey
Eugenie Sage
Su’a William Sio
Andrew Williams
Hon Maurice Williamson

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister of Conservation, Response to standard Estimates questionnaire.
Minister of Conservation, Presentation.
Response to additional questions, received 3 and 17 June 2014.
Office of the Auditor-General, Briefing on Vote Conservation, dated 5 June 2014.
Briefing paper, prepared by committee staff, dated 4 June 2014.
2014/15 Estimates for Vote Corrections
Report of the Law and Order Committee

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Vote Corrections

Recommendation

The Law and Order Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Corrections, administered by the Department of Corrections, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Corrections decrease slightly to $1.505 billion in 2014/15 from $1.556 billion in 2013/14.

Safety

There was a small decrease in funding for prison-based custodial services in 2014/15, after a one-off funding initiative for prison safety in the previous year. We asked about the implications regarding suggestions by corrections staff for improving staff safety. The Minister told us that all the staff safety initiatives completed have been covered by carry-over funding from the previous financial year, which also alleviated cost pressures.

Risk assessments

We asked the Minister to comment on the adequacy of risk assessments, since we had received reports of Department of Corrections staff considering them inadequate. We gave the example of an escape attempt in transit by an unrestrained remand prisoner with a history of attempted escape. We heard that this case was very recent, and there will be a full review. The department acknowledged a degree of subjectivity in risk assessments, but said that all remand prisoners are automatically given a high-security risk classification.

Remote court appearances

Prisoners can now make their court appearances remotely via teleconference, which removes the danger associated with transporting them. We asked how the initiative was being received by the judiciary, and heard that the response has been mixed; it was working very well in some areas, but not in others. Corrections staff believe that it will be increasingly accepted, and certainly the prisoners prefer it, as they avoid spending up to an entire day waiting in court cells for a very short appearance in court.

Resource movement

Shortly before the Estimates hearing, there was an incident in Mount Eden prison, where prisoners barricaded themselves in, and an Advanced Restraint and Control team and staff from other prisons were called in to assist. We asked whether this reflected inadequate staffing, and whether staffing levels represented a safety risk. We heard that a full review of this incident would be held, but that specialist teams cannot be maintained in every prison, as they would be redundant most of the time, and the cost would be very high.

Rehabilitation and reintegration

The Minister told us that the Department of Corrections was granted $10 million from the Justice Sector fund for its programme “Out of Gate”, which helps prisoners who have
served less than two years to reintegrate. It is going well and has had approximately 1,400 referrals since implementation on 14 October 2013. The committee is pleased with progress made on rehabilitation and reintegration programmes undertaken by the department, and believes that continued investment would be beneficial.

**Domestic violence programmes**

Part of helping prisoners reintegrate and avoid reoffending is to educate them, with programmes to combat domestic violence where necessary. We had recently learned that some community providers of these programmes have boycotted them as they consider them poorly designed. The department replied that it had reviewed these programmes because of concern about their completion rates, and had since adopted a different approach. It acknowledged that there are problems to resolve, but observed that the providers can be very attached to the programmes they are used to running. It plans to consult with providers and seek common ground.

**Accommodation**

One of the biggest problems prisoners encounter on release is finding accommodation, as people do not want them as tenants or neighbours, and the department will veto any accommodation it considers unsafe. The department is working with Housing New Zealand to help people who are difficult to place to find accommodation. This area will continue to require resources and investment.

**Spring Hill prison**

A report is to be issued about the 2013 riot in Spring Hill prison. The Minister said that a summary but not the full report will be made public.

We asked the Minister the overall cost of the rioting at Spring Hill, and whether the $87-million investment in infrastructure she cited in her introduction to these Estimates included rebuilding costs. We heard that the costs of rebuilding and added security, around $18 million, are outside this sum, but changes in infrastructure reflecting lessons learned from the riot are included.

**Performance monitoring**

We asked the Minister to comment on the performance of Serco in managing prisons, given that they are a private company, and therefore interested in returning a profit. The Minister told us that the results Serco has produced have been good. The department has a permanent monitor and imposes fines when standards are breached; and in the first year of operation in particular, Serco was fined heavily. Currently 97 percent of targets are being met.

Each prison is assessed against measures relating to public safety, and others such as levels of reoffending. The department also regularly assesses each site against international standards, carries out intensive week-long reviews, and is subject to investigations by the Ombudsman. New Zealand is a signatory to a number of pertinent United Nations treaties, and this year a group from the United Nations visited prisons and made a report.
Appendix A

Approach to this examination
We met on 4 and 18 June 2014 to consider Vote Corrections. Evidence was heard from the Minister of Corrections, Hon Anne Tolley, and the Department of Corrections, and advice received from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
Jacinda Ardern
David Clendon
Hon Phil Goff
Hon Todd McClay
Ian McKeved
Mark Mitchell
Richard Prosser
Lindsay Tisch

Evidence and advice received
We considered the following evidence and advice during this examination:
Minister of Corrections, Response to standard Estimates questionnaire.
Office of the Auditor-General, Briefing on Vote Corrections, received 3 June 2014.
Minister of Corrections, Response to additional questions, received 30 May and 18 June 2014.
Vote briefing paper, Vote Corrections, prepared by committee staff, dated 4 June 2014.
Appendix B

Corrected transcript of hearing of evidence 4 June 2014

Members
Jacqui Dean (Chairperson)
Jacinda Ardern
Kanwaljit Bakshi
David Clendon
Paul Foster-Bell
Phil Goff
Jo Hayes
Ian McKelvie
Mark Mitchell
Richard Prosser

Witnesses
Hon Anne Tolley, Minister of Corrections
Ray Smith, Chief Executive
Jeremy Lightfoot, General Manager, Corrections
Neil Beales, Chief Corrections Officer

Tolley …so the Better Public Services target has been set of 25 percent reduction in reoffending by 2017. In February we celebrated reaching the halfway point for that. Those figures move around a little, and I think it’s back to about 12.2 percent at the moment, but the important thing is that we’re running very close around that halfway mark after just 2 years. Importantly, we’re now starting to see the difference in prisoner reinsertion, so we’re getting a slight drop in that. The majority of that 12.5 percent, of course, is our community offenders.

But I have to say that the staff right around the country have done a fantastic job. We’ve seen an explosion of programmes. Our three working prisons at the end of this month will all be 100 percent of prisoners on a 40-hour structured working week. Our three youth prisons are also on a structured 40-hour week, so we’ve really seen a massive change in the way that offenders are being treated. A first, of course, has been the fact that remand prisoners, for the first time, have had access to rehabilitation courses, and that is growing.

So this is a 4-year programme, remember. We came to you in our first year and talked about the investment we were making. This is a 4-year rollout. I think the compelling story is that what we’re doing is having an effect, and, of course, we’re always measuring the effectiveness of our programmes. So if you just look at what’s happening with the rehabilitation programmes, we’ve had a 1,500 percent increase in the drug and rehabilitation places
available for our prisoners and they, as we’ve talked about before, range from an initial 6-week course to try and get people to understand that they are addicted, that they do have a problem, and that they can do something about it, right through to the 6-monthly courses that are offered to get people off that drug and alcohol.

We’ve seen an 840 percent increase in the number of qualifications that our prisoners are able to gain, working very closely with the TEC; working with the Correspondence School. So all these qualifications are either national qualifications or NCEA equivalents, and that’s having a great effect on the long-term employability of our offenders when they come back into the community. And, of course, we’ve seen a 155 percent increase in the number of prisoners getting access to literacy and numeracy courses whilst they’re in prison. So there are some big changes happening in the way that we treat our community offenders and our prisoners.

At the same time, we have had a big investment in infrastructure. So there is a programme that’s being rolled out. $87 million is being invested in infrastructure—prisons like Invercargill, with $18 million in Invercargill; Wanganui, Waikeria—with a focus on staff safety. So there’s been some lessons that we’ve learnt, particularly from around the Spring Hill riot but also from the staff safety work that’s been happening over the last couple of years. So there’s been a focus on staff safety but also on bringing some of those older prisons up to date with modern rehabilitation environments. But you have to be very careful when you are creating those environments, and where you have prisons like Spring Hill and the Otago prison, which were built under the previous Government with a view to rehabilitation. They’re very modern, well-laid-out prisons, very open, and with good facilities for training, but if you’re going to put high-security prisoners in them, you have to do more than just put a sign on the fence saying “High Security”; and when you look at those prisons, that’s all that was done. To make part of those prisons where you are holding quite violent and difficult prisoners, you have to actually put some hardening in. So part of our infrastructure investment has been to bring those prisons—those parts of those prisons—up to what would be expected for high-security prisons.

Finally, we have released a summary of the final report on Spring Hill. It’s not the full document—it’s about a 40-page report—but for obvious security reasons we cannot release the whole of that, so a summary has been released. The department has worked very closely with the Ombudsman to make sure that they haven’t been too mean with the information that they have released, and that the summary is a fair summary without jeopardising security. And, of course, that has found that the people at fault are actually the prisoners themselves. There were some management issues with the way that those prisoners were handled. You can feel free to ask questions.

What we’d like to do for you today is to show how the department—to show how we’ve embraced the technology, because it gives us plenty of opportunities. We’ve talked here about GPS in the past. What we want to show you today is another step using technology, which is a trial that is happening of on-body cameras. That’s being done in two prisons, in
Auckland Prison and at Rimutaka. We’re only halfway through the trial—it’s a 6-month trial—but we saw some clips from the early stages of that, and we thought it might be interesting to share with you. I’m not sure that anyone’s ever filmed—made public—inside a prison, but we thought it was interesting enough to bring this to you to show how technology can be used both to protect our staff and to improve behaviour, and that’s what we’re trying to do all the time. If we can improve the behaviour and the management of prisoners, that means we can offer them more opportunities. It keeps our staff safe and it keeps them safe. Neil is going to talk as he takes you through it. Obviously, we’ve pixelated the faces of both officers and prisoners, but this is just a few clips to give you some idea of how this sort of technology might be used. As I say, we’re only halfway through the trial, so this is not a full evaluation.

Beales

Good morning everybody. As you know, we have been trialling the on-body camera. I have one of the cameras here, which I can pass around. This is not live, by the way. It’s not charged so we’re not recording anything here. We are trialling at Auckland C Block and in two high-security units at Rimutaka Prison. The clips that you will see here are real clips of staff interacting with prisoners, reacting to events, or using the cameras to gather evidence, as well. The staff have been quite inventive using the cameras for purposes other than interacting with prisoners, and that’s showing it’s got a wider benefit than we first thought. The clips are real. The first two clips you will see are prisoners on the telephone. The first one is at Rimutaka where a prisoner is being quite abusive and threatening to a person on the other end of the phone, and one in Auckland where a prisoner was refusing to get off the phone.

You will hear a beep when the staff interact with the camera. Some of you may wonder how come it’s already been recording. The cameras have a function that once you press this red button it remembers the previous 30 seconds of footage, or you can adjust that up to 4 minutes, so it will capture the build up to an incident as well as the actual incident. If you don’t press that button then after than 30 seconds has gone it deletes that footage. But that helps us in terms of giving us more context around what that incident was and what led up to the officer actually pulling the trigger down.

The first bit is at Rimutaka. [Film clip commenced]

Smith

So filming evidence is quite important where contraband is found, in case it’s questioned later.

[Film clip completed]

Beales

What you could also hear there, which is very good for our training purposes, is the officer de-escalating the situation. He’s very calmly telling him what he’s going to do—“We’re going to stand you up and we’re going to move you back into your cell. We’re going to lock you away.” So it serves a number of purposes. On that incident there, obviously the incident was not de-escalated first, but we’ve got the footage of what happened afterwards. In the event of any allegations of wrongdoing, or we want to use it in evidence, we’ve got that footage as well. So I can pass it around it to
you so you can see what the staff will wear. The staff in Auckland Prison wear this over their body armour. The staff at Rimutaka have harnesses. As we progress through the trial we’re learning how best to utilise that harness—what makes it safe for staff. We don’t want something that prisoners can grab hold of. The staff are working very closely with us. We’re holding workshops with the staff in both prisons at national office and they’re informing the pilot as we go along. We look forward to the end of the pilot where we can then assess the results, go back out to the field, hopefully with a successful pilot, and see what companies can bring us in terms of what we’ve learnt and where we’d like to go.

Dean Thank you very much. Thank you for those comments. We’ll get into questions.

Ardern Thank you, Minister, for your presentation. I note in this Budget we’ve seen a 4 percent decrease in funding for prison-based custodial services, and one of the explanations that has been given is that there was one-off funding, for instance, for your initiatives around staff safety. I wonder whether you could tell us whether that means that initiatives that have been suggested by corrections officers, such as all prisoners having a proper risk assessment upon intake, have been adopted or not, given that clearly the staff safety initiatives have been one-off rather than on-going funding.

Tolley So, corrections is part of the justice sector, and in 2011 the justice sector, which is police, courts, justice, and corrections, made the decision that they would maintain their baselines through until 2020, but via a Cabinet decision we were allowed to put into the justice sector fund any cost savings and any underspends so that that justice sector fund was available to fund new initiatives and also respond to cost pressures. The Budget last year had a $33 million carryover, so there’s $100 million difference, as I understand it. Thirty-three of that is a carryover for initiatives from the year before and $66 million is a change in a profile of capital expenditure.

When you talk about one-off initiatives for staff safety, one of the things that we did do 18 months ago was to set up the expert advisory group. Over the last 2 years we’ve put a lot of effort into staff safety. Certainly, every prisoner gets a risk assessment; that hasn’t changed. They get a risk assessment, they get an educational assessment, and they get a mental health assessment. So we’ve actually increased the number of assessments and the type of assessments that everyone coming into a prison gets.

Ardern I do have a supplementary to that, if I could. Staff, though, have claimed that the risk assessment, in their view, is inadequate. If there had been an adequate risk assessment of, for instance, the remand prisoner at Otago who escaped yesterday, and, I understand has attempted to escape up the down piping, which he used to facilitate his escape yesterday—that that had happened before. Why was that prisoner being transferred without handcuffs given he’d made an attempt like that before?

Tolley For a start, we shouldn’t be talking about individuals, other than in general. That was a remand prisoner. The first question I would ask—part of the justice sector’s wider work has been to look at wider risks when you are
moving prisoners around. So there’s been a joint project to link prisons with
courts so that court hearings can be done via audio-visual links, so the first
question would be: “Why wasn’t that prisoner actually appearing?” If he
was appearing in court, why weren’t we using those links? Then after any
escape—in actual fact after any incident—there’s a full review that’s done.
But you can risk assess every prisoner and the staff can do their very best,
but these are highly volatile, unpredictable people. These are not good
people, otherwise they wouldn’t be charged and in prison.

Ardern

With respect, Minister, surely an adequate risk assessment would have raised
that with a prisoner who had attempted to escape up a downpipe on one
occasion and was being transferred from having had a court hearing, it
would make sense to at least handcuff that prisoner lest he try and escape
again, which he did on this occasion by successfully scaling a downpipe and
jumping off a three-level building.

Tolley

But this happened last night, and there will be a full review; and those are all
valid questions that will form part of that review.

Ardern

But simply linking it into the staff concern, that they don’t believe—

Tolley

Well, I’m not aware of that. Which staff are concerned?

Ardern

I believe it was raised during the assessment that was done through your
staff safety board that was pulled together—that one of the issues that was
raised by staff representatives was that they felt the assessments weren’t
adequate.

Tolley

Do you want to speak to that?

Smith

Every prisoner receives a security classification on entry, so it’s not true to
say that there isn’t an assessment made about that. People don’t all have the
same view about the risk that different prisoners represent. But any remand
prisoner that currently comes into the system comes in with a high-security
classification. So the individual yesterday would have been on a high-
security classification; it’s just automatic. The reason they come in on a
high-security classification is that we don’t know a lot about them often
time. Just what happened in the escorting process inside the prison—you’re
right to ask those questions. I don’t know the answers yet because it only
happened yesterday. But what I do know is that that prison has been open
for 7 years and this is the first person to escape. The prison has a good
record and it’s the first person that’s escaped corrections custody in 2 years,
which is a bit of a record in itself. So we’re not happy about it and need to
learn from it. If there’s a weak point in the facility, we’ll fix it. No question
about that. How he was escorted, I don’t know. I don’t think we quite know
all those details yet. Actually, it will be Neil, the chief custodial officer, who
will undertake a full review—like any of those significant incidences.

Dean

I think the committee can ask more specific questions once whatever action
is going to be taken against any particular prisoner is concluded. I think that
would be the wise way for this committee to go.

Smith

Well, there won’t be any secret about talking it.
2014/15 Estimates for Vote Corrections

Dean: But we can’t now, because we don’t know.

Tolley: It’s just a shame that we couldn’t come here today and say there’s a pretty good record of 2 years without escapes, as the former Minister will know.

Goff: They must have known that estimate hearings were being held today and they did it just to spite you, Minister.

Tolley: You always touch wood when you say that.

Mitchell: Just very quickly, the remote teleconferencing system that’s been set up is a fantastic initiative because it will prevent and lower the risk around transporting dangerous prisoners, or any prisoners. I was just wondering, how is that being received by the judiciary themselves in terms of implementing that and using that?

Tolley: It’s mixed, it would be fair to say. It’s working extremely well in some places. This is a 2-year rollout. It was originally a 3-year one, and we’ve brought it forward. It’s largely funded by savings generated by corrections in the first place, which went into the justice sector fund and then this is the initiative that has been funded. It’s working extremely well in places like Hamilton. We are working very hard to keep up with the installation of technology. I think it’s probably fair to say that the prisoners like it. On their days when they have to appear in court—and I’ve had prisoners tell me this, actually—it’s a dreadful day for them, because they’re up at the crack of dawn, bundled into a van, taken into town, and sit in the court cells all day for maybe a 10-minute appearance. So they lose a whole day. Sometimes if they’ve got to go long distances, they can lose a couple of days, because they have to overnight, and that disrupts their programmes, they’ve told me. So they really are enjoying the opportunities to just go into the AVL unit in the prison. As we roll it out, I think the judiciary will become more and more used to it, and, of course, there is a piece of legislation in the House currently that will make it the default to be AVL, so the judge will make a specific decision. It’s also much safer for our officers, and again much safer for our courts.

Tisch: My questions relate around Spring Hill, Minister. Twelve months ago we had the riots. Four questions. The cost that’s been talked about in the media is $10 million, so I’m interested to know what the actual cost was; two: the rebuild, but also the cost in general. The second question is that out of the $87 million you talked about infrastructure—does any of that relate to Spring Hill? The next question is what is different that you’re going to do at Spring Hill following this riot that you weren’t doing before. The final question relates to the report that you mentioned. What part of that is going to become public, and when do we have access to it?

Tolley: So if I answer the last one first, the intention is that the summary is the public part, and the full report will remain private, because it does contain a great deal of detail around the security of the prison. I think, in fairness, the summary does capture what actually happens. It’s a number of issues contributing—some highly volatile prisoners, many of whom, I would have to say, have gone on and continue to create problems in the prisons that
they’ve been moved to. So these are very, very difficult prisoners. There were a lot of them in that area, and as I say when it was designed it wasn’t hardened for high security. A sign on a fence saying “High Security” actually does nothing to protect our officers and to help with the management of those high-security prisoners. So a lot of the work that’s been done, apart from the replacement of what was destroyed—all of the staff area was completely destroyed; it was burnt. That had to be completely rebuilt, and that’s where the bulk of the reinstatement funding would go. Of course, we took the opportunity to then have a look at how we needed to harden up those areas for high-security prisoners, and those opportunities were taken. From memory, the whole cost was around $18 million or $17 million all up. So we did put in some extra. We’ve put a top on the exercise areas. We’ve been able to divide them, so you’re dealing with smaller numbers of people. Of the $87 million, I would have to defer to you about how much of that was involved in Spring Hill.

Lightfoot The costs for the rebuild are outside of that $87 million. So that is an additional amount of expenditure. But the hardening programme, as you explained it in your opening comments, we have taken lessons from this particular event and then placed those against some of our existing sites and identified where we can enhance facilities elsewhere. So those costs are included in the $87 million.

Ardern Just a quite supplementary on Spring Hill. Minister, you mentioned staff safety, which obviously is a primary concern and it’s fantastic that you acknowledge the role that the staff played in trying to manage the situation, but one of the concerns that I know was raised before the Spring Hill incident was double-bunking, and double-bunking had only recently come in at the time that this incident took place. With Wiri coming on line, is there, from your perspective, a plan to remove double-bunking from other facilities?

Tolley First of all I would say that it’s not true to say that double-bunking was new. In fact, we’ve had more than one prisoner in cells going right back to the time we started building prisons—

Ardern It had only just been put in place in Spring Hill, hadn’t it?

Smith It’s been there about 3 or 4 years.

Ardern In Spring Hill?

Tolley Yes. When the comment was made, it didn’t form any part of the summary; it actually didn’t form any part of the issues identified that led to the riot. So we’ve some highly volatile prisoners. We’ve got a large number of them in an area that was just simply not designed well to manage high-security prisoners. We’ve had some management issues identified around them, so that access to large amounts of fruit and the ability to store that fruit, which we know that they used to make alcohol. So it was the consumption of alcohol, then the management of them with the withdrawal of that alcohol and their response to that, and, again, the inability of the infrastructure to allow the staff to actually de-escalate it in a safe manner.
Then, I think last year we talked about some of the tools that the prisoners were able to get access to, to continue with the destruction of their environment. So double-bunking just didn’t form any part of the review of what led up to and caused the riot.

Ardern

I have a second set of questions.

Dean

Sorry, just before I let you go into that, I will ask a question. It surrounds a comment that Ray made to us around re-integration of prisoners. I understand that corrections and you, Minister, have a very strong focus on re-integration and to putting a great deal of resources towards that. One of the comments that Ray Smith made to us fairly recently was that there are some particularly hard groups of prisoners to re-integrate back into society. Can you perhaps identify some of those—gang women was one of them—and perhaps give us a flavour of how you would like to approach that challenge?

Tolley

Corrections was awarded $10 million from the justice sector fund to fund a programme called Out of Gate, which was for prisoners who have served less than 2 years. There are a number of providers around the country and they work with the prisoners on their release, and we’ve identified a small group who have served less than 2 years and worked with them for between 12 and 16 weeks, depending on the need, to see them integrated back into the community. That’s going extremely well. We’ve had about 1,400 referrals. So the prisons themselves work with, I presume, a probation officer or the case manager to work through who would be suitable, who is in need of that re-integration support, and then work with the providers to be ready and do some initial work and pick them on their release and help them with their re-integration back into the community. We do think there is scope to expand that, and our department are doing some work on what some of that might look like, but, of course, we would have to have funding for that, and we know that’s a proposal we could put to the justice sector fund. Ray might like to add to that.

Smith

Just to say that that combined with the initiative we’ve got going in Rotorua where we a provider taking some of the difficult releases from prison and helping them get accommodation and other supports has proven its value. It’s a pretty obvious kind of service that needs to be filled, but there’s no question we’re seeing results from it. Some of individuals who get released from prison will struggle to find accommodation or struggle to find their own way. The more support we can put in, the more they can get to know someone before they leave prison and better the chance for success.

I think, of the referral so far in the Out of Gate programme, it’s not evaluated yet, so we have to be careful about any results, but there is an indication that we’ve got a gain in terms of people not coming back into prison, and that’s looking out across the first few months of the operation. So it’s pretty early and there’s quite a bit to learn. I think one thing we’ve done very well in bringing the service on-stream is that we have kept bringing the providers together and they’ve kept refining the service with us. So in a way we’ve been trying to build it with them. One thing that’s
emerged is that we fund mainstream prisoner releases and we fund intensive releases, and I think we’ll see a bit of a shift with investment under the intensive. A lot of these people are actually quite difficult, and I think providers find them quite difficult to handle.

McKelvie Ray just referred to the issue of re-integration, the challenges around re-integration, and the accommodation. I wonder whether you just want to just comment further on the potential to expand the services around accommodation for released prisoners.

Tolley It’s difficult. It’s always difficult, because people don’t want them living next door to them, but I think we release something like 7,000 prisoners every year out into our community. So it is a struggle to get some of them into accommodation.

Smith I think we’ve done some very good work with Housing New Zealand, and the social housing unit, so Housing New Zealand is a bit of a mainstay for us in terms of dealing with people that are sort of at a last resort. But they’re not the only place. There’s a range of provider networks and the private sector, of course, as well in terms of landlords that we work with, and we provide a lot of supported accommodation. There is probably a few hundred people at any one time who are in supported accommodation arrangements that we pay for with the Salvation Army and others.

So I think it is an area that will continue to require resources and investment. It’s a hard area. These people are sometimes not desired, so it’s a real challenge often for probation staff to find a location that is suitable. We decline a lot of accommodation for people that they would like to take up, because we don’t think it’s safe. So, you know, it doesn’t make the task any easier. If you talk to front-line probation staff, they will tell you about the challenges of finding accommodation that’s suitable for people often released from prison. But we do it, and we do it every day, and I think they show a great level of initiative actually.

Ardern This is a question really about the management of unforeseen expenditure. For instance, is there a contingency fund to deal with the clean-up after incidents like Spring Hill, and how would that be dealt with if, for instance, it was a Serco facility that had an incident like that? Does that still come at a cost to taxpayers?

Tolley Well, let’s deal with Serco. They have a budget. Well, I expect that the department manages within its budget, and I do hope that there’s not deep little pockets of slush funds that they can dip into. Good budgeting will always have something ready because of the nature of the people that we deal with. Serco, I would expect, would have the same. I wouldn’t expect that the corrections budget would have to fund that.

Ardern What about corrections resourcing? For instance, I understand that within the last 10 days or so there was a significant incident at Mt Eden, where, apparently due to perhaps inadequate staffing levels, which we might raise separately, prisoners managed to barricade themselves into one of the units, and Serco staff contacted corrections staff and, I believe, two other
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corrections facilities—I think maybe Auckland Women’s and Paremoremo—were called in to assist those Serco staff officers to de-escalate a significant situation. Does Serco wear the cost of that, given that they were unable to manage a situation within their own facility?

Tolley Well, first of all it wasn’t a significant incident; it was actually a prisoner who was due to be moved because his classification had dropped, and he decided he didn’t want to go, and he involved a whole lot more. So it was a small incident; it was well contained.

Ardern Were other staff called in?

Tolley Let me finish. But what we have is a prison service, and it doesn’t matter to me as the Minister whether it’s public or private. We respond to incidents as a prison service. That’s what’s expected. That’s what happened in Spring Hill, in fact. An ACR team from Spring Hill also attended. So we are able to call on one another to help as a prison service, and that’s, in fact, what happened in this case, to be safe. Yes, there were prisoners who had barricaded themselves into an area. No staff were at risk, and there were a large number of prisoners who wanted no part of it and went and locked themselves in their own cells. Now where you have a situation like this, and I think I said this last time I was here, when we’re talking about Spring Hill, the worst risk in a prison is fire, because you have a lot of people who are locked away and can’t get out. So it is wise and it is safe to have plans in place, and in this case—last week we saw this in action. The service reacted, as we would expect, to be prepared for any contingency.

Ardern Where were the two Serco staff members at the time that this incident took place? They were meant to be on unit.

Tolley There will be a full review. But in answer to your question, yes, we do expect that Serco will contribute to any costs, but we also have a quid pro quo where they came and helped us. This is a service.

Mitchell Minister, just on that, because it’s actually quite a good point. Actually I wasn’t aware but it’s really good to see that you take a holistic approach to this in terms of using the resources that you have available within the justice sector or within corrections. If you didn’t do that, then what would be the cost associated with having to ramp up and have staff that spent 95 or 99 percent of the time being excess to requirements?

Tolley I don’t know what the cost would be, but it would be great. But it would be silly, because as Minister I still have responsibility, and the institution of Government, still has the responsibility for the incarceration of those prisoners. I’m still responsible to make sure that they’re kept safe whether they’re being managed on a daily basis by the public sector or by the private sector. We have contract with someone to manage them but the responsibility still comes back to me. So if there had been a fire, then I would have been accountable for the safety, and I would have held Ray and his staff accountable for the safety of those staff. So it makes sense that you share your resources.
Where you have a different operator, there is potential for the lines of delegated authority, for instance, to be a little bit muddled. What we saw in that incident last week was that actually it worked extremely well. The different levels of responsibility for management of that just were seamless, and that’s what we should all be very pleased to see. In this case, it didn’t eventuate. They actually entered the prison and took control again and as a consequence I think 20 prisoners have been moved out and the whole thing has been settled down again. But when you have two different types of operators, that’s exactly what the taxpayer should be expecting, and what we as Government should be expecting in the way the service works.

Ardern

If we are taking a holistic approach, does that mean the taxpayer gets a cut of Serco’s profit as a result of having that contract, because the contention is that this issue arose as a consequence of Serco continuing to have one staff member per unit rather than two, and that’s part of a cost-cutting measure in order to increase the profits that Serco makes out of running Mt Eden. So if that was the cause of that incident, taxpayers are picking up the cost by having to send in other corrections officers to deal with the mess that Serco created by trying to make money out of a taxpayer contract to run a prison. So I would contend that whilst safety says that, yes, those officers should have gone it, common sense says that if a contract isn’t being run properly, they’re the ones skimming the profit while we’re paying the cost of them running that prison inadequately.

Tolley

Well, look, that sounds like a really good press release for an Opposition member who has a philosophical view against private enterprise, but the reality is that the cost to the taxpayer, or the savings to the taxpayer, of having fewer people in prison and fewer offenders out in the community is huge. And so the requirements of Serco are not just to run a prison; the requirements of Serco are to reduce re-offending of their prisoners. It’s a large remand prison. Their results over the last 12 months have been exceptional.

Ardern

As they report it.

Tolley

We have a monitor in there constantly. They have far more monitoring of them than any of our other prisons around the country. They have a permanent monitor who watches all the time. Their stats are checked not just by them but by us on a regular basis. They also have the deputy commissioner crawling all over them on a regular basis. So let’s not assume that they just out there on their own and they have hit the top of the prison league table for this last 12 months. Prior to that, their first year of operation, of course, they were fined. So if they don’t perform, then the taxpayer can take comfort that they can pay significant fines, and they paid just on $1 million in penalties. So, yep, they’ve met 97 percent of the requirements of the contract—97 percent of the targets that are set. I think the three that they miss are both 100 percent, and they missed them on one occasion. So that’s a pretty high-performing prison. What the circumstances of last week’s incident are I don’t know, you don’t know, and so I’m not making any assertions about what happened.
McKelvie

I just wanted you to reiterate, Minister. I took it from what you’ve just said that you have got complete confidence in the monitoring system that takes place amongst the different management systems you’ve got in prison. Obviously you’re confident that the monitoring systems are adequate and support the factors?

Tolley

Well, I’ve been talking about what’s in place for the private operator, and that will be the same for when they open Wiri, but there is a very good system in place for the prisons that are run by—do you want to talk to that as national commissioner?

Lightfoot

Sure. So we talked about the prison performance league table, and that’s one important measure that applies across the network as a whole. So each prison is assessed against a number of different measures, both from a public safety perspective as well as other gains and reducing reoffending, so that’s on a quarterly basis and we do assess that very regularly. Alongside that we have I-CAP standards that need to be met, and those are assessed on a very much more frequent basis on every single site.

Tolley

What’s an I-CAP standard?

Lightfoot

Sorry, it’s an independent standard that assesses how each site is going against the mandatory standards that are expected of a prison site. Alongside that we’ve got well-functioning site reviews. So they are strength-based reviews where a dedicated team goes in for a week-long effort. It goes in and assesses a whole range of different factors in a prison site and comes up with a report that gives a health status of that site, and that gives a really good insight into areas that are going very well, areas that need a bit of focus, and provides us with really good assurance in terms of the health of the site. So I think we’ve got a number of different layers of assurance that we can provide in terms of how each different site is going, and we’ve got very good visibility on a regular reported basis about our performance on every single site.

Smith

Perhaps not forgetting, too, the other important points, the prison inspectorate—prisoners that make complaints about systems. The prison inspectorate spends quite a bit of time interviewing prisoners or investigating deaths in custody and those types of things, and then the Ombudsman. The Ombudsman’s office has quite a sizable team dedicated to monitoring the Department of Corrections. That’s kind of how it’s structured in New Zealand, so we have a high level of engagement with the Ombudsman over the running of prisons, and they regularly have people inside prisons and undertake a whole range of reviews and reports to us about how they see the running of the prisons, and so on. That applies to all prisons, whether they are privately run or publicly run. The inspectorate and Ombudsman apply across both, and additionally in the private prisons we actually have two prison monitors dedicated in Mt Eden. It will probably will be the same for Auckland South.

Tolley

Then, of course, we are signatories to a number of UN treaties. Just this year we had a visit from a UN group that came and had a look at our prisons, our police cells, and our court cells, and they made a report on that.
So there’s a high degree of monitoring, as there should be when you have responsibility for incarcerating people.

Goff

I want to come back to the incident at Mt Eden and just seek some clarification. There are two brackets of questions, so I’ll just put them all to you and then you can answer. Firstly, this minor incident, did it go on for about 6 hours? Did it involve significant damage? And did it involve people being called in from two other prisons to help deal with it? That’s the first bracket. The second one is—

Tolley

Hang on—

Goff

Have you got those or would you like me to repeat them?

Tolley

So, was it 6 hours—

Goff

Did it last about 6 hours? Did it involve significant damage? Did it involve prison officers being called in from other prisons to try to cope with it? The second bracket is: was a contributing factor to the incident lower staffing ratios in the place where it took place; if so, why is it—and this was Jacinda’s question and I don’t think it was answered—that the taxpayer would bring in people from outside to resolve a problem that was contributed to by cost savings by a private sector organisation in order to increase its profit margins?

Tolley

So the first bracket—would it be about 6 hours?

Goff

That’s not minor is it?

Tolley

Well, yes, because it’s a deliberate strategy—and this often happens, and I can think of people sitting on roofs last year. The decision is made by whoever is in charge whether they’re going to take immediate action, or whether they’re going to sit and wait it out, because often the prisoners themselves decide that they’re going to finish this protest, whatever it is. Secondly, my understanding is that the decision was made to wait and try to de-escalate it, and that was done at the site, and they called on what are our perhaps most specialised negotiating team based at Spring Hill to come and help them, because it’s always better if you can negotiate your way out of a situation like this than have to use any form of force. Secondly, there was no significant damage done. It’s minor damage. Thirdly, yes—

Goff

Sorry, I’ve got to get you to define minor damage—

Tolley

Some security cameras were damaged, but it’s minor stuff. It’s superficial—that’s the way that the chief executive is describing it.

Goff

Is it just Spring Hill that people were called in for?

Tolley

No, I understand Auckland Women’s and Auckland Prison.

Goff

So three other prisons for a minor incident?

Tolley

Yes, well—

Goff

I mean, I saw that video before and I thought that was a minor incident. This doesn’t seem to be minor.
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Tolley

Let me finish. As I said when I was talking about the incident, there were a large number. So you have two prisoners—and this is very early stages, so we’re only going on the information we have currently. There was one who didn’t want to be moved and his cousin who was helping him stirring up eight to 10 other prisoners. At one stage we had 30 other prisoners who had locked themselves in their cell. So this is an enclosed area, and the biggest risk is fire. If those ones who were agitated had managed to start a fire, then you have a significant issue, in a very enclosed area in the centre of the prison, as to how to get your innocent prisoners—how can you describe them as that—those who are not involved in the fracas, out safely. So there are considerable issues around prisoner safety. It is the right response to alleviate it up and call in the AC and R teams—the Advance Control and Restraint teams—to make sure that you have significant resource available should it be needed. Likewise, the Fire Service is advised and the ambulance service is advised, and the police is advised, so that everyone is ready in case it escalates way out of the ability of that particular prison. And that’s the process in any prison. It wouldn’t matter whether it’s Mt Eden or Otago, that’s the process that’s put in place, because there is significant risk. It’s an enclosed area and you’ve got a large number of prisoners.

So that’s your first group of questions. The second group of questions, well, there will be a full review. We don’t know what the staffing was, so therefore anything that you’re talking about is just an assumption that you’re making, and I’m not prepared to do that. I want to see a full review, and then there might be questions that we ask about the management, but at this stage we don’t have concerns about the way that that prison is being managed. As I say, the results are very good.

Mitchell

I just want to come back to it again and just be clear in my mind, because we’ve seen the model of policing change significantly, where now area commanders and district commanders and regional commanders are very happy to move resources to wherever they need them, right? And I just see that this is exactly the same model actually that you’re adopting in corrections. If you need the resources in a certain area at a certain time—in this case it was specialist resource—then you’d move it there, and if you had a requirement to have a specialist resource at every prison, wouldn’t there be a massive redundancy there and a cost associated with that? I fail to see why if you’ve got within the corrections department—you just couldn’t; it wouldn’t be feasible to have a specialist unit set up at every single prison. You’d use the resources and move them where they’re needed.

Tolley

Absolutely, and it’s just as Serco provided their AC and R team to the Spring Hill riot and then took a large number of prisoners as we moved those prisoners out, because we had to put them somewhere. So we operate as a prison service, and you have cost efficiencies by having those specialist services available to use wherever you are. They don’t, and they shouldn’t, make any distinction between this is a privately owned prison and this is a publicly owned prison. They are a prison service, and we as Government make the decision as to who operates each prison.

Mitchell

So it would be totally irresponsible if you had a situation—
It would be a waste of money—an absolute waste of money.

My question in listening to this incident, was the safety of anyone in the prison compromised at any stage?

My understanding is that it wasn’t, but as I say there will be a full review. Serco will do their review, and I’ve no doubt that the corrections department will also do a review. We will try to determine the cause, just as we’ve done with Spring Hill, then talk to the management about any adjustments that need to be made. But my understanding is that no one’s safety was compromised at all, other than “the risk” of what might happen if it got out of hand. As I say, this particularly prisoner was one whose classification was dropping. It’s just such a shame that someone does something stupid like that, because then being moved to Spring Hill, which is a much more open prison and all the opportunities then for rehabilitation, for courses, for training and education, etc., are all lost to that prisoner. So I imagine that his classification will go back up again and he’s going to have to work his way back down.

My question is about the domestic violence programme that you announced back in March of this year. We’ve just found out today that the tender process for that programme has been suspended. I can’t think of when that’s happened before—maybe it has but not in my recent memory. It was suspended because there was a boycott by community providers almost right across the board, and there was absolutely scathing criticism, not from people that you’d regard as fringe elements but from the National Network of Stopping Violence Services. So this has been a real debacle, and I’m trying to figure out whether the problem is in the substance of the programme, which is what the providers are saying. They’re saying, you know—I don’t know whether you’ve seen it—that the programme undermined years of research and development by the network, it lacked expert analysis, it significantly increases the potential for harm to already vulnerable women and children. So this group of people that work every day of the week on these sorts of programmes said this was awful. Is it a problem with the substance of the programme that you announced, or is it a problem with the communication between you and the community providers, or is it a bit of both?

I’ll ask the chief executive to talk about the tender process, but I’ll just make a few initial comments. We’re all aware that domestic violence is a huge problem for New Zealand, and this Government has been determined to address the drivers of that and reduce domestic violence, particularly against women, because they’re the major victims. Part of the work that we’ve been doing is trying to get away from an input-type set of programmes to ones that are focused on getting results. I think it’s fair to say that over the past few years we’ve been trying to drive up the notifications of violence, to make it easier for people to come forward and talk about violence and report violence, but at some stage you have to say that we want to see now a reduction in the violence. So part of the driver behind changing programmes has been to focus it on the actual results that they were getting, so that you can get a good evaluation on whether that intervention is
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working or not. So that’s sort of the theory behind making changes to the
programme. But I’ll ask the chief executive to talk more about the tender
process, because, of course, that’s an operational issue and I don’t get
involved in tender processes.

Goff I understand. It’s just that the tender has been suspended because it was
boycotted. But with due respect to Ray, I know he’ll have an answer on
that. I’m still trying to get an answer to the main thrust of my question. I’ve
always assumed that the National Network of Stopping Violence Services
are a capable group of people. We’ve been using them for years, Ray. We
have enormous respect for them. They have come out with absolutely
scathing criticism that says this isn’t expert based. Regardless of whether it’s
seen as results-oriented or input-oriented, they believe that it’s not going to
work. How did we get to the point where this mass of service providers has
said this will be a disaster, and to the extent that they’re not even tendering
for the process? That’s really my question to you. Is there a fault with the
substance of this programme in retrospect, looking at it?

Smith Maybe I could just chip in there, because actually we’ve talked about
domestic violence here at this committee, I think, over time, and sometimes
about what I think we thought was the poor completion rate of those
programmes and attendance rates at the programmes. Actually, this change
came about when the Chief District Court judge asked me a couple of years
ago to have a look at it because she was concerned about the issue of
participation and the success of these family violence-related programmes.
So we undertook a review of the programmes that were run and we have
undertaken through our evaluation unit a formal evaluation and we
concluded that the programmes that we were contracting for weren’t hitting
the mark. So we set about on an international literature search and we’ve
developed an evidence based set

But I’m a bit disappointed in
what the network has said, to be honest, because we have worked with
those providers about developing a new programme, and I think everyone’s
got to move a little bit. So we haven’t closed our ears off to making
changes, but the programmes we’re running aren’t getting the good results
that we want to get.

One of the things that happens currently on domestic violence
programmes is that we mix a lot of people. So whether you are a very
serious offender or at a low level, you’ll possibly be sitting in the same
classroom in one of those programmes that’s run by one of those providers.
We don’t think that’s the right thing to do. In fact, that does increase risk
for people that are at a low level of violence. So we want to strip those ones
out, and the programmes that we run, that target people with high needs,
we think we’ll get a better result, and the evidence would say that’s what you
should do. And the other programmes we want to reorient, based on the
international literature. So we have spent a lot of time, and we’ve worked
with a lot of those providers to get a programme that we think will work
better and get better results.

I want to make one final point on that. We have not taken away, we are
continuing to fund, all of the programmes exactly as they are. This pilot was
to go beyond that and try a different approach. So I do think there’s a few issues to iron out, clearly, because people are responding in the way they are, but I certainly don’t think that it’s not an evidence-based approach or it’s not trying to address the problems this committee has raised with me about poor attendance and poor completion of domestic violence programmes.

Goff

I understand those problems, but the specialists that we’ve relied on to date have basically come out and said this is not a well-founded programme, to the extent that they’ve boycotted it. You know, I don’t mind change—always looking at doing it a better way—but what went wrong to have this unprecedented action of people across the board saying: “This programme ain’t going to work the way that you’ve set it up, and we’re not even interested in tendering for it.”? To go back to the Minister’s comment, it’s not a minor problem; that’s quite a significant problem either in communication or in substance, and I don’t know which.

Smith

I think mostly in change. Most of those providers don’t run exactly the same programme, so people are quite wedded to the programme they deliver, and they believe in their own programmes. What we get to do here is look at the aggregate results, and we go: “Not good enough.” So I think there’s an issue. We’re in a change process, and I accept that people are questioning whether we’ve got it right. I think the right thing to do now is to kind of get back around the table and see if we can find common ground on this, because everyone’s got to move because the results simply aren’t good enough.

Tisch

Ray, my question, is this to be supplementary to existing programmes?

Smith

Yes.

Tolley

It was a pilot this year.

Tisch

It’s a pilot, so we’ve got existing programmes running. This is a trial. See how the trial goes, and in time—a timeline in 2015—if it proves to be successful, that’s when you’d look to make changes. So at this stage complementary to as opposed to replacing the existing programmes.

Tolley

We are determined to see the rate of domestic violence in this country drop. If we keep doing the same things the same way, we’re going to get the same results. So, yep, the funding continues for this year for all existing programmes, but this was a signal to the sector that we actually needed to be making a difference. I understand that change is very difficult, particularly as providers, as Mr Goff said, have put their heart and soul into their programmes, and they have been huge support for women—there’s no doubt. But we want to make significant changes in our community, and that means that we do have the opportunity to try some different things. If it doesn’t work, then the evaluation will show that. But this was to be run in parallel.

Goff

Again, a question to you Minister. Just whether you were misquoted in this article in this article in the Dominion Post saying that the programme would go ahead as planned, whereas I thought I’d got the answer from the chief
executive that there may be some problems in it and you’ll look at it again. Can you clarify whether we’re going to see whether we can make some improvements and bring people on side, or are you determined just to push it through as the paper seems to have quoted you as saying.

Tolley I think that quote was actually from a letter that was written to me quite some time ago. I think I was being quoted from my reply, but I’m not 100 percent sure.

Goff So you’ve changed your mind a bit from then?

Tolley Well, I’ve asked the chief executive, obviously, what’s happening, because as I say this pilot is very important to try to get a change to the way that some services are delivered. I want the results. If he’s saying here that we’re going to sit around the table and try and get some common ground, and everyone has to give, well I’m delighted, because I would like to see the pilot go ahead.

Goff I’m hearing you saying you are now prepared to be a bit more flexible in what your letter originally indicated.

Tolley Well, the letter was several months old.

Goff That’s ok; I think that’s a good thing to be prepared to be flexible.

Dean Minister, thank you very much, and, Ray, I want to thank you for what you do in corrections. I’ve seen over the period of this Government that there have been significant changes in corrections, and I want to congratulate you and thank you for the work that you do. Thanks, Minister.

**conclusion of evidence**
# 2014/15 Estimates for Vote Courts

Report of the Justice and Electoral Committee

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Vote Courts

Recommendation

The Justice and Electoral Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Courts, administered by the Ministry of Justice, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The Minister for Courts, Hon Chester Borrows, is responsible for the appropriations in Vote Courts. The total appropriations sought for Vote Courts for 2014/15 amount to $700.134 million, a 3 percent decrease from the estimated actual expenditure in 2012/13. This reflects the completion of a number of projects which received one-off funding in 2013/14, and a higher efficiency savings target in 2014/15.

Reducing time to deliver services

The Ministry is committed to halving the time taken to deliver civil and criminal court services by 2017. We heard that the Ministry has chosen to measure the age of cases, from first charge through to disposal. By improving its processes and systems the Ministry achieved an 8.9 percent reduction in the average age of cases in 2013; 18.3 percent for criminal cases, and 5 percent for civil and Family Court cases. The Ministry aims to reduce the average age of cases by 20 percent by the end of 2014. It considers that lack of timeliness can erode confidence in the court system. We will be interested to see whether the Ministry reaches its 20 percent target by the end of the year.

Staffing

We are aware of pressures on court staff. Some lawyers complained of a loss of institutional knowledge when staff leave. We asked how the Ministry is expecting to achieve its targets with these challenges and a reduced budget. We were told that the Ministry does not intend to cut services. It transferred $54 million into next year’s Justice Sector Fund, to which it will apply if necessary. The Ministry has a staff turnover of 13 percent, which we heard is not extraordinary. It is concerned to retain skilled and trained staff, and provides an extensive array of technical support and training programmes. In the District Courts a team of experienced ex-Registrars is available to give technical advice.

We asked about the results of recent staff engagement surveys. One completed earlier this year showed that the Ministry’s rating has slipped by one percentage point from the previous year. We learned that staff were found to have a limited affinity with the Ministry as a whole, reflecting the fact that the organisation has historically been very compartmentalised. To help unify staff the Ministry has been stressing its mission of providing modern, accessible, people-centred justice services. The survey results also indicated that staff want to be more involved in finding solutions to problems. Accordingly, a leaders’ forum of about 140 managers from throughout the country was to be held in June to discuss the Ministry’s fiscal challenges and ask for ideas on how to spend money more efficiently and effectively.
Canterbury earthquakes

We asked what the Ministry had learnt from the earthquakes. The Minister observed that you can run a court from anywhere, citing the Youth Court held at Nga Hau e Wha National Marae following the earthquakes. Technology can help considerably, but it may not necessarily prove popular; for example, uptake of the trial of web-based Family Court hearings in Canterbury had been limited. We also heard that while most judges are happy to embrace technology, some are still reluctant.

The Ministry has learnt that people have the ability to perform exceptionally even under trying circumstances. For example Rangiora court matters are now being progressed at a 127 percent clearance rate, compared with 87 percent before the earthquakes.

Alcohol and Other Drug Treatment Court pilot

We asked the Minister about the progress of the pilot Alcohol and Other Drug Treatment Court which opened in Auckland in November 2012. We heard that this therapeutic court designed to reduce recidivism by addressing the problems behind offending is showing good results; with their drug intake monitored, people are offending less. The process takes up to a year because of the supportive work between hearings which provides stability in an offender’s life.

Court of New Beginnings

We asked about the progress of the Court of New Beginnings, also called the Special Circumstances Court, which was established in November 2010 to rehabilitate homeless people caught in a cycle of low-level offending. Surveys were undertaken of the participants’ behaviour six months prior to beginning the 12-month programme, during the programme, and for six months after completion. In particular, nights spent in custody, offences reported to the Police, and nights spent in accident and emergency departments were measured. Rates were found to have dropped considerably in all areas after participants had completed the programme and been housed and placed in work or training programmes. The Minister said the court had been a huge success, at a relatively low cost, thanks to the cooperation of a number of agencies.

Family Court reforms

We asked about the recent Family Court reforms, and whether participants were satisfied with them. We heard that the reforms are being monitored, but too little time has elapsed since their introduction on 31 March 2014 to judge their success. So far self-represented litigants have been found to be more able to represent themselves than expected. The reforms involve new practices and processes, and some errors occurred, but overall the Minister reported “so far, so good”.

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Appendix

Approach to this examination
We met on 29 May and 19 June 2014 to consider Vote Courts. Evidence was heard from the Minister for Courts Hon Chester Borrows, and the Ministry of Justice, and advice received from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Paul Foster-Bell
Joanne Hayes
Raymond Huo
Andrew Little
Alfred Ngaro
Denis O’Rourke
Holly Walker
Hon Kate Wilkinson

Evidence and advice received
We considered the following evidence and advice during this examination:
Minister for Courts, Response to standard Estimates questionnaire.
Minister for Courts, Response to committee questions, received 30 May 2014.
Office of the Auditor-General, Briefing on Vote Courts, dated 29 May 2014.
2014/15 Estimates for Vote Customs

Report of the Foreign Affairs, Defence and Trade Committee

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Vote Customs

Recommendation

The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Customs, administered by the New Zealand Customs Service, as set out in Parliamentary Paper B.5 Vol. 4, be accepted.

Introduction

The total appropriations sought for Vote Customs for 2014/15 are $176.337 million, a decrease from the estimated actual expenditure in 2013/14 of $198.119 million. This reflects a smaller appropriation for departmental capital expenditure.

Large allocations are sought for clearance and enforcement services related to goods ($69.452 million) and to passengers and crew ($57.449 million), and for information and intelligence services ($14.898 million).

Joint Border Management System

The Joint Border Management System will provide the New Zealand Customs Service and the Ministry for Primary Industries with a single customs and biosecurity system. We consider that the system will bring numerous benefits to businesses and improve border security. The system was originally intended to be implemented in two tranches. Progress on the first has been complicated by delays and modifications to the project, but some of the intended functionality has been implemented. In the meantime Customs has continued to run the older border management system CusMod in parallel with the new one. The Minister of Customs told us that 37 percent of all transactions and all responses to transactions are being processed through the joint system. She also pointed out that the new system showed a clear upward uptake trend.

We asked about the revised implementation timetable. We heard that Customs had jettisoned the original two-stage implementation programme for a “multiple-release approach” over a number of years. We heard that this is better suited to large, complex information technology programmes. Customs told us the core functionality had been completed in August 2013, and most of the system as originally envisaged should be up and running by the end of 2015. Customs said that it would be difficult to provide a final completion date, as additional functionality may be added at any stage.

Project costs

The late delivery of the system has resulted in cost overruns. Customs has worked with IBM, who is building the system, to address these issues. In March 2013 Cabinet approved additional expenditure of $13.8 million “to fund the change to a phased delivery approach and for updated and additional functionality.” We were told that $4.9 million of this money represented a reclassification of operating costs to capital costs, after audits were completed. Total capital funding available for the project is $89.7 million. Customs said that the Joint Border Management System was within budget, and additional funding was not expected to be sought.
We heard that Customs would continue to fund useful aspects of CusMod from its baseline IT spend, and that this would increase overall system costs.

**Trade with China**

The Prime Minister recently announced that New Zealand and China had set a goal of $30 billion in two-way trade by 2020.

We asked how increased trade with China is affecting Customs’ service delivery. We were told that trade with China is an area of “the highest risk”. Many drugs and drug precursors being sent to New Zealand or being intercepted are shipped from Chinese ports. Customs said that it has a good working relationship with its Chinese counterparts and issues were addressed as they arose.

**Drugs trade**

Customs is aware that criminals have tried to reduce the risk of interception by moving contraband through ports elsewhere in Asia. There has been a recent trend of drugs and precursors being shipped to New Zealand from ports in Taiwan. Recent cocaine shipments from South America have been intercepted.

**Maritime risk assessments**

Under the appropriation Information and Intelligence Services a service level target for the allocation of resources for maritime surveillance must be set. In Budget 2013 the “percentage of maritime patrol areas with aggregated risk assessments in the highest 5% that are allocated resources” had a minimum target of 90 percent, but the estimated actual standard in 2013/14 was 79.5 percent. In Budget 2014 this target was dropped to 80 percent. Customs said it makes risk assessments with other agencies. Where a response was needed a request would be made to the National Maritime Coordination Centre. We were told that the number of risks requiring response has dropped as intelligence capabilities have improved, but that there was an issue with the availability of maritime patrol or surveillance capacity. We note that each civilian agency defines “risk” differently. It is the role of the National Maritime Coordination Centre to prioritise requests.

**SmartGate**

Customs has recently been trialling reducing the age of passengers able to use SmartGate from 16 to 12 years. Data from the trial is being reviewed independently, and results are expected to be provided at the end of this month.

New Zealand and Australia are trialling the SmartGate system for use by other nationalities. Customs pointed out that there are risks to extending the SmartGate system to travellers from countries, for example some Asian countries, which do not at this time have adequate information-sharing arrangements with New Zealand. It is working with Immigration New Zealand to minimise these risks.

**Duty-free tobacco**

The appropriation sought for Clearance and Enforcement Services Related to Passengers and Crew increases to $57.449 million in 2014/15, up from estimated actual spending of $55.88 million in 2013/14. The increase is to fund a new policy initiative to limit duty-free tobacco concessions, which will take effect on 1 November 2014.

Customs is devising a communication plan to make travellers aware of the new policy.
Appendix

Approach to this examination

We met on 5 June and 19 June 2014 to consider Vote Customs. Evidence was heard from the Minister of Customs, Hon Nicky Wagner, and the New Zealand Customs Service. Advice was received from the Office of the Auditor-General.

Committee members

John Hayes (Chairperson)
Dr Kennedy Graham
Hon Phil Goff
Hon Tau Henare
Dr Paul Hutchison
David Shearer
Lindsay Tisch

Evidence and advice received

We considered the following evidence and advice during this examination:


Office of the Auditor-General, Briefing on Vote Customs, received 4 June 2014.

Minister of Customs, Response to standard Estimates questionnaire.

Response to additional questions, received 3 June and 17 June 2014.

Vote briefing paper, prepared by committee staff, received 3 June 2014.
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Vote Defence and Vote Defence Force

Recommendation

The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Defence and Vote Defence Force as set out in Parliamentary Paper B.5 Vol. 4, administered by the Ministry of Defence and the New Zealand Defence Force, be accepted.

Introduction

The appropriations sought for Vote Defence Force increase by about 13 percent to $3.233 billion in 2014/15, from estimated actual expenditure of $2.855 billion in 2013/14. The Minister of Veterans Affairs is responsible for $146 million of this total. The appropriations sought for Vote Defence increase to $476.9 million in 2014/15, from estimated actual expenditure of $270.8 million in 2013/14. The largest increase is in non-departmental expenditure on capital equipment, which the ministry purchases for and on behalf of the New Zealand Defence Force.

Personnel capacity

We asked whether the defence force could still support simultaneous overseas deployments after recent changes in personnel. The Minister said that the defence force can still support two deployments, but a third would be challenging. The Minister said that personnel considerations would not hinder New Zealand’s participation in international peacekeeping operations. He noted that participation in these missions is influenced by their alignment with New Zealand’s interests. Current personnel levels allow New Zealand to have an “operational-ready” defence force, which can participate in a wide range of operations, including peacekeeping, surveillance, and supporting other New Zealand government agencies.

We noted that the Audit Office report said defence force numbers had dropped by 1,200 from 2009 to 2013. We asked whether a loss of experienced employees and a lack of adequately trained tradesmen was an obstacle to deployment overseas. The Minister said that the defence force has increased its number of trained tradesmen, reducing shortages since the previous Budget. He said that the defence force has realised that traditional models of training and retaining trades staff will have to change with the dynamics of the contemporary workforce. The Minister said that, although the defence force does not have the number of tradesmen it would like, it has sufficient capability to meet the objectives set by the Government.

The defence force cannot crew all of its patrol vessels simultaneously because of personnel shortages, and this has been an issue for a number of years. The Minister told us that the Defence Mid-point Rebalancing Review will include a business case for an optimal number of patrol vessels and the personnel required to crew them.
United Nations peacekeeping support

We note that the number of New Zealand Defence Force personnel deployed in peacekeeping operations, at 77, is the lowest in 20 years. This follows the completion of significant NZDF deployments.

New Zealand contributes troops to the United Nations’ Standby Arrangement System. The New Zealand Defence Force is classified as participating at a rapid deployment level, which means it could potentially be called on to deploy personnel or resources at 48 hours’ notice. The Minister cautioned that this timeframe is not guaranteed—situations would be assessed individually. He also noted that the Government is unlikely to rush into decisions that might lead to long-term commitments.

Unmanned aerial vehicles

The Defence Capability Plan discusses the potential use of unmanned aerial vehicles, commonly called drones. The P3 Orions are forecast to end their useful life in the mid-2020s, at which point unmanned aerial vehicles would be a replacement option. The Minister told us that any future unmanned craft would be used for surveillance, not attack purposes. The decision on whether to use them would be influenced by the Ministry of Defence’s assessment of requirements considering the geo-political environment. The ministry has not sought legal advice on the use of drones overseas.

Upgrading of frigates

The ministry has signed a contract for the upgrading of the combat frigate systems, at a projected cost of over $400 million. Currently, work on Te Kaha is 11 months behind schedule, with increased costs of $6 million. Upgrading Te Mana has also been allocated additional funding of $22 million. Independent reviewers found that three key mistakes had been made in the early stages of the project. The ministry believes the work is now back on track and meeting its revised deadlines.

Contractors

One of the contractors involved in the upgrading project has performed at a level termed “unacceptable” for much of the last year. We asked what recourse the defence force has, and heard that an extension of the contract is being negotiated, and it will include better mechanisms for managing performance.

Training aircraft

We asked why the ministry chose to use training aircraft from overseas manufacturers, and were told that no New Zealand tender met all of the New Zealand Defence Force’s requirements. In response to questions regarding the cost-effectiveness of the new training craft, the ministry said its new contract with Beechcraft offers training of a similar standard to other air forces, and is not the most expensive option available.
Appendix

Approach to this examination
We met on 17, 19, and 26 June 2014 to consider Vote Defence and Vote Defence Force. Evidence was heard from the Minister of Defence, Hon Dr Jonathan Coleman, the Ministry of Defence, and the New Zealand Defence Force. Advice was received from the Office of the Auditor-General.

Committee members
John Hayes (Chairperson)
Hon Phil Goff
Dr Kennedy Graham
Hon Tau Henare
Dr Paul Hutchison
David Shearer
Lindsay Tisch

Evidence and advice received
We considered the following evidence and advice during this examination:
Estimates briefing paper for Vote Defence, prepared by committee staff, dated 3 June 2014.
Estimates briefing paper for Vote Defence Force, prepared by committee staff, dated 3 June 2014.

Office of the Auditor-General, Briefing on Vote Defence and Vote Defence Force, received 17 June 2014.
Minister of Defence, Responses to standard Estimates questionnaire.
Minister of Defence, Responses to additional questions, received 3, 16, and 17 June 2014.
**2014/15 Estimates for Vote Economic Development and Employment**

Report of the Commerce Committee

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Vote Economic Development and Employment

Recommendation

The Commerce Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Economic Development and Employment, administered by the Ministry of Business, Innovation and Employment, as set out in Parliamentary Paper B.5 Vol.1, be accepted.

Introduction

Two previous Votes—Vote Economic Development and Vote Employment—have been merged to create Vote Economic Development and Employment. The new Vote funds advice and services to promote development throughout the New Zealand economy. The Ministry of Business, Innovation and Employment, the administering department, uses funding from the Vote to support the Government’s Business Growth Agenda.

The annual and permanent appropriations for Vote Economic Development and Employment for 2014/15 total $301.509 million, decreasing by slightly less than 20 percent from the $372.478 million of estimated actual expenditure in 2013/14. An additional $68.028 million is sought for the 2014/15 component of two new multi-year appropriations, the Venture Investment Fund, and the New Zealand Screen Production Grant – International.

Lowering unemployment

The Government had predicted that 170,000 new jobs (discounting for churn rates) would be created between 2011 and 2015. We heard that the Government was on track to meet this target. We questioned whether reducing unemployment to less than 4 percent was achievable. The Minister was confident it was possible with continued infrastructure improvement, management of environmental impacts, and efforts to attract investment. He said he had not set a specific cut-off date for this target, but was focused on initiatives to facilitate its achievement. It was suggested that this could make it difficult to measure success.

Canterbury

An appropriation of $2.557 million is sought for the coordination and management of the ministry’s contribution to the recovery of Canterbury. We asked about initiatives to fill Canterbury’s skills shortage. The “$3k to Christchurch” initiative will begin in July 2014, with Work and Income providing $3,000 payments to beneficiaries located outside the region who obtain employment in Christchurch. The Minister said $70 million has been spent to fund more pre-trades training in polytechnics and private training establishments, which has resulted in a large uptake of apprenticeships in construction-related trades. We also heard about the Māori and Pasifika Training Initiative, where churches and iwi groups help support and encourage youth apprentices. The ministry has forecast that Canterbury will require up to 33,000 tradespeople at the peak of the rebuild in 2015.
New Zealand Trade and Enterprise

We were pleased with the reported performance of New Zealand Trade and Enterprise (NZTE) and asked about its funding increase. NZTE will receive $69 million in additional funding over four years to work intensively with 200 more businesses, and increase its “footprint” overseas. The Minister said that emerging markets such as South America, South-East Asia, and the Middle East were becoming increasingly important. However, companies needed additional assistance, including language help and cultural advice, to succeed in these areas. The Minister was confident that NZTE could deliver intensive support to up to 200 more companies with the extra funding.

NZTE will be increasing the number of staff in strategic areas, such as Chengdu, China. The Minister said “beachheads” were important—places where companies are connected with a network of private-sector advisors who act as mentors and provide insights into specific markets and industries. We heard that NZTE has also set up a programme “Better by Capital” to attract overseas investment to New Zealand regions.

Staff and contractors

Fifty-six full-time-equivalent communications staff are employed by the ministry; we asked how many contractors were employed for the same function. There are currently eight contractors carrying out communications work on short-term projects across the ministry. We heard that most work is carried out internally, with contractors engaged only for one-off events and periods of high demand. The Minister said that the ministry is in the process of consolidating, and he expected the number of staff to fall with time. He also said that the ministry’s decisions to carry out communications work internally and move to Stout Street had allowed significant savings.

We asked if previous employees had been regularly engaged as contractors since the ministry’s formation in 2012. There are 27 recorded instances where an employee has left the ministry and returned later as a contractor. However, the ministry does not specifically collect this information when engaging contractors or consultants. We were told that the ministry’s policy is not to re-employ people immediately after their redundancy.

Small to medium-sized businesses

A multi-category appropriation of $13.181 million is sought for services to support the development and growth of New Zealand businesses. We asked the Minister about initiatives to help the almost 99 percent of businesses which are small to medium-sized enterprises. The ministry’s Small Business Development Group has been involved in the Inland Revenue transformation project to help such businesses calculate their tax liability. A New Zealand Business Number is being introduced, a single identifying number for a business to use with all government agencies, reducing business costs.

The Minister said that the starting out wage, where employers can pay 16- and 17-year-olds 80 percent of the minimum wage, and the 90-day work trial have received positive feedback from small to medium-sized enterprises. We were told the government “reboot” grants for apprentices, to help pay off tools and training costs, help businesses with the costs of setting up an apprenticeship.

International students

We asked about the marketing of New Zealand as an education destination for international students, an industry which is worth approximately $2.6 billion a year.
Education New Zealand has been established as a Crown entity and receives funding of $20 million a year for marketing. We heard that NZTE, Education New Zealand, and Tourism New Zealand have jointly produced a resource called New Zealand Story, a "visual library" which markets New Zealand’s culture, innovation, and character internationally. The Minister said good progress had been made in Indonesia and China.

Skills and training

We drew attention to recent legislation which changed the role of skills leadership, previously held by industry training organisations. We heard the monopoly of the skills leadership role has been removed from ITOs and the involvement of the Tertiary Education Commission increased; the ministry is charged with monitoring the commissioning of training. The Minister believes the new structure is more representative of the variety of organisations involved in industry training, which include universities, polytechnics, and private training establishments.
Appendix A

Approach to this examination

We met on 29 May and 19 June 2014 to consider Vote Economic Development and Employment. Evidence was heard from Hon Steven Joyce, the Minister of Economic Development, the Minister for Small Business, and the Minister for Tertiary Education, Skills and Employment, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members

Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Clare Curran
Kris Faafoi
Julie Anne Genter
Mark Mitchell
Hon Chris Tremain
Dr Jian Yang

Evidence and advice received

We considered the following evidence and advice during this examination:

Vote briefing paper, prepared by committee staff, dated 23 May 2014.


Office of the Auditor-General, Briefing on Vote Economic Development and Employment, received 26 May 2014.

Minister of Economic Development, Response to standard Estimates questionnaire.

Minister of Economic Development, Response to additional questions, received 27 May and 17 June 2014.


Young  Well, welcome, Minister, and to your officials. We’ve got an hour with you and if we could give you up to 7 minutes, if you could give us an introduction, then we’ll come to questions.

Joyce  Cool, absolutely—thank you, Mr Chair. So just a little bit of context—obviously I think most people realise that there has been some pretty reasonable growth in the New Zealand economy in the last 2 years, and that’s likely to extend for a period into the future. The real challenge now is building the capacity of the New Zealand economy to grow at a faster rate over a significant period of time. It has been the focus of the Business Growth Agenda and it continues to be that way. That involves looking at the sort of capacity issues that otherwise might lead the Reserve Bank Governor to consider that we’ve reached our capacity to grow.

So, you come to the area of skills very quickly, where there’s a lot of work going on and where this ministry now has an involvement alongside the Ministry of Education in the monitoring of, and activity around, the tertiary education sector and the TEC. You come to innovation, which, of course, is the subject of a different vote, but also in areas such as access to investment capital and access to the necessary resource activity, where we have a role alongside other agencies as well. So a very significant part of what we do in Vote ED and Employment is to focus on the Business Growth Agenda, which is a pretty ambitious programme, which has been pretty well received by the sector, not because it’s created a list of things to do, but actually we’re progressing through that list, and approximately half of that has now been knocked over. We’re releasing another update
reasonably soon, and that’s progressively chunking away at some of those issues in the areas I’ve outlined and in markets and so on.

So the Budget, of course, has just gone through. There are a number of new BGA initiatives in the Budget. First and foremost in terms of the vote is the NZ Trade and Enterprise investment of $69 million over 4 years, and that’s particularly to do two things: to continue to strengthen the international footprint of that agency, and increase the number of businesses that it intensively engages with from 500 to 700. Not in this vote but very important is the additional contestable science innovation funding, which is significant from the innovation stream of the BGA and the ability to cash out tax losses from R and D expenditure for start-ups and the ability to allow tax-deductibility for R and D black hole expenditure.

In the skills area, I think where we’re at at the moment, the biggest challenges are in the areas of ICT, engineering, and, to a degree, the primary sector. There are significant initiatives under way in all three of those. And, of course, you’ve got the issue of construction trades, where we are seeing a big uplift through the apprenticeship reboot and the apprenticeship programme. So we’ve extended the apprenticeship reboot out a further 6,000 places, so there’s now 20,000 places, and we’ve allocated additional tuition subsidies in areas such as science, agriculture—and we’ve put aside $29 million for ICT training initiatives. We’ll be announcing more on those soon. We’re also working alongside the various infrastructure agencies, including the transport area, and in MPI in terms of the further development of irrigation programmes.

So returning to NZTE, that’s a significant investment, but probably the other thing that’s important in that space is the work they’re doing in the capital area. They’ve set up a Better by Capital programme, which is a complete reinvigoration of their capital development space, and they have started a set of regional investment attraction programmes with various regions of New Zealand. I was at the meeting with local government this morning. There’s a lot of strong interest in local government and the National Government continuing to work together to effectively present a more detailed shop window for the opportunities for international investors, which is a big part of growing job opportunities in the regions.

In the employment space, we’ve seen significant growth in jobs in the last year—84,000 added in 12 months in the year to March. The rate of job growth is the largest in nearly a decade, and most of the indicators suggest that will continue for a period of time. The Budget is predicting another 170,000 jobs over the next 4 years. That’s a positive improvement. One of the interesting things in that space is that we’re now at a record highest-ever labour force participation rate in New Zealand of 69.3 percent. It’s never been that high since the series began in 1986. What’s going on there is we’re seeing more people in the workforce, partly as a result of the changes in welfare reform and expectations of being available for employment, and we see that flowing through in terms of reduced benefit numbers and so on as well.
In terms of the next steps in there, the real challenges in continued growth in Māori and Pasifika employment, and we’ve been pretty active there with the Māori and Pasifika trades training programme, where we’ve boosted the number of places from 600 to 3,000. You say: “Well, what’s different about that?” What’s different about it is actually the wraparound support of two groups: in the Pasifika space, very much using the churches to assist in providing support to the trainees to succeed, and then using iwi in the Māori trades training approach, and taking the opportunity that the rebuild in Christchurch and the big lift in investment in Auckland represents to get a whole bunch of people into trades.

The other thing there, of course, is the growth in the number of young Māori and Pasifika both attending university and graduating university. I think that’s very encouraging and I think we should all be positive about that. There’s some new data, which will be released shortly, which shows actually, if anything, it’s more important and there’s more benefit for young Māori and Pasifika to achieve at university than there is for other ethnic groups.

So there’s a number of other areas, obviously. In terms of the process with consolidation of MBIE, we’re seeing some significant progress there. We’re expecting total savings of $12 million in the coming financial year. That’s based on the savings that were expected—the pre-joined up costs. And, of course, in the year ahead, they’re moving to their new office in Stout Street, and that too will have some significant savings. It’s partly the savings but it’s also partly the fact that you’ve now got this sort of joined-up initiative around microeconomic policy, which I think is the real strength of this programme.

Screen sector, of course—I notice you’ve just had the tourism people in. Screen sector—we’ve made a few more changes there. I’m pleased that the Avatar movies are being produced in New Zealand. I think the benefit of the Hobbit movies is now obvious for all to see in terms of the positive impact that’s had on New Zealand’s tourism sector and, in that context, things like the major events and the film industry work is really about presenting a strong face of New Zealand to the world. You know, we’re a small country at the bottom of the world, so we’ve got to keep lifting our profile, and that flows through into tourism, it flows through into international education, and other things.

The procurement work—happy to cover that, obviously. We’ve made some very good savings there. Across Government, it’s $128 million so far, and we’re on track to deliver around $350 million in savings through the contracts left to date. And then, of course, there’s the Better Public Services result 9, where we’re doing a lot of work on the New Zealand Business Number, and I’m happy to update the committee on that as well. So it’s a bit of a summary at this point—happy to take questions.

Robertson In the papers that have been provided for the estimates examination, we see that there are currently 56 communications staff employed by the ministry. Does that include contractors as well, or is that just full-time staff?
2014/15 ESTIMATES FOR VOTE ECONOMIC DEVELOPMENT AND EMPLOYMENT

Joyce Sorry—the 56?
Robertson Mmm.
Joyce Yeah, my understanding is that’s full-time staff, but there’s very little in the way of contractors.
Robertson So the 56 doesn’t include people who are communication contractors? How many of those are there?
Smol I don’t know the number off the top of my head, but it’s not high. We’d need to come back to you on that information, which we will do.
Robertson OK, so 56 doesn’t include contracted communications staff, so there are more.
Smol The way we approach this is where there’s an ongoing workload, we look to meet that load through staff. Where there’s one-off events and a limited period of demand then we’ll look to use contractors—whatever is the most cost effective way of delivering the service that we need to provide.
Joyce So if you look at quite a lot of the work that’s been done in the communications, there are reports with BGA and so on, most of that’s been internal and there’s a group around web and publishing, which is quite a significant size, but the decision was made by the agency to do that internally, and I’ve checked with them and they’ve said so far it’s more economical than using consultants for that work. In fact, I think various members of Parliament have asked various questions around things like cost of logo development and all that sort of thing, which are the sort of questions you’d ask, and they’ve been very low and the resource has been internal.
Robertson So, just supplementary to that—from a ministerial point of view, you’re satisfied that more than 60 communications staff are working in MBIE? That’s fine by you?
Joyce No—well, firstly, in terms of the staff numbers, it’s as discussed, which is 56, but secondly, no, I’ve had the discussion with the chief executive to make sure that we continue to bring that down over time. We have regular discussions about—there’s quite a lot of consolidation that’s going on, and the final numbers in that area and in a number of other areas I would expect to see lower over time as that consolidation—
Robertson Do you have a number in mind, Minister?
Joyce No, not a particular number at this point—obviously, the first concern is the overall cap, which we are within and the agency is within, and that’s good. Its numbers have dropped and are now at sort of—and not including the removal of WorkSafe, which is a distinct element, there’s a commitment to have about 90-odd less positions, and that commitment has already been met. But within that, as I’ve said to David, I expect to see, as we see further consolidation, more numbers come down over time. We shouldn’t have any more people than we need.
Robertson I think—obviously without knowing the exact number of contractors, it makes it hard to make an assessment about whether or not really what has gone on here is that you’ve set this sort of fairly artificial cap, and numbers just get moved around between contractors and full-time staff in order for you to meet that cap.

Joyce No, that’s not right. Certainly the focus is on both reducing the numbers overall but probably more particularly the financial savings. Those are significant, and we’re expecting to see the numbers—as I set out in my paper in my opening comments—achieved this year, and that’s a real benefit in terms of savings to taxpayers, and we also expect with things such as the move to Stout Street that that’s going to save money as well. I think, as the consolidation continues, effectively we’ve given MBIE a sinking lid to operate within, which is in the Cabinet paper that we first set up, and I’m comfortable that they’re meeting the requirements of that at this time.

Robertson But you say that when you come back here next year, if you’re the Minister—

Joyce That’s certainly the intention. Thank you, Mr Robertson.

Robertson Well, you might be sitting here. That’s fine. You’re in the room. If you are the Minister next year, you say you’ll come back here and there’ll be fewer communications staff?

Joyce That would be my expectation, yes.

Robertson And you’re comfortable with where it is at at the moment?

Joyce I wouldn’t say “comfortable”, because I think anybody who knows me knows that we’re always looking for savings, but I understand the work that’s being done. If you look, for example, in the estimates and the sheer number of websites of the previous agencies that have been brought together, they’ve got to be consolidated—brought down to a smaller number. There’s a bit of work in that. If you take the number of platforms that were all different that they were operating under, that’s got to be consolidated. So there’s a bit of work on, but some of that work will finish, and on that basis, I would expect reductions.

Robertson In a related matter, I’m looking at question 21 of the estimates and there’s a statement around contractors where it says: “There have been some instances of former employees being engaged as contractors since the creation of the ministry on 1 July 2012.” Can we have a bit more information about how often that occurs? Clearly, that’s an issue of concern—that if we’ve got people who are simply moving from working full time for an agency to going off to being a contractor and then re-contracting themselves back, that actually doesn’t save anything at all for the taxpayer. In fact, it often increases the cost. What’s the scale of that?

Smol We don’t keep detailed information. We have over 3,000 people employed, and we have 12 to 15 percent turnover, so quite a few people leave each year. I’m not aware of any instance of people leaving and then being contracted back on an equivalent-to-employment basis. It’s rather that they come back to do a particular task over a limited period for fixed sum of
money because they’ve got a particular skill. So I’m not aware, as I say—and these are people who’ve left rather than received redundancy, who’ve left, who might’ve joined a consulting firm that we’ve employed, who might’ve set up their own business for a particular piece of work because they’re best placed to do it. But we don’t keep records in any systematic way of that. There’s no reason to.

Robertson
Pretty remarkable.

Mitchell
Just because you bring someone back on a contract doesn’t necessarily mean that they’re costing more than a full-time equivalent.

Smol
That’s right.

Mitchell
Can you just clarify that?

Smol
I think there has been concern where people leave and then come back to working effectively full time but in some different kind of contractual relationship. I’m not aware of any instances of that. I’m aware of instances where someone has come back to do a couple of days’ work or a $10,000 job because they are best placed to do that bit of work. We follow normal procurement practices when we employ for those sorts of purposes.

Robertson
So, just to clarify, you’re saying in your answer there that you don’t believe that there are any instances of someone being made redundant and then coming back as a contractor?

Smol
Well, redundancies—the way that works is we do not employ anybody on a contractual basis after they’ve been made redundant. As time passes, and if, for example, they go and get a job with a firm that we employ, then clearly that becomes a possibility. We don’t blacklist people indefinitely who’ve been made redundant, but policy is not to employ people immediately following redundancy.

Robertson
How difficult would it be to actually keep some records of this? I mean, presumably you know the names of people who’ve worked for you and then you re-employ them. I mean, I’m surprised that you don’t keep records.

Smol
When you say re-employ—

Robertson
Or re-contract.

Smol
Yeah, so, for example, if someone were to join PricewaterhouseCoopers and do some work for PricewaterhouseCoopers who were doing a job for MBIE, there’s no useful management purpose in keeping that kind of data. We keep whatever data is either being requested from the system or is of use from a management decision-making point of view. That particular information—I haven’t thought of a worthwhile purpose.

Robertson
I think, given that it’s in the estimates here—it’s a statement that’s been made that there are some instances, so you’re clearly aware that this has occurred. I think it would be useful for the committee if we can actually find out the number of people who have been re-employed or re-contracted—engaged as contractors—who are former employees. I think
that’s a legitimate thing for us to ask. It’s something people are concerned about within the wider public sector. You said that you’re doing it. I think we should be able to find that information out.

Joyce

Shouldn’t we just clarify though, Grant—I mean, because if you literally want anybody who is working at any outside organisation who may or may not have contributed to a piece of work who may have previously worked at the agency—

Robertson

That’s not what this says, Minister, with respect.

Joyce

Well, no, no—it is.

Robertson

What it says is that there have been some instances—

Joyce

You’ve just got to test the boundary of it, that’s all. I think I know what you’re getting at, and I sort of understand that. I think David said that he’s not aware of anybody who goes off and then comes back and does the same work, which has, I think, been the main concern historically around this stuff. So I think we can certainly check that and provide that to the committee. Just talking about the area of where you have the example of somebody who’s gone off and worked for a services agency or whatever and might do a bit of work as part of a wider project that’s been contracted—you could spend a lot of time and money getting the answer to that.

Robertson

Sure, but there’s a statement made not by me but by the ministry in its responses to this committee’s questions that there have been some instances. Therefore, clearly, the ministry has some information here, which we, as a committee, could usefully—

Smol

We could say with confidence that there have never been any such instances. I can think of some myself, and if I talk to my colleagues, they will be able to think of others, and that’s why we answered the question in the way that we did, but that doesn’t mean we’ve kept systematic data. We can say it’s not none, but we can’t say how many it is, because there isn’t data that we’ve kept. If you ask the question, we will go back and see what we can find and do our best, but we will only be able to answer to the extent we’ve kept records of that kind.

Tremain

Minister, I’m keen to move the discussion into the NZTE investment—the initial $69 million—and particularly get some forward-looking comments around the increase in the international footprint. What’s that going to look like? Also, I’m keen, with all your travels, the 500 to 700 companies—we’re looking to lift that number up. Can you give us an example or a number of examples of the types of businesses we’re seeing emerging in the New Zealand that are going to benefit them—some real on-the-ground examples of those businesses?

Joyce

Yeah, I think, firstly, in terms of the overall footprint, you know, what we’ve seen as the emerging markets in the broader sense—China, South-east Asia, South America, the Middle East—have grown in importance to New Zealand. It is important to keep growing that footprint of the relevant agencies to assist companies in that space, and some of those markets are
more challenging in terms of language, culture, and so on than some of our more traditional markets. So making sure that NZTE has the resources there is, I think, pretty important. I mean, we all know the importance of the China market over the last 3 or 4 years, but we also have to keep developing other markets alongside because you don’t want to have all your eggs in one basket, and certainly that’s not where we are and not where we want to be. So if we take the example of South-east Asia, that has considerable promise for New Zealand. It’s 610 million people. It’s in some respects becoming more consumer-oriented faster than China, even, given the age of the populations and some of the speed of development, but at the same time it’s 10 separate economies in 10 separate countries with 10 different views as to how things should proceed. So it requires a fair bit of work. We’ve just set up a trade commissioner in Jakarta last year, and that’s proceeding. In the education space we’ve set up staff there, as well. And I think you’ll see that continue to develop in the years ahead.

In terms of the individual companies, there are many examples. What’s, I think, intriguing for me is, notwithstanding the relatively high New Zealand dollar—very high by historical standards—there are many companies in what you would call medium, high-tech, or high-tech manufacturing or ICT who are succeeding and prospering in this environment. That’s not something that, you know, people would have traditionally anticipated. I think NZTE’s involvement’s very important there, and Callaghan Innovation’s involvement is very important there, and they work as a sort of tag team in different parts of the system.

But, interestingly, I was in Hamilton last week and visited, first of all, the Dairy Goat Cooperative. There’s a really good, unsung success story of New Zealand’s specialisation, which probably most people aren’t aware of, and then I went and saw a chap I’ve met a couple of times previously, who was one of the first in the Waikato to have the benefit of ultra-fast broadband. He’s a designer and fabricator of stainless steel products, and it was interesting hearing him, because 2 or 3 years ago when I spoke to him, you know, he was a bit worried about the dollar and where it was going. Interestingly, he sort of said to me last week—he sidled up and says: “You know, I’d be a bit worried if that dollar came down because my input price is low at the moment. We’re doing a lot of high-value transformation and design here, and, you know, it’s all a bit of a sweet spot for us.” If you look across New Zealand’s TIN100, which is the technology-indexed top 100 firms, the number that are doing very well and growing their exports is actually pretty significant.

So my sense is there’s a bit of a generational shift in that space. The challenge for us now is to keep ensuring that we’re seeding new companies, keep ensuring that we’re working alongside and develop—we need to stay conscious that New Zealand companies have to be exporters before they are, effectively, out of nappies and that those companies do need to look bigger on the world stage, and that’s really what NZTE’s role is.
2014/15 ESTIMATES FOR VOTE ECONOMIC DEVELOPMENT AND EMPLOYMENT

Tremain

Just one supplementary from me, in terms of that ICT sector. My understanding is that’s now grown to a quantum which is in excess of our sheep industry. Is that—

Joyce

Well, it’s actually—I think my sense, in terms of exports, is that your ICT and medium and high-tech together are now—we’ve done this exercise—around about 8 percent of New Zealand’s total exports of goods and services, and dairy’s just over 20 percent. And they are, yes, roughly equivalent to the red meat sector. That’s an encouraging development of the New Zealand economy.

Young

Minister, you probably have a response when the speculation is that, you know, the economy in New Zealand’s based on dairying and the Christchurch rebuild, and things like that. Actually, we have other, as you say, the TIN100. So what would be your response to that sort of speculation?

Joyce

Well, I think it’s just a bit of a cartoon, really, and, you know, it’s an easy enough riff, but the reality is that it just simply isn’t borne out in the numbers. The New Zealand economic recovery is now very broad-based across most sectors of the economy. Take the wine industry, for example—record exports for the last 12 months. New Zealand’s goods exports generally have, you know, just broken NZ$50 billion for the first time, and when you consider the value of the New Zealand dollar currently, in world dollar terms, it really is on a bit of a tear. So, yep, it’s great that dairy’s going well. It’s great that wood’s going well. But then you get this sort of debate around timber processing, except one of the bigger New Zealand investors in timber processing has just put a $1 billion investment on the table to purchase Carter Holt Harvey’s forestry processing industry, which suggests that they can see the way to make a buck.

Bakshi

Minister, that’s on the international front; you have got a report here for the small businesses also. I would like to know what’s happening on that one, because 97 percent of businesses in New Zealand are either small or medium.

Joyce

Actually, my sense—I’ve just done some analysis on that and I reckon it’s 99 percent. So you’re right. A really important part of the New Zealand Story is the importance of the health of our SMEs, so we have a Small Business Development Group, which has been very active—I see the Opposition are thinking we should have; the good news is we’ve got one—and they are working with me on a number of initiatives currently. Of a couple of the bigger ones, one of the focuses for them is on the wins they can get out of the IRD transformation project because they want a greater ability to estimate their actual tax liability and a greater ability to get full and final tax liabilities much earlier. It’s one of the concerns of small businesses that that’s pretty frustrating—so working with Todd McClay in that area. The New Zealand Business Number work is very important for small businesses—a lot of the advocates for small businesses are very keen to see that happen because, you know, one of the challenges, whether you’re working with Statistics New Zealand on their surveys, or with the IRD or
with ACC, is this constant need to keep filling out forms, and the idea of the New Zealand Business Number is to effectively allow different agencies to recognise the business straight away and to have all that information on hand. That programme is seen by them as very important.

In the employment space, the 90-day trial is always a strong topic of conversation when you’re talking to small business and how important that is, and also the starting out wage. They’re very supportive of the apprenticeship reboot because, again, for a small business, it’s quite hard to absorb the costs of originally setting up an apprenticeship, and this helps in that area. So there’s a range of things across the BGA that are supportive. There’s also the World Bank *Doing Business* report, which came out again earlier this year, and New Zealand does pretty well in that space, but what we’ve done is had a look at that World Bank report, and there’s a number of areas where New Zealand does very well because, as I say, we’re always ranked very highly. But there are still a number of areas where we can do more. I’ve mentioned one of them, which is in the tax area, and another one is in setting up, for example, electricity accounts, and we’re talking with industry through Minister Bridges’ office on that. So there’s a number of things that we can keep working on to improve the relationship.

The last thing I would mention in that is, of course, that NZTE has a role there assisting businesses develop their management capability through a thing known as the Regional Business Partner Network, and the Small Business Development Group has been recently reviewing how its members find the regional business partners in each area. We’re using that to feed into our fine-tuning of that programme in the years ahead.

**Yang**

Minister, regarding international education. Before becoming an MP, I was lecturing in Auckland. I had eight PS students. Four of them were international students—particularly important. Now, what progress has been made in terms of marketing New Zealand as an international education destination?

**Joyce**

Quite a bit and that’s where it’s really important for the external agencies to work together. So, you know, we’ve set up Education New Zealand as a Crown entity with an additional, I think it’s now, $20 million a year to market New Zealand offshore. I think that’s pretty serious. Previously it was a very small trust operating that and, sadly, they just didn’t have the heft and resource to maintain New Zealand’s presence in some key markets. And we’re doing a bit of catch-up in some of those markets including South Korea and Japan. But it’s also the combination of Tourism New Zealand, NZTE, and Education New Zealand working together and I think that’s really important.

So take a market like Indonesia, which is nearly 250 million to 260 million people—so it’s nearly half of ASEAN on its own. New Zealand’s presence there I think has been underdone historically. We are now in a situation where all the relevant agencies have lifted their presence and I think we can attract significantly greater numbers of Indonesian students to study in New Zealand. And that’s not just important from a New Zealand income point
of view—the industry’s worth $2.6 billion a year or something to New Zealand. It’s probably far more important in the longer term to have more young Indonesians having the experience of studying in New Zealand so that when they go home, they have strong links with this country.

You can certainly see that in the China relationship now, with something like 25,000 Chinese students studying in New Zealand each year. They are going back. These are motivated young people who have travelled a long way to study, so they go back and they take up Government jobs and business jobs and become reasonably senior. Then they become part of, if you like, the unofficial ambassador network for New Zealand in China. And I think we need to keep doing that and increase that in the ASEAN countries and other parts of the world.

Yang I understand Education New Zealand. One more question. Education New Zealand plays the key role here. What about NZTE? Is that also involved in promoting New Zealand?

Joyce Yes, they are, and we’ve come up with this programme called the New Zealand Story, which is a joint branding exercise for New Zealand from NZTE, Education New Zealand, and Tourism New Zealand. That’s to present the attributes of New Zealand in any setting internationally, such as our innovation, our friendliness, our unique culture, and so on. How that works is that we are still pretty small so whether it’s Fonterra pitching in to China on milk or pitching in on education, you want to tell a constant story of New Zealand so it feeds off itself. It seems pretty obvious but it’s never been done. And certainly right across the export sector including education, tourism, and the various goods exporters, it’s working effectively to lift that combined New Zealand brand.

Robertson Thank you. I just want to come back to the skills questions. You mentioned the intention to do something around ICT skills. You mentioned a figure of about $29 million, did you say?

Joyce Yes, something like that.

Robertson Would you like to give us a bit more info on what’s planned there?

Joyce Soon, not yet. But I’ll be in a position to give you some more information soon—working on that at the moment. We have seen a significant lift in degree level—

Robertson With respect, Mr Chair, if the Minister’s not going to be able to answer about what he claims to do, I’m not that interested in a recitation of what he thinks he’s done so far.

Joyce Well, no. I think it’s—

Robertson No, no. I asked you a specific question, which you say you can’t answer. That’s fine and we’ll move on to something else.

Young No, no. Let the Minister—

Robertson No, with respect, Mr Chair, I asked him about his plans, he said he can’t tell me, we’ll move to the next issue.
Cosgrove  Point of order.

Young  Listen. How can you make a judgment about the answer until you’ve heard it?

Robertson  He’s just told me he’s not going to tell me. That was the question. It was very easy to make that judgment. I get to ask the questions here too.

Cosgrove  Point of order. I must have a stutter. This is not a financial review. It’s not what the Minister’s done; it’s what the Minister will do in respect of the Budget. If we want to talk about what he has done, that’s for the next time round of financial review.

Tremain  Speaking to the point. The Minister clearly wanted to outline some of the context around his thinking.

Cosgrove  Are you clairvoyant?

Tremain  Well, no. I heard that’s what he said.

Robertson  I asked him about a specific question and I don’t want to hear the rest of it, because it’s not an answer to the question that I asked.

Young  Look, OK. Minister, can you please give in a timely way your answer so that we can proceed to Mr Robertson’s next question.

Joyce  Very brief context and that is that what we are seeing is a significant lift in degree-level study and that’s where the demand is. It’s gone up about 25 percent and it’s a corresponding drop at low-level study—things like how to use Excel and how to use Word. So that’s good, but it’s a question actually if you look at all the ICT firms, the real demand is around that degree level and above, and that’s what those initiatives will be addressing. I can say that much. I’m not trying to be particularly obstructive. As soon as we can get it resolved we’ll get it out to the market place.

Robertson  Very good. You passed some legislation a month or so ago around industry training organisations and you removed the skills leadership role from ITOs. What’s MBIE planning to fill that gap over the next year?

Joyce  Well, firstly, we didn’t actually—

Robertson  Well, no, you did.

Joyce  No, we removed the monopoly on the skills leadership role and I think that’s really important because the wider—well, let me explain why we did that and that is because a lot of industries were abdicating their involvement with Government agencies and saying: “Well, that’s the job of the ITO.” And then they would come back and say: “Well, the ITO isn’t representing our interests adequately.” And so this whole thing was that the ITO had this sort of monopoly position, which was then frustrating some of the industries.

So, to progress from there, we, firstly, removed that monopoly and, secondly, we have encouraged both the TEC and MBIE—but particularly the TEC because they are the agency that’s responsible for funding and investing a pretty significant investment—to have a far greater involvement
with industries in terms of the overall projections and growth of their workforces.

They’ve already made significant progress there. There’s, for example, some strong primary sector work, which has just been done and presented, which they are now responding to in terms of accessing that with supply. There’s other work going on in the ICT space, which I mentioned. The engineering—there’s been significant work done there, which led to our increasing investment in the engineering space.

Robertson So, in terms of my question, that’s what the TEC’s doing. MBIE’s not taking on any additional role?

Joyce No, MBIE’s facilitating that through its monitoring role with the TEC and I think that’s—

Robertson So it’s monitoring what TEC’s doing in skills leadership.

Joyce And making sure that through the relationships that it has, that the industries are feeling that they’re being thoroughly listened to and responded to and that’s part of MBIE’s joint monitoring role with TEC.

Robertson Who makes up industry training organisations, Mr Joyce?

Joyce Who makes up industry training organisations? Nobody makes them up.

Robertson Who are they representative of?

Joyce They represent employers and they represent the trainees and they are doing that increasingly well since we’ve got the numbers down from the rather ridiculous 39 down to—

Robertson And you don’t think they should have the role of skills leadership?

Joyce No, that’s not correct. I just told you at the start: they do have a role; they just don’t have the only role.

Robertson And the legislation, of course, never said that they had—

Joyce No, it did. It said that one of the key roles is skills leadership. And all we’ve said—

Robertson It doesn’t say it’s the only role.

Joyce Well, you know, I think what had happened, irrespective of what was written, was that there’d been an abdication of that role by the rest of industry and we’ve changed that.

Robertson The point being, Minister, that industry training organisations are representative of industry. By removing the skills leadership—

Joyce Well, they are to some degree, but actually industries have a wider role than simply in the industry training space. One of the roles they have is the way they work with, for example, universities. Some work directly with ITPs and PTEs and some work directly with the ITOs. So making the ITOs the sole repository of skill leadership is not actually consistent with what happens in most industries and so we changed it.
Robertson Separate question. You mentioned the new 170,000 job target. Just to be absolutely clear: that that is 170,000 additional jobs; we’re not talking about just churn.

Joyce That’s right. The same as the last one, actually.

Robertson No, we’re not talking about churn, though, we’re talking about extra jobs over and above.

Joyce Absolutely correct. Budget 2011 made the same prediction, and the good news is that we’re exactly on target. It was 170,000 over 4 years, and we are exactly on target with the additional jobs that was predicted in Budget 2011. It is a coincidence that the number has turned out to be roughly 170,000 again, but, nevertheless, that’s their prediction for the next 4 years out of Budget 2014, and, as you say, they are net extra jobs.

Tremain That’s excellent.

Robertson It’s good to have the clarification, because you’ve had two different things: you had one in the 2011 election campaign and one in the 2010 Budget, which was—

Joyce Yeah, you’re right. And, again, you could almost accuse Treasury of being transfixed by 170,000, but that was their prediction in 2010. They then updated it for the next 4 years in 2011, and, actually, both of those numbers are being met. If you do the exercise of additional, extra jobs, they’ve ticked off their 2010 one, the 2011 one is nearly ticked off, and now they’ve made a prediction in 2014. So, actually, notwithstanding our occasional concern about Treasury’s prognostications, in this particular instance they’ve worked out pretty well.

Robertson I’m sure you pick the ones you like. That’s fair enough. Do you believe that unemployment of 4 percent or below is a realistic target?

Joyce I think over time, yes, and in terms of the target that Treasury has put on the table, I think that’s entirely achievable in 4 years, which is 4.4—

Robertson I said 4.

Joyce No, I’m just telling you what they have said will happen in that context, and I think that is achievable. I think if we keep doing the things that, for example, attract investment, including international investment; if we keep doing the things in terms of exploring our opportunities in the resource space, while managing the impacts on the environment; if we keep doing the things about growing the infrastructure that people use, we may actually do better than the current Treasury predictions, and that’s certainly going to be my focus.

Tremain Minister, do you think if there was a significant policy shift—do you think that could have an impact on reaching those targets that Treasury thinks are capable?

Joyce Well, I think it was interesting to read that report the other day about some of the challenges of rapid and, you’d have to say, potentially experimental policy change from what’s a pretty positive story for businesses currently in
terms of encouraging them to invest and grow jobs. As somebody who has a commercial history more than a political history, the real thing that kills business confidence is an uncertain investment environment, and if people aren’t feeling confident, then they don’t invest as much. So, I think, in terms of ensuring that we continue to see what has actually been, by the developed world’s standards, a pretty positive period for New Zealand—it’s not perfect, but, you know, we’re one of the top five or six economies in the OECD in terms of growth—then we want to certainly work to ensure that that confidence continues.

In my view—and I appreciate that it’s only one view, and it’s a political context, but in my view—you have to be very careful about the, sort of, quite experimental policy change where the outcomes aren’t known. Because there’s this tendency to say “Oh well, business will just absorb that.”, but actually business responds pretty much like anybody else to those sorts of risks.

Robertson What date would you set on reaching 4 percent or lower for unemployment?

Joyce I haven’t set a particular date on that. My view, from my perspective, is to work on all the levers that deliver stronger growth, and that’s what we’re doing through the Business Growth Agenda, which, I have to say, is pretty strongly supported by business groups and a number of public economists. The way that you do that and you develop all your business opportunities—I think, you know, one of the more frustrating debates in this country is which particular new idea will save this, and the reality is that you just have to keep working away on every industry and encouraging every industry to make what—

Robertson No date from you?

Joyce Well, put it this way: I believe in doing the work and getting the result, not just picking a number and dreaming about how to get there.

Robertson But the statement of intent you signed off on has a date in it, but fair enough.

Cosgrove Which means no one can measure you, Minister. Very classy.

Joyce No, no, I think they are measuring us, and they measure us all the time, and I think quite recently they’ve been measuring us reasonably positively.

Mitchell Minister, could I come back to NZTE. In my experience, when I lived in the Middle East for about a decade and had dealings with the NZTE, sort of through 2005, 2006, 2007, 2008, and 2009, it wasn’t a very positive experience. I note that you’ve put Peter Chrisp in charge, and I think he’s done a phenomenal job with NZTE, and the results they’re delivering now are quite outstanding. I see that you have got some additional funding going into NZTE. Can you just talk a little bit more specifically about where you’re going to target that funding?

Joyce I think—just a little bit on the history. Firstly, it’s important to point out that you’ve got to give credit to the then NZTE board, who actually
recruited the current CE, Peter. I think it’s generally seen, I will stand corrected, but across the political divide, that actually it’s been a good appointment. I’ve had dealings with NZTE, going back to those sorts of times and earlier, and I must say I didn’t find it particularly useful back then, but I test the new arrangement and the new regime pretty regularly with exporters, and it has to be said that they’ve been pretty positive about the work that that organisation has done post the change of leadership.

As I said before, the challenges are growing, though, because you are dealing in more complex markets. If you take the Middle East, for example, and the Gulf, you know, they are very different cultural environments, very different environments in which New Zealand companies need to succeed. Also, we have a range of opportunities in a range of countries, and most of our companies are pretty small, so for them to maintain the sort of resource that would give them the same depth into, say, the Gulf and South-east Asia and North America at the same time would just be prohibitive cost-wise, so NZTE’s assistance in that is pretty important.

The other thing I would raise around that, which I think, you know, is not particularly expensive but is again, I think, reasonably well supported across party lines, is the role of the Beachheads advisers, and particularly they’ve been strengthened quite dramatically over the last 3 or 4 years. The quality of some of those advisers in different countries and the way that they’re able to connect New Zealand companies to the sort of people they need to work with—you know, it’s pretty impressive.

Young Minister, the shifting from, say, 500 to 700—is that, in a sense, saying that there is actually another 200 companies that have build capability and that will get a huge advantage of NZTE’s support?

Joyce Yeah, we tested that pretty thoroughly, because, you know, if you’re a Crown agency and say “I think we need more.”—but, to be fair to them, they actually handed back some money when they first arrived, and said “Well, actually, we can’t use all this, and we’ll tighten up, and we’ll achieve more with what we’ve got.” They’ve done that over a period of time, and I think they’ve given Ministers confidence that they actually can, overall, deliver on what they say. So they’ve been through and tested the number of companies that need this sort of support and are capable of actually turning it into exports, and that is where they’ve landed. It’s going to happen over a few years; they’re not going to just suddenly have another 200 overnight. But it’s progressively added.

Yang Concerning NZTE, I understand the new funding will be targeted mainly at China, Middle East, South America. What are you going to do? Are you going to have more staff over there, or—

Joyce Yes, that’s the funding that relates to the international footprint, not the funding for companies. Funding for the international footprint, yes. If you take China, for example, they are conscious that they need to be involved in the sort of—I don’t think this is the correct way to describe; you correct me, Jian—middle-west.
Yang  Oh, yes.
Joyce  Yes. That’s an area where New Zealand has to have more of a footprint—
Yang  Chengdu.
Joyce  Yes, Chengdu.
Yang  There’s a new consulate-general there.
Joyce  That’s an important resource for us, and you’ve got to make sure, you
know, that it’s not just about Shanghai; it’s about Guangzhou and Beijing,
as well. So, again, for a small country it’s challenging—1.2 billion people—but we’ve got to keep lifting our engagement.
Bakshi  Minister, you mentioned about the job opportunities in the Canterbury
region. There are issues in South Auckland. What initiatives is the ministry
taking to get people from South Auckland to Canterbury if they want to
move, or any other initiatives for the job opportunities?
Joyce  There are a number—if you look at the unemployment rate of Canterbury
at the moment, it’s in the low threes, and for males in Christchurch it’s
around 2.5 percent. So it really is getting down to pretty low levels, and they
are going to need more people and are looking to employ more people.
So we’ve had a number of initiatives. There’s been the pre-trades work,
which happened predominantly before—well, it’s still happening—
companies were feeling confident enough to see a pipeline of work to take
on more apprentices in that. There’s been about $70 million spent in that
space, and that’s across the polytechs and the PTEs.
We’ve seen a big pick-up in apprenticeships through BCITO and the
related infrastructure—ITOs and construction trades. And then there’s the
Māori and Pasifika Trades Training Initiative. That’s really important again
because you’re taking young people from one region to another to work,
and you’ve got to have the support around those people, so using the
churches for the Pasifika and using iwi relationships for the Māori trades
training I think is pretty important.
Of course, we’ve announced the $3k for Christchurch initiative, which is
aimed at bringing young people on a benefit who can work and who are
worried about the cost being involved an opportunity to participate as well.
But we’re going to need that. We’re going to need the training. We’re going
to need, frankly, more immigration, which is one of ironies. If you want to
start whacking immigration on the head, well, you’ll slow the Christchurch
rebuild pretty fast, and the traditional return of people to the construction
market, as well.
Cosgrove  Are the projections for required trades for Canterbury still around the
40,000 mark, and could you also confirm how many people are in
apprenticeships in Canterbury as we sit today?
Joyce  I don’t have that in front of me. I’m happy to provide that number.
Cosgrove  Which one?
Joyce Well, both numbers, actually. I’m happy to do that. There are some quite regular reports published around the—

Cosgrove The last one I saw was about 40,000 tradespeople.

Joyce Yes, there’s some debate around where that’s going to land. What I do know is that the numbers have grown in the tens of thousands already, and they’ve come from a variety of sources. There are some that’s come from training, but, actually, a lot of it’s from people returning from Australia or coming in from other parts of the country, and, of course, some immigrants. What’s interesting, of course, is in the construction sector one of the things that we know about it is that it tends to be quite fluid, where a lot of people move out of the construction sector in tough times and then they come back in the good times. I was talking to one of the New Zealand Army people the other day and they were saying that for the first time they’re seeing the construction industry come back and sort of hire some of the drivers and things, because that’s the sort of place where those resources get picked up. So, I’m happy to provide those numbers and the progress that’s being made to date.

Cosgrove Will you come back with those?

Joyce We’ll supply the committee, yes.

Robertson Sorry, back to your supplementary estimates answers—in question No. 25, the number of fixed-term staff on 6 to 9-month contracts as at 31 March 2014 was 221, and in 2012-13 there were 20 employees in that level of contracts. Is that trend likely to continue with that vaulting increase or are we going to see some decline?

Joyce I’ll let David make some comment on the detail, but what you’re seeing is through the transition period that the agency’s been working through with the new structure. They’re expressively working through and filling permanent positions.

Smol Well, that’s basically right. For those short-terms sorts of contracts there’s normally a particular piece of work that is time limited. There are some merger transition projects that are coming to a close. I would expect that workload to come down.

There is also, in particular, the change programme in immigration. They’re building a vision 2015, which is underpinned by a much more effective IT operation. That has got a significant team working on it at the moment. That work will obviously wind down and then stop once that programme is complete.

Robertson That was actually going to be my next question: in what areas is this happening? So one is in the change process in immigration. Are there other areas where there large numbers of these short-term contracts?

Smol I don’t think there’s any other—well, I know there is no other of that scale. But, for example, completing the integration of IT systems, payroll systems, HR systems have been a source of this kind of fixed-term work. That should reduce.
Robertson Given my long-term interest in the Minister’s satisfaction with things, is the Minister satisfied with the fact that this is going on, because, I mean, the general impression you’ve been trying to give us is that there’s this intense period where MBIE comes together, where there’s going to be additional cost, and then it’s going to tail off. This has gone up massively—

Joyce Well, no, it’s not actually additional cost, Grant. There’s certainly a period of additional work, I agree with you, which you would expect. I mean, this is a very significant merger by New Zealand Public Service standards. There is work, for example, in harmonising the finance systems and IT systems and HR systems and so on. But, yes, it is my expectation that those come down. So given the opportunity, I will be seeking to ensure that that definitely occurs and I will be satisfied only if that does occur over time. You’ve got to see a period of consolidation, which I think is important. Some of the historic systems, particularly of the two smaller agencies, I think were very challenged by the nature of their size, and this will be a step up in terms of the systems that are underpinning it. But there is absolutely an expectation that that short-term work comes to an end.

Bakshi I have a supplementary on my previous question. You mentioned that Treasury is indicating that unemployment can come down to 4.4 percent. Have you seen any other reports which suggest that they want to achieve 4 percent unemployment?

Joyce Don’t forget that what Treasury is doing is that this is their predictions based on economics in the world today and so on and so forth. Certainly the aspiration is to bring unemployment down as quickly as possible, and to grow employment. But even that alone—the inputs to that and the level of labour force participation, which is growing, which is fantastic. It’s its highest-ever level. The real drivers of that are firms having confidence and investing in the New Zealand economy. And that’s our job—to make sure that they have that confidence and they are willing to invest, because, actually, capital is portable.

In the modern world people can invest anywhere. We know from New Zealand’s perspective that there’s a massive growth in consumer power occurring in Asia that will continue over the next 20 years. For us as a country, the only question is how well we are going to do to attract the sort of businesses and investments that service that growth into our geographic area, and maintain that investment. That’s absolutely why the Business Growth Agenda was set up. It’s actually why these particular agencies were brought together, so that we can make sure that there’s a concerted approach to improving that business environment and making it more competitive—not just for that but actually because if you want to lift Kiwis incomes, then making more things happen here is the way you do that.

Robertson Just making sure that you have actually read the MBIE statement of intent that you signed off, because it does say that they want unemployment below 4 percent and it has a date attached to that, as well.

Joyce Yes, that’s fine, and I’m very, very keen to achieve that. I was just relating what the Treasury numbers were.
Robertson  The beginning of your answer didn’t sound like you thought it was that certain.

Joyce  It’s hugely important. What I do know is you don’t get there by wishing for it; you get there via the hard work and the policy development, and, actually, just in your case, plucking a number out of the air as you’ve done and then saying with all our policies we work against that.

Robertson  You are plucking numbers. Only we pluck numbers; you don’t pluck numbers!

Joyce  No, no, that’s right. Well, you’d ask me to pluck a number out but I’m refusing to.

Young  Thank you very much, Minister Joyce. Thanks very much.

**conclusion of evidence**
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Vote Education and Education Review Office

Recommendation

The Education and Science Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Education, administered by the Ministry of Education, and Vote Education Review Office, administered by the Education Review Office, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Education increase to $10.118 billion in 2014/15 from an estimated actual expenditure for 2013/14 of $9.815 billion. Those sought for Vote Education Review Office decrease to $28.858 million in 2014/15 from an estimated actual expenditure for 2013/14 of $29.962 million. Hon Hekia Parata, the Minister of Education, is the Minister responsible for the appropriations in both Votes, although Hon Steven Joyce has ministerial responsibility for the aspects of Vote Education that relate to Novopay, the payroll system for schools. We heard from Hon Hekia Parata and Hon Steven Joyce, from the Ministry of Education and from the Education Review Office (ERO).

Partnership schools kura hourua

The Minister could not confirm the amount of funding for the second round of partnership schools, as the results of applications were not yet known. We asked about the possible implementation of age 0–8 Partnership Kura. The Minister disagreed that a new form of schooling was being created, but saw it as a way to create a stronger link between early childhood education and primary schools.

We were told that ERO is conducting readiness reviews for the first round of partnership schools, that an assurance review would follow after six months, and that partnership schools would then move on to a normal ERO cycle, with a full education review at about 18 months.

Investing in Educational Success

The Minister of Education described the Investing in Educational Success initiative as focused on the quality of leadership and teaching, as these are key factors in the success of schools. The initiative is based on features of some of the world’s best-performing education systems, such as that in Finland.

We asked whether schools, particularly low-decile schools, regard Investing in Educational Success as the best use of this additional funding. The Minister said that the working group set up to advise on the design of IES included representatives of many interests in the schools sector; it had confirmed broad support for the initiative, but indicated areas where more work was needed, including the establishment of communities of schools, the development of professional standards for appointment processes, and a re-phasing of the teacher-led innovation fund from two-year to three-year cycles.
The Minister stated that IES will offer the best teachers a career path in the classroom as an alternative to moving into management. It is intended that advertising will begin in November 2014 for positions to be taken up in 2015.

**Māori and Pasifika achievement**

We were interested in the Minister’s plans for raising Māori and Pasifika achievement. She emphasised the importance of schools developing the capacity to interpret data so that individual students can receive appropriate assistance. We heard about the Pasifika Power Up initiative. Last year eight “power stations” in Auckland and Wellington worked with Pasifika families with children in year 12 on education plans for the whole family. We were pleased to learn that Pasifika Power Up will be expanded to other areas with a high Pasifika population. It will begin when students are in years 9 and 10, planning their courses of study towards NCEA Level 2. A similar programme is being created for Māori students.

We were told that ERO will not put a school on a five-year review cycle unless it could demonstrate that its Māori and Pasifika students were “doing as well” as other students in levels of achievement and rate of progress. ERO reports that Pasifika students do well when they are recognised within their own cultural context, and study a local and meaningful curriculum, and their parents are engaged and involved in the life of the school.

**Public-private partnerships**

We sought clarification on funding for public-private partnerships in the education sector. We were told that an apparent shortfall of $7 million a year in the 2013/14 appropriation for the Hobsonville Point Schools partnership was because the Ministry of Education had still to determine how best to report and provide for it. Other PPPs are still subject to negotiation. We sought information on the ownership of consortiums that are bidding for partnership funding.

**Information for parents**

The Minister said she sees the New Zealand School Trustees Association as the main voice for the interests of parents in the schooling system. In Budget 2013 the association’s funding was increased by 84 percent, and it was given responsibility for all the programmes and initiatives for trustees. Feedback from trustees has indicated that their training has improved as a result.

We heard that several Ministry of Education initiatives help parents to be informed and involved in their children’s education. A portal for parents is being developed along the lines of the Network for Learning for teachers, to provide readily accessible information.

The Minister said that some schools have developed effective ways of reporting to parents in plain English, but that others still present information in ways that are too complicated. Efforts are being made to improve the general standard of reporting.

**School infrastructure**

The Minister told us that the Budget includes $284 million for new classrooms and new schools, and that $1.1 billion over the next 10 years will either build or refurbish 115 schools in Canterbury. The Minister supported the idea of moving property management responsibilities away from school managers to allow them to focus on teaching and learning.
Novopay

The Minister responsible for Novopay told us that the payroll system is now running reasonably well. Error rates have mostly been well within the permissible 0.5 percent margin set by a ministerial review. Over half of the debt from over-payment has been collected. He said leave balances needed further work, and service centre changes are being planned.

We sought assurances that people who have lost superannuation payments will be compensated. The Minister said that shortfalls were being checked, and that back payments would be made case by case.
Appendix

Approach to this examination
We met on 4 and 18 June 2014 to consider Vote Education and Vote Education Review Office. Evidence was heard from the Minister of Education and the Minister responsible for the Education Review Office, Hon Hekia Parata, the Ministry of Education, and the Education Review Office, and advice received from the Office of the Auditor-General.

Committee members
Dr Cam Calder (Chairperson)
Maggie Barry
Catherine Delahunty
Chris Hipkins
Colin King
Tim Macindoe
Tracey Martin
Hon Maryan Street
Hon Maurice Williamson
Dr Megan Woods

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


Office of the Auditor-General, Briefing on Vote Education and Vote Education Review Office, received 30 May 2014.

Minister of Education, Minister responsible for Education Review Office, Response to standard Estimates questionnaire.

Responses to additional questions, received 30 May 2014.

Office of the Clerk, briefing papers on Vote Education and Vote Education Review Office, received 30 May 2014.
2014/15 Estimates for Vote Energy
Report of the Commerce Committee

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Vote Energy

Recommendation

The Commerce Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Energy, administered by the Ministry of Business, Innovation and Employment, as set out in Parliamentary Paper B.5, be accepted.

Introduction


Electricity pricing and supply

A multi-category appropriation of $34.103 million is sought for improvements in energy efficiency, energy conservation, and renewable energy. This appropriation was converted from the previous multi-class appropriation under changes to the Public Finance Act 1989.

We asked the Minister if he thought that retail electricity was too expensive. The Minister said he considers prices competitive; major electricity retailers did not increase the energy component of bills during 2013, and the 2.9 percent average increase in prices was attributed to transmission and lines charges. The Minister said he would support the regulation of electricity bills by separating the energy component from the transmission and lines components to promote transparency, but only after thorough policy analysis by the Electricity Authority.

We note that the Ministry of Business, Innovation and Employment has forecast electricity prices to increase, on average, by 2.4 percent in 2014. The Minister said that increased competition in the market has resulted in “unprecedented” discounting and customer switching, which result in savings to consumers.

Switching providers

Over 400,000 people changed their electricity provider in 2013, receiving an average discount of $175; we asked about the profile of consumers who used this service. The Minister said surveys generally showed a high propensity to switch in all demographics. We heard that the numbers of consumers changing retailers has increased significantly since 2007.

We asked if there were any new initiatives to promote competition in the electricity market. The Minister told us about an advanced web switching tool. It would allow a consumer to compare their last 12 months’ electricity consumption with all the electricity plans on the market (including prompt payment discounts, loyalty bonuses, and fixed-term prices), making precise comparisons possible. We heard that the Ministry of Business, Innovation and Employment is consulting retailers and developing a prototype system.
Renewable energy

We asked the Minister if New Zealand is better placed to manage electricity price increases than other developed countries because of the high consumption of unsubsidised renewable energy. The Minister agreed that the dominance of generation from renewable sources in the New Zealand electricity market is advantageous for consumers, and said prices were expected to remain stable or decrease.

Prepaid electricity

Prepaid electricity prices are often significantly higher than monthly tariffs; we asked the Minister if he planned to address this. The Minister said prepaid electricity plans give consumers choice, and monthly billing does not suit everyone. He cited Mighty River Power’s previous chief executive’s comment that many prepay customers are actually saving up to $250 a year relative to what they were previously paying, taking into account late payment fees and disconnection charges on monthly plans.1

We questioned whether prepay consumers were adequately protected, as some companies held a monopoly on these plans in regional areas. The Minister considers there is sufficient competition across the electricity market (not only from prepay plans) to provide options for consumers.

Security of supply

We asked about potential risks to the electricity market. The Minister said that security of supply was extremely important. New Zealand is entering its sixth winter with stable supply of electricity, and investment in transmission and lines were a major contributing factor. The minister admitted that investment can boost power prices, but said he considers it more important to maintain security of supply.

Smart meter technology

The Minister said New Zealand has one of the highest penetrations of smart meters in the world. He believes that smart meters allow power companies to work more efficiently and will eventually result in savings to consumers by allowing customers to shift their power usage to off-peak periods.

Renewable generation

We asked about progress toward the Government’s target of 90 percent of electricity generation being from renewable sources by 2025. The Minister told us that generation from renewable sources has increased by 10 percent to 75 percent overall since 2008, and emissions from electricity were at their lowest in 17 years. New Zealand currently produces over half of the world’s geothermal power and 30 years of renewable generation has been consented along with a small number of gas-fired generation units. The Minister considers that the increase in renewable generation will ultimately reduce thermal generation, and cited the recent closure of some of the coal plants in Huntly as an example.

Electric vehicles

We heard that more use of electric vehicles could reduce the consumption of fossil fuels; we asked the Minister whether New Zealand had adequate generation capacity to supply this additional demand. The Minister said that if people charged their vehicles during off-

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peak periods, for example at night, then current generation levels would suffice. Although electric vehicles present an “exciting opportunity” the Minister does not believe government subsidies for them are necessary, as advances in technology should reduce the price of the vehicles over time.

**Solar energy**

Solar-powered households have the option of selling excess energy back to power retailers, but the price is often uncertain. The Minister said that regulation in this area is undesirable as solar power costs more than generation from other sources, and any subsidy would disadvantage cheaper renewables.

**Customer disconnections**

We drew attention to the issue of disconnection; 41,000 customers had their power disconnected in 2013. The Minister said he expected analysis of this issue to take several months. However preliminary findings from the Ministry of Business, Innovation and Employment were that performance in the industry is variable, some power companies having very good credit management practices, others relying more heavily on disconnection.

The Electricity Authority has guidelines for retailers’ treatment of medically dependent and vulnerable customers, although they are not enforceable; we asked the Minister if he would consider making compliance compulsory. We heard the authority had recently reviewed the guidelines and found at least 96 percent of industry players compliant. The Minister did not expect any policy changes in this area as no significant issues had been raised.

**Petroleum and minerals**

A multi-year appropriation of $8 million is sought for resource data acquisition and management; we asked for more detail. Most of the funding from this appropriation will be used to understand the petroleum and minerals estates before commercial parties carry out mining. The Minister believes that other benefits can be gained from this work, such as the identification of earthquake fault lines by aerial surveying.
Appendix A

Approach to this examination
We met on 28 May and 19 June 2014 to consider Vote Energy. Evidence was heard from the Minister of Energy and Resources, Hon Simon Bridges, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Clare Curran
Kris Faafoi
Julie Anne Genter
Mark Mitchell
Hon Chris Tremain
Dr Jian Yang

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

Vote briefing paper, prepared by committee staff, dated 26 May 2014.


Office of the Auditor-General, Briefing on Vote Energy, received 26 May 2014.

Minister of Energy and Resources, Response to standard Estimates questionnaire.

Minister of Energy and Resources, Response to additional questions, received 27 May and 13 June 2014.
Corrected transcript of hearing of evidence 28 May 2014

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Clare Curran
Kris Faafoi
Gareth Hughes
Mark Mitchell
David Shearer
Hon Chris Tremain
Dr Jian Yang

Witnesses
Hon Simon Bridges, Minister of Energy and Resources
Carl Hansen, Electricity Authority
Bruce Parkes, Ministry of Business, Innovation and Employment
David Smol, Ministry of Business, Innovation and Employment

Young  I’ll ask you to present for about 5 to 7 minutes, and then we’ll come to questions. We’ll go to Labour first and then we’ll come to the other side.

Bridges  Good morning, Mr Chair, and committee. It’s very good to be in front of you for a second year. I’ve got David Smol, our chief executive, MBIE, to my left and Bruce Parkes, General Manager, Energy, to my right. Look, very much in terms of what you said, Mr Chair, let me just make some opening remarks, really, and then I’m very happy, of course, to engage with the committee.

The Government’s overarching goal is, of course, to grow our economy, to deliver greater prosperity, security, and opportunity for New Zealanders. We want a thriving economy which delivers a secure, reliable and affordable energy future. We’ve got to reduce carbon emissions from our energy use in responding to climate change. Renewable energy sources and smart technology will help us to meet these challenges, and New Zealand’s got a good story to tell on this front.

At the moment, however, the world is in a transition towards a low-carbon future and fossil fuels remain an important part of the mix. The International Energy Agency expects coal, oil, and natural gas will continue to account for more than half the world’s energy needs until at least 2035. So in New Zealand this means a mixed and balanced approach that the Government is taking and that means we recognise the opportunities that petroleum and minerals development presents. Gas will play a critical role in
reducing carbon emissions worldwide and New Zealand could play a real part in this if a significant gas find were made. This is why we’ve worked hard to attract major international companies like Statoil from Norway, and Woodside, Australia’s biggest player.

Petroleum activity in New Zealand over the season has been unprecedented in the sense that 17 new offshore wells have been drilled so far and 30 new onshore wells are also expected this year. Renewables and smart technology will be the key to meeting longer-term global energy needs. Renovation and competitive markets is one of the best examples of a competitive and innovative market that’s already delivering secure, competitive, and environmentally sound energy, is of course New Zealand’s electricity market. New Zealand has abundant renewable resources and electricity generation from renewables now makes up about 75 percent of our electricity generation. This makes us fourth in the OECD renewable generation after Iceland, Norway, and Austria.

New generation capacity being built here is mainly using renewables, particularly geothermal and wind. This is happening based on competition between generators without the need for the Government’s subsidies or incentives. We are now a world leader in our use of geothermal resources for electricity, and wind is now playing a small but increasingly significant role in electricity generation. Having a secure supply of clean, affordable electricity generation will stand New Zealand in good stead in a digital future where electricity becomes even more important as an energy source.

Electric energy also offers a wide range of other future possibilities, including an opportunity to reduce fossil fuels in transport through increased use of electric cars. We are aiming for a target of 90 percent of electricity generation from renewables by 2025. We also need to look further than electricity in our pursuit of energy efficiency in renewables in order to make the same gains in more carbon-intensive areas. About 42 percent of New Zealand’s carbon emissions are from energy use. Transport, industrial heat, and the heating of commercial buildings are responsible for three-quarters of that. I’ve been working with EECA to help improve our productivity and reduce emissions in these areas, and recently announced four initiatives.

Firstly, EECA will work in partnership with three road transport associations to train 150 small to medium sized heavy transport fleet operators to implement long-term fuel savings plans. Secondly, EECA will also work with the tyre industry to run an information campaign to increase the level of uptake of fuel efficient tyres. Thirdly, meat and dairy plants are the biggest users of industrial heat, which they use to process milk and meat. More than half of the approximately 200 plants nationwide use coal-fired boilers. Industrial experts will work with plant operators to identify energy savings. Fourthly, a renewable heat hub project in the Southland region. One of the main renewable sources of heat energy is wood. New Zealand has good supplies of waste wood that can be used for renewable heat, but we need networks of supply and demand for regional initiatives to get off the ground, which is what this project aims to do.
Another significant EECA focus, of course, is improving the energy efficiency of our older housing stock, improving health outcomes and comfort in many New Zealand homes. Over 250,000 homes were insulated under the War Up New Zealand: Heat Smart programme. The Warm Up New Zealand: Healthy Homes programme, which commenced in September last year, has already retrofitted insulation in over 11,000 low-income homes occupied by children, elderly, and others with identified health risks.

The way markets and customers interact in the future will be key to unlocking the benefits of smart electricity technologies and increased energy efficiency. This is about communications and ICT and having a robust and smart electricity grid. Smart meters are already in about more than 50 percent of New Zealand homes. The number is growing. When combined with smart pricing plans, smart appliances, and home automation they can help consumers use less power at peak times. Enough changes in consumption patterns across the whole power system could mean fewer peak generators and smaller power lines required and lower costs. Emerging technologies will make very different demands on the electricity system in the future. We need to make sure New Zealand’s well positioned. The Government has worked with the Electricity Networks Association to set up the smart grid forum to provide a platform for dialogue on how to shape our electricity future.

So, Mr Chair, with I suppose those introductory remarks, as said, I’m very happy to answer your questions.

Shearer Thanks very much. Can I just start with the electricity; around electricity. Do you think that power prices are too expensive in New Zealand, Minister?

Bridges I think that they are competitive, and I think as I’ve said in the House on this issue, look, we can all accept that no consumer wants to be paying a dollar or a cent more than they have to. I think what’s important to appreciate about what is happening right now in power prices is that the generation retail component of prices—so the competitive part of prices—is flat. So if you look at power prices for the last year, there’s a 2.9 percent increase—that’s about $63, I think—and then if you go through that, three of the four largest companies—so, Contact, Meridian, and Mighty River Power—only increased their transmission lines, so the competitive part of their bills did not increase at all.

Shearer I asked you in the House about what you predict the price of electricity to do between February and March this year, and you said it would go up by 2.4 per cent. I don’t know, if you average that out over a year, it’s 5 percent, it’s a pretty sizeable increase, but let’s just keep it to 2.4, and then just last month when we got the figures from Powerswitch we found that Waikato, Tauranga, Wellington, Christchurch and Dunedin had price increases that were at least double that, from all of the main electricity companies. I would
like to know how you came up with the figure of 2.4 percent when already it’s been outstripped by price increases in all those main centres.

Bridges I think though, with respect, what you are doing, of course, is moving outside of the average. Now, of course, an average is by definition an average, there’s higher, there’s lower. MBIE’s basic position is that 2.4 percent—that figure that, as you say, you asked about in the House and were given over a several month period is still the estimate for the year ahead, so that’s what we would suggest will be our best estimate of the year. And I just want to—

Shearer You don’t think it’s been exceeded already then?

Bridges No, because of course what happened in the first month was we saw the transmission and lines increases factored in, but you don’t expect to see that in other months. I think I’ll just come back to that fundamental point which is very important. Now, that 2.4 percent is all increase on MBIE’s estimates from the monopoly parts of power. That is the part the Commerce Commission regulates—the transmission and the lines. On MBIE’s estimates—now I appreciate we are not there yet and we’ll see what happens—it does not include any competitive aspect, and so that’s obviously the generation and the retail. Now, in my view that makes this a very competitive market.

Shearer It’s kind of cold comfort, to be honest with you, for consumers. It may be perhaps in Tauranga where you’re from, but in Waikato where they’ve gone up 5-10 percent, everybody—and all of the Contact, Nova, Meridian, Genesis, Mercury, Power Shop are up 5-10 percent. So that’s Waikato, Tauranga, Wellington, Christchurch and Dunedin. Auckland, only in a couple of places has exceeded 2.4 percent, but they’re well over the top. So when you’re saying 2.4 percent I can understand what you’re saying in terms of where the component’s coming from but you’re saying: “Yeah that’s fine, it’s only the lines charges and transmission charges.” They are a component part of it.

Bridges I think, let’s have a look and then, stand back and deal with the kind of issue you’re talking about. I hear your position very clearly. But fundamentally we have a market that has more players than ever before and more competition. So we’ve got 14 independent retailers, we’ve got them running 24 brands. We’ve got a situation where the market share of the largest players is decreasing, where their costs are going up more than their price. You’ve got unprecedented discounting. You’ve got unprecedented switching. Now, that is important because ultimately what it means is that the market is intensely competitive for those who shop around. Now, just to finish this out on the averages. If we say that the average discount switch rate saves $175, in some cases that’s upwards of around $300, we say the price increase on average last year was $63, people can reduce their power prices by shopping around.

Bakshi Minister, when you said that the estimated increase would be 2.4 percent, is it on monthly basis or do you look at on average for the whole year?
Bridges: 2.4 percent is our prediction for the year; our estimate is a better word than prediction. It is an estimate for the year.

Shearer: You said February to August.

Bridges: That’s right. But that is still also our figure that we believe, broadly speaking, is right.

Bakshi: I just want to know if it is for an overall 1-year estimate at 2.4. Not on a monthly basis?

Bridges: That’s correct.

Bakshi: The second supp. I think you’ve already answered, but how many connections have been switched over during the last year, and what sort of savings are they making?

Bridges: I think last year we’re talking about over 400,000 switches. I think since the switching schemes that the Electricity Authority and Consumer NZ started in 2011, were well over 1 million, and when it comes back to it, it pays to shop around, because there are significant discounts—and this is something that’s a new phenomenon, we haven’t seen this previously. We go back to 2005, 2006, 2007, I wouldn’t say it was never happening, but at the level that we’re seeing now, it certainly wasn’t. If you take, I think, a good example, Contact Energy, obviously one of the biggest players, their on-line on-time tariff provides a 12 percent discount. That’s to half of their customers. Well, we don’t currently factor that into the quarterly survey on domestic energy prices. But if we did that’s a 1.3 percent decrease on the national averages just there from one company. And you’re seeing really all of these companies engaging in this sort of practice to, in some cases, keep their market share, although the big players are not necessarily doing that good a job of that, actually, and for the little players obviously to try to get in on the action.

Young: On that very point, back in March you made a statement that there were changes to improve the electricity price monitoring. Is that to bring in the potential discounts so that New Zealanders get a really good view of what is possible?

Bridges: Even more than that. I mean I think it’s fundamentally about ensuring that we know what people are really paying, because at the moment the QSDEP doesn’t show that, because it’s not factoring in the prompt payment discounts, the lower fixed-term prices, the loyalty rewards, the various financial offerings that are made to consumers. And what do we want from a quarterly survey in domestic energy prices? Fundamentally we want to know what Mrs Jones or Mr Bakshi is paying, and so that’s why those changes have been made.

Faafoi: You said before, Minister, that it pays to shop around, but can you tell us what you know about who was shopping around, because the concern that we’ve had on this side of the table is that the people who are struggling to pay their power bills aren’t those kinds of people who have got that information to shop around or the ability to shop around or the knowledge to shop around, so can you tell us what you know about that point?
Firstly, I think I just make my own personal observation, but we would have to be very careful about generalising about who is what. I take your point—I think you could make that argument: “Well, it’s going to be this kind of person that’s doing this on their iPhone and checking things out.” I don’t think that’s right. You need to be very careful about who does what. In terms of raw data of what there is, I’ll just get Carl Hansen from the Electricity Authority to give us a bit of a sense of what there is.

Yes, look I would need to go and get the data to provide it to the committee, but we have done surveys of different types of customers, so we don’t have the data from the actual switching but we do surveys of customers, and there is a higher propensity to switch amongst different groups. There are usually advertising-type categories such as the battler mums, the affluent, the sceptics, and so on. They’ve got those kinds of categories. We’d be happy to provide those to the committee when we get back to the office.

Look, this might be half-comment, half-question, because I think the power switching is good for people to have options to get cheaper electricity. But I think we should have had data now about who those people are, and if there is a particular group that aren’t accessing it who would benefit greatly from it, then I think we should know that by now.

Sure, and I have seen this data, it is not top of mind, it’s just my earlier observation was on the basis of my sort of broad recollection of it, that you might be surprised that it’s not all at the affluent end of town, so to speak, that is switching. That people across demographic categories are increasingly savvy about these things.

But let me take your point. I don’t think we should be—and I have said this too, I think, to Mr Shearer in questions in the House. We shouldn’t be, and certainly the Government is not, complacent about this. My view, which we can discuss and debate, is that this is intensely competitive for those who shop around. But it should be more competitive, and the answer to issues that may be present in this electricity market is, in my view, not a revolutionary approach, but is more evolution and is more intense competition.

So, I think, actually those issues around bill transparency are things that should be happening, in my personal view. We have the Electricity Authority working on that for some time now. It went to the retail advisory group, it’s independently chaired, it’s got consumer representatives on it. They issued a report. It’s gone to the Electricity Authority. Options on those issues are being considered, so that’s sort of one area.

I also think, actually, if you think about that WhatsMyNumber power switch, it has been a good innovation, but there’s room for more, and I’ll give you just a very broad sense of this, and then I’ll be very happy to have again Carl Hansen, chief executive of the Electricity Authority, give you some comments. For lack of a better way of putting it, I think there should be, and the Electricity Authority is working on it, a WhatsMyNumber too. Because effectively what you get at the moment, in Simon Bridges layman’s
terms, is an estimate from your sort of information that you input, what you are currently paying, and on that basis, an accurate as can be estimate of what your options are in terms of switching to.

My understanding is with technological advancements innovations and better data we can get to a position where it is exact apples for apples comparison—what you, in fact pay with what you are in fact being offered right now from those other companies, and I think that could be a very significant development. Have I basically got that right, Carl?

Hansen That’s correct, I’d be happy to elaborate on that if you wish.

Young Minister, that’s only based on the information you input when you actually go to the Powerswitch website. You can’t get, like, the last 12 months of data can you, because you’d only put in what your current power account is saying?

Hansen That’s right, Mr Chair. The way it works at the moment is that the retailers provide on a best endeavours basis. Some of their retail tariff is Consumer New Zealand. They put that up. Consumers put in information from their current bill. But we want to move to a situation where retailers have to provide all of their tariffs to the Electricity Authority. It will have a comprehensive retail database and, more importantly, consumers will be able to put in one number from their bill, the ICP number. It will pick out their consumption for the last 12 months or longer. The profile will map that against the tariffs and find the best tariff in their region for them. We want a system where consumers can confidently know they’ve got the best set of offers in front of them and can they believe those numbers, and that will help motivate people.

Young In terms of that, that’s a very data rich process that’s going retroactively back 12 months. Is that still a process that can happen in a matter of minutes, at home, looking at your computer?

Hansen I would expect so but we’re in the process of consulting with retailers and developing prototype systems, so we’ll be able to confirm that in the future.

Shearer Can I just supp. on that—the Covec report that came out that MBIE contracted said that there was actually very little advantage in terms of both competitiveness and price as a result of the switching system, which you spent $15 million on. In fact, they actually calculated the savings of those consumers to be between about $16 million and $40 million, so you end up spending $15 million to save those people who switch that amount of money. Now, what’s your response to their findings, because that would be in some way overall in contradiction to what you’re saying in terms of bringing down overall prices. Yes, individuals may benefit, but as consumers generally, there’s been negligible difference in prices coming down.

Bridges I don’t entirely accept your characterisation of the report in the sense that I think if you look at the area that they’re talking about from May 2011 to July 2013, they say the fund resulted in savings to consumers between $16 and $41 million. Now—OK, they’re not more precise than that. So on one
view of it, it more than doubled what it cost. I think what it also helpfully confirmed is that it does pay to shop around, and that those particular sites are resulting in benefits to consumers, and that switching more broadly is a good idea.

What I said to you earlier, I think, is the right answer to your question, which is that for people who do shop around it is intensely competitive. The answer to people who are wondering whether they’re paying too much is to do that, and I come back to the more fundamental point I suppose, is that actually in terms of are prices too high and where do they sit, we do have a system, last year and this year, on MBIE’s estimates. That means the competitive part of the bill is flat. In fact if you take into account inflation it’s arguably declining.

The part that has filtered through into that 2.9 percent and 2.4 percent increase respectively is the non-competitive part. That’s on the basis—and I’m not meaning to politicise this because they were right decisions to make I think in my view—of decisions made 2005-2009 that actually we’d been underinvesting in transmission in lines for a long period of time, and we needed to upgrade, and so I think I talked about this last year, but $5 billion spent by Transpower, the significant money spent by lines, which gets filtered through into prices when those projects are commissioned, which happens to be right at the moment. HVDC Pole 3, etc.

So just thinking about the future price paths and reflecting on some comments that Doug Heffernan made when he was before the select committee about New Zealand’s position globally. I’d be interested in your comments about our ability on an international basis to keep prices pretty much under control. He was making the point that because of our unsubsidised market, because of the way that other countries are having to move to renewables, that we’re actually internationally one of the best placed nations in the world to control price rises into the future.

Yes, and I think his view reported in the media to this committee was that prices are flat, possibly decreasing into the future. I think it’s certainly a brave new world that we’re entering into, in the sense that technology is going to drive this in remarkable ways, and of benefit to consumers in my view. And you’re right. We have a very significant comparative advantage in New Zealand, not just in price terms but overall, from our abundance of renewables—75 per cent at the moment.

I just give you one example of that. I think all members will agree with me on electric vehicles. The new CE of Mighty River Power, Fraser Whineray, talking about the opportunity he sees in that area. Now it’s actually a bit like solar in the sense that it’s going to be technology that drives it and gets it to a price where suddenly it starts happening. But with flat demand, with flat—certainly the competitive part of the economy—of pricing, I think you’ll see things like that happening. You’ll see much more distributor generation in future years, consumers really being able to drive how they do things.
That leads me into my second question, which is where you touched on around renewables. As currently mentioned we’ve lifted up to sort of around 75 percent—a target of 90 percent. How are we going to get there by 2025, and I’m particularly interested in, I guess, a few specifics over the last couple of years, and more particularly into the future; what’s been consented and has happened—what thermals been replaced? What is in the consenting pipeline that will start to—in new renewables?

I think the answer is that we are getting there. So here’s the basic sort of metrics, if you like: 65 percent in 2008. We’re now at 75 percent. The last quarter of last year, 84 point something percent—lowest emissions from electricity in 17 years. Half of the world’s new geothermal generation in New Zealand since National’s been in office—Te Mihi and Ngātamariki from a couple of the big power players. That has started to crowd out thermal. So you saw Huntly last year shut half of its coal plants for generation, and that of course is, in environmental terms, a very good thing. I think you’ll see that process continue. The challenge is the flat demand. It’s also the opportunity in terms of those things like electric vehicles that we talked about. My clear view is we have done this on good market principles, and actually market principles have ensured—with some guidance from Ministers centrally; no question—that all current generation is being built with renewables, and we’ve got 30 years of consented renewables in the bag, not much non-renewable at all, actually, because they are cost-competitive.

Is all current new generation is renewable?

All current generation being built is renewables; 30 years renewables consented, that is, and somebody behind me can correct me if I’m wrong, but that is nearly all the renewables going forward. I think there’s only a small amount of gas, and the reason for that is that they are cost-competitive. I mean the cost order in terms of competitiveness is geothermal, wind, gas.

Can you give me an indication looking forward of the percentage of thermal versus renewable? You may not have that figure on top of your head, but have any of your officials got that?

Look, my personal view is that you’d be hard pressed to see much thermal at all, certainly no coal in terms of generation. In terms of gas, well you might see some peaking.

Other than fast-start peaking plants to support renewables, we’d expect geothermal to dominate. It’s by far the most cost-competitive generation.

Because the issue is, of course, when you get to, let’s say, the high 80s—what our regional power experts will tell you is you’re then in terms of security of supply because the sun’s not always shining, the wind’s not always blowing, sometimes it hasn’t been raining enough. There is that gas peaking role, and so that’s sort of the position there.

We also expect the Huntly unit to continue to exit the market over time and the existing combined cycle gas plants to also gradually exit the market.
Bridges  I think, you know, that’s why I emphasise—and this is not from some sort of deeply ideological position—the market role of this. I think if you look at some good examples around the world, Germany being one, now they have undoubtedly, with Government incentives and subsidies, increased the use of photovoltaic, and in that regard you could say it’s a success, but it has come at 50 percent higher prices than in New Zealand, and it’s also had, I think, the unintended consequence of leading to significant new coal generation, because the sun isn’t always shining and you’d need to do that. Whereas on market principles, yes we’re getting a good blend of basically renewables.

Hughes  Just to return to power prices. Could you explain to the committee what you’re doing around pre-paid consumers? We’re talking about tens of thousands of consumers. I did a quick survey—in Northland they’re paying 26 percent more than the cheapest plan, in Auckland 22 percent, Southland 40 percent more.

Bridges  I’ll answer your question and then be happy to talk a bit more about disconnection as an issue more broadly. I think in terms of pre-pay options, and the most well-known one is of course that GLO-BUG product. Different plans do suit different households and they do ultimately provide options and choices, and some people do like—and this isn’t necessarily on an income basis—the optionality of paying on a weekly basis the way they do for everything else in their life. Because if you think about the way we pay for power, it’s slightly unusual, actually, in terms of you paying after you’ve used it a month in advance. So it’s a bit like we were talking about in terms of who’s doing the switching. I think we need to be careful about generalising about who uses pre-pay.

Now to take your point about what’s the cost ramifications for this—the price ramifications for this—I think what you’re saying reflects the fact that technology has been expensive to develop, so that does factor in there. But I think Doug Heffernan’s position to you on this committee, which I’m sure is correct, that Mighty River Power, as I say has got the GLO-BUG product, which is [Interruption]—5 percent of its customers, he said, on GLO-BUG, save more than $300 per year compared to what they were paying. So I think that gives you a sense that they can be competitive for some consumers.

Hughes  With all due respect—thank you for the answer—there was a lot of information, but not about the question, which was: what are you doing about it? These customers are paying more than other consumers in the region.

Bridges  I’ve just said to you that I don’t think they necessarily are, always.

Hughes  But what are you doing about it? What have you done to support consumers who are paying more by pre-pay electricity and are facing many barriers and difficulties that other consumers aren’t?

Bridges  Well, I think your question is fundamentally about vulnerable consumers who ultimately, and your position is, don’t have the money to pay. Well,
interestingly MSD has, of course, quite a lot of things going on. I think you see in the Budget—a pre-Budget announcement—several policies in terms of budget advisory—money going into that, and various other programmes. So in a wider Government sense there’s quite a lot going on there. But actually when I’ve had MBIE look at these issues, specifically around disconnections—

Hughes But I’m interested in pre-paid electricity—that’s what I asked about.

Bridges No, you just asked me what I’m doing about around disconnection—related to these sorts of issues. What we found was the Government or the WINZ hardship grants for electricity were not increasing. They’ve been flat and in fact, arguably, marginally decreasing recently. So coming to your point, there are things that are happening. We have in a number of ways, I think, supported that should go on to home insulation—some of those broader measures as well, but I think it’s a more complex issue than your question accounts for.

Hughes Point of order—I don’t believe my question has been addressed whatsoever.

Bridges You asked me what I’m doing and I answered that, didn’t I?

Hughes The Minister’s talked about disconnections, he’s talked—I haven’t heard what the Minister is doing around pre-paid electricity.

Young Well, he certainly answered your question by telling you what he was doing.

Shearer Could I just ask a supp. off the back of- what Gareth was saying earlier on.

Hughes Could I just continue my question?

Young Sorry, David. We’ve got Clare, who wants to ask a sup. She’s already asked me. And then we’ve got Jian and then we’ll come to you. Right? So—just to maintain some sort of order.

Hughes Could I just continue my question?

Young Yes. Ask your question.

Hughes Minister, could you tell the committee how many pre-paid plans are available in the regions and how consumers are able to top up their pre-paid power plans?

Bridges I don’t have the numbers before me. I’m sure we can get you those.

Hughes Would you be interested in working on a code of conduct in this sector because in every region there’s only one pre-paid provider, and you’ve talked a lot about competition in the market, but when there’s no competition in pre-paid space, when you’re say the Waikato to Wellington entire region, and there are only 39 outlets where customers can top up their accounts, and these are closed on the weekends. Do you think it’s time for you to start looking at these tens of thousands of consumers paying more and actually facing difficulties accessing their electricity?

Bridges No, because I don’t think the premise in your question is correct. You’re trying to say that competition is somehow a pre-pay market. Well, it’s not,
it’s the electricity market, and pre-pay competes with all the other options for electricity in terms of conventional billing, and some of the more bespoke plans. Of course that’s right.

Young By the way, this is an estimates hearing—we are looking at estimates.

Curran Minister, you’ve mentioned disconnections a couple of times. Last year there were 41,000 people who had their power cut off, and as I understand it you were concerned enough to write to electricity companies and to ask the ministry to investigate. What response have you had from electricity companies and what is the result of that investigation?

Bridges I think, firstly, it would be 41,000 disconnections, and I’m not trying to quibble with you, but if we get this point that it’s disconnections rather than necessarily people; you’re right, I have been concerned by the numbers. They were at the end of last year back at 2007 levels. So I did write to the industry in October. I did make it clear that I was concerned, I wanted to know what they were doing about it, and I wanted them to work with MBIE on this issue.

As you would expect, the industry singly and collectively outlined what they’re doing and why they think they’re making progress on this. The MBIE side of it really was to say that actually there is some excellent performance in this area, but it is variable, and it needs to be uniform. So some companies have exceptionally low disconnection rates. Actually I don’t think it is realistic to say that they’d ever get to zero, because there will be consumers who, wilfully, and for a variety of reasons, are not paying, and that is a last stop that is, on occasion, required.

But the ones that had the better performance had done so on the basis of good credit management practices, being proactive with their consumers and letting them know where they’re heading to before they just went to that last resort of cutting off.

Curran Minister, there’s a set of guidelines for medically dependent and vulnerable customers on the Electricity Authority’s website, which has no standing in terms of being able to be enforced by anybody, as I think is now quite clear. So what are you going to do about that? Are you going to take steps to make that a requirement and to have some monitoring role, or are you going to do nothing?

Bridges I will absolutely answer your question; I just make the broader point about the disconnections issue, that the numbers, certainly in the first quarter of this year, are the lowest they’ve been in 2 years, so I do think they are coming down. We will have to see. I’ve made it clear, though, in that space that if I don’t see them coming down—but the start of a trend looks good, but we’ll see and my message is that the industry should be very motivated about this issue—I will look at other options that it might have, including regulatory ones.

Curran When will you do that?
Well, fundamentally, now, I wrote in October. I don’t think it’s unreasonable to expect that we take several months to look at what’s happening. They do need to be coming down.

In terms of the vulnerable consumers; you’re right in the sense that there’s guidelines that are voluntary. I think the important point—remember they are in relation to medically-dependent consumers—

And vulnerable. There’s a difference.

Yes, but the issue there is—on my understanding, and correct me if I’m wrong—it’s basically medically.

It’s not just medically-dependent customers, and I’m sure the Electricity Authority can confirm that; it’s people who are in a vulnerable situation. And having had several of these cases come through my office I’m quite aware of what the guidelines are. You were concerned enough to write to these companies. My concern is that that’s as far as it’s gone—that there is actually going to be no further action.

No, I think—

—41,000 disconnections is quite a lot of disconnections.

Well, as I say it’s back to 2007 levels. I think what we need to be clear on in relation to those guidelines is that the Electricity Authority has reviewed it. They found 96 percent compliance in the industry. They didn’t believe that changes were required. There are things that we could do to refine it—and I take your point, certainly in relation to medically-dependent consumers, I have not had, that I can think of, significant issues raised with me.

So you won’t be taking any further steps on this issue?

I haven’t had significant issues raised with me around medically-dependent consumers.

I have two questions, Minister. The establishment of resource data position in the management programme. I understand this is a new initiative and it’s actually a non-departmental multi-appropriation. I’m just wondering whether you could elaborate on this.

Yes, I think—and Mr Hughes will be very happy about this—the funding for data acquisition—and I meant that seriously, by the way—has decreased in the sense, I think, if you look at where it’s been, it now is about $2 million per annum over 4 years—$8 million. Obviously a significant part of that is in relation to petroleum and minerals and understanding the estate prior to potential commercial work by private parties. I just emphasise that it also has other significant scientific benefits. So I think it’s something that MBIE, in New Zealand petroleum and minerals, will be working through—how that money is spent going forward. One of the options would be aerial magnetic surveying of New Zealand. That has significant benefits in terms of understanding faults from a civil defence perspective. So there are a wide array of benefits that come from this sort of work.
My second question is about—and reading the media release saying that energy demand increased last year by about 3.9 percent while GDP grew by about 2.6 percent, so we’ve become more energy efficient. My question is: do we have measures there to make sure this trend is sustainable, continuing?

I read a very interesting column, and I wouldn’t push it too far, but the point it tried to make was that energy use has decoupled from GDP growth, and whereas they’ve always sort of gone in the same direction, they have more recently split apart. But from the column’s perspective, that was on the basis of actually a lot of work that EECA has been doing; minimum energy performance standards and of course technological advancements so that we’re more energy efficient, home insulations and the like. I think it’s early days.

I wouldn’t be so bold as to be making strong claims about what would happen, but I think, broadly speaking, technological advancement will lead to more of that decoupling, and EECA does excellent work around these sort of issues, whether it is in lighting, whether it is in minimum energy performance standards, where, with Australia, we are every year bringing in new standards. I think within the last year we’ve done it for screens and laptops to ensure that they are at good minimum energy performance.

Just a supp on that question. You made a comment before about electric vehicles, things like that. So with that decoupling is there capacity? Because one of the challenges I would have thought, around electric vehicles, was the generation capability to be able to supply the energy. If we saw the whole national fleet over 20 years shift from liquid fuels to electricity, what are your thoughts around those challenges?

Ultimately if you started to get to a point closer to saturation in electric vehicles you’d need new generation. But, in fact, if people did the “right thing” and charged their vehicles in the evenings and there’s a whole lot of power from hydro and so on, and not much use, you wouldn’t necessarily in the foreseeable future need new generation. I’ll just say look it sounds like I’ve swallowed the Kool-Aid or something on this, but New Zealand, more than almost any other country, has a very good opportunity here. Now before Gareth gets too excited, I’m certainly not talking subsidies, because they’re not required. Actually the technology will drive the prices down and that’s the right way to do it. But you just think about that 75 cent renewables number. That means that electric vehicles are clean and green.

Now, actually, in Australia, with great respect to our cousins, where renewables are 13 percent of their generation, electric vehicles don’t make that much sense. So we would be playing to our strengths in this regard.

You touted the work of EECA, and I agree with you. There’s been some very good work done by them. Why is it that they are being downsized now as a result? Wouldn’t you wanting to be looking at EECA expanding its role rather than decreasing its role—it’s shedding staff.
Bridges  I wouldn’t characterise it that way. I’ll come to what’s happening with the
budgets there. I think actually if you go back and get a graph on EECA’s
funding since its beginning, it is now significantly more than it was in the
mid-2000’s. And I just say this point because again, I think it will warm
some of the Opposition members hearts—if you do a comparison with
EECA’s budget taxpayer funds as opposed to New Zealand petroleum and
minerals, one is for the year going forward, I think, $69 million; the other
one’s $18.5 million, and the petroleum side’s the lower one.

The Budget changes, of course, are primarily in relation to that home
insulation issue where Warm Up New Zealand: Heat Smart was always
going to come to an end. Of course there’s a new targeted programme but
it’s a $100 million programme, which still, by the way, is I think, a very
significant sum of money in this area. It’s also a case that EECA is doing
more, smarter and efficiently.

I just make this one point. It’s not all one way though. We’re spending $5
million and a bit on the carbon reduction measures programme that I’ve
been very keen on—something that addresses our emissions—in the wider
energy space and some of that is from reprioritisation and Vote Energy that
Mr Smol has found. So it hasn’t been all one way in the budget in EECA.

Mitchell  Minister, there appears to be lots of competitive tension in the market—
new products coming on line, big move towards renewables, solar is starting
to become a more viable source of energy as the technology keeps evolving.

Bridges  Yes.

Mitchell  So things seem to be moving pretty well in the right direction. What do you
see as the big risks being, in terms of moving forward with the energy
market?

Bridges  Is that a question inviting me to have a big whack at the NZ Power plan,
because I’d be happy to, but I’m not going to though. *(Interuption)*
Fundamentally you’d have to say: what do people want from a power
system? They want sustainability—we talked of the renewables numbers
there. It is very strong. We’ve talked about the pricing, and you know my
position on that, and the competiveness there.

Then I think the third piece of the puzzle that if you were the international
energy agency you’d say is fundamental to an electricity system, and a
number of systems—actually in the developed world, not just the
developing world—fall down in security of supply. And you would have to
say we are now entering our sixth winter without a whimper of security
issues, as opposed to several years in the 2000s, where there were scares and
issues and threats of rationing and so on as a result of dry lakes.

What’s turned that around is twofold. It is that investment in transmission
and lines that we talked about that is flowing through into power prices, and
no-one likes that. It was necessary because actually more than high power
prices, I tell you what would concern New Zealanders—it would be if their
lights didn’t go on when they turned the switch.
And then, secondly, actually, the reforms—for lack of a better of putting it, the Brownlee reforms—where we have incentivised the power companies by ensuring in law if they don't deliver the power, they are compensating financially consumers. I think it’s a result of those things. We’re strong on that front. I think if you started to play around with generation and the system that we have here the market abhors uncertainty, and long-term I think it would have an impact in the other areas but more primarily in that area of security of supply.

Hughes You’ve talked about solar and distributed generation as positives, and solar has grown by 270 percent, but a lot of the people competing in any excess back to the grid are struggling because the power in the relationship is with the retailer and varying amounts being paid—only 30 days certainty for those small scale exporters. Would you support looking at providing greater certainties? I’m not talking about subsidies or feeding tariffs like overseas but greater contract certainty and an independent umpire to get a fair and reasonable price.

Bridges I think I’m being very open with you here. I don’t I necessarily understand exactly what you’re talking about and how that would look. I actually don’t think the parties in this Parliament are a million miles away from each other. I think where the difference comes is that I absolutely see our role for solar, and quite a strong one, in the future. But my advice has always been is that it is three times the cost of those other renewables that we’ve already talked about, and so it doesn’t stack up for the Government to be doing anything to un-level the playing field, if you like. It’s not just about subsidies, it’s also about the rules in this area economically, or indeed, environmentally, because you’d just be displacing other renewables which are the cheapest forms of power.

But we’re soon out of time, but I think you are going to see more solar. I think we’d actually all agree, because I think David, and you Gareth, and I have been seeing, for example—I’m naming lots of companies here, so none of this is a product endorsement—but Vector is doing with, and that’s on-market principles if you like, there’s no subsidies involved with the battery so that you’re getting the sun in the day, the use in the evening. We’ll see more of that, and it’ll be an interesting issue—final point—for the lines companies.

Shearer Just a quick point on the pre-pay parameter. I think you’ll find that if you do look at pre-pays you’ll see that people who are unable to pay their power bill get put on pre-pay and in many places there is only one choice of pre-pay, and they are paying significantly higher rates than somebody who’s on a normal tariff. I just make that point.

Bridges I’ll look at that.

Shearer Just coming back to prices. You mentioned in passing you support transparency of billing because prices have gone up more than your 2.4 percent. Many people are saying “Well, yes, in Wellington they’ve gone up 7 percent.”, Transpower’s 2 percent, lines companies 2 percent—where’s the other 3 percent coming? Power companies are saying “No, no, our prices
are flat.” Where’s the balance? And so we’re having a rather unseemly squabble between those major players in the bill and nobody is getting clear information about where their increases are coming from. It’s fine for you say that there’s fantastic competition between power companies, but the reality is that the consumer is getting that bill. What I’m asking—the question I have—is transparency of billing, where are you going with this and whether you support an unbundling of the bill so people actually get clear information?

Bridges I do, but I think the point I’d emphasise to you is it can’t just be an idea, it’s got to be a policy. That’s why I think the work the Electricity Authority’s been doing for some time needs to continue. My view is they will get air on this, and that’s why, candidly, I don’t support your bill, because I actually think we need to have the policy worked out by the experts as a policy, not simply as an idea.

I’d also just say to you as well, there are a number of companies that do do it. So—

Shearer Which ones?

Bridges Meridian; Pulse, Just; Grey Power Electricity; Mercury, at least in the Auckland market; Flick. We may see more of that on market principles. I personally, like you, I think, agree that over time we should be doing it as a regulated matter anyway and I think that’s what you’ll see.

Shearer You mentioned smart meters—half the country is now covered by smart meters and that’s an integral part of the way that we’re going to be able to deliver electricity in a better way to people and they’d be able to get better information out of it. A recent poll within the electricity industry said that 31 percent approximately said that the roll-out was a shambles and the other half said that it was just OK. We’ve got situations now where meters are being pulled out of walls and new meters being put in as people change their companies etc. Where do you see the Government’s role in smart meters, because right now what I see is the retailers benefiting from the information and the consumers getting virtually no benefit from the fact that they’ve got a smart meter in their home.

Bridges Yes, I saw that figure—it surprised me. I think it reflects the early days of smart meters. I tell you what was, to use your word, a shambles, and that’s the way—

Shearer That’s what they said in their review, yes.

Bridges —and how it’s being done in other countries. I can tell you that regulating this in the United Kingdom set their smart meter programme back several years. My view is actually if you look at smart meters in New Zealand we have now one of the highest penetrations in the world. What is going to happen—it’s a bit like EVs and solar—it will be technologically driven. Now the going in and out of smart meters, a lot of that, I think, just reflects the newer technologies coming on. My view is that the emergence of smart meters and the penetration in New Zealand has been positive. It has on the whole been for the benefit of consumers and we want to see that continue.
Shearer: How have consumers benefited from smart meters?

Bridges: Well, because they’re ultimately having an industry that is able to use these things, to do things cheaper, to keep their prices down. But what we will see in time is the emergence of those.

Shearer: I guess what I’m saying is that sure, yes, retail will get massive amounts of information about how consumers behave, but I’m not seeing that the consumers are getting any real benefit from smart meters as they stand at the moment.

Bridges: Well, I think they are in the sense it does allow the industry to do their job more efficiently, and I think that’s an important component of ensuring you’ve got sharp prices, and I think over time you’re going to see all of the homework stuff so that people are able to use the technology that’s in smart meters to really control their power, and that absolutely, that next phase, will be for consumers.

I just make this very final point because we haven’t talked about it. That’s why the smart grid forum that was established is very important, because it’s got experts from academia through industry through Fisher & Paykel, for example. They will be driving these things. That’s not regulation. That’s just ensuring, with some nudging and some guidance from the experts, we stay ahead of the curve.

Young: That you very much, Minister, and thank you very much for your officials for being here today. All the best for the coming year in your endeavours.

Bridges: All the best to all of you.

**conclusion of evidence**
2014/15 Estimates for Vote Environment

Report of the Local Government and Environment Committee

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Recommendation

The Local Government and Environment Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Environment, administered by the Ministry for the Environment, as set out in Parliamentary Paper B.5, Vol. 3, be accepted.

Introduction

The appropriations sought for Vote Environment increase to $313.785 million in 2014/15 from estimated actual expenditure of $219.245 million in 2013/14. The environmental appropriations total $122.04 million, 39 percent of the Vote, while the remainder, for climate change, total $191.742 million, or 61 percent of the Vote.

The Minister for the Environment and the Minister for Climate Change Issues are the Ministers responsible for the appropriations within Vote Environment.

Climate change

Emissions trading scheme

The Climate Change Response (Unit Restriction) Amendment Act 2014 was deemed to have come into force on 16 May 2014 and prevents re-registration arbitrage by post-1989 forest land participants. The bill from which it stemmed—the Budget Measures (Miscellaneous Fiscal Matters) Bill—was introduced, and passed through all its stages, under urgency as part of Budget 2014. Concern has been expressed at the retrospective nature of the 16 May commencement date—Royal Assent was granted on 19 May—and the lack of consultation. The Minister for Climate Change Issues said that consulting on tax changes is not possible, and expressed the view that the Act protects taxpayers. He noted that the Act applies only from the day on which it was introduced.

Other measures

We asked what work the Government was doing to sit alongside the emissions trading scheme, particularly at local government level. The Minister for Climate Change Issues acknowledged that over the past 15 years climate change issues have not generally been factored into local and individual decision-making processes. We agree that more work needs to be done, especially in terms of natural hazard management.

New Zealand’s global position

We also explored what New Zealand could best do about climate change at an international level. While acknowledging that opinions differ on this, the Minister expressed the view that, as New Zealand’s emissions are negligible, our involvement in geopolitical work such as the Global Research Alliance and fossil fuel negotiations is likely to achieve more.

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1 Arbitrage: the simultaneous buying and selling of assets in different markets in order to take advantage of differing prices.
Fresh water

Submissions on the draft national policy statement for fresh water management closed in February 2014. We heard that the Minister for the Environment was considering the ministry’s report and expects an announcement to be made before the House rises before the general election.

We note that different approaches are needed by a government agency concerned with national frameworks such as the national policy statement on water, and a board of inquiry concerned with a single issue, such as the board of inquiry into the proposed Ruataniwha dam. We heard from the Minister for the Environment that her officials had worked with scientists when drafting the water policy statement and had sought a balance between overarching national policy and local involvement.

Environmental Legal Assistance

In 2014/15 the budgeted amount for the non-departmental appropriation Environmental Legal Assistance is $800,000, the same as the estimated actual expenditure in 2013/14. The purpose of the appropriation is to support groups advocating for environmental values in resource management cases in the courts and before boards of inquiry on projects of national significance.

We questioned why the appropriation has not been extended to include environmental issues relating to the exclusive economic zone. The Minister for the Environment said that she would not rule out the possibility of considering it for inclusion in the future. She said that the eligibility criteria for funding from the appropriation were reviewed last year and had received positive feedback from judges.

Engagement with iwi

We were pleased to hear that the Minister for the Environment is proactively engaged with iwi in various forums, including the iwi leaders’ forum. Interaction with the leaders’ forum has centred mostly on fresh water, but has also included the Resource Management Act 1991. We note that the level of iwi engagement at regional council level is more varied.
Approach to this examination

We met on 29 May and 18 June 2014 to consider Vote Environment. Evidence was heard from the Minister for the Environment, Hon Amy Adams, the Minister for Climate Change Issues, Hon Tim Groser, and the Ministry for the Environment, and advice received from the Office of the Auditor-General.

Committee members

Maggie Barry (Chairperson)
Kelvin Davis
Jacqui Dean
Paul Goldsmith
Claudette Hauiti
Hon Phil Heatley
Gareth Hughes
Moana Mackey
Eugenie Sage
Su’a William Sio
Andrew Williams
Hon Maurice Williamson

Evidence and advice received

We considered the following evidence and advice during this examination:

Minister for the Environment, Response to standard Estimates questionnaire.
Response to additional questions, received 27 May and 17 June 2014.
Office of the Auditor-General, Briefing on Vote Environment, dated 29 May 2014.
Briefing paper, prepared by committee staff, dated 26 May 2014.

Report of the Finance and Expenditure Committee

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Recommendation

The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Finance as set out in Parliamentary Paper B.5 Vol. 5, administered by the Treasury, be accepted.

We also recommend that the House take note of the matters we considered in our examination of the Fiscal Strategy Report 2014, the Budget economic and fiscal update 2014, and the Investment Statement: Managing the Crown’s Balance Sheet, 26 March 2014.

Introduction

As well as examining the appropriations sought for Vote Finance in 2014/15, we considered the strategies behind the Budget, as outlined in the Minister of Finance’s Fiscal Strategy Report 2014. We also met with the Secretary to the Treasury to discuss the Treasury’s Budget economic and fiscal update 2014, on which the Budget forecasts are based, and its Investment Statement, which reviews the Crown’s assets and liabilities, and how they are managed.

Overview of Vote Finance

The appropriations sought for Vote Finance total $4.576 billion in 2014/15, about 5 percent less than estimated actual spending of $4.805 billion in 2013/14. About three-quarters of the Vote covers debt servicing expenses on the Crown’s borrowing, which are expected to total $3.622 billion, about 2 percent more than the previous year. Another major component is the Crown’s liability to the Government Superannuation Fund, which would increase by about 19 percent, to $735 million. Just under 2 percent of the Vote, $88.5 million, would fund the services delivered by the Treasury, about the same as last year.

Two new initiatives being funded under the Vote are $2.38 million for a project to improve analytical data for policymakers, and $2.8 million to provide additional resources for work on social housing.

Economic outlook

The Treasury’s Budget economic and fiscal update provides forecasts for the economy and the Government’s finances covering the five years to March 2018. It also outlines major risks and uncertainties, and possible alternative scenarios.

The Treasury sees the outlook as slightly stronger than it forecast in the half-year update in December 2013. Higher terms of trade and stronger net immigration have boosted
domestic demand. They envisage GDP growth increasing to 4 percent for the year to March 2015, before easing to 2 percent, with an average of 2.8 percent over the forecast period. Potential output is also forecast to increase by more than previously expected, from 1.5 percent to an average of 2.6 percent.

The unemployment rate is forecast to decline to about 5 percent in 2016 and to 4.4 percent by 2018. However, higher labour force participation and rising net immigration mean that only a gradual increase in wage growth is forecast.

The current account deficit is forecast to increase to over 6 percent of GDP by 2017/18, in part because of the imports associated with strong investment growth. The terms of trade are projected to decline by about 9 percent over the next year, but to remain well above their long-term trend.

Fiscal strategy

In his Fiscal Strategy Report 2014, the Minister of Finance said the outlook has improved markedly over the past five years. The Government is on track to meet its key fiscal objectives of returning the operating balance to surplus and reducing debt. Budget forecasts show a total Crown operating surplus before gains and losses of $372 million in 2014/15, growing to a surplus of $3.5 billion in 2017/18, and net core Crown debt dropping to 20 per cent of GDP by 2020.

With growth of 2–4 percent forecast for the next several years, the Minister said the Government has shifted its focus to managing a growing economy rather than recovering from a recession. Its policies aim to sustain growth by avoiding pressure on interest rates, so they can remain as low as possible for as long as possible. For the longer term, it is focused on improving New Zealand’s growth potential, by improving skills, investment, and the management of natural resources.

The improving fiscal outlook means there is some room for increased spending. The operating allowance for new spending, previously set at $1 billion for Budget 2014 with a 2 percent annual increase thereafter, is being lifted to $1.5 billion for Budget 2015, increasing by 2 percent a year thereafter. The Minister said $500 million was considered to be the maximum by which spending could be increased without affecting interest rates or causing problems with other objectives.

Regional distribution of growth

Some of us consider that New Zealand’s strong growth is being driven by activity in Auckland and Canterbury, while other regions suffer structural decline and a loss of manufacturing jobs, and note that this trend has been termed the “elephant in the room” by the chief economist for the New Zealand Institute of Economic Research. The Minister disagreed; in his view, recent regional GDP data indicates New Zealand’s regions are doing reasonably well. He said he accepts that some structural and demographic shifts are taking place, but that does not mean the regions do not still have successful economies. In particular, he said he has been struck by the resilience of manufacturing exporters in adapting to the challenges posed by the high exchange rate since the global financial crisis.

The housing market

Both the Minister and the Treasury told us they are concerned about escalating prices in the housing market. The Minister said there is now a better understanding that the supply of housing is the critical issue in determining prices; of the various forces at work in the
market, constrained supply as a result of local authority planning decisions is one the Government can influence. It is therefore focused on working with councils, particularly in Auckland and Christchurch, to change planning ideologies and processes so that housing supply is increased, and so that councils come to understand how their planning decisions affect the wider economy. The Minister said he believes progress in this area can help to reduce pressure on interest rates, and improve the affordability of housing.

Some of us note that the IMF and OECD have expressed views supporting comprehensive capital gains taxes. Some of us remain of the view that the best way of reducing pressure on house prices, and of improving their affordability, would be to introduce a capital gains tax. It is of major concern to some of us that the average price of a house in Auckland is now $700,000, and that few of the houses being built are in lower price brackets. Some of us also note that the proportion of New Zealanders who own their own home is the lowest in 50 years, and studies by the OECD indicate that the absence of a comprehensive capital gains tax results in a transfer of wealth to landlords, who have the advantage of tax write-offs.

The Minister said he believes the problem does not lie with the tax system, but with constraints on supply. He said various studies have come to the same conclusion: that unless a capital gains tax applied to all housing, including owner-occupied homes, it was not worth the problems it created. International experience, including Australia’s, had shown that a capital gains tax was not a cure-all, and in some countries such as Sweden it is being contended that such a tax reduces supply by discouraging people from selling.

The Minister added that he is not convinced that the statistics on home ownership rates are accurate, but he agreed that councils’ planning rules have favoured the construction of houses worth more than $600,000, and this needs to change. He noted that local bodies have resisted intensification of housing as politically unpalatable, and the Government had intervened regarding the Auckland Plan to encourage more subdivisions at the edge of the city. Most of us support this move, but some of us believe the Government should also have pressed for housing intensification within the city limits.

**Equality and wages**

To some of us, it seems that inequality in New Zealand is increasing and many New Zealanders are not benefitting from the growing economy, with some measures indicating that 46 percent of workers have had no pay rise in the past year. The Minister said that as most employment agreements are set every two years, it is to be expected that less than half of workers will get a wage rise in any given year. On average, he said, real wages are increasing; while this does not mean everyone’s pay grows equally, the Government seeks to ensure through its redistribution systems that people receive a fair share. He emphasised that the Government’s focus is on growing the economy in the first place; it is investment that increases jobs and wages. It then assesses the extent to which redistribution is needed to meet the goal of fairness, which New Zealanders expect.

**Exports and savings**

We note that the current account deficit, at about 3 percent of GDP, is significantly better than was projected in Budget 2010. The Minister said he has always been more optimistic about the current account than the Treasury’s forecasts, but he does agree that it will deteriorate over the next few years as business investment increases. Along with better terms of trade than expected, he attributes some of the improvement to the results of the
global financial crisis: New Zealanders now have less appetite for risk and debt, and have improved their saving behaviour, helped by better regulation of the financial sector to discourage excessive credit growth. In addition, exporters have proved admirably resilient and adaptable over the past five years, in the face of a high exchange rate.

Some of us are concerned that a simplification of New Zealand’s export profile is occurring, with an increasing proportion of raw commodity exports, and increasing dependence on the China market. This does not seem a sustainable strategy for success. The Minister said he does not accept an analysis that suggests commodity exports are bad and elaborately transformed manufacturing is good. He noted that even milk powder exports entail significant added value in the form of a complex bundle of services and intellectual property rights.

Regarding the concentration of dairy exports to China, the Secretary to the Treasury said the risks should not be overstated. In his view they are outweighed by the benefits and opportunities offered by China’s economic growth. He believes there are ample opportunities for New Zealand to diversify its exports to other countries, as it is part of the world’s fastest-growing region. His department is putting considerable effort into enhancing New Zealand’s international connectedness, which is fundamental to improving living standards. The many initiatives under the Business Growth Agenda would play a part, he said. He acknowledged that achieving the target of increasing exports to 40 percent of GDP by 2025 was not straightforward, but believes it is important to stay focused on the effort to do so.

Regarding savings, we asked whether the Treasury is concerned that after some improvement after the global financial crisis, the rate of private sector savings has now subsided, with consumption again starting to exceed savings. The secretary said he believes this reflects the general state of the economy, with improving confidence among consumers and businesses, but the Treasury will be keeping a close eye on developments, as the rate of saving or dis-saving affects the degree to which the economy is vulnerable. He believes New Zealand is in a better savings position now than before the crisis, and trusts in the judgement of the Reserve Bank to take appropriate monetary policy steps as needed.

**Managing the Crown’s balance sheet**

The Treasury’s Investment Statement is an important companion to other Budget-related documents. It serves as a “report card” on the Crown’s assets and liabilities: what they are, how they are performing, how the composition of the balance sheet is changing, and what the Government can do to manage risks and improve the performance of individual components. The Public Finance Act 1989 now requires that the document be produced at least every four years (a previous statement was published in 2010, with a supplement in 2011).

The balance sheet is large, with $240 billion in assets (more than a year’s worth of GDP, and three times the market capitalisation of the New Zealand stock exchange), $170 billion in liabilities, and $70 billion in equity. It has grown and changed over the past 20 years; in particular, financial assets are growing as the Crown partly pre-funds future superannuation costs. The largest segment of the Crown’s asset portfolio consists of social assets: property, plant and equipment held to facilitate the delivery of social programmes. Of the Crown’s total liabilities, Government borrowings form the biggest component.
A key message of the investment statement is that the information available to assess whether Crown assets are fit for purpose and being managed to provide value for money is not as consistently strong as it should or could be. The Treasury intends to give priority to creating systems for better information collection and evaluation in its work with agencies over the next few years.

The Secretary to the Treasury told us the aim is to bring the management of the Crown’s capital up to the same high standard as its management of operating expenses.

**Social housing**

We note that funding of $2.8 million is being provided in 2014/15 to examine options in the social housing market. The Treasury explained that it is clear that much of the stock of social housing is dated, and demographic changes mean that houses are not located where they are most needed. This project will explore ways of getting better provision of social housing to those who need it; a report on initial findings is due in December.

**Better public services**

Over recent years the Treasury has been encouraging government agencies to focus on what is driving their costs, and how they can provide value for money in the services they deliver, by taking what it calls an “investment approach” to the management of public finances. The Secretary to the Treasury said the approach is in its early days as the analytical tools are still being developed, but he believes it offers the potential for a step-change in public management, by focusing the public sector’s thinking on how services can be provided cost-effectively, and achieve the best return for taxpayers’ investment in the form of better living standards. To date the approach has focused on welfare, but he said he sees exciting opportunities as the tools are developed further, for example if they allowed resources currently needed in the justice sector to be used for education instead.

Additional funding of $2.38 million is sought in 2014/15, with a further $7 million in later years, for the “performance hub”, a unit within the Treasury and other central agencies which will collect and analyse anonymous data about New Zealanders to support the delivery of better public services.
Appendix A

Approach to this examination

We met on 18 and 25 June 2014 to consider Vote Finance, the Fiscal Strategy Report 2014, the Budget economic and fiscal update 2014, and the Investment Statement: Managing the Crown’s Balance Sheet, 26 March 2014. We heard evidence from the Minister of Finance, Hon Bill English, and the Treasury, and received advice from the Office of the Auditor-General.

Committee members

Paul Goldsmith (Chairperson)
David Bennett
Dr David Clark
John Hayes
Dr Russel Norman
Simon O’Connor
Hon David Parker
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Hon Kate Wilkinson

Evidence and advice received

We considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Finance and related items of business, prepared by committee staff, dated 16 June 2014.


Office of the Auditor-General, Briefing on Vote Finance, received 16 June 2014.

Minister of Finance, Response to standard Estimates questionnaire.

Response to additional questions, received 16 June 2014.
Appendix B

Corrected transcript of hearing of evidence 18 June 2014

Members
Paul Goldsmith
David Bennett
Dr David Clark
John Hayes
Dr Russel Norman
Simon O’Connor
Hon David Parker
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Hon Kate Wilkinson

Witnesses
Hon Bill English, Minister of Finance
Gabriel Makhlouf, Chief Executive and Secretary, Treasury
Vicky Robertson, Deputy Chief Executive, Treasury
Bill Moran, Deputy Secretary, Strategy Change and Performance

Goldsmith Right, Minister and Mr Secretary. Welcome to the committee. Thank you very much for coming – we are very keen to hear your introductory comments, and an opportunity for some questions.

English Thank you very much, Mr Chairman. Just a few introductory remarks. I think it’s pretty clear now that the economy’s growing at a reasonably robust pace, and that there’s a fairly broad base for that growth. So we are seeing businesses investing, real wages are rising, and the export sector is enjoying the benefit of pretty high terms of trade despite what is an historically high New Zealand dollar, although it’s inevitable that decreasing prices are going to bring down some of the more spectacular numbers that we’ve seen. For instance, today in the current account result.

In 2013 the economy grew by 3.1 percent. The indications are that it’s growing around 4 percent now and that’s forecast to decline somewhat down towards 2 percent from a peak in March 2015. Eighty-four thousand more jobs created in the past year and we are expecting unemployment to fall pretty steadily from here to around 4½ percent by mid-2018.

The nominal average wage has increased by $3,000 in the past 3 years to $54,700, and based on the latest growth forecast it is expected to increase a further $7,600 to $62,300 over the next 4 years. And this is a pretty strong focus for policy. What we would like to see is an extended period of growth. We want to do whatever we can to lift the speed limit on the
economy because that’s what will assist that kind of consistent income increase for households and consistently growing employment. I think you’re familiar with the Government’s forecast surplus at around $372 million next financial year, and on track to reduce net Government debt to 20 percent of GDP by 2020.

I’ll just spend a few minutes—I won’t go through Budget initiatives, I think those have all been fairly well publicised and reasonably well understood. I just want to spend a few minutes explaining on the steps the Government has taken to help to keep interest rates lower for longer. As indicated in this last week the Reserve Bank expects interest rates to rise somewhat over the next 2 years, when they have been on 50-year lows now since around 2010. We want to avoid the mistakes of the previous economic cycle where a combination of fast rising Government spending, a doubling of house prices, and a big increase in household debt all helped to push floating mortgage rates to nearly 11 percent. So the Government has deliberately set out to constrain its fiscal position. We’ve stuck to a $1 billion a year operating allowance in this Budget, and signalled a moderate increase in it to $1.5 billion in Budget 2015. The Treasury advice has been that lifting the annual allowances to $1.5 billion a year is probably around the upper limit for increased spending without having a material impact on interest rates. This is a relatively moderate increase, particularly compared to the previous history of new allowances, which would be somewhere between 50 and 100 percent higher than the $1.5 billion. But the $1.5 billion is what is built into the forecast.

We are also focussing pretty strongly on influencing the housing market. House prices are still rising in some places in New Zealand by double-digit rates. The key decision makers around supply issues for housing are the councils, and in our view—I think they are pretty broadly accepted—supply is a key determinate of the rate of increase in volatility of house prices. So we continue to work with the councils to ensure that they understand the wider economic implications of the planning decisions that they make, the impact on the macroeconomy, the impact on household costs, and the impact on the economics of building new houses and expanding supply.

Looking ahead we think that on the basis of both the economic growth that’s occurring and the resilience that New Zealanders are showing that there are huge opportunities as we watch countries around the Asia-Pacific develop rapidly and demand more of what we produce, and in our view if we stick with the Government’s programme, we increase the likelihood of sustainable growth and the likelihood of increasing the speed limit on the economy.

Another feature of the Budget was the Government taking steps to ensure that all New Zealanders get some benefit from a stronger economy but also stronger Government books.

Finally, I just want to confirm today that the Treasury will issue its Pre-election Economic and Fiscal Update on Tuesday, 19 August. It will, of course, include a fully updated set of fiscal and economic forecasts, and this
committee, I think, if any, would be familiar with the fact that Treasury prepare their pre-election update on an independent basis. They will make judgments based on what evidence there is of Government decisions that change policy or confirm it.

Now I am happy to take questions, Mr Chairman.

Parker

Thank you, Minister. You talked about rising house prices in Auckland and have long been critical of the rate of house-price inflation in Auckland under the last Labour Government, and I think there’s some validity in those criticisms, and since then house prices off that already high base have actually increased at a higher real rate to the point where the average house price in Auckland is now over $700,000, and homeownership rates are the lowest in 50 years. Why do you think it’s proper to be critical of the Labour Government in the prior 10 years and yet you’ve got a worse record in real terms off that already high base—and you don’t think that you’ve failed?

English

Oh no, I don’t think so. I think what has happened, and a fair bit of it has been initiated by the current Government, is to re-frame the argument so that it’s much more realistic than it used to be. So I think there’s now a pretty broad acceptance that supply is a critical issue in determining the price. And as recently as 3 or 4 years ago that was regarded as some kind of cranky extreme pro-urban sprawl point of view, whereas now I think it’s pretty much mainstream wisdom. And that’s been a significant political constraint on developing policy, and that is a fixed and firm belief, particularly in councils—that supply is irrelevant, that there’s no economic impact from the decisions they make, and that plans to densify cities will ultimately be acceptable by ratepayers who have actually now turned out, particularly in Auckland, to be opposed to the core ideas of the old Auckland plans.

So the discussion has been—remember, particularly in Auckland and Christchurch, both cities have had the most significant changes in years in their planning processes. One, in Christchurch because of the earthquake, and in Auckland because of the formation of the single city. So at the same time as those significant impacts on councils that they’ve had to deal with, we’ve also had this significant pressure in the housing market. But I think there’s good progress on it.

Parker

Can I just put to you what Shamubeel Eaqub, the chief economist at the NZIER, said yesterday. He told an investment conference in Auckland that the growing inequality between the regions was the elephant in the room. New Zealand’s growth is driven mostly by Auckland and Canterbury, and many other areas are stagnating or going backwards. While house prices in Auckland have risen 20 percent in real terms since 2007, and up a bit in Canterbury and Wellington as well, prices in the rest of the country fell 21 percent in real terms during the same period, and as a consequence of what’s now being visited upon the country, which he says is higher interest rates because of Auckland’s problems, when there’s underlying low inflation causing further structural problems in our economy. What do you say to that?
Well, there’s a lot in those statements. First, I’d dispute his version of the regions. I mean, as I think as the Opposition’s found out, declaring a crisis in the regions was about the time when their GDP figures showed they’re doing pretty well. So I just don’t agree with that analysis about the regions. I think if he looks at the GDP figures he might come to a different conclusion.

Secondly, with respect to Auckland house prices: look, we’ve gone about as far and as fast as we can without actually taking the functions off the Auckland Council. That’s really the only step left. If we want more houses on the ground even faster than they’re starting to occur now, the only way that could happen, from what I can see, is to take those functions off Auckland Council and we’re not proposing to do that.

Parker Well, if we look at the demand side of the equation, the OECD and the IMF have for some time said that one of the imbalances in the economy, which does act against the regions because of the profits to be made in investment housing investment in Auckland—one of the best counters to that would be to introduce capital gains tax. Now we had your colleague, the Minister of Revenue, in here saying that we already have a capital gains tax in New Zealand, which is a line that I’ve heard you say also. I’d ask you the same question as I asked him. He having said that, I asked him: what percentage of investment housing sales pay tax on their capital gains? And we gave him time to go away, and he came back and he said he didn’t have that information. Now, given the centrality of these issues to New Zealand’s economic fortunes, have you had any work done by your ministry, if the Inland Revenue Department isn’t doing work, as to the percentage of investment house sales that attract tax for their capital gains?

English No I haven’t had specific work, but I contest the argument that capital gains tax is central to it. It simply isn’t, and that’s the record internationally. Australia, for instance, has a 15 percent capital gains tax. They have all the same issues. And look, there’s demand influences. There’s no doubt about that. Some of those can be altered and some of them can’t. For instance, at the moment, there’s greater demand because Kiwis aren’t leaving. We don’t want to influence that. We do want Kiwis staying home. We think that’s good—not a problem. The key issue is that there are deliberate regulated decisions made about supply, and we’ve worked pretty hard not to get distracted into too many of the minor influences on house prices and deal with the one that has not been dealt with for all sorts of reasons in the past, a lot of them political, some because they just weren’t understood, and some of it because dealing with housing supply issues is actually pretty complex. It takes time.

Parker The OECD also say that without a capital gains tax the increasing numbers of New Zealanders who don’t even own one house effectively cross-subsidise landlords in a tax sense, who have the advantage of tax write-offs, often claiming their notional property losses against their other income and paying no taxes on their capital gains. Do you agree that they are right in an arithmetic sense that that is effectively a tax bias in the system that
advantages owners of that class of investment both against other classes of investment and vis-à-vis renters?

English

Not necessarily. I mean, we could get into all the arguments for and against capital gains tax. They’ve been gone over, many times in New Zealand, and a number of reviews, including one carried out by the Labour Government, all come to the similar conclusion, which is that if you’re not going to put it on everything—you’re going to have significant exemption, being owner-occupied housing—then it’s questionable as to whether it’s worth the complexity, all the avoidance, and boundary problems and so on. So that’s it—that’s fair enough. That’s an argument where reasonable people can disagree as to whether it’s worth it.

Parker

So if you disagree with the OECD, do you disagree with the Westpac analysis that came out in the last month that showed that in respect of a new investment decision, if you had a capital gains tax excluding the family home, the net present value of the next rental investment with a 15 percent realisation-based capital gains tax would decrease by 20 percent and therefore have a substantial effect on the value of rental investment?

English

Well, look, they’ve, I’m sure, done calculations that they would regard as correct.

Parker

Have you had any advice from the Treasury since that to suggest that their calculations are wrong?

English

No, I haven’t, but your question illustrates a point, which is if you look at—what matters here is the whole housing market. There’s a political discussion to be had about capital gains tax; that’s fine. But what matters for the economy’s point of view is the whole housing market, and in the whole housing market by far the dominant influence on prices—that’s controllable—is supply. And you could argue—I don’t but others have argued—that, for instance imposing a capital gains tax will tend to reduce supply. In fact, I think it’s in Sweden or somewhere, they’re talking about getting rid of it because of the lock-in effect, which is a predictable effect—you don’t know whether it’s big or not. I think it might be Sweden where they’ve decided it is a big effect, and some are arguing to get rid of it. So, regardless of the merits or otherwise of the capital gains tax, it’s not a big influence on the housing market compared to the need for more flexible supply.

Parker

Well, if I may ask one final—

English

Just one last point I’d make about that is: one of the features of all housing markets we supply is artificially constrained is volatility, and that means that you get prices running up faster and dropping faster, and if you don’t fix the supply problems, your net effect of a capital gains tax in the long run—your net revenue—is going to be zero, because you’re going to have rapid gains and then you’re going to have rapid losses.

Parker

Moving to the supply issues then, one of the supply problems that we have in Auckland is of the houses being built, a very small proportion of them are smaller affordable houses. Most of the houses that are being built are
larger houses. Is that a commentary on rising inequality in New Zealand? We’ve not only got decreasing homeownership rates but the houses that are being built are—perhaps unsurprisingly given increases in gaps between the have and the have-nots in New Zealand—big houses, and if you want to overcome the supply problems, you’re going to roll up your sleeves and build some smaller houses.

English

OK, a couple of points. First is: I think someone should do a bit more work on the decreasing homeownership rates. Work that’s been done in Australia shows that if the data you use is rentals—actually the proportion of rentals in the Australian market is very flat over the last 30 years, which raises questions about the definitions of homeownership, and I’d like to see that tested in New Zealand, because I’m not completely convinced that the way it’s counted is totally reliable.

The second point about the small homes. I think we absolutely agree on it. I mean it is ridiculous that in our largest city, it’s basically illegal to build a house that costs less than $600,000. That is ridiculous, and I think that is the biggest question mark over the planning ideology that’s been employed in our large metro markets. And one of the effects of it is that it’s become one of the main drivers of inequality and access to housing asset wealth, because some people just can’t get in.

Parker

Well then, why did you then drive through your—you pushed through parts of the Auckland Plan so that they were operative earlier than they would otherwise have been following the amalgamation of the council, and the only parts that you pushed through under that process were the bits that allowed more subdivisions at the edge of Auckland, and I’m not criticising you doing that, but you didn’t help them get through any of the provisions in their plan that would have helped with more intensive affordable housing within their boundary. Why did you do that?

English

Well, what actually happened there was the Auckland Council got rolled by its ratepayers and there was a pretty interesting exercise. So if you think of—

Parker

Well, you rolled them in respect of the urban limit, but you weren’t willing to roll them in respect of what that professor from Harvard came out last year to tell New Zealand—that intensification within the boundary is more important if you’ve got population growth?

English

Well, look, we’re indifferent as to where supply grows, that’s local decision making.

Parker

How can that be correct, because you helped them on the margin but you didn’t let them intensify inside the margin?

English

No, we didn’t make the choice about intensification; they did. They went around a whole lot of meetings throughout Auckland with 400 or 500 people at them. I mean, I think it proves a point and that is that the Auckland growth strategy had been based on the idea of intensification of the city. That never happened, going right back to the ARC days starting in the late 90’s, over that 15 years. Actually what happened is the number of
new houses built in Auckland declined steadily from the mid-2000’s. The supply shortage started well before the recession, because further densification of what’s already, by international standards, a pretty dense city has turned out not to be politically viable in a local body context. So, from our point of view, if they can’t grow up then they have to grow out, and it’s good that the Auckland Council, I think, has seen that.

Goldsmith We come to the current account deficit situation; we’re looking at the Budget 2010 figures. We had current account deficits around 8 or 9 percent of GDP 2006-2008, and then it lifted during the global financial crisis, and the prediction was in the 2010 Budget that we’d be back to a current account deficit of greater than 7 percent of GDP by today. Now we’ve just had the latest figures come out from Statistics and the figure for the year to March 2014 is 2.8 percent of GDP. Why do you think the projections were so out of whack, and maybe if you could just talk us through the reasons why we are doing so much better than expected in this area?

English Well, you’re best to talk to Treasury about the projections, because as I think I’ve said before, I’ve been a bit more optimistic about this than the Treasury, and I wouldn’t want to jump to conclusions after only 5 years of records, but there’s some indication that it looks a bit better than it might’ve. And I think the reasons—well, they’ll have a set of reasons about why it’s different than the forecasts. I think there’s a number of things changed with the post-global financial crisis—some of them are a bit unexpected. So one is, I think, the export sector is—the terms of trade have turned out to be higher than was expected. I think that’s a reasonably significant driver. I think our export sector has turned out to be more resilient than expected in the face of a sort of mid-80’s exchange rate against the US dollar. Savings behaviour is a bit better, or it improved significantly and it’s sort of flattened out, just slightly deteriorating. Government is saving a bit more. That’s all headed in the direction of savings, so fiscal consolidation has helped. I think the one effect of 2008 is there’s just less appetite for debt in households, I don’t think we will see credit growth at double digits, and another influence on all that is just the re-regulation of the financial sector, which means that the kind of things that lead you to an 8 or 9—you know, growth in debt that serviced an 8 percent current account deficit. Those debt dynamics can’t occur again, not for quite a while anyway.

But I wouldn’t get—you know, I think there’s figures today which show it at a relatively low level. All the forecasts tell us the current account is going to deteriorate, and that’s logical to some extent, particularly as business investment picks up. It’s really a question of how far it’s going to deteriorate. It almost certainly will deteriorate.

Goldsmith And then moving on to projected growth, we’ve had a very good GDP figure looking around 4 percent at the moment. The forward projections under the Budget are that dropping off over time. I suppose if you could just explain to us what the Government is doing to help sustain or extend this period of strong growth that we’ve had for the last couple of years, to consolidate.
English

Well, I mean to the extent that Government can influence it, there’s really two aspects of economic management that are relevant. One is just in the short term, given the dynamics of a reasonably strong pick-up in growth. We want to make sure that we don’t get into a sort of over-energised cycle fed by rapidly growing Government spending—and I think the Budget set out the Government’s plans there; it’s still pretty subdued—and, secondly, the topics we’ve been talking about, and that is to influence the housing market in a way that tries to minimise the interest rate cycle. And, as I say, it’s “influence it” because we don’t run it—we don’t run that market, it’s essentially run on the supply side by councils.

In the longer term we want to continue to focus on the growth potential. So Treasury and the Reserve Bank are guessing or estimating that the growth potential is somewhere between—who knows—sort of 2.25 and 2.75 percent. I think there’s a reasonably understood mix of things that help to lift that supply, and we’ll continue to focus on a range of issues as set out in the Business Growth Agenda from continued investment in infrastructure and efficient management of it, through to further honing the skills process so more young New Zealanders get to the start line for the workplace skills race through to better management of natural resources, for instance through implementing the freshwater framework, which is going to, I think, reassure New Zealanders that we’re getting the balance right between intensification of agriculture, which has been a strong driver of growth in recent years, and environmental standards.

O’Connor

Firstly, just thank you for the work that was done in not applying the whole intensification in Auckland communities like my own—it’s not a “very well” to that. My question is more in the international context as you see it, first and foremost, when you look at our growing GDP, elements of wages, employment and so forth, how New Zealand is placed within the international context and what opportunities and challenges you see in your own role moving forward in the next 12 months, and particularly our international trading partners.

English

Well, a challenge is for New Zealand, I think. Look, if you take, first, Australia, the relativities. I mean, at the moment we are growing a bit faster than them, but their growth figures are looking better. It’s a bit hard to know how the Australian economy will play out over 3 to 5 years. They’ve got some real competitiveness issues they have to deal with. Their GDP numbers are going to look good, but I think my guess is their employment numbers aren’t going to look that good, and that’s what New Zealanders are thinking, because that’s why they’re not getting on planes and going to Perth and Queensland, because it is actually while their GDP, particularly in Western Australia, is—you know trainloads of iron ore going out in ever greater quantities, they’re just not generating the same jobs, and you see that in a lower participation rate in Australia, significantly lower than here. So I would think that their growth is going to be a bit better than expected, but their employment growth’s not going to be quite what it used to be and New Zealanders are voting with their feet on that.
Of course, the other important dynamic has been China. You know, there’s a lot going on there with the financial system, having to learn about how to incorporate risk in its decisions, because that hasn’t been the case; the question of whether there’s a related property bubble or not; and, alongside that, trying to re-orientate more to a consumption, less investment-driven growth.

Whatever happens with those sets of decisions, they’re still having quite strong income growth. Even at 4 or 5 percent of GDP the increment to growth in China is—you know, now 4 or 5 percent of GDP is bigger than 10 percent was 10 years ago. So there’s always going to be more consumers coming on to our radar. And then the other major developed economies are all still struggling with the zero interest rate environment. The US and UK are looking slightly better and Europe looking like it’s still muddling along.

In that environment we would continue to focus on our own competitiveness, because whatever happens there we need a situation where our exporting base can compete, even if offshore conditions aren’t so favourable. Generally, there’s a bit more optimism when you add all that up compared to a few years ago, but I think you wouldn’t want to get too carried away with prejudging it.

Back in our own region I think we all understand the story of the Asia-Pacific and I don’t see that those prospects have changed from being pretty positive.

O’Connor Just a supp. on that. It’s really just around—you talk about obviously New Zealand’s context in growth. Manufacturing, I think we saw something recently, is continuing to grow. I’d like to hear your comment on what particular sectors you are seeing that in at the moment?

English Well, it’s getting a bit broader based. I mean some of our manufacturing is driven by primary production volume, and we’ve had, putting aside the drought a couple of years ago, since then pretty good volume growth. You’re seeing—there’s a number of things going on at once. All developed economies are becoming more orientated to services and that’s a long, long running trend that’s likely to continue.

Alongside that, though, our export sector and our export manufacturers have done, I think, an incredibly good job. I mean if they are still in business, they have to be good. They’ve been dealing with high exchange rates in Australia and in the international markets. There wouldn’t be a single manufacturing business in New Zealand that hasn’t adapted quite significantly compared to how it was running 5 or 6 years ago and what market it was chasing, and I think they deserve a lot of credit for their resilience. As the UK, US, and Europe re-rate and the US dollar weakens, which is bound to happen sometime—it’s just taken a long time to happen—I think they’re in a position to be pretty profitable.

Parker Just quoting Shamubeel Eaqub again, the decline in the regions was structural rather than cyclical, and he says factors include the loss of
manufacturing jobs. He doesn’t seem to think that’s going so hot in the regions. Do you disagree?

English

Well, yes, I do. You just got to go and look at the regional GDP figures.

Parker

No, you were talking about manufacturing jobs there. Are you trying to tell us that manufacturing jobs are on the up in the regions?

Hayes

Yes, it is in the Wairarapa.

Parker

I don’t see it.

English

What I’m saying is if you look at the regional GDP figures, he might come to a different conclusion. I don’t think that there’s much doubt that there are some structural shifts that have been going on for some time in some regions. If you take my own one in Southland, we have a higher proportion of older people compared to the national average, a lower proportion of younger people. That is essentially built into the demographics. Invercargill is a smaller city than it was 15-20 years ago, but it doesn’t mean they’re not successful economies. I mean there’s people there investing, diversifying, and against the background of a flat population they’ve got high rates of employment. South Island unemployment is about 3.5 percent. You can’t get it much lower than that, and that includes Dunedin, which I thought—[Interrupt] Well, they’re real jobs. I mean they’re not turning up to work saying “This isn’t a real job because it’s in Christchurch.”

Parker

But isn’t really the fundamental structure problem in New Zealand—here we have the best terms of trade in 40 years, which you’ve acknowledged, and we’ve still got a current account deficit, and yes, it’s better. The last time we had terms of trade this good we actually had a current account surplus, and even you agree that from now on the current account deficit is going to get worse again. It doesn’t seem to me that we’ve overcome those structural problems as evidenced by what Shamubeel Eaqub is saying.

English

Well, this is an argument that’s been going on for 30 years. I don’t necessarily see it as a structural problem. I’ll just float a little theory for you, and this doesn’t come from the Treasury, it comes from me. One of the lessons out of the global financial crisis is that it’s not a bad thing to have diversified funding sources. So if you think about what are called structural problems could be seen as a small open economy where people make a decision that for the investment that’s made, they want diverse funding sources not just from domestic savings, also from off shore. And we know that they do want that because New Zealanders are willing to pay the interest rate premium involved in securing that off-shore funding, which is a point that you’ve raised before.

The global financial crisis tells you that for those countries that suffered like us briefly—for a shut-down of international markets, it was even worse for those who had highly concentrated domestic funding. That issue is now more important, because now everyone believes that a banking system is underwritten by a sovereign, and so the dangers that go with highly concentrated funding are pretty real for a sovereign, because they are sitting there thinking this is a big contingent liability. So as a temporary steward of
the Crown balance sheet it makes some sense to me that New Zealanders choose diversified funding and that the Crown doesn’t underwrite the whole thing. But, you know, that’s just a different point of view on the same set of facts.

Parker Are you saying your ambition is for a protracted current account deficit because that’s a good thing? It drives a demand for more borrowing from offshore.

English No, I’m saying that we need to do a much better job than we have done in the policy establishment of understanding why New Zealanders do what they do. Because a so-called structural problem can be characterised another way, if you’re going to be blunt. It’s a way of saying that New Zealanders have been systematically stupid for 30 years. Now I don’t think that’s the case. I don’t think they’re making all the wrong decisions and the policy makers know what should happen. I think our understanding of—

Parker Then why did you rail against current account deficits when in Opposition?

English What we railed against was the previous Government said it was going to halve it and it ended up doubling it. I went through the 1999 election campaign, where the Labour Opposition at the time made exactly the same arguments as you do when the current account was 4 percent, and when they left it was 8 percent, not 2 percent. So I have learned to be a bit sceptical about politicians railing on current account deficits, which is why I don’t do it.

Norman Just in terms of the structure of the economy as it’s progressed since you’ve been in Treasury, it’s characterised as a simplification. So in terms of the export profile, milk powder, and raw logs, manufactured exports have continued to decline. So just the April overseas merchandise trade data, what we saw was annual dairy exports up by a third, logs up by a quarter, manufactured exports down 2.2 percent. In the 6 years you’ve been in office, manufactured exports have dropped 3.2 percent or about 20 percent in real terms. If you look at the profile of what our exports look like, elaborately transforming factors when you came into office were 18 percent of our exports, now they’re down to 13.7. So there’s this movement towards a simplification of the economy, and it’s into a couple of markets and a couple of simple commodities with very low value add. Do you think that that is a sustainable economic strategy which would bring prosperity to New Zealand?

English I just don’t agree with the analysis. I mean this idea that somehow there’s a whole lot of stupid people out there who keep producing mindlessly simple products and then there’s a whole lot of really smart people who wish they could produce some smart products but the Government stopped them is just ridiculous. I think, as we’ve learned from the whey protein concentrate incident, actually when New Zealand sells what you call a commodity, what it is selling is a complex bundle of risk management and services and intellectual property of which the value of the physical components are actually a pretty small part.
So I just don’t agree with this in the first place, with this classification of the world into good and evil, commodity and elaborately transforming—

Norman  
It’s not about—

English  
Yes it is. That’s exactly what you’re saying.

Norman  
It’s about actual analysis of actual data, which is produced by the Department of Statistics. There’s a thing called the overseas merchandise trade data which analyses it—right? And what it says is that the elaborately transforming factors are in decline and have been ever since you’ve been finance Minister, and that what our export profile looks like is changing and it’s much more about milk powder and raw logs. Now right now the price of raw logs has dropped, a whole bunch of people have been laid off—across Southland as a matter of fact—and when you develop an economy or an economy develops which relies on simple commodities, when there’s a variation like that a whole bunch of people will lose their jobs, because we don’t have a more developed economy with a bunch of value-add and a more diversified forestry sector; it’s just raw logs. But that is the problem when you develop an economy down this path.

So, in dealing with the issue that you legitimately raised, which is that milk powder has more than just milk powder; it has a set of values associated with it. Those values are clean, green, and safe. And your Government has an agenda of accelerating pollution of waterways, not to mention exterminating the Maui’s dolphin, and that undermines clean, green, and safe. So how are you going to protect those, if you like, those values, which you yourself identified, when your Government’s agenda is to undermine our environment?

English  
Well, I’d characterise the agenda quite differently. So, for instance, the economic zone, which has never been regulated before, is now fully regulated. I don’t recall that—well, it didn’t happen before, so we’ve regulated it, which means we can now have a responsible oil and gas industry instead of an unregulated one, which was the one that previous Governments oversaw. So that doesn’t suit your characterisation. If I listened to what you said, you’d think it was exactly the opposite, that somehow we’d dismantled—

Norman  
Minister, the facts on the ground is that water quality is continuing to decline.

English  
No, I don’t agree with that.
Norman: Even though that’s a fact.

English: No I don’t agree with that. I think there’s some places—well, here’s a very simple issue around water quality. It’s measured most where it’s worst. Right? We do not have systematic measurement of water quality across New Zealand.

Parker: You wouldn’t measure it where it’s worst.

English: Well, I’d measure it everywhere before I made a generalised statement like “All water quality is declining.”, because actually the evidence is in some places it’s clear and other places it’s quite ambiguous, and in some places actually, even some of the few higher quality places where it’s measured, it’s improving. So part of the point of the work around the water framework has been precisely to take what is a strategic growth driver of New Zealand’s economy, and that is fresh water that drops out of the sky and our ability to get animals to eat grass, and move it on from an over-hyped political argument about good and evil to a more science-based one where we can express our national values through some kind of framework that’s got a degree of objectivity about it, and I think we’ve made significant progress.

Norman: Are you rejecting natural science? Like the Prime Minister said, he can get a scientist to say anything, so when the scientists say we’ve got a crisis in fresh water, you go “Well, I don’t know You just reject the scientist.

English: No, well one scientist says that regularly. It doesn’t mean he’s right, and he might be right about the Manawatū River, but actually—

Norman: All the freshwater scientists say that.

English: No, they don’t, because we’ve sat and talked to all the freshwater scientists. The scientists say we don’t measure it systematically. In some places where it’s measured, it’s got a bit worse. I mean, for instance, they tend to measure all the water quality at the bottom of the catchment. Well, you know, they don’t measure it all the way up the catchment. So if we actually want to change farming practice, we do need to evolve this from a political discussion into a set of management tools, underpinned by good science, and that’s the progress we’re making. That’s much better progress than rhetorical flourish, which has no impact on anyone.

I mean, the environmental manager in question here is a 22-year-old, in the dark, in the rain, chasing cows around wet paddocks in Southland. That’s your environmental manager. So you need tools that enable that person to make different decisions, and that’s where we’re headed. And, by the way, they don’t sit around reading press releases from lobbyists. They’re too busy.

Bennett: Minister, what do you think the effect of the proposed carbon tax is, because it’s not really a tax. It’s really just a transfer from the productive sector to basically a payment to individual taxpayers, from one part of the tax-paying system to the other. It doesn’t actually address climate issues, or anything like that. What effect do you think that would have on the
productive sector of [inaudible] transferring taxes between two groups in the economy?

English  
Well, I think you’ve got to be clear about what you’re trying to achieve, and I think some of this argument, which has been had before—it was all had through the 2000s and we might have all had different positions then; I’m not quite sure. I can’t quite remember it all.

There’s two different objectives that get argued about. One is reducing CO\textsuperscript{2} to reduce climate change. The other objective is to reduce it in the most efficient way. The last time New Zealand had this argument, it decided to reduce it in the most efficient way, and that’s why it came up with the ETS, because the price adjusts according to the marginal value of the carbon reduction mechanism and demand for the need to do it.

The carbon tax is not a flexible price mechanism. It says “reduce CO\textsuperscript{2}, full stop. Bad stuff, fossil fuel, pollution.”, a bit like people are, “Let’s get rid of it.” It’s not an efficiency-seeking mechanism. So from the productive sector, I think if it had the choice between those two, and it might choose neither, but if it had the choice between those two, I would argue they should go for the efficiency one.

When new technology turns up, for instance, it spreads fertiliser differently, so you only have to put 60 percent of what you thought on the paddock and therefore you get less leachate. Well, you’d want someone who chooses that technology to benefit from it. Under a carbon tax they wouldn’t.

Norman  
Have you read the OECD documents that say the most efficient way to reduce emissions is to put a price on carbon—that documents say ETS or carbon price, that’s the ideal way of doing. Angel Gurria, the Secretary-General of the OECD, has just gone on the public record, like in the last week, saying a carbon tax is probably the better of the two mechanisms. This is just different ways to put a price on carbon. The advantage of a carbon tax and its returning is you can return the revenue to households and to businesses through a company tax rate. Are you going into the election with a lower company tax rate proposal than the Green Party, or not?

English  
We are going into the election with the company tax rate at what it is now. If the Greens are going to have a lower one, well that’s good.

Norman  
You’re going in with 28.

Bennett  
What are you going in with, Russel?

Norman  
We’re going in with 27 because we are going to be recycling the revenue into tax cuts.

English  
OK. Well, we—

Bennett  
But don’t they have to pay a cost on the carbon tax as well?

Norman  
That’s right. [Interruption]

Bennett  
So Russel, tell us how you get a lower tax rate if you don’t put a _____ [inaudible] [Interruption]
We put less focus on the recycling and more focus on finding the most efficient solution. Flexible prices are still the best solution-seeking mechanism there is, and redistribution is secondary.

So consumers pay through the ETS, but they don’t get a tax cut. They don’t get anything back from you, but they have to pay.

Well, they’ve had tax cuts from us, and you guys weren’t too happy about that.

So under your scheme consumers pay charge on carbon, but they don’t get anything back?

They don’t get anything back?

In terms of a tax cut, because the revenue doesn’t get returned to the taxpayer.

Well, I mean, in the current situation we don’t have that choice because the carbon price is so low there’s no revenue from it. In fact, Government revenue from the ETS—the forecasts have dropped by about a billion over the last 4 years.

But even if you did, households wouldn’t get it back because there’s no tax to return to taxpayers.

Yes, but all I’m saying is that redistribution would be less important to us than finding the most efficient carbon-reduction method, which would be the top priority.

A different area. Given the economic growth projections that you were talking about earlier, would you be satisfied with another year in which 46 percent of people didn’t get a pay rise?

Well, it’s a bit above the average, but not much different. It’s always been the case that 40 to 45 percent of people don’t get a pay rise in any given year. That’s nothing new

So you’re satisfied, even though you’re projecting out this economic growth, that 46 percent of people who are working in New Zealand won’t get a pay rise under what you yourself are saying are these great projections of economic growth?

The rate of economic growth probably has a pretty marginal influence on the frequency of pay rises. The frequency of pay rises is related to all sorts of things, like the fact that even in the Public Service there are lots of 2 and 3-year contracts. So this year nurses got no pay rise. They may well get one next year, because that’s when their contract expires. I’m quite happy with that.

So the situation where a group of people are not getting any benefit out of the so-called growing economy is perfectly satisfactory to you.

No, it wouldn’t be perfectly satisfactory, but the measure you use is the wrong way to measure that. The number of people who get a pay rise in any given year—over time it’s 40 percent, but if you pick any individuals, it’s
pretty hard to predict, regardless of the growth rate, whether they’re going to get a pay rise. But the issue of whether people benefit from it, of course, is important. That’s why Governments run some significant redistribution systems, because actually some people don’t get enough income from the market.

Robertson In terms, though, of the wage growth that you’re expecting, you’ve been telling us, of around 7,600 over the next 5 years, are you expecting an even spread of that across the economy?

English Well, that’s yet to be seen isn’t it? On average, and that’s what we claim it is—it’s an average—that average has been regarded as a good-enough indicator of the broader wealth of the community to be the basis of annual adjustments to national superannuation for 600,000 older people, who are generally pretty vocal about whether they feel like they are participating. It’s a reasonably robust measure. There are other measures that will tell us about the diversity of market income and how it changes over time. We’re quite happy to look at those. It’s always better to know what’s going on, because then there may be opportunities to act on them.

Robertson I guess what I’m obviously getting at here is that if we’re going to be seeing this economic growth, I think New Zealanders will rightly be saying: “Who’s going to get a fair share of that?” If you’ve got a situation—the latest Fairfax survey said that the average CEO’s salary is 26.4 times more than an employee in a company. If that’s going to continue to grow, which has been under your watch, are we going to see wage growth at the other end that’s going to balance that out and lead to less inequality?

English Well, you can draw your own conclusions about different parts of the income distribution and what rates they’re going to grow at. What we know is that overall in New Zealand the rates of inequality have been flat to vaguely falling at times over the last 15 years. The speeches of the market, which I know are much discussed, about whether the top 1 percent or the celebrities or whoever are getting more than their fair share—I mean, our broad focus is on an economy that can deliver income growth in the first place, because if the pie is not growing no one can get a bigger slice of it, and, secondly, to looking at the extent to which the Government system of redistribution, which is quite large scale, is meeting the sort of generally agreed views about who should get what and whether it’s equal.

New Zealanders do have a strong sense of fairness, and we spend a fair bit of time making sure that, to the extent Government can influence these outcomes, it’s doing so in a way that’s regarded as fair.

Robertson The only influence you see is in the redistribution. That’s not in any of the things that Dr Norman was raising before about the kinds of jobs that we’re creating, the kinds of value-added things that will actually lift wages. It’s just the redistribution—that’s it? The market and your redistributed measures—that’s it?

English Yeah, largely, and I think that’s borne out by history. I think there are less and less people who believe that any Government can, for instance, choose
the composition of employment in an economy. It’s actually driven by
efficient allocation of capital, people who invest to take risks, and changes
in markets. We’ve seen, if you sit back a bit, in 20 years in New Zealand
quite significant changes, which probably no Government at any one time
would have chosen. They would have all wanted to have everyone earning
$100,000 in elaborately transformed manufacturing. But actually we don’t
get that choice.

Clark Just in respect of that, Mr English. The Government does choose some
things, and in the supplementary returns, the estimates, we can see that
Treasury has had an increase in salaries of over $180,000 of 25 percent in
the last year. There’s no union engagement in the Treasury. They’re direct
decisions that are being made at the Treasury to increase the top band of
salaries by 25 percent in the past year. So the Government is making some
decisions about where the money goes, and it’s going to the very top. Doesn’t
that undermine your argument?

English No, I don’t think it does at all. I mean, you can talk to Treasury about what
decisions it makes. It’s been treated on the same fiscal basis as everybody
else.

Bennett It’s been getting increases while other departments haven’t.

English But there’s one point I would make here about the Public Service in general.
There are some specialised functions that the Public Service has not had,
where it has been grossly irresponsible in the past, particularly under the
previous Government. We have had, for instance, very large assets, like the
Housing Corporation of New Zealand, where no one understood it. As a
result we’ve wasted hundreds of millions of dollars. We had other large
assets, like ACC, where no one outside the organisation understood it.
We’ve wasted hundreds of millions of dollars. We had SOEs, where no one
in the Public Service understood what was going on.

The only reason we have these assets is because people who work in the
rain give us $200 and $300 a week in PAYE. That’s where it comes from, or
they pay their power bill. That’s where we get billions of dollars of assets
from. In my view, one of the reasons we inserted the term “stewardship”
into the Public Finance Act is because the sense of stewardship in the New
Zealand Public Service had run down, and we cannot deprive ourselves of
skills that we need and have to pay for to do the job properly.

It may not worry other people when we lose hundreds of millions of dollars
of—

Clark [inaudible] lack of monitoring, and who was in Government.

English OK. So let’s just use South Canterbury Finance. If you want a deep
understanding of the workings of a finance company before you offer a
guarantee to it, which is what Labour did—they didn’t know about it. The
reason they didn’t know about it is because there was no one in the Public
Service—[Interruption] Are you listening? The reason they didn’t know about
it is because there was no one in the Public Service who had the capacity to
understand that billion-dollar company, let alone the—[interruption]
Parker  Why don’t you value the loss that you caused by not monitoring the increases and exposure under—[Interrupt] I raise a point of order, Mr Chairperson. Why didn’t you call the Minister for order about making a political statement, trying to dodge responsibility for the increased losses in South Canterbury Finance, and then block me from asking a question, when he’s made an unjustified assertion?

Goldsmith  Thank you for your point of order. It’s always a debatable point as to what is a political speech and what is an answer to a question.

Bennett  With the economy going forward and that, and with the dairy—I guess, with that bit of a drop there in the markets, and you’ve got a good construction growth through the country, do you feel that a comparative with Australia, how we’re going in comparison with their regional to national economies, is it probably feeling similar pressures? How are we stacking up against Australia, for example, at this stage?

English  Look, they have quite a vigorous internal discussion about their regional economies, and there’s some similarities, particularly demographic changes. If you think demographics is destiny, then smaller, more isolated, rural-type areas, pretty much around the world, face similar challenges, and New Zealand is a bit the same.

I think, in a comparison between Australia and New Zealand, we don’t obviously have the extremes of their regionalism. We’re a small country and we’re all not too far from a population base. But, frankly, I think that the number of years of pretty tough pressures in our regional economies have turned them into quite resilient economies, where I’m always surprised what you find by way of innovation, diversification, and new ideas. People are very committed and willing to take the risks to develop these economies.

So while the demographics operate in a way we can’t change, I think you just have to accept that. Then within that context we’re doing a pretty good job. Across the country the differences between our regional and metropolitan economies are not as large as assumed, and to the extent that they are there, in the long run they are explained by pretty standard economics around agglomeration benefits, and so on.

Ross  In your opening you highlighted the Budget operating allowances going forward for the next few years. Can you tell us why you’ve decided to keep Budget operating allowances at the point at which you have? How does that compare to historic Budget operating allowances in the past 10 years? What are the risks if Budget operating allowances increase too high?

English  There’s two reasons that reinforce each other. One is that we want to minimise the pressure on interest rates in a growing economy, interest rates rising, and the other is that we’re not practising constraint for the sake of it. I think the Government is genuinely in a position where over the last 4 or 5 years the whole system in the Public Service has got quite a lot better, understandably, because things have been tight, but better at working out value for money, and that’s where you’re getting the introduction of concepts and practices like the investment approach. So, in our view, as well
as keeping pressure off interest rates, a billion to a billion and a half is as much as a Government can sensible spend, actually, on providing better public services. More than that, and I think we would be finding ways to get rid of it. At that level it’s about the right balance between the possibility of putting money in where you think you’re going to get a pay-off, on the one hand, but on the other hand, sufficient constraint that we’re thinking more deeply about how to actually resolve problems rather than feed off them.

Ross: In terms of interest rates and inflation, and the Reserve Bank meeting inflation targets, how important is independence of the Reserve Bank?

English: It’s very important, and it’s important that it stays in place. I think most people assume it will stay in place.

Ross: Would you be concerned about alternative policies which would see the Reserve Bank making recommendations to Ministers about policy changes that would have an impact on inflation?

English: Yes, I would. Just because of the uncertainty that process would create, regardless of what decisions are actually made. I mean, one of the lessons out of a lot of public institutions is you’ve got to stick with them for a while for the benefits to flow through. So the benefits of the independence of the bank are now pretty well understood. People know who makes the decisions. They’ve got a pretty rough idea, a pretty good idea, on what basis those decisions are made, and they can act accordingly. So in that sense you get the decisions. You can get better-quality decisions, with the least uncertainty, in a world that’s pretty uncertain.

Ross: So a policy that would see the Reserve Bank Governor making recommendations to the Minister of Finance, say a variable savings rate, would create uncertainty and be detrimental?

English: It would take 10 years to figure out, for people to come to understand how it all worked.

Parker: The Auditor-General criticised the Treasury’s oversight of the Crown guarantee of finance companies, noting that the Treasury did not provide you with one written report during your first, I think, 6 months in office, and during that period relied upon historical reports from the Reserve Bank as to the growing exposure to finance companies under the guarantee, when in fact as guarantor the Crown had the right to daily information directly from the guaranteed entities.

In this increasingly generous vote that we’ve given to the Treasury in recent years, at your request, we’ve yet to see a calculation of how much extra liability was borne by taxpayers as a consequence of the mismanagement that the Auditor-General did find occurred. Are you yet willing to carry out an assessment of how much those losses increased because of the negligence of you and your department?

English: No, because I think it would be a waste of time, and that wouldn’t be the question. There’s two points I’d make. One is Treasury accepted that it hadn’t done that sharp a job on that, and I think that simply underscores the point I made originally. There just was not the capacity, knowledge, or
skill to provide that kind of advice. The second point I’d make is that the way finance companies were structured, generally it wouldn’t have made a damned bit of difference. Once the guarantee was in place—[ Interruption ]

Well, if you expect middle-level policy analysts to understand the dynamics of finance companies, you won’t get good advice.

Unidentified Crown Law has been working on it.

English So go and ask the lawyers. That’s a great idea. [ Interruption ]

Clark I raise a point of order, Mr Chairperson. Just a procedural point. At the end of the additional supplementary estimates, there are a number of questions which aren’t answered properly—questions 15 through to 24 in the written supplementaries. It suggests that there’s a fob-off response, which says that Treasury will proactively release, in due course. These are questions from the select committee that’s making an inquiry into the estimates.

Goldsmith Do we need to discuss this right now?

Clark Yes, I think we could reasonably expect the department to provide lists, by title, paper, and date, of what information it’s going to release.

Goldsmith We’ll ask the secretary to respond to that.

Clark That’s a reasonable request?

Goldsmith We can ask for more detail, yes. [ Interruption ] Yes, OK. We can discuss it at the end of the meeting. We’ve now got 40 minutes with the Secretary of Treasury, for questions. Welcome. If you would like to make some brief opening remarks, and then we can follow up with questions.

Makhlouf Good morning. [ Introductions ] A few short comments on the recent Budget Economic and Fiscal Update, and I would also like to briefly touch on the management of the Crown’s balance sheet.

The Budget update confirmed that the economy is entering its fourth year of expansion, with real GDP estimated to be growing at around 4 percent. We expect that pace will slacken a little, but still be a brisk 2.8 percent on average over the next 5 years. The main factors pushing the momentum of our growth rate are near record-high terms of trade, the Canterbury rebuild, strong net migration, and current monetary settings.

Last month’s data releases show strong demand continuing on the part of households and firms, and we’re forecasting real private spending growth to accelerate to just shy of 7 percent during the year ahead. Other recent data is looking solid, too. Both the consumer price index and the current account deficit are low, and the labour market continued to improve in the March quarter. That improvement is in line with our Budget forecasts of employment going up and the unemployment rate going down over time, to below 5 percent. As you know, we forecast an OBEGAL surplus in 2014-15.

As the books return to positive territory, and surpluses grow in the years ahead, there may be a temptation to change fiscal strategy and to consider various forms of fiscal stimulus, but we would caution restraint. Fiscal
policy and monetary policy need to keep working together to help us manage pressures in the economy. Too much fiscal stimulus at this point of the economic cycle risks driving interest rates up, higher than they would otherwise be. That could, among other things, push up the exchange rate and make it harder for our exporters. It’s also important that we rebuild the fiscal buffers and steadily reduce net core Crown debt.

The latest international economic developments are also consistent over all of our forecasts. The UK and Australia did slightly better than expected in the March quarter, while the US and China were slightly weaker. In recent days we’ve had the World Bank revise down its growth expectations for emerging economies, and the IMF has done the same for the United States. Of course, there are geopolitical risks in the Middle East, which could threaten world oil prices.

We noted in the Budget update that risks were tilted towards the downside, and our global economic outlook remains broadly unchanged. So while the Budget tends to focus on the management of the Crown’s day-to-day finances, the investment statement that we published in March reports on the management of the Crown’s assets and liabilities. With around $245 billion worth of assets and over $175 billion worth of liabilities, the balance sheet is large and it’s getting larger. It’s also becoming more complex and more heavily weighted towards financial assets.

Owning the right assets, managing them well, funding them sustainably, and managing risks to the Crown’s balance sheet are all critical to the provision of high-quality and cost-effective public goods and services. In particular, the coming demographic challenges mean that the quality of balance sheet management will become increasingly important to underpinning New Zealanders’ living standards now and in the future, and to that end Treasury will be working with agencies on systems for better information collection and evaluation, leading up to the next investment statement, and will also be working to develop performance targets to better support the management of the balance sheet, as the Government indicated in its *Fiscal Strategy Report. Our aim is to bring our management of capital up to the same high standard as our management of operating expenses. Thank you.

Clark Thank you for that presentation. Firstly, just in relation to the procedural point I raised before: when could we expect fuller answers to those questions put on 27 May—questions 15 through to 24, around advice provided by Treasury to Government?

Makhlouf I think the intention is to publish that at the beginning of July.

Clark At the end of July?

Makhlouf The beginning of July. I haven’t got the specific date, because it’s advice to Ministers. Ministers need to make the decision. But that’s the sort of current plan.

Clark Why can that not be released? Why can a list of those things not be released to the committee now, which is the committee tasked with investigating the estimates?
Makhlouf: Sorry, you’ve listed the questions. There’s a list of questions.

Clark: And they request, within them, the advice by title, paper, and date on the specific Budget priorities and preparation.

Makhlouf: Can I come back to you on that?

Clark: Thank you. Another question—also in those further questions from 27 May, question No. 26 is about the NZTA interest-free loan. When was a decision taken to go with that option, and what other options were considered?

Makhlouf: I don’t know in detail what other options were considered. The decision was obviously taken before the Budget, because it was included in the Budget. If that’s your—

Clark: Sure, but was it a late decision? Was it an early decision?

Makhlouf: I don’t know.

Clark: Could you come back to us with a written answer to that?

Makhlouf: Sure.

Clark: Can I ask about the resignations, on page 18 and 19 of the first set of questions submitted. In those resignations the reason for resignation is given as “unknown”, in 2014, in 50 out of 84 cases. That’s in marked contrast to four out of 69, 2 years prior. It looks like a growing trend. What has changed in the practice in the department, in terms of understanding why people are leaving the organisation in growing numbers?

Moran: About 2 years ago we went from running our own HR to having a centralised service through CASS and basically there’s been some initial teething issues in terms of processes, and one of the casualties has been that exit interviews haven’t been done systematically, and are now being done systematically. That’s not to say that when people leave we haven’t asked them the question informally as to why they’re leaving, and in a lot of cases people are going to other opportunities—higher status, higher pay scales. In the last 2 to 3 years we’ve lost staff. Our advisers have gone to other departments or other agencies to be senior advisers, or have gone from being senior advisers to manage those other agencies. But it is something that we’re aware of and are fixing.

Clark: Also in the papers there’s discussion of the social housing project, to improve on the effectiveness and efficiency of expenditure on social housing. I think the vote has an over $2 million increase for that project. Is that primarily to engage in a sell-off programme, in a buying and selling programme by the Treasury?

Robertson: The Government has set up an establishment unit that is to report back to the Government about the options around getting a fair and efficient market for the social provision of housing.

Clark: Could you unpack what that means?

Robertson: At the moment there are options around that.
Clark What are the options being considered?

Robertson Well, it’s a work in progress, but some of the things around—at the moment that is a monopoly provider, so how do you actually build a market for other social providers to come in to that market? So the Government has already announced that other people can take that income-related rent and provide housing services to tenants, so that’s one thing that’s already been done. There are some other things that the Government will be looking at.

Clark So is it fair to say it’s a project that’s looking at how to build the market and increasingly privatise social housing provision?

Robertson No, it’s looking at how you get better provision to the people who need it. What we’ve found is that we have houses in the wrong place, and houses that haven’t been maintained for a period of time—old stock; 40-plus years old. For tenants there’s a need for them to be—the needs of tenants haven’t been met in the way that we think they need to be, so it’s not a prioritisation of assets. It’s a better utilisation of the assets that are needed in order to get better provision of services to those people. One of the basic ones is the houses that are currently are in the wrong place. So we’ve got a growing population in Auckland that needs access to these services, but we’ve got houses in places where those services aren’t needed. So how do we get into that issue.

Clark Yes, in Dunedin, for example, Housing New Zealand was projecting a drop in demand by a third over the next 10 years in State housing provision, going from 1,500 to below 1,000. Certainly, the need as experienced by those in electorate offices is a growing need rather than a reducing need, so I’d question the assumptions around that, and I guess that’s what you’re going to be providing advice on. When do you expect to provide your first tranche of advice to Ministers?

Robertson We’re due to report back in December.

Parker The Government’s objectives since they came to office in 2008 in respect of exports is to increase them to 40 percent of GDP by 2025. Since then the track has been essentially pretty static. It increased from 32 to 33 and is now back towards 32, and it is projected in your own forecast to now go down to 26 percent of GDP in the next few years, by which time we’ll be up to about 2017. I think in 2017 the projection is 27 percent of GDP. What miracle cure do you have that’s going to take effect from 2017 to 2040 to meet this Government’s objective of 40 percent of GDP by that date given that the trend’s going the other way?

Makhlouf You won’t be surprised to hear that I don’t have a miracle cure. What I’m pretty clear on, however, is that international connectedness is at the core of improving New Zealand’s living standards. That’s partly a story about export-led, investment-led growth, but it’s also a story about how well we are connected as a country to markets, to people, to ideas across the globe. So, I mean, the Treasury’s putting in quite a bit of effort, with other agencies, to address those sorts of questions, but I wouldn’t pretend that it’s
straightforward. The Business Growth Agenda, which, as you know, the Government published its latest report recently, has in it many initiatives. They all play a part. The extent to which we’ll meet a particular target by 2025 depends on lots of variables, at least probably one of the most important is that we stay the course and keep very focussed on it.

Parker So do you think there’s any hope that we’ll get to that 40 percent target?

Makhlouf I wouldn’t at this stage want to give up, nor do I want to pretend that it’s straightforward.

Parker Shamubeel Eaqub in his article that you’ll have heard me quoting earlier, he says that one of the risks to the New Zealand economy is from the export sector becoming increasingly reliant on a small number of countries, particularly China. Do you see that concentration of risk argument having merit?

Makhlouf Oh, it’s got some merit, absolutely it’s got some merit. On the other hand, and we published a report on this a couple of months ago, specifically looking at the debate over the concentration of China, and we think the benefits outweigh the risks. There’s greater opportunities here. But it’s not something that we would want to dismiss. On the other hand the reality is that dairy exports to China are around 3 percent of GDP, even now. So I think there’s a danger that we may sort of—it’s a big number—exaggerate it. So certainly it’s the sort of thing that Treasury thinks about, but I wouldn’t at this stage think that the risks outweigh the opportunities that are out there.

Bennett Just a supplementary—if you look at that market, and if you look at the population of consumers there and compare that with, say 10 other Asian countries, it’ll still be bigger than those 10 countries, you know.

Makhlouf Yeah sure. I mean, as I said before, we do find ourselves in this incredible moment in time when New Zealand is, for the first time in its history, in the fastest growing region in the world, and that gives us lots of opportunity. China is a very, very big player, but there are some very, very big players in the region apart from China. So the question is about have we managed the risks and actually taken advantage of the opportunities that gives us.

Bennett Just in light of the housing questions that they started on first with the Minister, and they looked at Auckland compared to the rest of the country around housing prices and that, have you done a comparison with Pacific Rim cities? So like, for example, the domination of the Pacific Rim region, necessarily will mean that you’ll have a domination of Pacific Rim cities—the 20 big cities that will be in there, and Auckland will be hopefully part of that equation—and their pricing structures of property in those cities going forward. Like, we often hear the comparison of Sydney and Melbourne. Isn’t that just a reality of those 20 or 50 cities that they will be in the prime part of the world; they will have prime prices for land, as they are the place to be in the next 100 years?

Makhlouf We haven’t done any specific studies ourselves on that point. I mean there’s lots of research that has been done of price comparisons. Clearly, the
growth of the Pacific Rim does have an impact on prices of houses in big cities in the Pacific Rim region. On the other hand I think factors which are unique to those cities will actually be the main drivers of prices in those cities.

Goldsmith: Can I ask about the investment approach and the impact it’s having on the future spending outline. So when we look at your Budget—10, prediction about benefit expenses, excluding super—we were looking at around nearly $11.5 billion at this stage, and the latest Budget had that down to just over $10 billion, so more than a $1 billion saving so far, from a whole range of things, no doubt. So are you expecting those sorts of gains to continue if we continue with this investment approach, focusing on the real drivers of costs in the system and spending a bit of money to get a much better or long-term result, and if you could just talk a bit about that?

Makhlouf: Yes, is the short answer to your question. I think the investment approach, and to be fair to the investment approach, it is fairly early days in the investment approach, but it’s very clear to us that it offers a step change in public management and thinking through about where you're putting your investment, what you’re actually trying to focus on, and driving the focus of the Public Service around getting a good return on that investment. So at the moment we focused it around welfare. I think there’s potential to expand that. It’s actually a very exciting opportunity for—OK, probably only for some of us, but the potential that I can see in it is huge. And just to give you the sort of thing that I aspire to is to be able to work out how much resource we can shift from say, the justice sector, into education, that actually give us better outcomes for New Zealanders as a whole, and I think we’ll be able—as we start to understand how to use these techniques, as we start to use the insights that analytics gives us in data—to make, or at least we’ll be able to look at options, and from a Public Service perspective to be able to give Ministers and Government choices around that.

Goldsmith: So the days of just handing out a cheque with no questions asked and no thought about the long-term consequences are well and truly gone when it comes to that area?

Makhlouf: Well, from a Treasury perspective—

Goldsmith: It came from last year.

Makhlouf: —from a Treasury perspective we hope they were long gone.

Hayes: Yes, thanks Secretary. Last week when you were seated with the Governor of the Reserve Bank and he was forecasting another two interest rate rises and what we’ve seen in the wake of the last interest rate rise was a leap in the exchange rate, which is costing people in my community and anybody who is involved in agriculture. And when you think about that issue and you look at inward migration and the return of New Zealanders, then that is sort of depressing wage rates because those people are being absorbed into the economy so we don’t have inflation drivers there. The bank has moved to cap interest rates on the property prices and that appears to be having
some impact. Do you instinctively think that another two interest rate rises will be good for the economy, or will that cause—

Makhlouf Well, I instinctively trust the Governor’s judgment and I’m not really going to get drawn into questioning his judgment.

Hayes Instinctively I must agree, but when you say—looking at those issues, it does seem to me that it is not a very strong base for another two rate rises.

Makhlouf You really are inviting me to question his judgment.

Goldsmith Yes.

Robertson Have you done any work, or do you have a particular view on why it is that New Zealand’s relative position in the OECD in terms of unemployment has declined over the last 5 or 6 years? We used to have an unemployment rate that was around about the second or third in the OECD on average, and now stuck around 12, 13. Have you done any work on what’s behind that relative change?

Makhlouf I’m not aware that we’ve done work that’s looked at the relative changes. I mean clearly it would be a combination or reflection of the impact of the GFC in New Zealand, the pace at which other countries have grown or not.

Robertson I guess that’s the point because the GFC was affecting everybody, and yet we relatively appeared to compare worse in terms of employment statistics. Is there a view within the Treasury about what lay behind that?

Makhlouf I don’t know. Well, I wouldn’t say that the GFC hit everybody in an equivalent way, and I think it’s normally quite tricky to look at OECD rankings and start to draw particular conclusions from them. I mean, we understand the story in New Zealand, I’m not sure necessarily we understood what was happening. Apart from the ranking I’m not sure we would understand what particularly was happening in OECD economies to influence our ranking.

Robertson What about within our own economy?

Makhlouf Well, we know what happened in New Zealand. I mean, we started going into recession before the GFC and then Christchurch. I mean, there were shocks in the system and we’re now coming out of them. If I find that we’ve done work to answer your question, I’ll let you know.

Parker KiwiSaver has now got about $21 billion under management. The increments to KiwiSaver about $4 billion a year. Obviously the Treasury was instrumental in the design of the original KiwiSaver scheme and some of the changes that have been made on the way through, which I am not criticising. Are you happy that KiwiSaver’s been a positive thing for New Zealand.

Makhlouf Yes.

Parker Are you concerned that—the Minister said he doesn’t think New Zealanders will rack up debt like they did in the thousands because the mood’s changed, and I think there’s some truth in that. But none the less
are you concerned that we’ve now got dis-saving again in New Zealand overall?

Makhlouf  At this stage it’s just something we’ve noticed. I think it reflects consumer confidence and business confidence in just the general state of the economy. We’ll be keeping a close eye on it to see whether it turns out to be a trend.

Parker  Doesn’t that dis-saving plus the projections of an increasing current account deficit mean, effectively, we’re going to be borrowing more money from overseas as a percentage of GDP, and selling more of our assets to those Australians actually?

Makhlouf  The thing that we’re most concerned about is the vulnerability that we carry, but we’re in a slightly better position than we were. So it’s the sort of thing we’ll keep our eye on. Assuming all the things go according to forecast, policy is basically maintained, the Reserve Bank does its job—this isn’t something that we need to react to right now.

Parker  Given that house price affordability in Auckland is now outside of historic norms for New Zealand and international averages, are you at the point that that’s already worrying you?

Makhlouf  Certainly, the housing situation is worrying.

Parker  Isn’t that one of the drivers of that dis-saving and household debt?

Makhlouf  It’s one of them, but that’s certainly—but if your question is: are we worried about housing, we are. You’re making a general point, which is what I was answering.

Goldsmith  Thank you very much for coming. We appreciate your time.

**conclusion of evidence**
2014/15 Estimates for Vote Food Safety

Report of the Primary Production Committee

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**Vote Food Safety**

**Recommendation**

The Primary Production Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Food Safety as set out in Parliamentary Paper B.5, administered by the Ministry for Primary Industries, be accepted.

**Introduction**

The total appropriations sought this year for Vote Food Safety amount to $90.334 million, a slight increase on the estimated actual expenditure in 2013/14 of $86.382 million. Appropriations totalling $59.661 million (approximately 66 per cent of the vote) are for delivering assurances on compliance with legislation and to meet overseas market access requirements. Appropriations totalling $18 million (20 per cent of the vote) are allocated to setting standards for the development, implementation, monitoring, and review of food safety measures; assessing related scientific evidence; and developing compliance tools.

**Food Bill**

The Minister told us that the Food Bill would establish a more flexible, risk-based approach to the production of safe food. The legislation would considerably strengthen the Government’s enforcement powers by introducing infringement offences, and would ensure that the rules governing the safety of food were consistent and appropriately focused, without preventing traditional fundraising via the sale of food.

We asked how small businesses would benefit from the Food Bill. The Minister said that the proposed changes would especially benefit small businesses by cutting their compliance costs by an estimated $40 million annually, and streamlining the consent system. We heard that the bill has so far been very well received by businesses.

**Food Safety**

The Minister told us that despite recent food safety issues, overall incident numbers were low, and responses had been swift from all the government agencies involved. This should, assure New Zealanders that we maintain a “world beating” food safety system, and validate the Government’s decision to place food safety within the Ministry for Primary Production for effective coordination of resources. We asked whether improving food testing capabilities would make a difference when food safety issues arose. We heard that the projected National Food Safety Science Research Centre would underpin our science expertise in this area and improve diagnosis. Lessons from the inquiry into the whey protein concentrate contamination incident will influence changes in procedures, systems, and legislation. A baseline funding increase of $3.465 million has been sought for 2014/15 to implement the recommendations of the inquiry into the incident.

We asked about the coverage of New Zealand’s testing regime. We were assured however that while it was not possible to carry out regular tests for all bacterial threats, threats were prioritised, and the most likely were routinely tested for, or spot-tested regularly. The science behind the testing regime was not in doubt and customers could be assured that the New Zealand food testing regime was recognised as world leading. The response to the
recent Australian fruit fly incident illustrates clearly that the ministry is well placed to respond swiftly and effectively to threats. One of us disagrees.

**Food Standards Australia New Zealand**

We note that New Zealand contributes $2 million annually to Food Standards Australia New Zealand (FSANZ) and asked about the origin of the science used by the organisation, and the benefits of the system for New Zealand. We were told that the $2 million represents 16 percent of the cost of scientific work carried out by FSANZ, but we benefit from 100 percent of the science. Although FSANZ develops and administers the Australia New Zealand Food Standards Code, it does not advise on compliance with the code, which is enforced here by New Zealand agencies. We heard that despite its much smaller input, New Zealand can protect its sovereignty in food safety matters through a number of mechanisms, including the minister’s right to opt out of certain aspects of the code. One of us is concerned that the science used by the organisation is not always independent and that the advice to the minister appears to be weighted in favour of trade rather than food safety.

**Food safety assurance**

The 2013 botulism scare damaged New Zealand’s international reputation and caused milk products to be rejected from several markets. We asked what lessons had been learnt regarding the ministry’s role. We heard that the report on the incident was clear that the previous system that operated under the Food Safety Authority should not be revived. The ministry has more people working on food safety and is far better able to mobilise resources to deal with threats; it has realigned food safety resources to provide unity of purpose, control, and leadership.

**Food traceability**

Some of us are concerned that while better traceability of food products has assisted with improved response rates to incidents, country of origin labelling remains inadequate. We were told that there were better ways than labelling, such as smart apps, to ensure traceability and provide information on product ingredients and their origins. Where labelling was mandatory, for example on products containing genetically modified ingredients, action could be taken against detected breaches. We heard that the new Joint Border Management System will enable improved detection of non-compliance.

**Compliance**

Some of us remain concerned about the incidence of breaches of food-safety-related regulations, and the resourcing of compliance enforcement. The Green Party member raised the concern that monitoring and enforcement of labelling of genetically modified ingredients has not occurred since 2003. We heard that more resources were being allocated to ensuring compliance and regular checks were made by ministry verifiers; but inevitably the ministry must rely to an extent on public complaints.

**Food safety cooperation agreements**

We heard that cooperation agreements with our trading partners such as China and Vietnam were important for the pooling of resources and expertise, and $817,000 will be spent in this area during the year. Furthermore, a $900,000 loan has been announced for food-safety-related scholarships with China.
Appendix

Approach to this examination
We met on 22 May 2014 and 19 June 2014 to consider Vote Food Safety. Evidence was heard from the Minister for Food Safety, Hon Nikki Kaye, and the Ministry for Primary Industries.

Committee members
Shane Ardern (Chairperson)
Steffan Browning
Colin King
Ian McKelvie
Hon Damien O’Connor
Eric Roy
Meka Whaiteri

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

Minister for Food Safety, Response to the standard Estimates questionnaire, received 16 May 2014.

Minister for Food Safety, Response to supplementary questions, received 21 May 2014
2014/15 Estimates for Vote Foreign Affairs and Trade, and Vote Official Development Assistance

Report of the Foreign Affairs, Defence and Trade Committee

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**Vote Foreign Affairs and Trade, and Vote Official Development Assistance**

**Recommendation**

The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Foreign Affairs and Trade, and Vote Official Development Assistance, administered by the Ministry of Foreign Affairs and Trade, as set out in Parliamentary Paper B.5 Vol. 4, be accepted.

**Introduction**

The total appropriations sought for Vote Foreign Affairs and Trade increase to $460.937 million from the estimated actual spending in 2013/14 of $408.598 million. A capital injection of $20 million is also sought. Significant allocations include over $337 million for purchasing services from the Ministry of Foreign Affairs and Trade, over $53 million for departmental capital expenditure, and over $48 million for subscriptions to international organisations.

The total appropriations sought for Vote Official Development Assistance increase to $589.296 million from an estimated actual expenditure of $588.726 million in 2013/14. Appropriations for the Vote include $55.898 million for annual and permanent appropriations to manage New Zealand’s official development assistance and $533.398 million for the multi-year appropriations International Agency funding and International Development Assistance.

**London High Commissioner’s residence**

The London High Commissioner’s residence was sold recently for £5.6 million. We were told that the Ministry of Foreign Affairs and Trade decided to sell the residence because the site next door was being refurbished and likely to affect its utility. We were told that the residence’s capacity for diplomatic functions was inadequate. Some of us disputed this.

Before its sale and while the residence stood empty it cost nearly $500,000 to provide alternative accommodation for the High Commissioner. We asked whether this represented best use of taxpayers’ money at a time when the ministry was renegotiating pay and conditions for many of its staff and making a number redundant. The Minister accepted that the amount involved was large, but said it was comparable with the costs of locating staff in other parts of the world. He also noted that the ministry had returned savings to the taxpayer, and expressed a general view that management of funds at the ministry “was anything but profligate.”

The Minister said that the future of New Zealand House, the site of New Zealand’s High Commission in London, was being discussed. The current lease on the property ends in 2048. We were told that one option could be to locate the High Commissioner’s residence in New Zealand House.
Political appointments

Concern was expressed that in recent years there had been a noticeable increase in political appointments from outside the Ministry of Foreign Affairs and Trade to head New Zealand diplomatic missions. We asked about the role of the Minister in the appointment process and whether he influenced the selection of candidates. The Minister said that the selection process always began at the ministry, which would seek expressions of interest from staff and would occasionally advertise positions publicly. The ministry would examine whether applicants met requirements, and at this point other names could be added for consideration. Eventually a recommendation would be made to the Minister to appoint a candidate, or a number of names would be provided for him to choose between. After advising Cabinet the Minister would initiate an appointment process. The Minister said that at times the selection process could be complicated when staff applied for multiple positions, or truncated if, for example, a difficult position had to be filled at short notice.

The Minister could not think of one case where he had made a nomination that was successful.

Ambassador for Pacific Economic Development

Hon Shane Jones was recently appointed Ambassador for Pacific Economic Development, a new position in the ministry. The position was created to support New Zealand’s work developing the income-earning capabilities of Pacific countries in fisheries, agriculture, aquaculture and tourism. The Minister considered Mr Jones an obvious choice for the role because of his background in fisheries and his “appetite for the leadership role that New Zealand needs to play in the region.”

We were told that the ministry and the Minister together wrote the job description for the role. The appointment was made under the Foreign Affairs Act 1988, not the State Sector Act 1988.

Official development assistance

Official development assistance has worked within a “flatlined” budget for a number of years. Following the surplus announced in this year’s Budget, the budget for this purpose is forecast to increase substantially from 2015/16. The Minister noted the contrast with Australia, which has made cuts to its overseas aid budget.

This year $30 million of expenditure is being “rephased” in the multi-year appropriation International Development Assistance to future years. We were pleased to hear that this would not result in cuts to assistance programmes, but would allow the ministry more flexibility in investing in planned activities.

Kiribati

New Zealand provides various kinds of humanitarian assistance to Kiribati in areas including health and housing, and economic development assistance. The recently opened fisheries academy in Tarawa, which New Zealand helped to fund, should improve the capacity of Kiribati to make best use of its large exclusive economic zone.

The Minister mentioned discussions with President Tong about an exclusion zone for inshore fisheries to service a new factory on Tarawa, which can process vast quantities of tuna for export. However, Kiribati finds it difficult getting its tuna to market because of the extremely high air freight rates and limited capacity of Air Fiji. The Minister said the very expensive airspace between Fiji and Tarawa was the subject of longstanding dispute.
between Fiji and Kiribati. We heard that the possibility of New Zealand helping to resolve these issues has been discussed.

**Renewable energy**

The Government is committed to expanding the use of renewable energy in the Pacific and reducing the region’s reliance on imported diesel. We heard that, to this end, the Government is stepping up its financial contribution from about $65 million to about $105 million. The ministry’s forecasts suggest that investing more now would result in greater benefits.

The Minister recently announced that construction was commencing on renewable energy projects in the Cook Islands and Tuvalu. The Minister told us that once the projects in Tuvalu were complete, the country would move from no use of renewable energy to over 90 percent. New Zealand is also involved in a solar energy initiative and the refurbishment of damaged hydropower assets in Samoa.

**Health**

The Government’s approach to health assistance in the Pacific has been to coordinate assistance with other donor countries and organisations. The Government invests in organisations working with UNICEF and the World Health Organization to meet the health needs of many Pacific people, especially to improve access to family planning services, and combat non-communicable diseases and blindness. We were told that health work complements other economic development work in the Pacific.

**Myanmar**

New Zealand has provided two forms of assistance to Myanmar: $1 million in humanitarian aid to help the Rohingya people in Rakhine state and $7 million to help develop agricultural expertise. We asked whether it was more appropriate to label the latter a commercial investment. We were told that the Government of Myanmar had specifically asked New Zealand to share its farming expertise to help it improve the livelihood of its farmers. The programme was intended to foster the growth and capability of the agricultural sector, with a focus on dairying. In Myanmar the knowledge and capability of dairy farming is low and farmers are often very poor, so we were told the project could rightly be called development work.

The Minister briefed us on the situation in Rakhine state. He said it was important for non-Muslim countries like New Zealand to partner with Muslim countries to address humanitarian issues in Rakhine. New Zealand is keen to try to do more; a humanitarian scoping mission about to enter Rakhine had to be withdrawn when violence erupted there earlier this year. The Minister said that he had since been discussing a new scoping mission to Rakhine. We heard that sharing New Zealand’s agricultural expertise in the region could help improve the lack of economic opportunities for most Burmese people, which fuels religious intolerance and violence.

**China**

In light of New Zealand’s deepening relationship with China and the Government’s intention of boosting two-way trade, the ministry is increasing its capability in China, and is increasing the Chinese language capacity of its staff to support the growing relationship. The ministry is increasing the number of staff in China from 16 to 21, and is providing language training to eight staff, up from four.
Other New Zealand agencies have also increased their capability in China, which the ministry said had been “extraordinarily helpful” in resolving trade issues.

The Minister pointed out a general trend of public and private organisations with ambitions in China needing to quickly increase their language capabilities. He said that the ministry had to manage the risk that diplomats might be enticed to work for other agencies or companies. To that end, the ministry is working to establish a China centre of excellence, which should help the ministry to share its skills, experience, and language capability with other agencies.

**Maritime disputes in the South China Sea**

The Minister reiterated the Government’s concern at the recent escalation of tensions in Asia over maritime disputes in the South China Sea. This is a matter of great importance to New Zealand as maritime issues in the region could potentially undermine regional and maritime security. We support the Government’s not taking a position on particular sovereignty claims in the South China Sea, while continuing to urge all parties to exercise restraint and resolve disputes peacefully in accordance with international law. The Government also encourages the development and early adoption of the ASEAN-China code of conduct for the South China Sea.

**Fiji**

The Minister said New Zealand is “deeply engaged” with developments in Fiji, both bilaterally with Fiji and through regional organisations such as the Pacific Islands Forum, where New Zealand chairs the Ministerial Contact Group, and the Commonwealth, where New Zealand chairs the Commonwealth Ministerial Action Group. New Zealand recently removed sanctions on Fiji, and is supporting the Fijian election scheduled for September 2014.

We noted concern among ethnic Fijians about potential changes to the Fijian constitution. The Minister is aware of these issues, but is comfortable that the election process should allow them to be voiced and debated. He said New Zealand would observe closely how these issues are resolved.

**Arms Trade Treaty**

The Minister expressed his gratitude for our supporting the Government’s intention to ratify the United Nation’s Arms Trade Treaty. New Zealand was among the first countries to sign the treaty, and is well placed to meet most of the requirements of the treaty, although legislative change may be required. The Minister said he is about to seek Cabinet’s approval to move on to ratification, and expects the national interest analysis and the treaty to be tabled in the House promptly.

**United Nations Security Council**

The Minister told us that New Zealand’s campaign to be elected to the United Nations Security Council was progressing well. He reminded us, however, that much could change in the final months of the campaign. He believed that the campaign would continue regardless of any changes in the domestic political situation.

The Minister expressed his gratitude to us for cross-party support for the campaign, especially during an election year.
Appendix

Approach to this examination

We met on 5 June and 19 June 2014 to consider Vote Foreign Affairs and Trade and Vote Official Development Assistance. Evidence was heard from the Minister of Foreign Affairs, Hon Murray McCully, and the Ministry of Foreign Affairs and Trade. Advice was received from the Office of the Auditor-General.

Committee members

John Hayes (Chairperson)
Hon Phil Goff
Dr Kennedy Graham
Hon Tau Henare
Dr Paul Hutchinson
David Shearer
Lindsay Tisch

Evidence and advice received

We considered the following evidence and advice during this examination:


Office of the Auditor-General, Briefing on Vote Foreign Affairs and Trade and Vote Official Development Assistance, received 4 June 2014.

Minister of Foreign Affairs, Response to standard Estimates questionnaire.

Response to additional questions, received 4 June 2014.

Vote briefing paper for Vote Foreign Affairs and Trade, prepared by committee staff, received 3 June 2014.

Vote briefing paper for Vote Official Development Assistance, prepared by committee staff, received 3 June 2014.
2014/15 Estimates for Vote Health

Report of the Health Committee

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Vote Health

Recommendation

The Health Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Health, as set out in Parliamentary Paper B.5 Vol.6, administered by the Ministry of Health, be accepted.

Introduction

Vote Health is the second largest Vote in the Budget, and the largest in terms of services, with appropriations sought totalling $15.557 billion, more than 7 percent more than the estimated actual expenditure for 2013/14. Nearly three quarters of the appropriations sought, a total of $11.405 billion, are for funding health services from District Health Boards. Only 1.2 percent of the vote is for departmental functions.

We heard evidence from the Minister of Health, the Hon Tony Ryall, and the Ministry of Health.

Health sector

Funding levels

The Minister acknowledged that the public health system was being expected to provide better services for the same money, but did not accept that this constituted underfunding. The Government aimed to have a patient-centred public health system, not a “cost-plus” one, and allowance was made each year for the inflationary and demographic pressures on each DHB. The Minister pointed to investments in faster cancer treatment and $110 million over four years for elective surgery.

Ministry projections

We noted a number of areas where the ministry had said that it does not collect information, or that it has not projected future costs, such as the future cost of aged care on the health system. We heard that in many cases, such as the cost of obesity on the health system, information is collected by other agencies or by researchers, and the ministry monitors the relevant literature. In the case of aged residential care, many factors could affect the accuracy of projections. The increasing focus on providing support to allow people to continue to live at home, for example, would change the amount of residential care required.

We heard that it was more important for the health system to be able to respond to unexpected changes in a fiscally sustainable way than to attempt to predict costs more than a few years into the future.

Demographic changes

We asked about the additional $182 million sought in each of the next four years to assist DHBs with demographic pressures. The Minister told us that he believed that estimations of the financial effect of more older people should take into account the fact that older people are now generally healthier than in the past. Whereas such funding would, in the past, have been targeted at over-65s, it was now largely targeted at over-75s.
Primary care and avoidable hospital admissions

We asked if the Minister thought there was a link between increases in the cost to patients of accessing primary care, and increases in the cost to the public health system of avoidable hospital admissions. The Minister acknowledged that the cost of going to the GP had been slowly increasing for adults, but noted that around a third of New Zealanders could attend practices eligible for the Very Low Cost Access scheme, and that expanding the Zero Fees for Under 6s scheme to under 13s would help reduce the overall cost of obtaining primary care.

Private-sector residential care

We noted cases of inadequate care of people with disabilities living in aged-care facilities, and calls for higher wages and better training in the sector to prevent such cases. It was asked whether the appropriation for purchasing residential care was sufficient. The Minister said the Government does not set the wage levels at private-sector institutions, and that wages varied among providers. The Government has put additional funding into disability services by way of the “sleepover settlement”, and the number of dementia beds available has been increased by 25 percent. Aged care is one of only two areas (GP subsidies being the other) where DHBs have been instructed to give assured funding increases.

We noted that pay demands from private-sector care workers and nurses were in order to achieve parity with equivalent workers employed by DHBs. The Minister agreed that this would not be possible without an increase in the appropriation. He said a very large increase would be required, which would not be possible under current fiscal constraints.

Prescriptions

We heard that under-13-year-olds would have no co-payment on subsidised medicines from 1 July next year, and that about a third of New Zealanders are not currently charged a co-payment on prescriptions. We also heard about changes to pharmacy payment systems; a barcode on prescriptions will allow pharmacists to access the details of a prescription electronically, and doctors will receive feedback as to whether prescriptions they have issued have been filled.

Information technology infrastructure

We asked about an incident at Dunedin Hospital in the Southern DHB earlier in the year where computer systems were down for two days, leading to cancer treatments and surgery being postponed, difficulties with outpatient appointments, problems with monitoring of medicine, and clinicians not having access to information. We heard that while DHBs are each responsible for managing their own IT services, the ministry monitors closely any problems. In this instance, the DHB has had internal reports on the incident, the ministry has been briefed on their conclusions; what has been learnt has been shared with other DHBs. This shared learning is seen as the main consequence of the incident besides its effect on the reputation of the DHB.

For four years a national health IT board has set the direction for investment in IT in all the DHBs and in the ministry. Health Benefits Ltd has led a process of procuring a common IT platform, to be shared by all DHBs within three years. This is expected to make IT systems more resilient, and outages therefore much less likely. The cost of moving to the shared platform is broadly similar to the estimated cost of each DHB maintaining a separate system.
Hospital upgrades

We noted that Dunedin Hospital is the only major hospital in a metropolitan centre that has not been upgraded. We heard that a business case for upgrading the hospital was being made, and was hoped to be completed within a year. The extensive involvement of Otago University with the hospital is a complicating factor. We consider the upgrading of Dunedin Hospital should be progressed as quickly as possible.

Procurement and supply chain

We heard that one of the top priorities of Health Benefits Ltd was to improve the quality of food provided by DHBs. HBL has been working with dieticians and will be issuing proposed standards for hospital food for consultation around the country. Cost savings have been proposed in the provision of laundry services, and the top suppliers to each of the DHBs have been compared, with the aim of finding the best deals, to be taken up by all the DHBs.

Health sector workforce

We heard that over the last six years, the number of doctors working in public hospitals has increased by around 1,500, and the number of nurses by over 3,000, while the number of administrators has fallen by around 1,000. Provision is now being made for more medical students to study in New Zealand and graduate each year. The Government is also seeking to ensure that all medical graduates can be employed in New Zealand. We asked if the same would apply to nursing graduates, and heard that some work had been done in this area, but that doctors were the first priority.

Policy initiatives

Subsidy for GP visits for under-13s

The Minister told us that there has been a reduction of about 14 percent over four or five years in ambulatory sensitive hospital admissions for under-5-year-olds since the uptake of free GP visits for under-6s increased. Ambulatory sensitive hospital admissions are those (mostly acute) that are considered potentially avoidable through interventions outside hospitals. They are used as an outcome indicator to evaluate access to primary health care. Ambulatory sensitive hospitalisations were included as a Health Target from July 2007, and later discontinued.

The Minister considers that the reduction in avoidable admissions is due to a number of factors: the free GP visits for under-6s, the addition of free after-hours consultations, and better immunisation rates. The Minister believes the free GP visits for under-13s will have a similar effect.

We heard that negotiations with general practitioners would begin reasonably soon. The Minister considers there is a great deal of goodwill towards the new policy from GPs. He noted that the under-6s scheme had initially had a low uptake, but it had risen from about 70 percent to 98 percent while he had been Minister. He expected that the experience with the under-6s scheme would lead to a faster uptake for the under-13s scheme, once negotiations had been concluded.

We noted some concern that, depending on the level of payment negotiated, GPs might offset the cost of providing free consultations to under-13s by increasing the cost to adults. The Minister expected to be able to negotiate a scheme that would avoid this problem.
Faster cancer treatment

We heard that increased capacity for colonoscopies had been funded, and a quality improvement programme for endoscopies. The wait for radiation treatment is currently at around six weeks (having been as high as 15 weeks in some circumstances); it is hoped to reduce this to four weeks. The Minister said there should be a focus on the whole of the patient’s journey. This implied a fast-track to diagnostic tests from presenting to a GP with a high suspicion of cancer, fast access to specialists to advise on treatment, and then fast access to the first treatment.

Oral health care

We heard that $10 million over four years was being sought to promote the importance of oral health care, including regular checkups. The primary focus is on the proportion of children who are not getting to see a dental technician at all. In the Bay of Plenty this rate has come down from 24 percent to 10 percent. The other part of the initiative is a family and community-driven public awareness campaign which will be rolled out nationally in due course.

Healthy Families New Zealand and obesity

We heard that the Healthy Families New Zealand initiative is based on the Healthy Together Victoria programme from Australia, which in turn was based on a programme from France. An evidence-based programme to help combat obesity was sought. Recent evidence suggests that maternal and newborn nutrition plays a large role in shaping later tastes and food behaviour, and their contribution to obesity. Funding was reprioritised from existing programmes that did not have a solid evidence base. Healthy Families New Zealand will commence in July 2014. Project Energise will be extended down to preschool level, working with mothers from various ethnic groups in South Auckland, and using smart phones to get nutrition messages to new mothers.

Other matters

Problem gambling services

We asked what was involved in the evaluation and clinical audit by AUT and KPMG, at a cost of $740,000, of the problem gambling services funded as part of the Preventing and Minimising Gambling Harm Strategy. We heard that the evaluation and clinical audit was looking at whether each type of intervention funded by the ministry was effective or not.

0800 poisons service

We asked why it was proposed that the 0800 POISON helpline, provided by the National Poisons Centre at the University of Otago, should be merged with various other helplines, despite World Health Organisation advice that it is best practice for a poisons helpline to be a standalone service. We heard that the proposal was to merge the technology and staff supporting the various lines, not necessarily the public face of each helpline, or the experts and databases relied on by the helplines.

We asked why PlunketLine was not involved, and heard that the Government had made a commitment to restore a 24-hour PlunketLine, and, to honour this commitment, had decided to keep it, and the 111 service, separate.

We heard that there had been registrations of interest in providing the new service from existing providers, that a competitive dialogue process (a process by which the prospective
tenderers jointly devise the service specification) is being conducted, and that a closed request for proposals will end before Christmas.

The Minister considers that there is a big opportunity for New Zealand to get a comprehensive, effective after-hours helpline service.

**Health technology exports**

The Minister showed us the sampling system that forms the collection stage of Pacific Edge’s Cxbladder test (a urine-based detection test to determine the likelihood of bladder cancer in patients presenting with haematuria). In February, the Health Innovation Hub signed a commercial agreement for DHBs to adopt Cxbladder, making it accessible for nearly half of New Zealanders. As a result the test will be considered for use in clinics operated by the four largest DHBs, Auckland, Waitemata, Counties Manukau, and Canterbury.
Appendix

Approach to this examination
We met on 28 May and 18 June 2014 to consider Vote Health. Evidence was heard from the Minister of Health the Hon Tony Ryall, and the Ministry of Health, and advice was received from the Office of the Auditor-General.

Committee members
Dr Paul Hutchison (Chairperson)
Shane Ardern
Paul Foster-Bell
Kevin Hague
Hon Annette King
Iain Lees-Galloway
Scott Simpson
Barbara Stewart
Poto Williams
Dr Jian Yang

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

Minister of Health, Response to additional questions, received 26 May 2014.
Minister of Health, Response to post-hearing questions, received 16 June 2014.
Minister of Health, Response to standard Estimates questionnaire, received 19 May 2014.
Office of the Auditor-General, Briefing on Vote Health, received 28 May 2014.
Briefing paper on Vote Health, prepared by committee staff, dated 26 May 2014.
# 2014/15 Estimates for Vote Housing

Report of the Social Services Committee

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Vote Housing

Recommendation

The Social Services Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Housing as set out in Parliamentary Paper B.5, administered by the Ministry of Business, Innovation and Employment, be accepted.

Introduction

Vote Housing is administered by the Ministry of Business, Innovation and Employment. Hon Dr Nick Smith, who is both the Minister of Housing and the Minister for Building and Construction, has responsibility for the appropriations in the Vote.

The appropriations sought for 2014/15 total $405.983 million, a decrease of $646.779 million, or 61.4 percent, from the estimated actual spending in 2013/14. We understand the decrease is largely due to restructuring of the Vote, with income-related rent subsidies transferred to Vote Social Development in 2014.

The Minister told us that implementing the Government’s social housing reform programme is a major activity under the Vote in 2014/15, with the objective of building a more diverse social housing sector. We were told that other key priorities include improving the corporation’s performance and continuing its redevelopment programme, increasing the post-earthquake supply of housing in Canterbury, and improving the affordability of housing throughout the country.

Social housing reform

The Government’s social housing reforms seek to increase the supply of social housing in the community, improve the quality of state houses, and ensure that state houses are allocated to those who need them most.

Social housing supply

The reform programme is increasing the supply of social housing by involving more third-party providers of social and affordable housing. We heard that the Social Housing Fund, which totals $145.288 million over three years, has allowed the size of the community housing sector to be trebled, and that 891 homes had been built to date.

The Minister said the intention is to have the sector eventually provide 20 percent of social housing in New Zealand, and the corporation the remaining 80 percent. He intends to achieve this balance through a combination of grants to providers, better access for providers to the income-related rent subsidy, and asset transfers from the corporation. We understand that the Ministry of Social Development has been providing income-related rent subsidies to registered community housing providers since April 2014, and that additional funding has been allocated to this initiative. The subsidy is intended to incentivise the community housing sector to provide social housing by allowing providers to receive market rent for their properties.

We asked whether community housing providers were in a position to provide tenants with services that the corporation does not. The Minister said many social housing tenants have
high needs and that third-party providers are often better equipped to offer the necessary wraparound services. For example, Comcare Trust in Christchurch provides a specialised service for tenants with mental health issues. He believes an additional advantage of third-party providers is that unlike the corporation they are not subject to political changes.

Redevelopment programme

Among the corporation’s current redevelopment projects are major projects in Hobsonville and Tāmaki, and the Infill 500 and Project 324&5 developments. The Minister acknowledged that these projects continue to cause disruption in some communities, but said that they are critical to improving the quality of social housing.

We were pleased to learn that the corporation’s redeveloped properties are of a substantially better quality than those they replaced. For example, new state houses built in Maraenui were given six stars (of a possible 10) under the Homestar system for rating the healthiness and energy efficiency of homes. To receive a high rating, properties must have features such as double-glazed windows, high-quality insulation, and mechanical ventilation, and be designed to capture natural sunlight. We were told that some of the existing housing stock would probably receive as few as two stars.

Recently we considered three petitions regarding the corporation’s redevelopment projects in Maraenui, Glen Innes, and Pomare. We heard that there had been shortcomings in the corporation’s consultation processes in those areas and were given assurances that there would be better community consultation regarding any future redevelopments. Some of us were concerned that the corporation had since issued tenants in Petone with 90-day notices without any consultation on its plans for Petone. We were told that redevelopment projects will always be “bumpy” and that the 28 affected tenants have been offered alternative accommodation, but do not want to move. The chief executive explained that the vast majority of units have been vacant for some time as social issues in the area have made it difficult to tenant the properties. The corporation expects to sell the land to the private sector for development once it is vacated.

Housing affordability

The Minister said that the Government is working on a number of initiatives to improve the affordability of housing. For example, it has established housing accords in some areas, and expanded the KiwiSaver first-home deposit subsidy. We heard that legislative reform is also being carried out to address aspects of affordability, such as development contributions, the cost of building materials, and the residential building contracting process.

Housing accords

We discussed the Auckland housing accord with the Minister and were told that it was intended to deliver 9,000 properties by the end of its first year, 13,000 by the second, and 17,000 by the third. We heard that the accord is progressing well and, on the basis of building consent numbers, will reach its 9,000 target by 1 October 2014. Some of us questioned the Minister’s optimism that the target will be met, given that only 3,417 building consents were issued in the first six months of the housing accord. We understand that the target figure includes not only consented houses, but also consented sections, of which there has been a lack in Auckland. The Minister said he is encouraged by the 34 percent increase in the number of consents granted over the past year.
We asked how many of the properties resulting from the Auckland housing accord would be affordable for first-home buyers. The Minister said it is impossible to regulate the number of houses built in specific price bands because the capital comes from private investors. He also said we should not expect all the homes to be in the “affordable range”, and that affordable properties for first-home buyers are likely to be older houses. He explained that the housing accord is intended to help make housing more affordable over the whole market by increasing the supply of housing in Auckland.

We heard that the establishment of housing accords in Wellington, the Western Bay of Plenty, and Queenstown is being discussed.

**Overseas speculation**

We asked the Minister why the Government does not collect data on foreign buyers to establish the extent of overseas speculation in the New Zealand residential property market. The Minister said that on the basis of figures provided by the Inland Revenue Department the level of foreign ownership appears to be relatively low, and is not having a substantial impact on house prices in New Zealand. The Minister also said it is very difficult to distinguish between genuine investors and speculators, and that in effect there is little difference between overseas and New Zealander speculators. He thus implied that there would be limited value in collecting data on foreign buyers for regulatory use.

**Canterbury earthquakes**

The Minister told us that 10,500 of the corporation’s properties, and others that the ministry is less directly responsible for, were damaged beyond repair in the 2010 and 2011 earthquakes. We understand that many more properties were damaged and are being repaired in a multi-year programme. Repairing and rebuilding these homes, and supporting the wider rebuilding efforts in Canterbury, remains a Government priority for 2014/15.

We heard that the current housing shortage in Christchurch is having a dramatic impact on rent prices, with prices increasing faster than elsewhere in the country. The Minister said he is satisfied with the speed at which new homes are being built in the region, and that the corporation is on track to repair 5,000 state homes and build 700 new ones by the end of 2015. He did, however, note challenges to the rebuilding programme where there have been problems with the local council regarding the issuing of building consents. We were assured that they are being resolved, but told that challenges are inevitable, given the scale of the damage, and that the Minister’s responsibility is only to ensure there are systems for responding to them.

The Minister told us his biggest “concern” is addressing the shortage of temporary accommodation for residents while their homes are rebuilt and repaired, particularly as more difficult repairs are now being done, and alternative accommodation is needed for longer periods. We were told that the Government is contributing $75 million, via the new Canterbury Housing Accord Fund, to developments on Welles Street and Columbo Street. The Minister said that these developments will provide temporary accommodation for residents and reduce pressure on rent prices. The intention is that the properties will be sold to the private sector, to increase the overall supply of affordable housing in Canterbury, once the demand for temporary accommodation has subsided.

Some of us are concerned that the Government is not providing enough temporary accommodation for residents while repairs are undertaken. The Minister told us that developments funded from the Canterbury Housing Accord Fund will provide
approximately 500 further properties by the end of 2014, and assured us that the Canterbury Earthquake Temporary Accommodation Service will continue helping residents to find temporary accommodation in 2014/15.

We were pleased to hear that the number of building consents being granted indicate that housing supply in Canterbury will be restored to pre-earthquake levels by late 2016. However, we understand that further housing development may be necessary to accommodate the substantial population growth that has occurred in the region.
Appendix

Approach to this examination

We met on 28 May and 18 June 2014 to consider Vote Housing. Evidence was heard from the Minister of Housing Hon Dr Nick Smith, Housing New Zealand Corporation, and the Ministry of Business, Innovation and Employment, 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

Phil Twyford replaced Louisa Wall for this item of business.

Evidence and advice received

We considered the following evidence and advice during this examination:
Office of the Auditor-General, Briefing on Vote Housing, received 26 May 2014.
Minister of Housing (Presentation), received 28 May 2014.
Minister of Housing, Response to standard Estimates questionnaire.
Minister of Housing, Response to standard Estimates questionnaire (Four year plan).
Response to additional questions, received 3 June 2014
2014/15 Estimates for Vote Immigration

Report of the Transport and Industrial Relations Committee

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Vote Immigration

Recommendation

The Transport and Industrial Relations Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Immigration, as set out in Parliamentary Paper B.5, administered by the Ministry of Business, Innovation and Employment, Vol. 1, be accepted.

Introduction

The appropriations sought for Vote Immigration increase to $239 million in 2014/15 (estimated actual expenditure for 2013/14: $217 million). The main reasons for the increase are a new initiative to mitigate migrant exploitation in the Canterbury rebuild, the carrying forward of Immigration Global Management System costs, an increase in visa volumes, and more money for refugee resettlement planning and support.

Attraction of migrants

The Minister commented that good migration programmes and policies can lead to significant benefits for New Zealand economically, socially, and culturally. We asked what provision has been made in the Vote to attract immigrants who can make such contributions.

We heard that Immigration New Zealand is working with the Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise to show New Zealand as an attractive destination for skilled migrants and capital investors. Primary areas of focus are Europe and North America, and seminars for migrant investors have been held there and also in Germany and Japan. We were told that Immigration New Zealand aims to match the skills being sought overseas with gaps in New Zealand, so that jobs will always be available for appropriately skilled New Zealanders first.

We asked what conditions are imposed on migrant investors who invest in property development. We heard that, except for owner-occupiers, residential property development is an acceptable investment for the migrant investor category. Owner-occupiers would not qualify for the category, nor would those purchasing a completed building. A development would qualify where it was consented and the ground works were done.

Border security

We asked the Minister how robust New Zealand’s border control arrangements are, and specifically, whether there are arrangements to prevent a situation arising on a New Zealand airline similar to that which occurred in Malaysia, where passengers with false passports were allowed to board Flight MH370. The Minister described to us the Advance Passenger Processing system used by all airlines that come to New Zealand. This allows passenger information to be screened before passengers have boarded, and checked against international databases. The Minister said he is confident that this system can detect and prevent travel by passengers not entitled to enter New Zealand.
Refugees

Quota refugees

We were told that the Vote this year includes an additional $1.4 million for refugee resettlement planning and support services. The increase does not reflect a larger number of quota refugees coming to New Zealand, but rather the increased costs and complexity of providing appropriate settlement support services.

Some of us noted the relatively low number of refugees New Zealand accepts per capita. The Minister said, however, that we are one of only 18 countries that accept quota refugees through the United Nations High Commissioner for Refugees.

Maritime arrival

In the Minister’s view the possibility of an arrival by boat of potential immigrants has become more likely since Australia changed its response to immigrant boats. He believes that those attempting to travel here by boat would often not be aware of the true risks of the journey because people-smugglers misrepresent the risks.

We heard that agencies in New Zealand have been training for the possibility of a refugee boat arrival. The response would involve a wide range of agencies, including Immigration New Zealand, the Ministries of Defence, Justice, and Health, Biosecurity New Zealand, the New Zealand Customs Service, and the New Zealand Police. The Minister assured us that the strategies that have been developed to manage such an event are consistent with New Zealand’s obligations under human rights treaties and legislation.

We were told that New Zealand is part of an international organisation known as the “Bali Process”, which provides a regional forum for working on this issue in source, transit, and destination countries.

Student visas

We asked the Minister for his comment about reports of Chinese immigration agents who take excessive fees from international students, while misleading them about the “study to work” path to residence, sometimes to the point of offering guarantees that residence will be achieved. We also asked about students who take on work, but make little or no progress on their studies because of the demands of their employment. The Minister told us that these matters concern him, and he has asked for further information; but we were told that overseas agents are outside the scope of legislation relating to immigration advisers. In the Minister’s view, while there is a legitimate pathway from study to work and residence, he considers that students should genuinely be here to study, and that they should be able to support themselves, pay their educational fees, and get appropriate pastoral care.

We were told that the international student market is New Zealand’s second-largest service export earner, behind tourism. It is a $2.6-billion industry employing 30,000 New Zealanders. The Minister said that 20 percent of these students are employed, and the ability to work part-time is attractive and contributes to the size of the industry. We were pleased to hear that Immigration New Zealand is taking a risk-based approach to educational institutions, and focusing its resources on those that are rated as high-risk, rather than monitoring compliance closely across the board.
Canterbury rebuild

An increase of $787,000 is sought in the appropriations for a new initiative: Canterbury rebuild: Protecting vulnerable workers and ensuring fair workplaces.

The Minister acknowledged the need to minimise exploitation of workers in the rebuilding of Canterbury, and told us he has been concerned by reports of possible exploitation of Filipino construction workers. We heard that ways of addressing this problem are being considered, perhaps involving employment agents, or an off-shore Immigration New Zealand agent. We agree with the Minister that it is important to get the message out to all migrant workers, in Christchurch and elsewhere, that “it is OK to speak up” and that all workers should expect to be treated according to employment law.

We asked if the Minister is confident he has the resources to analyse trends and the skills gaps in Christchurch, and align them with the New Zealand workers available before seeking to fill jobs from overseas. We were told that this issue is being considered by a ministerial group and also the Canterbury Skills and Employment Hub, a joint venture between Immigration New Zealand and Work and Income. The Minister assured us that the aim is to employ New Zealanders wherever possible, but trade training and internal migration are not quick fixes. They are being used in conjunction with bringing in migrants who have skills on the shortage lists.

Immigration advisers

The Minister told us that there is no plan to limit the fees charged by immigration agents; in his view the need for disclosure and transparency in the industry is the critical element that needs to be developed.

We raised with him a case that had been widely reported regarding sexual abuse of a client by an immigration adviser. The Minister said that adviser is now deregistered, and if necessary, legislation would be changed to prevent that adviser from reregistering.
Appendix A

Approach to this examination

We met on 29 May and 19 June 2014 to consider Vote Immigration. Evidence was heard from the Minister of Immigration, Hon Michael Woodhouse, and Immigration New Zealand, and advice received from the Office of the Auditor-General.

Committee members

David Bennett (Chairperson)
Chris Auchinvole
Carol Beaumont
Dr Cam Calder
Darien Fenton
Phil Twyford
Simon O'Connor
Denise Roche
Mike Sabin

Denise Roche was replaced by Jan Logie for this item of business.

Evidence and advice received

We considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Immigration, prepared by committee staff, dated 26 May 2014.


Minister of Immigration, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Immigration, received 29 May 2014.

Response to additional questions, received 16 June 2014.
Appendix B

Corrected transcript of hearing of evidence 29 May 2014

Members
David Bennett (Chairperson)
Chris Auchinvole
Carol Beaumont
Dr Cam Calder
Darien Fenton
Jan Logie
Hon Trevor Mallard
Simon O'Connor
Mike Sabin

Witnesses
Hon Michael Woodhouse, Minister of Immigration
Nigel Bickle, Deputy Chief Executive, Immigration New Zealand, Ministry of Business, Innovation and Employment (MBIE)
Steve Stuart, General Manager, Immigration New Zealand, MBIE
Michael Hampl, Principal Policy Advisor, MBIE
Fraser Richards, Senior Solicitor, MBIE

Bennett Good morning, Minister Woodhouse, and welcome to the select committee for estimates on Vote Immigration. We thank you for your attendance this morning and we open the floor. If you want to give us a brief introduction, then we'll do the questions. We've got till about 11 o'clock.

Woodhouse OK, very good. Thank you, Mr Chairman, for the opportunity to come and present in respect of the estimates for Budget 2014. [Introductions]

I think it’s fair to say that the vote has been set against the backdrop of that general Government goal of fiscal prudence as we embark on that path back to surplus, and the expectation that we have set for all of our Government agencies that they provide excellent value for money in what are increasingly constrained fiscal times. I think if there’s any example of excellent success in delivering on those goals for Government, it’s in Immigration New Zealand, who—from the darker days of around 2008 when the Auditor-General found significant issues around leadership, timeliness, quality of decision making, and customer satisfaction, I’ve noted with some pride, actually, the very strong gains in overall quality of the service that is being provided by Immigration New Zealand—up to 87 percent satisfaction, from a base of 70 percent in 2009; processing times now, with more than 90 percent of temporary visas processed within 25
days, as opposed to 80 percent in 60 days only 2 years ago; and the quality of decision making going up from 71 percent to over 90 percent now.

At the same time, in terms of the—that’s for entry, of course. For exit, we’ve seen material drops in the number of illegal migrants—overstayers—from 21,000 down to just over 13,000 now, and the cost of repatriating illegal overstayers has halved. I think that’s because of the smart strategy of encouraging voluntary departures, which is a really good example of how you can do much more with just a little more.

But, nevertheless, I am pleased with the aspects of the Budget that underscore this Government’s strong belief that good migration policy contributes to New Zealand economically, socially, and culturally. I think that’s evidenced by the fact that $7 million has been appropriated through Vote Labour and Vote Immigration to support compliance and labour standards through the Canterbury rebuild. There’s no doubt that while we want to ensure that Kiwis are at the front of the queue for jobs right around the country but particularly in Canterbury at this time, we will be relying heavily on construction staff from overseas, and it’s important that they understand their rights and obligations under New Zealand employment law and that employers and employees work well together to ensure that there is no exploitation. We have legislation before the House—as this committee knows—to significantly increase the punishments, the sanctions, for employers who exploit workers who are here on valid visas and working well within the terms of those visas. So I think that paints a picture of this Government sending a clear signal that it’s not appropriate for employers to exploit their staff.

The other area, of course, that we’ve had an increase is in refugee settlement support—$5.6 million appropriated over 4 years. That’s a line in the appropriation that hasn’t had an increase for some time. While the quota has been stable, certainly the complexities of settlement and the costs of doing so have gone up. It’s appropriate that we support our third-party agents to ensure that our quota refugees are given every opportunity to settle well into New Zealand with jobs, with transport, and with language support. Of course, the Māngere Refugee Resettlement Centre had a capital injection to support the rebuild, which I’m confident will commence in the next few months or in early next year. That’s an important part of settlement. As you know, Māngere has for a long time played a part in the settlement of our refugee community.

The other area that is, I think, important in understanding the way in which Immigration New Zealand is delivering its service through its global network is through the Vision 2015 project and the significant IT upgrade that will enable the Government to meet its Public Service goals of an increasingly ubiquitous and online service, while at the same time providing face-to-face support where appropriate. I’m really pleased with the way that’s progressing, and I think we’ll have significant milestones later in the year when student online visa applications go live. I think that will be a significant milestone, which will improve, again, this quality and timeliness of the service Immigration New Zealand is providing.
So with those introductory comments, I hand over to you, Mr Chairman, and happy to take questions.

Bennett Thank you very much. I appreciate that short introduction. Any questions anyone may have?

Mallard Yeah, I’ve got a number of areas, and as you will be aware, I’m relatively new in the portfolio, so I’m relatively new in the portfolio, so I’m sure I’ll make some errors going through. The first question I’ve got is around your pilot investor seminars and whether you chose Germany to do those as a result of the success with Kim Dotcom?

Woodhouse Well, I’ll just start firstly—

Bennett Perhaps you might want to—I’m not sure. Do you want to repeat that question? I didn’t hear what you actually said.

Mallard I wanted to ask you about your pilot investor seminars and whether you chose four cities in Germany to start the process because of your success with Kim Dotcom.

Bennett Well, I think, Trevor, this committee is a serious committee. If you want to ask some questions, you’d better make it serious.

Mallard Well, I want to know why they chose Germany.

Bennett No, no—well, you can ask the question: “Why did you want to choose Germany?”.

Mallard Well, why did you choose Germany—

Bennett OK.

Mallard —and was Kim Dotcom and the vast wealth a factor in it?

Woodhouse Chairman, I’m very happy to answer that question. I think I should make some prefacing comments about the important role migration plays in New Zealand’s economic and social fabric. We’re in a global contest—there’s no doubt—for skills, for foreign investment, for tourists, and for students, and these policy settings I think put us at the top of the heap when it comes to that global contest. We have a very clearly articulated attraction strategy and settlement strategy that does involve attracting high net worth individuals, as has the previous Government, and if there were German seminars that attracted Mr Dotcom, they were probably conducted under the previous Labour Government. But I make no apology for the fact that—as the member knows, because he was over there—the America’s Cup, for example, was a very good opportunity to showcase “New Zealand Inc.” and to attract high net worth individuals to learn more about what New Zealand has to offer and what would be required in order to accept them. So—

Mallard So you had an immigration seminar there, did you?

Woodhouse There were Immigration staff in San Francisco over the period of the America’s Cup, promoting New Zealand as part of that broader “New Zealand Inc.” tourism and investment strategy. I didn’t go, I have to say. I wasn’t one of the lucky ones from my caucus—
No, and the fact that they were there passed me by, and I was there for just about the entire time—

I’m not aware of any sort of—

—so they didn’t have a very high profile.

So obviously, from an Immigration New Zealand point of view—and we work closely as part of “New Zealand Inc.” with Foreign Affairs, with New Zealand Trade and Enterprise—I think that, yes, we have done seminars in Germany. We’ve done seminars in Japan, in Europe, and in the Americas, and this is part of actually working as part of the Government’s strategy to make sure that New Zealand, where appropriate, is an attractive destination for capital investment.

So if I can give you, again, a couple of practical examples. The predominant areas of focus for us, as reflected in where investor migrants are coming from, are Europe and North America. So in North America, in addition to the America’s Cup initiatives and leveraging Government’s investment in the America’s Cup, we’ve been working closely with Leon Grice, the trade commissioner in LA, and Mike Moore as the Ambassador in Washington. We’ve recently been up in a joint venture bid with Trade and Enterprise and the New Zealand tech sector, with a range of New Zealand companies like Xero, Weta Workshop, the Wynyard Group, and working in things like the largest IT events in Texas, where, globally, everyone’s competing, to promote New Zealand as both a capital investment destination but also from a skills point of view, whilst—you know, again from a “New Zealanders first” point of view, we’re trying to get a match between what’s coming out of New Zealand’s skills system. When we look at the 10-year forecast around the growth in New Zealand’s technology sector, we’re also trying to make sure that we are promoting New Zealand also as a destination for skills when we can’t fill them from domestic-supplied skills.

OK, I’m happy to jump to another issue, and it’s one on which we worked in another select committee with another couple of agencies, and we were told that “It’s your responsibility”, and that is the question of the insecure approach to passengers on Malaysia Airlines. My question is, one, what have you done about it, and, two, why haven’t you taken it to ODESC1?

So the—I presume you’re talking about the possibility that two passengers boarded MH370 on false passports?

Yep, and the fact that they were not checking them properly. I think we all know what the facts are. The Malaysia Airlines staff were not using the proper systems in order to check passengers going on a plane out of KL. We have planes coming to New Zealand from KL, and I think we need to rely on international systems working properly. And yesterday we were asking the security people whose responsibility it was and, actually, they said: “It’s yours.”

1 Officials Committee for Domestic and External Security Coordination
And that’s right, and we take that responsibility very seriously. It’s impossible to rerun the scenario, but I am confident that had those two individuals arrived at a check-in counter seeking to board a plane to Auckland, they would have been refused boarding. Now, there is a broader question about the degree to which Immigration New Zealand and Customs tap into Interpol’s stolen passport database, which, as was widely reported, has more than 40 million passports on it, and that is a significant timeliness issue that may well be resolved in the future. But in the meantime I’m very confident that the system known as Advance Passenger Processing, or APP, is very good at unloading people who shouldn’t be boarding flights to New Zealand before they get on, and I think that’s seen in the significant drop in overstayer numbers because we are preventing them from coming in the first place.

OK. So you’re satisfied that systems which didn’t work properly with a flight to China would work properly with a flight to New Zealand?

In short, yes.

And you’re saying that doesn’t rely on a level of confidence around the Malaysia Airlines staff or the Malaysian-based officials?

Well, of course it does, but not solely. Steve, you might like to talk to this.

We have Advance Passenger Processing for all airlines that come to New Zealand, so they push to us all passenger information prior to them boarding the plane. During that period of time we get to look at the passengers’ profiles. These people who you’re talking about would have almost certainly come to our attention because of their unusual travel routes and the way that they presented themselves at the check-in. In Malaysia, for example, they would ring our 24/7 call centre. We would put an alert on people that we have concerns about. They need to ring us before those people can board the plane, and only after they’ve rung us and we give the approval to board can they board the plane.

Yeah, that’s if they do their job, but they clearly didn’t do their job in this other case, because they didn’t even look properly at the passports.

But they also don’t have APP in other countries. They don’t have that ability to do that. We are one of a small number of countries that require that for planes coming to New Zealand. Many other countries don’t require that.

Just a quick supplementary, picking up on Malaysia and the Interpol. My understanding is—and please correct me if I’m wrong—that the question is that many countries are not actually accessing the Interpol database. It wasn’t unusual what happened there—would that be correct?

Yeah—I mean, that’s correct. There are a number of Interpol databases. The big one, with 40 million, is not referenced by many people because of its sheer size and complexity, and, in fact, the information in it is quite unclean. You know, there’s a lot of passports that are reported lost or stolen that have since been found, and that’s never cleaned. What we do ping off,
though, is another set of databases, which is their high-risk databases, and we routinely ping off them.

Calder Something else, Minister, that’s been in the news recently is the risk of immigration from the Indonesia area. Could you perhaps give us an outline of how you feel that New Zealand is placed to deal with that risk, which seems to be particularly real?

Woodhouse So I presume you’re talking about the risk of a maritime arrival—

Calder Correct.

Woodhouse —as has been widely reported? Yes. Well, certainly this Government takes that risk very seriously. I’m quite sure I haven’t heard any of my colleagues refer to that risk as equivalent to the likelihood of ghost ships or men from Mars, as was reported to me when the bill that was passed last year, firstly, to deter and then manage a mass arrival, should one occur. This is a real risk. I think the risk of an attempt being made from Indonesia is a consequence of the changes that our near neighbours Australia have made—has gone up—but that would be a perilously risky venture and should be discouraged.

However, we’re ready for such an event, should it occur. The agencies that would be involved in that have been desktop exercising this since 2010—an exercise known as Operation Barrier. That will involve Defence Force, biosecurity, customs, immigration, health, police, justice, and so on. So it’s a very multi-agency issue. It demonstrates, I think, that we learn something every time we exercise this but that we’re ready for it, and we certainly don’t, as Mr Cunliffe says, think that there’s more likelihood of little men from Mars than a boat arrival from Indonesia.

Calder So are we flagging it very clearly internationally that we are not going to be accepting these unmandated arrivals?

Woodhouse Indeed. We are part of an organisation known as the Bali Process, which has for several years provided regional fora for being able to discuss issues that involve both source, transit, and potential destination countries. We have also resourced staff into the regional support office of the Bali Process, which is located in Bangkok, and we are well-connected both politically and diplomatically to understand what that risk is. There was a very interesting exposé, I think, in the Sunday papers at the weekend, focusing on a town in Indonesia called Cisarua, a well-known holding point for maritime asylum seekers. So I think we’re well-tuned into the mood of the region, but, as I say, it’s a perilously risky process and should not be attempted.

Mallard Student visas. You’ve got a range up to about 90,000; the latest reports were running a bit short of that. I want to ask a more general question about them, and whether you have any concerns about reports coming out of China of agents taking about half the fees that are meant to be the fees for the New Zealand educators and, if you like, glossing up the possibility of the “study, to work, to residence” approach to a point of a guarantee?
Woodhouse Right. Well, as you know, when the legislation passed by the previous Government around the licensing of immigration advisers was considered, education agents from offshore were excluded from that legislative framework—for very sound reasons, I think; I’m not saying that that was an error. But there have been some reports, as we seek to grow the numbers and value of international education, of commission immigration agents taking quite high levels of fees. I’ve asked for some information about that to the degree that we are aware of it, but I think it’s fair to say that it’s beyond the reach directly of the Immigration Service. We are concerned that these people are valid students who are able to support themselves while they’re here, that they have paid their fees, and that they get appropriate levels of pastoral care while they’re here, but I am concerned about some of those reports and I’ve asked for some information.

Mallard Are you concerned that it appears in both Auckland and Wellington to be, within one service station chain, large numbers of people working 20 hours a week, who are here as students but not necessarily making much progress on their studies?

Woodhouse Well, I haven’t had any specific reports about that. What I would say is that we’re very much aware of the ability—

Mallard Sorry, I’ll just check—you haven’t had any reports about that from your agency?

Woodhouse I don’t recall that being brought to my attention, but I’m sure it will soon. What I would say is that the ability to work part-time while studying is an important attraction and, I have no doubt, is contributing to the $2.6 billion industry that export education is now and employing more than 30,000 New Zealanders.

Calder $2.6 billion?

Woodhouse Yes, it’s the second-largest service export earner behind tourism. I am also aware, though, that while the attraction of the ability to work is an important one, only about 20 percent of those students who come actually do work, and they generally work in the service industry—hospitality, service stations—I’m sure. If the member has any information about practices that are not consistent with somebody’s visa conditions, I’m sure he knows how to bring them to officials’ attention.

Stuart In terms of that other part of the question around not making much advance on their studies, we undertake somewhere between 200 or 300 inspections, together with NZQA, of education providers—

Mallard And what proportion of education providers is that?

Stuart Well, what we focused on, on a risk-based approach, on the low proportion—

Mallard No, no, just tell me the proportion.

Stuart I’m not sure of the proportion. Obviously, there’s hundreds and hundreds of providers, but most of—
Mallard  Thousands and thousands of providers.

Stuart  Most of them, we know, are very good providers. We know there’s a small group that are underperforming. In fact, over the past 3 or 4 years a number of them have actually exited the industry because of our inspections and actions in that field.

Mallard  So you don’t have concerns that unscrupulous employers are using both agents offshore and marginal education providers to avoid the normal work visa routes?

Woodhouse  I’m very concerned to ensure that those who obtain visas to live, study, and work in New Zealand do so within the terms of those visas, and I think amorphous comments suggesting unnamed employers might be exploiting unnamed employees are unhelpful.

Mallard  Well, I think I named them, didn’t I?

Woodhouse  No, you didn’t. But I’m sure if you want to provide information that you think will be useful to officials, that would be very helpful.

Bickle  One, I suppose, comment to add in there in relation to international education. I sit as an adviser on the Education New Zealand board in terms of—obviously, there’s a leadership statement around doubling the economic value of international education by 2025. I think what I would say, and I don’t think it would be a surprise, is, as we understand more about the different markets that we attract students from—so again, if we take the Indian market, for example—we know that the motivations for coming to study in New Zealand are quite different from a number of other markets where students come from. Yes, study is important, but what seems to be more important is the opportunity to work and the pathways out of study into work and residence. I think that’s established research. I think when we look across the Ditch at some things that happened and some big changes they had to make in terms of their student policies, some of those issues did come into play.

The point that I wanted to make is, in terms of the approach that we’re taking now, where we’re trying to take more of a risk-based, and incentives and sanctions approach, if you think about leveraging off things that are being developed over a number of years by successive Governments—so NZQA’s quality assurance system; important things—we no longer issue visas for anyone that’s rated as a tier 4 NZQA provider. So, in effect, those people have gone out of business. Increasingly, at the other end, around tier 1, we’re trying to provide different, I guess, you know, incentives in taking a more high-assurance, light-touch model for where we think we’ve got really good-quality providers, so we can focus more of our resource into basically making sure that we’re getting the right sort of compliance and outcomes in the international education sector.

Logie  I would like to go back to the discussion around Convention refugees and people seeking asylum in New Zealand. I’ll try not to make a speech, but I’m noticing in the estimates that it’s looking at the refugee resettlement funding being static for the next 4 years—which explicitly excludes
Convention refugees from any support whatsoever—and that New Zealand per capita is 88th in the entire world on taking refugees and including Convention refugees, and you’re telling us that the Government is spending money on coming up with scenarios on how to detain people who might manage to make it here. Is that true?

Woodhouse Absolutely, and we do so without apology. Firstly, we are one of only 18 nations that take quota refugees through the UNHCR process, which is the—

Logie 88?

Woodhouse We are one of only 18 countries that takes quota refugees through the UNHCR process, and we rank about sixth on a per capita basis in doing so. There is no doubt that our maritime and isolated features make us a lower risk for the regional, irregular movement of people in the way that the Indian Ocean, the Mediterranean Sea, the Caribbean all have quite high levels of irregular arrivals. I don’t think we should be punished for the fact that we don’t have that or that we—

Logie Helping people is not being punished.

Woodhouse Sorry?

Logie Helping people is not being punished, Minister.

Woodhouse No, that’s right. But preventing them—

Logie Is that what you’re trying to tell us?

Woodhouse I’m saying that preventing people from undertaking a perilous journey that has led to the loss of thousands of lives in the Timor Sea and in the Strait of Hormuz is not inappropriate. In respect of the estimates I’ve just announced $5.6 million to increase the support for quota refugees as part of the Government’s refugee resettlement strategy, and I think we can stand proud for the work that we do to ensure good outcomes for them.

Logie Just to follow up on that in terms of that preventing people from taking a perilous journey—because that goal I would absolutely support, and some of the offshore efforts—I notice that you mention that Australia’s practice of what’s been described by Amnesty International and other observers as inhumane treatment and detention of asylum seekers offshore is a factor in people starting to consider wanting to come to New Zealand. I’m not actually allowing for the fact that I think that’s credible, but is New Zealand advocating to Australia to close those camps?

Woodhouse Oh, I’m not the Minister of Foreign Affairs; I’m the Minister of Immigration. My responsibility is to ensure that our borders and our entry and exit processes are sound and well facilitated.

Bennett Jan, we’re sort of getting off track here.

Logie No, it’s not. It’s exactly—

Bennett You are—you are.
Woodhouse I think that’s a question that the Minister of Foreign Affairs would be well versed in answering.

Sabin Well, just picking up the Australian side of the equation, Minister. With changes in Australian policy, do you see any added risk to New Zealand in terms of potential people-smuggling; if so, what’s your approach to that?

Woodhouse Not only is there an added risk but I think, as I have stated publicly in the past, these smugglers are heinous criminals and liars, and what we are observing is more lies being told to potential victims.

Sabin Point of order—sorry, Minister—I’m hearing out of both ears here, but I still can’t hear the Minister—sorry, Minister.

Woodhouse So these people are liars, and they’re telling potential victims lies—about how easy the journey is, how short the journey is, what would happen to them when they got here—that are completely untrue. It’s very important that anybody who is even tempted to embark on such a journey does so with eyes wide open. So I think the exposé in the *Sunday Star-Times* was quite helpful in that regard because we are aware that they look at international media, and that may have broken through a few of the myths that the smugglers are perpetuating.

Sabin In terms of the potential for a mass arrival, what’s your position on that, and what is being done on that score?

Woodhouse Well, they aren’t ghost ships and there is a much greater likelihood of them coming than Martians. We have passed the legislation providing for very severe penalties for smugglers—20 years in jail and a $500,000 fine. We have provided a legal framework to be able to efficiently and smoothly process them with a group warrant for detention for up to 6 months at the authorisation of a judge—strategies which, I have to say, are not only consistent with our refugee conventions but also our Bill of Rights Act, as the Ministry of Justice articulated last year.

On the matter of detention, Māngere is most likely to be the place where we would provide for their safety and security, and the security of New Zealanders, but I have maintained that any person detained will be in a facility that’s commensurate with their needs and their risk, and I couldn’t rule out a higher level of detention if it was appropriate.

Fenton Thank you, Minister. I wanted to ask about the Christchurch rebuild and the issue around immigration advisers. First of all, how many prosecutions have you got in the mix at the moment—because you’re aware of some of the stories that are coming out about immigration advisers and the huge amount of money that they’re charging in some cases—and what have you got planned for the next year to crack down on some of these dodgy ones that are there?

Woodhouse These are very important issues. I am aware and quite concerned about the layers of ticket clipping that’s going on between a Filipino construction worker and their pay packet, basically. I think it’s a valid concern. I took the opportunity to visit both employers and employees in Christchurch late last year with the Philippines Ambassador and learnt a lot about what was going
on there. There is a Government agency relationship involved at the Philippines end. There is also the possibility of immigration agents working offshore. We occasionally have onshore agents as well, and there is a move—which I haven’t supported—to get employment agents involved to facilitate the movement of workers. I’m cautious about that. But I think what’s really important is for any construction worker to understand that it’s actually not that hard to find work in Christchurch at the moment, and it may be possible for them to have that facilitated more smoothly than the number of steps along the way.

However, I have been frustrated by anecdotes that don’t appear to have any substance and that actually undermine my efforts to ensure that migrants understand that it’s OK to speak up. I encourage anybody who feels they aren’t being treated the way we would expect them to be, and consistent with employment law, to do so confidently. I have asked officials to investigate news media about certain events. I have not got to the bottom of the story and I don’t believe it’s because people are afraid to speak up. So I continue to encourage those migrant communities and the leaders in those communities, not just in Christchurch but around the country, to be confident that in this country the rule of law can be trusted and that our authorities can be trusted to support them if they don’t feel they are being treated well.

Fenton Just one quick follow-up on that. Have you thought about having some sort of cap on the charges that immigration advisers can charge? I’m talking about New Zealand-based immigration advisers.

Woodhouse That was considered as part of the review of the code of ethics last year. Disclosure is the most important thing for me—transparency about the nature of the service, what’s being provided and what the value of that service is. But at the moment there are no plans to put a cap on the fees.

Mallard Just following up on the general area of advisers and their quality, you’re aware of—well, a number of the problems, but including one adviser who was sexually abusing the clients. Your agency knew, or had complaints about this individual before he was approved. He was approved, and subsequently he sexually abused a client. I think you know, without naming the particular case. What I want to know is that your systems have tightened up and that people like that, who sexually exploit young migrant women, are not continuing to be approved after MBIE knows about it.

Woodhouse Well, it’s not MBIE. The Immigration Advisers Licensing Authority is an independent authority from the ministry.

Mallard But it’s your job to make sure, when your agency gets warnings, that those warnings are properly passed on.

Woodhouse Well, I mean, I guess there are warnings and there are warnings. You know that that person has been convicted of a crime and has been delicensed for at least the minimum period, and you also know that I have said that if the present legislation does not prevent that person from being reregistered, I’ll change it. So I’m satisfied—
Mallard: That’s fine going forward, but it relies entirely on your agency passing on information—which it had, because we’ve both seen the correspondence—before the person was licensed, and it didn’t.

Woodhouse: Well, I’m satisfied that whatever licensing processes within that framework that were required to be undertaken were met, and that the crime for which that person was convicted occurred after the licensing took place.

Mallard: You know, that’s the whole point.

Woodhouse: No, no, I—the point is you’re asking that authority to be—

Mallard: Warnings before, approved, sexually abused women—

Woodhouse: —wise after the event.

Mallard: —in that order.

Bennett: Trevor, just let him answer the question.

Woodhouse: What you’re asking is for an authority to have wisdom after the event.

Mallard: No, I’m asking for your agency to pass warnings on, which it didn’t.

Bennett: I think you’ve made your point. Have you got another question, or we’ll move on.

Mallard: Yes, I do. I’ve got quite a few. The question now of changes and rules you’ve made over the last couple of years around migrants being able to invest in residential properties—if they’re doing a residential property development, then that can count as an investment. At what stage does a development have to be for them to get approval to come in under that category? If the groundwork has been done for a development and a resource consent has been received and they buy from a person who’s done that, can they still get approval under the investor category?

Woodhouse: You, rightly, point out that property development that does not involve an owner-occupied arrangement—

Mallard: Residential investment.

Woodhouse: That’s right. So, just to be clear, an owner-occupied residential investment is not an acceptable investment, but property development more broadly is. What is important to Immigration New Zealand is that funds are transferred consistent with the thresholds that are set—$1.5 million and $10 million, with the other requirements that go along with it. Once that has occurred and a legitimate business is established, then the pathway to residence will continue.

Mallard: OK. I’m trying to get the point of the line as to the approval. We know that you can’t buy an established block.

Woodhouse: That’s right.

Mallard: We know that you can buy something where it’s been consented and ground works are done. Can you buy something where all that has to happen is it has to be painted? I don’t know—I’m just trying to work out where, you know, this is a—
2014/15 ESTIMATES FOR VOTE IMMIGRATION

Woodhouse There’s a little more detail than I can give you, and we can get back to you—if you put the question in writing, I’d be happy to.

Bennett We can do that.

Auchinvole It’s virtually carrying on to some extent from the point Mr Mallard was making a little earlier, but in your opening remarks, Minister, you commented on the change of culture within the organisation. I could, I think, safely say that immigration is one of the major preoccupations of our offices in the electorates for all sorts of, mostly technical, questions. But I would have to say, being able to remember when I think there were four contiguous inquiries going on into Customs and the level of complaint was constant, and one thing and another—

Mallard Immigration?

Auchinvole —sorry, Immigration—the change has been discernible. It appears to be permanent, and it’s very effective. And I think that it’s important that we tell you on these occasions that has occurred within our bailiwick. But has there been—one of the complications was a lack of a technical development. Have there been changes to that, have they gone fairly well, and is this a permanent change of culture?

Woodhouse Well, to the last bit, I’m confident that it is. I want to, once again, pay tribute to, firstly, the Immigration New Zealand senior management team for setting what I think was a visionary direction and turned a rather cumbersome ship around. There was, I think, an overemphasis on a branch structure, the bricks and mortar, and a processing focus. I think Nigel and his team are enthusiastically supported by a group who have embarked on what by any measure can be described as a major change—

Auchinvole I’m having trouble hearing, Minister.

Bennett Trevor, could you keep your voice down, please.

Woodhouse I didn’t hear them talking over you when you were asking questions.

Mallard Well, no, no, you can keep going.

Bennett Look, guys—Trevor, just be quiet.

Mallard —and I have read the report, unlike Mr Auchinvole.

Woodhouse That’s good, but that doesn’t mean that they don’t deserve to hear the answer.

Bennett Minister, if you want to answer the question.

Woodhouse So underpinning Vision 2015 is the idea of the trusted partner and a more ubiquitous process, which is an online process, which by 2017 I hope will see the vast majority, if not all, visa applications submitted online. So the very big paper-based applications that come through the office are likely to disappear, virtually, and that’s going to mean that work can be distributed more around the global network, according to seasonal demands, specific
expertise—so we’re streamlining less around geography and more around specific expertise, bearing in mind that we’re still going to need to have a presence in some of our big and growing markets, and they are obviously China, India, Europe is still strong, and the United States, hopefully getting stronger, particularly from an investment perspective.

It’s a change on a scale that’s rare, I think, particularly given the lack of noise around it. There’s been a lot of change to middle-management roles, a lot of new learning that needs to go on and continues to go on, and I think that it’s a tribute to the staff that through that period, the quality of the service and the timeliness of the service has gone up.

Logie It’s just a technical question, really. Noticing on the estimates the change to the quota for refugees—that it’s changed from mandated refugees to mandated refugees and their immediate families. Does that have any consequence?

Woodhouse Not in practice, I don’t think. We can get back to you, but I’m sure the answer to that is no.

Logie OK, there’s no application for second-tier?

Woodhouse No.

Bennett Have you got anything else?

Logie Well, actually, then yes. Whether—going back to the previous discussion around asylum seekers—the Minister has had any reports on the type and cost of a boat that would be likely to be able to make the journey from Indonesia to New Zealand?

Woodhouse What we know is that the most successful long-range features have been in steel-hulled vessels of quite a large size, and I think Canada is the best example of that, where 468—the Sun Sea—arrived 3 or 4 years ago. But I don’t think it needs to be as large as that to be successful. Most of our ancestors came in wooden-hulled vessels of one shape, size, or other, and, therefore, it’s perilous but possible. But I would say a watertight steel-hulled vessel well provisioned with GPS could make the journey.

Logie Just following up on that—whether the Minister was aware of advice that we were given by officials through the progress of the immigration bill previously around—the diaspora had funded that boat in the example that you gave, and it was an incredibly wealthy community. In New Zealand we have no community with that degree of wealth in the community, and the point in terms of likelihood and comparison to that is, kind of, it would seem to be invalid.

Woodhouse Well, money is a factor; there’s no doubt about that. But what you’re suggesting is it could only be a pull factor from the destination country. I don’t accept that. I think there are push factors, as well. What is being reported now is debt servitude, actually, to smugglers—which is very concerning—which may change the person’s mind about whether to choose to travel or not. So I think money is absolutely a factor, but I don’t think it rules out the risk.
Beaumont  

Minister, there’s a lot of comment in your 6-monthly performance report about matters to do with skills—short term, long term, etc.—and the skills gap. I’m just wanting to know whether you’re confident that you’ve got the resources within your area to be analysing the trends, to be identifying the issues, to then integrate that across to the Minister for Tertiary Education, Skills and Employment, because it seems to me—the Christchurch rebuild being a classic case—we’ve had a lot of notice about needs, and yet we don’t seem to be able to align things so that we get skilled New Zealanders into roles, rather than having to bring in migrant workers. So (a) are you confident, and (b) what plans are you looking at to improve performance in this area?

Woodhouse  

So there are two or three dimensions to that question. I want to start with the area of skills and point out that the Ministers work very closely together in a group called the Skilled and Safe Workplaces—Ministers led by Steven Joyce, as Minister of Tertiary Education, Skills and Employment. Minister Parata, myself, and Ministers Bridges and Turia are all part of that. There has been a significant investment in trade training, and Māori and Pasifika trade training as well, to upskill young New Zealanders to make sure that they are ready and able to take those jobs as they come. That’s not a short-term fix, but then neither is Canterbury. It’s going to take us years, if not decades, to recover and create the great small city that it will be again. There are other initiatives under way to encourage internal net migration for our young—

Beaumont  

Can I just say I’m really interested, though, in the immigration part of this—what your people are doing in terms in terms of analysis and communications—

Woodhouse  

Yep, which is the other thread that I’m coming to.

Beaumont  

—and whether you are improving it or not.

Woodhouse  

Right. So, as you know, the Canterbury skills shortage list and the Canterbury Skills and Employment Hub—which is a joint venture between Immigration New Zealand and Work and Income—are all designed to make sure that Kiwis are at the front of the job queue, but that the process of establishing that and facilitating the entry of foreign labour is a speedy and smooth one. Now, we’re constantly refining those processes and also the skills that are on the Canterbury skills shortage list, but I’m satisfied—particularly with about 2.8 percent male unemployment in Christchurch; 4.3 percent overall—that we are very much attracting and retaining Kiwis into that and training them.

So, I was the patron of LSV graduate course at Burnham Military Camp 2 weeks ago, and a lot of their graduates are going straight into trade training and employment in the Christchurch area. I think that’s just another example of the many ways in which we’re making sure Kiwis are at the front of the queue.
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<th>Bennett</th>
<th>Thank you very much, Minister. We’ve run out of time, but I appreciate your questions and answers, and we’ll get some more to you that our committee has had. Thank you very much.</th>
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2014/15 Estimates for Vote Internal Affairs

Report of the Government Administration Committee

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Recommendation

The Government Administration Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Internal Affairs, administered by the Department of Internal Affairs, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Internal Affairs decrease slightly to $544.702 million in 2014/15 from the $550.086 million estimated actual expenditure for 2013/14.

This reflects small decreases in a number of appropriations, and also the transfer of appropriations for Ministry of Civil Defence and Emergency Management functions to Vote Prime Minister and Cabinet. The decrease is in line with the department’s 2012 and 2014 Four Year Plans to reduce funding by prioritising and making savings throughout the Vote.

The Department of Internal Affairs administers Vote Internal Affairs, and the Ministers for the Community and Voluntary Sector, Internal Affairs, Local Government, Racing, and the Attorney-General, and the Minister Responsible for Ministerial Services are responsible for the appropriations within the Vote.

During our consideration of the 2013/14 Estimates for Vote Internal Affairs we paid particular attention to the appropriations for which the Minister of Internal Affairs and the Minister Responsible for Ministerial Services are responsible.

Digitisation of information

We were interested in the progress of the Government Digital Archive Project, which the Department of Internal Affairs is working on. This project involves converting old physical documents into digital formats in which they are then made available to the public online. This funding is part of the $17.824-million appropriation for Archives New Zealand access provision.

The Department told us that it is focusing on digitising information related to the First World War. The department has been working with the New Zealand Defence Force to make all pre-1921 military personnel files available online before the 2014 centenary of the outbreak of the First World War. This project has been going well, and the Minister told us that the positive responses so far from the public had highlighted the importance of digitisation.

Passports and security

We were interested in the appropriation for Passport Products and how the department managed to maintain the security of the New Zealand passport. The department told us that the passports service is run on a cost-recovery basis, and that currently the passport fee has been reduced to lower the account surplus. The Treasury helped to establish the cost-recovery system and established rules for its operation.
New Zealand has a very secure passport, and the department considers that New Zealand is a leader in passport security. The department is nevertheless continually looking at ways to improve the security of the passport to deter attempts at counterfeiting and theft.

We were concerned at recent reports that some countries have very poor security standards at airports for checking passports. We discussed the possibility of penalising countries that were not following acceptable passport security procedures by preventing flights from these countries from coming to New Zealand. The department told us that it had not considered this; it might have some input into this decision, but other stakeholders were involved.

**Information technology projects**

We are aware that a number of large information technology projects are being undertaken in government departments. We were concerned about large fiscal risks and the degree of oversight of these projects. The department told us that it supports such projects, but is not responsible for overseeing them. The Treasury provides some oversight, but individual departments and their Ministers were responsible for their individual projects.

**RealMe**

RealMe is an all-of-Government identity verification system, developed by the department, which allows New Zealanders to prove their identity online. The funding appropriated for RealMe was $17.45 million in 2014/15. No funding is allocated for RealMe beyond 2014/15, and we were interested in how the department planned to fund RealMe in the future. The department told us that it intends to fund the service by charging fees for the services.

**Ministerial Services**

The Minister responsible for Ministerial Services is responsible for the appropriations Services Supporting the Executive MCOA, Depreciation on Official Residences, Executive Council and Members of the Executive – Salaries and Allowances PLA, Former Governors-General – Annuities and Other Payments PLA, Former Prime Ministers – Annuities PL, Former Prime Ministers – Domestic Travel, and Members of the Executive – Travel. In 2014/15 the total amount sought for appropriations relating to ministerial services is $61.136 million, a small increase from the previous financial year.

We heard evidence from the Department of Internal Affairs, but regret that the Minister responsible for Ministerial Services was unable to attend this year.

We are concerned that in the Department’s *Statement of Intent 2013–16* a description of the Minister’s portfolio priorities, “entitlements for Members of Parliament and the Executive”, is not accurate as Ministerial Services does not provide entitlements to members of Parliament who are not members of the Executive. We recommend that this description be updated to reflect the priorities of Ministerial Services accurately.

**Executive Support Services**

We asked why the funding for *Support Services to Members of the Executive* had increased by $1.234 million for 2014/15. We were told that this funding is budgeted every three years to cover staffing changes related to the general election. The cost is around $1.3 million for the return of the same government and $3.5 million for a complete change in government. The major cost is paying up to four months’ salary to staff whose event-based contracts are terminated as a result of the changes in government.
2014/15 ESTIMATES FOR VOTE INTERNAL AFFAIRS

Official Visits and Events

The Visits and Ceremonial Office is responsible for managing programmes for visiting guests of Government and State, and organising national ceremonial and commemorative events. The funding being sought is $4.392 million in 2014/15, a slight increase from the previous year.

We were interested in the level of planning for overseas visits, and why the Minister found it difficult to predict the number of incoming visits. This uncertainty creates a fiscal risk, and the Minister needs to ensure that the office has contingency plans to fund extra visits.

We heard that it was difficult to predict visits as often the office has only a few months’ notice. Specific events also influence visitor numbers; a general election often means fewer visits, whereas a successful trade deal could mean a large increase in official visits. Large visits such as royal visits are normally planned in advance, and are easier to budget and plan for.
Appendix

Approach to this examination
We met on 28 May and 18 June 2014 to consider Vote Internal Affairs. Evidence was heard from the Minister of Internal Affairs and 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
We considered the following evidence and advice during this examination:


Office of the Auditor-General, Briefing on Vote Internal Affairs, received 28 May 2014.

Minister of Internal Affairs, Response to standard Estimates questionnaire.

Response to additional questions, received 13 June 2014.

Vote briefing paper, prepared by committee staff, dated 28 May 2014.
# 2014/15 Estimates for Vote Justice

Report of the Justice and Electoral Committee

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Vote Justice

Recommendation

The Justice and Electoral Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Justice, administered by the Ministry of Justice, as set out in Parliamentary Paper B5, Vol 7, be accepted.

Introduction

Vote Justice is administered by the Ministry of Justice. The Minister of Justice, Hon Judith Collins, is responsible for the appropriations within the Vote. The total annual and permanent appropriations for the Vote in 2014/15 are $432.189 million, down approximately $26 million, or 5.7 percent, from the previous year’s estimated actual appropriation including departmental capital expenditure.

Legal aid expenditure

We note that legal aid expenditure forecasts indicate that funding of $121.555 million may be required for this year, against an appropriation of $109.555 million, resulting in a projected shortfall of around $12 million.

The Secretary for Justice told us that underspending on legal aid during the 2013/14 year allowed some funding to be transferred to the justice sector fund. While current projections indicated a $12-million shortfall, a review was to be carried out in September to estimate whether sufficient legal aid funding had been allocated. In the event of a shortfall an application would be made to the justice sector fund, which remained as a “backstop” should more demand exceeded projections. The ministry did not consider that people who needed legal aid assistance were not obtaining it. We will be interested in the results of the review, and of the on-going legal aid requirements.

Complaints and reviews

We asked how people can request a review of a legal aid decision, and how the discretion for charging interest is exercised. If a complaint is made about a legal aid grant it is reviewed by a debt officer who was not involved in the initial decision. If the complainant is still not satisfied, the decision can be appealed to the Legal Aid Tribunal. The findings of the tribunal are then considered by the Legal Aid Services Management Team on a monthly basis. The ministry told us that it receives about 250 complaints about legal aid providers each year and has a complaints officer to review them. We were informed that regulatory change is required to alter the 8 percent interest rate charged on outstanding legal aid debt.

Canterbury justice precinct

We asked the Minister about progress on the building of the Canterbury justice precinct, and how it is expected to operate. We were told that earthworks had begun in February and would be complete by mid-July. The precinct would employ about 1,000 people during its construction, and when complete it would house numerous government departments including Police, Courts, and Corrections, along with emergency and community services.
and the civil defence headquarters. The Minister expected that co-locating government agencies would lead to better working relationships, and would build on the positive experience of co-location following the earthquake.

We asked about the risk of locating so many essential services in a single building in Christchurch. The Minister said the precinct would be built to the highest possible earthquake standards. She noted that in an emergency other buildings around Christchurch had been used for justice purposes, for example as court rooms, and there was no reason this could not be done again.

Co-locating agencies

The model of co-locating agencies was likely to be followed on a national basis where possible. The Minister cited the example of New Plymouth’s joint Police station and Corrections remand centre, which allow agencies to increase their collaboration and share facilities.

The Minister was also asked about the Hutt Valley Initiative in which Justice sector agencies have collaborated with the community, iwi, and social agencies to make the area safer. From June 2011 to September 2013 total crime in the area declined by 23 percent, with violent crime down by 21 percent and youth crime by 36 percent. The initiative was about to be rolled out on the East Coast, in Papakura, and in Hamilton, and similar results were hoped for.

Alcohol-driven youth problems

Members cited serious problems arising from young people’s alcohol-driven bad behaviour and binge drinking, and noted that this area was not always covered by the criminal justice system. Asked what the government was doing about the problem, the Minister cited the alcohol law reforms which had made it an offence to supply alcohol to under-18-year-olds without parental consent. It had also allowed local authorities to make their own policies on access to and the availability of alcohol to young people. We were told that these policies had seen dramatic drops in alcohol-related offending in areas where they had been implemented.

A pilot programme, the Alcohol and Other Drug Treatment Court, is designed to supervise recidivist offenders whose offending is driven by alcohol or drug dependencies. The court focuses on treating a defendant’s dependency if they are assessed as capable of changing their behaviour. This programme has been operating for over a year in the Waitakere and Auckland District Courts. The Minister told us it had produced promising initial results, and she was waiting for an evaluation of the court to be carried out. She hoped that the results would indicate a further roll-out of these courts across the country.

Increasing engagement with the justice system

An aspect of the ministry’s effort to improve the accessibility of justice is efforts to improve the trust of various ethnic groups in the justice system, and thus their willingness to engage with it, by reporting offences, as witnesses, and as jury members. We heard that its improved family justice website will provide translations of key documents into languages such as Samoan and simplified Chinese. In order to increase the ethnic diversity of juries, the ministry now works with jurors to find suitable times for them, resulting in fewer people being excused from service. The Minister believed it was very important for
ethnic minorities to be supported in their participation in the justice system, to reinforce their sense of community and repay their faith in choosing to settle in New Zealand.

**Victims’ rights**

We asked about any plans to improve services for victims of domestic violence. The Minister noted her recent announcement of an extra $500,000 to extend the safe@home service for another year. This programme helps makes domestic violence victims’ homes safer from attack by securing doors and windows, and installing security lights and monitored personal alarms. Work was being done to address the issue of recidivist offenders who break protection orders, and GPS monitoring was an option being considered among others. The Minister also stressed the importance of restorative justice, which made offenders face up to the harm they had caused, and provided victims with a sense of empowerment by giving them a say in the judicial process.
Appendix

Approach to this examination
We met on 29 May and 19 and 26 June 2014 to consider Vote Justice. Evidence was heard from the Minister of Justice, Hon Judith Collins, and the Ministry of Justice and advice received from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Paul Foster-Bell
Joanne Hayes
Raymond Huo
Andrew Little
Alfred Ngaro
Denis O’Rourke
Holly Walker
Hon Kate Wilkinson

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


Office of the Auditor-General, Briefing on Vote Justice, received 27 May 2014.
Minister of Justice, Response to standard Estimates questionnaire.
Minister of Justice, Response to additional questions, received 27 May 2014.
Minister of Justice, Further response to further additional questions, dated 17 June 2014.
2014/15 Estimates for Vote Labour

Report of the Transport and Industrial Relations Committee

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Vote Labour

Recommendation

The Transport and Industrial Relations Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Labour, administered by the Ministry of Business, Innovation, and Employment, as set out in Parliamentary Paper B.5, Vol. 1, be accepted.

Introduction

The appropriations sought for Vote Labour increase to $139 million from an estimated actual expenditure for 2013/14 of $129 million.

The appropriations have been restructured in the area of health and safety, with the new agency WorkSafe New Zealand providing services formerly funded through a departmental appropriation. WorkSafe will receive $86 million in 2014/15, slightly more than the $83 million allocated to health and safety services for 2013/14. There is a new departmental output expense, Shared Services Support, to provide administration services to agencies such as WorkSafe.

A new initiative seeks almost $1 million for protecting vulnerable workers and ensuring fairness in workplaces in Canterbury during its rebuilding.

Savings attributed to the formation of the Ministry of Business, Innovation and Employment account for a reduction of just over $1 million in the Vote.

Workplace safety

The Minister told us that health and safety issues are the top priority for the Government’s labour portfolio and that the Health and Safety Reform Bill, which we are currently considering, will be crucial to achieving the target of a 25 percent reduction in deaths and serious injuries in the workplace by 2020. He said that the major increase in Vote Labour relates to increased funding for health and safety, following the establishment of WorkSafe. We were pleased to note that this expenditure will increase, and there will be more staff working in this area. The number of health and safety inspectors will increase from around 140 at present to 200 in 2016.

Forestry

We asked how safety issues in the forestry industry are being dealt with, given that it is the most dangerous industry in New Zealand, with 10 deaths last year. The Minister said that intensive work has been done recently in this area; WorkSafe visited every forestry site, many notices had been issued, and at least 25 stop-works or prosecutions initiated.

We asked if a regulatory framework was being considered to minimise unsafe practices such as working too many hours, in poor light, in poor weather, and in poor terrain. We were told that these matters are before an independent industry review panel, and the Minister considers that this review needs to be led by the industry. We were assured that he will listen very seriously to the panel’s recommendations; meanwhile, the approved code of practice is being reviewed to clarify the responsibilities of forest owners and contractors.
Rebuilding Canterbury

We raised the issue of exposure to asbestos during the Canterbury rebuild, and asked if this could not have been anticipated.

The Minister said that a recently released discussion document on health and safety regulations proposes that New Zealand should adopt the more stringent Australian regime regarding asbestos. We also heard that WorkSafe is raising asbestos awareness in Christchurch, with other government agencies cooperating.

The Minister said he is pleased that so far there have been no fatalities during the rebuilding, but he assured us he is not complacent. He acknowledged good buy-in from businesses on the Safety Charter, and noted that that health and safety is in the forefront of people’s minds at the moment; it will, however, be a challenge to keep it there.

Adventure Tourism

We note that, under the Adventure Activities Regulations 2011, all adventure activities operators must pass a safety audit and be registered with WorkSafe New Zealand by 1 November 2014. While the Minister acknowledged a temporary slowing-down in this process, he expressed confidence that all the required audits will be completed by the deadline. The Minister is confident that a coherent approach will significantly reduce fatalities, and place New Zealand at the forefront of safety assurance in tourism.

Employment standards

The Minister told us that the Government plans to pass the Employment Relations Amendment Bill before the House rises for the election. No other employment relations legislation is proposed at present.

Migrant exploitation

The Minister told us that about a quarter of complaints to the labour inspectorate are from migrants, and some complaints have led to prosecutions of employers for underpaying the staff in question. The Minister intends to consult publicly on exploitation, and expects issues to include the powers available to labour inspectors, information-sharing between Government agencies, and the fact that sanctions vary depending on whether or not exploited employees are migrants. We heard that migrant exploitation is of specific concern in the reconstruction of Christchurch. This area will be given priority, and six additional labour inspectors will be assigned there.

Minimum standards

The Minister acknowledged that issues of non-compliance with minimum entitlements—including wages—are on the rise.

We suggested that more labour inspectors could help to solve such problems. The Minister told us that Budget 2014 provides funding for additional labour inspectors, and the inspectorate will focus on the more serious issues that are presented, such as underpayment and exploitation. Some of us are concerned about the total number of labour inspectors.

We raised with the Minister a recent case where a worker was told, after taking a job, that his pay would be less than he had originally been led to believe. The inspectorate said that, because his rate was above the minimum wage, his only recourse was mediation. The Minister agreed with us that, while mediation is effective in issues of employment relations, it has limitations in cases, such as the one we raised, dealing with employment standards.
We were pleased to hear that the appropriateness of mediation in cases concerning employment standards will be addressed in a discussion document in the coming year.

**Paid parental leave**

We note that from 2016, eligibility for paid parental leave is being extended to seasonal or casual workers, and those with more than one employer. Some of us were interested in how those figures were arrived at, and queried whether the amount allocated for this purpose in Budget 2014 would cover the likely demand. The budget allows $18.7 million for payment to up to 800 more workers; the Minister assured us that if this sum proves to be an underestimate, the initiative will still be fully funded.

**Gender issues**

Some of us sought information from the Minister on the impact of the employment relations changes on women and whether any gender audit had been undertaken.

**Pay equity**

We raised with the Minister the Government’s intervention in an employment case relating to pay equity, and asked for some background; and also for some detail of the Minister’s plans for work on pay equity. We were told that, while the Government believes in pay equity in principle, it is not as easy to achieve in practical terms as equal pay. The Minister said the case we raised, which is before the court at present, involved very complex issues which have yet to be ruled on.

**Proposed changes to Part 6A of the Employment Relations Act**

We drew the Minister’s attention to a report the Government had sent to the United Nations. It referred to Part 6A of the Employment Relations Act 2000, which relates to job security in the event of restructuring, and the report cited this provision as benefiting the position of women in employment. We noted that legislation currently before Parliament seeks to amend Part 6A. The Minister said that the proposed changes are intended to encourage flexibility in small and medium-sized businesses (the majority of New Zealand employers); he said that he expects the changes to enable such businesses to take on new staff, while allowing them to restructure as and when necessary. He told us that in his view the greater flexibility would benefit both male and female employees.
Appendix A

Approach to this examination
We met on 29 May and 19 June 2014 to consider Vote Labour. Evidence was heard from the Minister of Labour, Hon Simon Bridges, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members
David Bennett (Chairperson)
Chris Auchinvole
Carol Beaumont
Dr Cam Calder
Darien Fenton
Phil Twyford
Simon O’Connor
Denise Roche
Mike Sabin

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

Estimates briefing paper for Vote Transport, prepared by committee staff, dated 29 May 2014.


Minister of Labour, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Labour, received 29 May 2014.

Response to additional questions, received 16 June 2014.
Appendix B

Corrected transcript of hearing of evidence 29 May 2014

Members
David Bennett (Chair)
Chris Auchinvole
Carol Beaumont
Dr Cam Calder
Darien Fenton
Andrew Little
Sue Moroney
Simon O’Connor
Denise Roche
Mike Sabin

Witnesses
Hon Simon Bridges
David Smol
Gaye Searancke
Adrienne Meikle
Gerard Clark
Gordon MacDonald
Dr Richard Hawke
Karl Simpson
Jo Hughes
Good morning, Minister Bridges, and welcome to the committee.

I will be brief, Mr Chairman. Thank you. It’s good to be here. Members, can I just start by thanking you for your work on the bills that I have sent your way—obviously, the employment relations bill—

A very hard-working and diligent committee.

—you are—and I appreciate there’s different views on that from the respective parties, but I appreciate your work on that. Practically speaking, the more serious and significant bill, the Health and Safety Reform Bill, that you have got right now—I know you’ve got a very strong number of submissions on it and it’s important that we get that right, and you will be crucial in that process. So I do, in all sincerity, thank you for what you’re doing.

The Government’s overarching goal, of course, remains to support growth by creating more jobs, and improving New Zealanders’ overall standards of living. Specifically, work in this portfolio is aimed at ensuring we have safe and skilled workplaces for improving the safety of the workforce and building a sustained, economic growth for a productive and responsive labour market.

I would just like to talk through some of the priorities for the year ahead. Health and safety remains my No. 1 priority. The Government is committed to delivering a 25 percent reduction in serious injury and workplace deaths by 2020, and making sure New Zealanders return home safely at the end of each working day.

We have made significant steps towards changing the health and safety framework to help achieve this. We have released Working Safer, the Government’s response to the task force on health and safety, which outlines a blueprint for a systems change. We’ve established WorkSafe New Zealand, which of course wasn’t the position when I was here before you last year. We’ve introduced the new health and safety legislation, which, as I say, I discussed with you, and I think is a very significant job for you on this committee.

We’ve implemented all of the Pike River royal commission’s recommendations. We’ve been active in the Canterbury rebuild, including new funding and securing business commitment through the safety charter. However, as the Independent Taskforce on Workplace Health and Safety said, a reform of the system is a huge challenge and one that requires not only leadership from Government but also businesses and workers alike, as well as, very significantly, cultural change, and the capability build that will take some time to implement.

Forestry, of course, is a particular concern and I will be very happy to engage with you on that issue. WorkSafe has undertaken intensive assessment and enforcement action in the forestry sector, which is ongoing.
The Government is also supporting the independent review panel on forestry and we’ll be interested to see what insights it may have to address this issue. In the interim, WorkSafe New Zealand is also making change to the approved code of practice on forestry to provide additional clarity on principles and responsibilities. As you know, of course, the new legislation will particularly address high-risk, contractor-dominated sectors like forestry.

One of the key findings of the task force was that the health and safety legislation was never supported by all of the appropriate regulations and guidance which help people to comply and place appropriate safety requirements on key high-risk areas, for example, major hazard facilities.

Critical to the year ahead will be putting in place the necessary and appropriate regulations and guidance to support the implementation of the bill and achieve our targets for workplace health and safety. Last week I released a discussion document on the first tranche of regulations, and will be happy to discuss those.

Before moving on to the other labour portfolio issues, I wanted to just briefly mention adventure activities regulations. These regulations require that all adventure activities operators pass a safety audit and are registered with WorkSafe by 1 November this year. I am confident all operators can obtain safety audits and be registered in time this year, ensuring that our adventure tourism sector operates safely, as, of course, it is of critical importance to New Zealand’s reputation as a world-class tourism destination.

As you all know, the Government has just announced a package of measures to provide additional support to families and newborns in the Budgets. Some changes in relation to the extension of PPL and the parental tax credit were made as matters of urgency on Budget night. A second tranche of changes was also announced, which aimed at updating the legislation in this area to recognise the diversity that we have today in family and working arrangements—for example, allowing primary carers other than mothers who are offering primary care to receive support under the scheme, providing support for seasonal workers, and allowing a small number of “keep-in-touch” days so employees can keep connections with work and maintain their skills. I aim to consult on the technical details of those changes to the scheme later this year, and my hope is that legislation will be introduced early next year to make those necessary changes.

Another key focus is ensuring that our employment standards regulatory system works effectively. Employees in some areas may not be receiving their minimum entitlements in law. Indeed, data from the recent Survey of Working Life 2012 indicates that 17 percent of employees reported that they were not getting their minimum holiday entitlements, didn’t have a written employment agreement, and were not being paid the minimum wage. It seems to be particularly an issue in relation to migrant or other vulnerable workers. I have asked my officials to undertake work in this area, and I hope to release a consultation paper seeking feedback on how to...
improve compliance in this area. In particular, I am looking at whether our penalties and enforcement regime is effective in encouraging compliance, and whether other improvements need to be made.

I appreciate this is about you asking questions, so on that note I’ll end there. I’m very happy to engage.

Little  Thank you, Minister. You’ve alluded to one aspect that is referred to MBIE’s statement of intent in relation to employment—that’s the review of employment standards. There is another item foreshadowed, which is described as looking at the employment framework more generally to ensure it remains fit for purpose with the changing nature of work, etc. Can you just give an indication about what that would entail, and are we to anticipate further changes to the Employment Relations Act?

Bridges  I think in terms of employment relations, as opposed to employment standards, I don’t see more significant changes coming once we’ve passed the law that is now before the House. So I think that law, to give you the position there, is one I would like to see passed before the election or the House rises. That’s something I’ve made clear to the Leader of the House, and we’ll see where that gets to with a busy Government, but that’s my position on that.

Fenton  A good election issue.

Bridges  Well, I think it would be good for everyone to clear it away before the election.

In terms of other employment relations issues, there is nothing significant that I’m considering at this stage. I think the position is different in relation to employment standards, and as I have foreshadowed there, I broadly say that paid parental leave is in that category because it’s about the entitlements, rather than employee to employer relations. Of course, we know the position there and what we’re intending to do.

I think the other area is that one that I’ve talked about where I said last year to you that it was on my radar. It still is. MBIE’s progressed relatively significantly on the issue. Just to flesh it out very briefly, I mention 17 percent of employees, according to one survey, saying they don’t believe they’re getting their entitlements. My personal view is that I don’t think that’s a question of exploitation, when you’re talking about not having an employment agreement—not necessarily. I don’t mean to be glib about that. I know it’s a breach of the law, but it doesn’t necessarily mean exploitation.

But I think another figure is more instructive, actually—nearly 6,000 complaints to the labour inspectorate I think over the last year and a bit, and of those, about 24 percent were from migrants. We know, and if my recollection serves me, Darien Fenton has corresponded with me on one in relation to restaurants that has gone to prosecution. There are significant issues in that case around underpayment, arguably as low as $4 per employee for a restaurant chain. So they are issues on the rise.
I think what we want to consult on are issues around the sanctions. We know that in the Immigration Act now there’s a maximum penalty—I think it’s $100,000 and 7 years—whereas here, in this area, it is $10,000 to $20,000, depending on whether you’re an individual or a body corporate. So what that, of course, means is if you are a migrant employee with visa issues, the employer faces up to 7 years’ imprisonment. If you’re a New Zealand employee it is $10,000 to $20,000.

So there’s an anomaly just there. I think there are issues that, as I say, I want to go out to consultation on—not to mention various information-sharing issues, I think, between agencies in this area. It’s not a straightforward issue, but the powers and tools that I think the inspectors have to do their job in relation to that serious non-compliance with minimum standards set of issues.

Little I suppose, Minister, we saw that, and we saw that particularly in farming, the minimum wage level not being complied with, and your response today is to issue a minimum wage order, that allows averaging, that effectively reduces that minimum wage for working people. So you would appreciate that, looking forward now, working New Zealanders don’t necessarily have a great deal of confidence that they’ve got a ministry behind them, or a department of a ministry, that’s going to stand on their side when it comes to issues of non-compliance with employment regulations.

Bridges I’m conscious that I gave a very long answer. I mean, I’m happy to really go into some detail on the fortnightly minimum wage order, but I’ll sort of leave it in your hands and you can follow it up if you want.

I obviously take a very different view, because I think, on this issue—and I know the CTU, for example, takes a different view—that they are wrong and that their position effectively will lead to the casualisation of salaried workers in some of these areas. So the issue, we know, is fortnightly rosters, maybe 10 days on, 4 days off, or whatever it is. The recent court ruling means that 30 hours worked 1 week must be paid at 40; 50 hours the next week must be paid at 50. So instead of being paid for 80 hours over a fortnight, it is 90 hours. The employer response in that situation, I think, will be significant casualisation over time.

I don’t think that’s good for employees, or it’s certainly not the position that we want to see, when they can be salaried workers. So I think for the interests of certainty, protecting long standard practice, that I don’t think has resulted on the whole in exploitation, here Cabinet has made the right decision.

Fenton I’ve got a couple of questions, if I can do those now.

Just going back to your comments about adventure tourism. Where we’re at as of, I think, the end of last week, there have been 72 safety audits conducted out of the 452 organisations that have registered. Have you put more money into this Budget to help get those safety audits done by 1 November?
Bridges  In terms of the Budget, of course the big movement in Vote Labour is in health and safety. It is in relation to WorkSafe New Zealand and it has gone from, I think, about $52 million to $85 million. So it has had significant uplift, and the expectation of the Government is that within that WorkSafe New Zealand will put strong resources into this. I agree with you—a significant issue of adventure tourism activities.

Again, I’m really happy to get into the detail of this. I just say that I am confident we’ll make 1 November. I am confident that will be done to high standards. And, actually, when we do, I believe we will have a world-class assurance system to match our world-class tourism industry.

You’re right, in terms of your point that because of issues with Outdoors New Zealand, there’s been—I shouldn’t lay the blame on that one business. But because of that and other things, there has been a slowing down before there’s a speeding up. But we’re now in a position where we have several auditors going through the process of being auditors in this and operator preparedness is really lifting. They’re the two requirements, really. You’ve got to have auditor capacity, and, as I say, we can be very confident that we’re right there on that, and then the operator preparedness where WorkSafe is regularly in contact by newsletter, and has a template safety management plan that’s ensuring that these operators are really ready to go with the registration process, employing six safety advisers who’ve engaged with 170 operators so far.

So I think we will make that target, as I say.

Sabin  Minister, obviously forestry has been of significant concern, I think, for some time. Can you just give us a broad sense of what responses there are to the challenges of health and safety in forestry, not just, I guess, from the perspective of you as Minister but actually what practices you’re seeing in industry—so a broad context?

Bridges  Well, thanks for the question. Forestry is New Zealand’s most dangerous industry at the current time. I could try and explain that and talk about some of the inherent risks, but there is no question that the record is—to say it’s unacceptable underplays it; 10 fatalities last year. Since the latter part of last year, it has been subject of intensive scrutiny and activity by the Government and WorkSafe, and we have had WorkSafe visiting every forestry site, taking action where necessary.

I am happy to go through the numbers there. There are 300 visits etc. going on there, resulting in many notices; at least 25, I think, stop-works, prosecutions in that area. Of course, there’s an independent industry review. MBIE is supporting that. I know there was comment around these issues. I think it’s been very important that this is being led by industry, because, actually, industry has to show leadership on this issue and take it seriously. In the interim, as I say, we’re reviewing and changing the approved code of practice to clarify the responsibilities of principals and contractors.

One of the things that I think is sometimes said is: “Well, you know, that’s all very well but you’ve got to lift the regulation.” Well, I’ve already
mentioned to you the approved code of practice. The Health and Safety Reform Bill you’ve got in several areas will make a very significant impact and effect very significant change in forestry practice. On the wider space, I know there’s a coronial inquiry, for example.

I just make one final comment. You come back to the industry-led inquiry or review. I made it very clear to them. I’ve met with them once here in the Beehive, and I made it very clear to them that I am waiting for their report and I will take what they say very seriously.

Roche Just following on from that, Minister, there’s been a code of practice for quite some time which was endorsed by the industry. Then there’s the other review that’s happening at the moment, as you say. One of the things that’s not in place is regulation around maximum hours of work, restrictions around working in the forest in poor light and in poor weather and in poor terrain. Would you be considering any kind of regulatory framework that would be able to put some restrictions around those sorts of unsafe practices?

Bridges I will certainly answer your question directly, but let me just first say—I come back to it—there is a code of practice that is being reviewed in the interim. There is the Health and Safety Reform Bill, and the regulations under that, I think, make a very significant difference.

In relation to that issue, I know it is before this industry-led review and it is something that they will be considering. You know the people on that. It obviously has union representation. George Adams, the Chair, who’s from business, and his health and safety expert, Mike Cosman, I want to see what they say on that. I’ve already—

Roche Codes of practice didn’t save those 10 people from dying. You know, what we need is regulation that’s enforced.

Bennett Denise, I think he’s answered it as—

Bridges And I think we’ll see what that independent review comes up with.

Fenton You’ve got another tragedy in the making right now in the Christchurch rebuild, around asbestos exposure.

Bridges Yes.

Fenton I’ve asked some questions about the inspections that have gone on throughout the country around workplace investigations, and I note that there were 49 in 2012 in Canterbury and 33 in 2013, which doesn’t seem very many to me. But my question really is surely you could have predicted this, and given that this is now exploding and will become one of our future tragedies, what do you plan to do about it right now, this year?

Bridges I’ll get Gordon MacDonald from WorkSafe NZ to give you a bit of a sense of some of the numbers in relation to your question. Broadly, I think you do have to—well, you don’t have to but I think it’s important just to note on the health and safety inspectors’ side of things that we are taking WorkSafe, I’ve already mentioned the dollars, from an organisation or an entity solely focused on health and safety from around 288, I think it is at
the moment, to 500 people; health and safety inspectors from approximately 100, or I think maybe it’s about 140-something, to 200 in 2016. We are putting the resource and effort into that, and Canterbury gets a very significant focus on that, and the number of inspectors there has gone up.

On asbestos, let me give you just a bit of a sense of a few things here. One thing that hasn’t been picked up in the media, but, of course, now we have got the media commentary on the wider issues of asbestos in Canterbury, is that last week I welcomed an MBIE discussion document on health and safety regulations. That had five chapters; one of them, a detailed chapter, is on asbestos. What that chapter effectively is putting out for consultation is the proposal to adopt the Australian model of regulations in this area on asbestos. It’s fair to say that they are a more stringent set of requirements in relation to this area and they do, for example, include the prohibition of work involving asbestos, except under defined exemptions. So there’s a tightening over the licensing scheme and so on.

I think the other things I’d just say before I hand it to Gordon to give you a bit more of, I suppose, a refined sense of this is that WorkSafe is also doing, can I say, very strong work in terms of what I call broadly awareness building. By that I mean, website guidance, breakfast sessions with workers in Canterbury—Gordon can go into that if you like—and various other things so that there is a more deepened sense of what this is about, and then in the wider occupational disease space but with a real priority on asbestos. Earlier this year the Occupational Health Advisory Group was formed to report to WorkSafe New Zealand on strategies, the data issues, and emerging issues in these areas.

I think, just finally, although it’s not strictly speaking within this Vote, I’d say there is wider interagency work on asbestos, specifically in relation to the communications needed to give people the information they require and give them assurance in Canterbury, but also on the wider issues here in this issue.

Fenton  Excuse me Minister, I think in the interest of time, because I know there’s a lot of questions, could we get that in writing? Could you present the information you’re just about to relay to us in writing?

Bridges  Sure thing.

O’Connor  Minister, I just wanted to follow up around the whole tourism side of things. You’ve given us some insight into what’s happening, and obviously your deadline—your optimism there. I’m probably more interested at this point in how that then places us within a global context, which I suppose is really the question itself.

Bridges  Well, I think come 1 November—or come 2 November, really—we will have a world-class, you might even say world-leading, assurance system. That’s not to be glib about this, because we know there’s been fatalities in the past, and I think there will be in the future, although, of course, this system has to make sure they are greatly reduced. You know, you can go
around the world—Australia, Switzerland, Canada, the United States. They have certification schemes, but they’re not mandated at law, and they’re sector driven, and there’s variations state from state. What I’m effectively saying to you is their federal systems means they don’t have the coherence in approach that New Zealand can adopt.

Internationally there’s been a trend away from traditional inspections towards a sort of audit and accreditation scheme that we’ve got. So really what I’m saying to you is yep, come 2 November I’m confident we’ll be in strong shape, and we need to be, given, obviously, there are issues of health and safety, given also our reputation as a place for, you know, adventure tourism activities. There’ll always be inherent risks in these things, but they have to be at an absolute minimum.

O’Connor So we’re moving away from a certification system as well. It’s a different approach for us from the Americans, beyond just the federal structure?

Bridges That’s right, and, I mean, really, it’s going from a sort of an approach of, you know, John the inspector goes in and has a look around and leaves and does that once every, you know, several years, to an approach of auditing the systems and ensuring that, you know, whether it be the jet boat operator or whoever it is, or a caving operation, we have all the systems and processes in place to minimise these kinds of things happening.

Moroney I’m going to ask you some questions about paid parental leave, Minister. I know that’s surprising! Did you put a Budget bid in for anything greater than the 16 and 18 weeks that were announced in the Budget?

Bridges No.

Moroney OK. Can you explain to me that extension of eligibility to seasonal, casual workers and workers with more than one employer? You’ve said that that’s going to be up to 800 more employees. Can you explain how that figure was arrived at? It seems a small number to me, given the breadth of that.

Bridges Well, right at the moment there’s, what, 26,000 people or families receiving paid parental leave. Our figures that obviously MBIE has calculated—I’m happy for someone from MBIE to take you through how they do that in a second—means that we say that there’s about $12.1 million additional and 600 more people in the caregivers other than parents. So that is the reflection of the more diverse family arrangements we have today. We know adoptions are small numbers, and that, you know, actually permanent guardianship—Home for Life situations, for example, and, indeed, grandparents, as long as they meet the other requirements, of course, that they’ve been in work and so on, may be able to come in here.

We’ll consult on the sort of granular detail of this, but in the parental tax credit scheme we already do this. I believe it’s what they do in Australia, but there’s the notion, of course, of primary carer, and whether we would move to that so that every child, in a sense, has that right to paid parental leave, goes with the child on that. But, look, those are things I think we’d need to consult on. The other one, just very briefly—

Moroney The one I asked about was actually the casual and seasonal—
Bridges: Sorry, OK. So people in less regular work, again, just to give you numbers, $18.7 million, 800 more people—

Moroney: So I want to know how that figure was arrived at, please.

? I don’t have the details of that, I’m afraid. The committee’s asked for follow up questions on that, so ________

Moroney: OK.

Bennett: We can get that follow up. Carol, you had a question.

Moroney: You haven’t got a kind of a very rough explanation for it? No?

? For the casual______

Bennett: They can come back to us with that. Carol Beaumont.

Beaumont: OK, I’ve got a couple of areas that I want to cover. The first is around the employment standards stuff that you were talking about earlier, and I want to particularly talk about the labour inspectorate. What, if anything, is the ministry or are you planning to do in that regard? We’ve got 40, as I understand it, labour inspectors, and if we’re serious about greater enforcement, what are we going to do in that regard?

Bridges: So, you’re right—I think there are 40, 41 labour inspectors. That’s, you know, an uplift from where we’ve been, slightly, over recent years. One Budget bid there was for an additional million dollars per year in the next 4 years, to ensure we’ve got more in Canterbury, where we are putting this focus and where there are these migrant issues. So, look, it’s a real focus.

Beaumont: So, sorry, you are putting more into Canterbury for the moment?

Bridges: Yes.

Beaumont: How many more?

Bridges: It’s six additional labour inspectors, and a 4-year—or is it more than that—4-year and out-years Budget bid that was, as I say, successful and results in more labour inspectors in Christchurch. You know, that is a real area of priority for the labour inspectorate, but given that it’s a focus on exploitation issues rather than, I think, some of the more minor issues in the scheme—

Beaumont: But can we expect an increase in labour inspectors over the next year if we’re going to be focusing on things like written employment agreements, meeting all the minimum code standards that you’ve mentioned earlier—will we have more labour inspectors in the next year, other than the Canterbury ones?

Bridges: Well, I think the point is there was a Budget bid, and, as a result of that, there are more labour inspectors than there were. I think the other point—

Beaumont: Sorry, when was that Budget bid?

Bridges: Well, it’s come through Budget 2014.

Beaumont: OK, so we’re getting to—41 is more, and we’re not going to get any more this year. So about a third of what Australia has for—
Bridges It’s additional to the 41.

Beaumont —as a proportional thing.

Bridges The other thing I would say to you, though, is, look, obviously it’s a question of assessing the level of need and then making a decision of what you have to have to fulfil that. But I don’t make—and I remember our discussion on this last year—an apology for the fact that it is important, you know, with limited resources, that the labour inspectorate does prioritise what they do, and focus on areas of highest exploitation. That’s why I have made this issue a priority, if you like. It seems to me New Zealanders would agree with me that the labour inspectorate should be focused on, you know, that kind of example—we talked about the restaurant chain, rather than some of the, I think, more minor in the scheme of things.

Roche Like Easter shop trading.

Bennett Denise—

Beaumont So just—sorry, I said I had two areas. That was one. Can I just do the other, which is around the issue of pay equity, Minister. A couple of questions there. One is why—or what was your intervention on the appeal case involving Kristine Bartlett and what was the purpose of that, and the second part is what work can we expect to see from you in the area of pay equity over the next 12 months?

Bridges Firstly, I think because the matter is before the courts, I want to be as judicious as I can be in what I say. Obviously, the Government believes in pay equity. I think, of course, what is easy—not easy, but what in a sense is simpler to achieve is the issue of equal pay. That is that Carol Beaumont, as a member of Parliament, earns the same as Chris Auchinvole.

Beaumont I understand that. I am interested in pay equity.

Bridges Yeah, well, I’m answering the question. Pay equity, of course, gets into, I think, a more—not at a conceptual level, but in a practical sense—difficult issue of comparing builders with nurses and so on. They are very complex issues that the court is going to have to grapple with.

Beaumont I—

Bennett Chris Auchinvole.

Beaumont He didn’t answer that question, at all.

Bennett No, Carol—Chris Auchinvole.

Beaumont Well, I’ll get back on the list, then, because he didn’t answer that question, at all.

Auchinvole The Christchurch rebuild, Minister. There’s been a huge immigration force go in there. They’ve increased the Celtic content of the population. They seem to have been extremely well received socially and culturally, and from a work point of view. I keep a fair eye on it, being quite close to Christchurch, and there’s an absence of friction, in public anyway, over having a large immigrant force come in. I know there’s a lot of attention
given to health and safety. Is there—and when it was planned, I think your
department looked at things like building the Olympic village and those
sorts of things in the UK to see what the safety procedures were there.
There’ve been some quite interesting moves in Christchurch, where long
trousers replace shorts and sleeves replace bare arms and that sort of thing.
It’s all working. Is it up to the expectations of your proposals, or are there
still gaps there?

Bridges Well, I think—I gave speeches on this last year. If you take the Olympic
village in London—zero fatalities. It was a massive project. I think it’s the
first Olympic village ever built without fatalities. You’d expect some
amazing piece of work and great culture and attitudes built into that. I pose
the question: what if the Christchurch rebuild could be in the same
category. Don’t underestimate the differences and the challenge that that
presents. In a sense it’s a much more complex beast, if you like, in terms of
the moving parts and so on.

So far, within the red zone rebuild, there has not been a fatality. But we
can’t be complacent on that. Across really all of these issues we’ve been
talking about this morning, the labour inspectorate and health and safety
inspectors, there is a lifting in the resource there to make sure that we do
the best job we can for the people of Canterbury.

Auchinvoe There seems to be quite a lot of buy-in.

Bridges I think that’s right. The safety charter has had significant buy-in from
businesses. I was there last year with Minister Collins signing that. I can say
this: health and safety in a sense is in its moment at the moment. There’s a
lot of reform going on, a lot of people are thinking about it in business,
from CE down, they are very interested. I think the challenge for all of us is
to seize on that and capture the moment and make sure it’s not just—again,
without being flippant about it—a fad but it’s something of lasting
consequence.

Roche I’ve got two questions for two different areas. The first one follows on
from that, which is around health and safety. Given that health and safety
training for workers is often done under the employment relations
education leave and the contestable fund, why has that dropped from $1.4
million to $500,000, and is that shortfall going to be made up somewhere
else?

Bridges Well, I’ll get someone to answer the specific detail on that, but I’ll come
back to the very significant point that health and safety funding has gone up
by over $30 million per annum.

Roche Is this the training for workers, though?

Bridges Yes, I understand. Actually, if you look through the other areas of Vote
Labour, health and safety is up, employment relations are marginally up.
The only one that’s gone down by, I think, a couple hundred thousand is
policy advice and ministerial services. I think that’s probably on the basis
that with Darien Fenton leaving I don’t need as much advice; I don’t know.
But that’s the position there.
I’ll get someone to answer you specifically on that $500,000.

The normal figure for the contestable fund is $500,000. So last year there was a transfer from 2012 to 2013 of $970,000. That was in the supplementary estimates. It went through and that was an expense transferred to ensure that it provided funding to the safe rebuild of Canterbury. So $500,000 is the normal base figure. It’s not high, because there was an increase in the supplementary estimates.

OK. My other question is actually around the recent report that this Government sent through to the United Nations on the status of women in employment, which actually referred to Part 6A of the Employment Relations Act, and said that that gave women a better position in the workforce. So I was wondering what your intentions were with the Employment Relations Amendment Bill, which makes some massive changes to job security under Part 6A.

Well, firstly, I think the changes are good for both men and women, and the reason I say that is because actually we’ve got a position in New Zealand where we are a nation dominated by small and medium-sized businesses, and we want to make sure that we are conducive in encouraging them to take on new staff. We also need to have, I think, flexibility in that system, because not everyone wants to stay in the same job all the time. They move around. It’s not a job-for-life scenario that it has been, so I think we want a flexible, dynamic market that ensures more higher paying jobs, productivity growth leading to profit.

If this refers to low-paid workers—

The other thing I would say is that the bill actually has some very strong positions that I think really will make a difference for women. It has a lot of provision on flexible work and in ensuring actually that not always just women but I think in the area that Sue’s interested in, in paid parental leave, we’re doing the same thing there. There’s an ability for young mums to have really quite strong procedural rights about their where they work, when they work, and the things there.

So I think that our law changes in this area aren’t specifically gendered, but if you look at the flexible working provisions, I think they’ll be strong for women.

I want to go back to the issue of migrant workers in Christchurch if I can. You’re signalling that you’re going to be looking at enforcing employment standards. One of the cases that I’ve been dealing with, I’ve asked a few questions about it, is these Filipino workers that came here, who paid a huge amount of money to an immigration adviser, got employed by a subcontractor on $18 an hour, who then, when they arrived, cut their pay by $3 an hour. Your inspectorate’s been looking at that for months and they’ve just come back to these workers saying they can’t do anything about that; they can only enforce the minimum wage, which I understand, but they’re saying they can’t do anything about this employer effectively cutting
their pay, and their only option is to go to mediation if the employer agrees. That’s pretty hopeless, isn’t it? Don’t you think that’s pretty hopeless?

Bridges Obviously there’s some operational issues there, and I’m vaguely familiar with the case you’ve talked about.

What I would say is I agree with you. I think you’ve got a very valid point in relation to mediation on issues that are actually employment standards issues here. That’s why I think actually that one of the most important distinctions in this employment area is between employment relations where, yes, contractual negotiations can sort it out, and so on and so forth, and employment standards. And when you’re dealing with standards, as I say, I think you have a strong point, and that, I think, will be something that will be in a discussion document that I hope to get out some time this year.

Fenton I could write that bit for you if you like.

Bridges Are you seeking a consultancy job after the—should we make you ambassador for some Pacific Island or something?

Beaumont Minister, a couple of things—first, you say the employment relations legislation change is good for women. I’d be really keen to know specifically what work was undertaken by officials and what work you sought to be undertaken on the gendered impact of the changes to the Employment Relations Act, please. Can you tell us how we know that it’s good for women? Because Part 6A, your Government is saying to the UN that that was good for women. Now we’re changing that, so obviously the quid pro quo is that that might be bad for women, but even the changes to collective bargaining. So what information do you have to back up what you’re saying about it being good for women?

Bridges I think in relation to Part 6A, you need to be very clear on what the current bill is proposing.

Beaumont I am—

Bridges In a sense, that—well, you asked me about it so I’m going to answer. We’ve actually accepted that there is an argument in relation to vulnerable workers in terms of continuity across employment contracts. And we effectively said that big businesses are going to have to deal with the position as it has been since the Labour Government made changes in these areas. But that’s why I said to you earlier, I think it’s also important to understand that small and medium-sized businesses make up the majority of business in New Zealand. It’s not always easy for them, and that’s why we accept that they are able to be exempted from Part 6A.

I’ll give you an example. It may be Mr and Mrs Sabin who are coming across to a cleaning contract that currently has five staff. They, of course, take the contract, wanting to work in the business themselves. Well, under the current law that will mean seven people in that business when it is economic at only five. So I think the compliance cost issues there for small and medium-sized businesses are real and do mean that change is justified. I
don’t see that as an issue of gender but as an issue for the small to medium-sized businesses.

Fenton   Don’t understand the industry then.

Beaumont  Can you answer my question? Sorry, that’s the second time the Minister has failed to answer the question I’ve actually asked.

Bennett  Sorry, Sue Moroney’s got a question. We’re running out of time, so last question.

Moroney  Mine will be really quick so—

Beaumont  I asked a question about what gender analysis has been done, Minister.

Moroney  Look, Minister, just going back to paid parental leave if we could. Your Budget says that as a result there’ll be up to 800 more employees—seasonal and casual workers etc. will be eligible for parental leave payments. If your figures are out of whack, because I’m not sure how you arrived at them, will people who are eligible still be funded or is it capped at 800 places?

Bridges  No, the people who are eligible will be funded, because, of course, we’ll be making legal changes that will require that. I remember questioning officials on this issue of how solid these numbers were, and they were clear that they believed they were solid. But, ultimately, whether it’s 600 or 1,200, we don’t run ourselves into many millions of dollars of expense to the Crown, given that at 800 it’s an $18.7 million expense.

Bennett  OK. Thank you very much, Minister. We very much appreciate that. We will forward any new questions to you. Thank you very much.

**conclusion of evidence**
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**Vote Lands**

**Recommendation**

The Primary Production Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Lands as set out in Parliamentary Paper B.5, administered by the Ministry for Primary Industries, be accepted.

**Introduction**

The total appropriations sought this year for Vote Lands amount to $340.054 million, comprising $243.94 million total annual and permanent appropriations, plus expected payments of $96.114 million for land tenure reform acquisitions for 2014/2015 (part of a multi-year appropriation to 2019 totalling $480.57 million). The apparent decrease of $164 million over the estimated actual expenditure in 2013/14 of $540.805 million is due to a change of methodology in the calculation of land tenure review settlement values. The actual trend over time reflects a general increase in capital expenditure, which is matched by a corresponding increase in capital receipts.

Appropriations totalling around $134 million (approximately 40 per cent of the vote) are for multi-category expenses including the management of Land Information New Zealand (LINZ) location information, of property rights, and of Crown land.

**Land Information New Zealand’s priorities**

The Minister told us that Land Information New Zealand’s priorities as reflected in the budget are as follows:

- Maintaining the New Zealand Location System
- Supporting the rebuild of the Canterbury region
- Enhancing the survey and title system
- Assisting other Crown entities in the management of their land.

Several important projects have commenced, including a four-year collaborative spatial data infrastructure project with GNS Science and Victoria University, to improve the location-based information infrastructure, particularly as it relates to the Canterbury region, where results will be important for the rebuilding of the area.

**Land Tenure review**

We asked about the progress of land tenure review high-country lease disputes and the costs involved in resolving them. We heard that when the current system of determining land earning-capacity rents was implemented in 2012, there were 141 historical disputes. All of them have been resolved and the cost of resolution has fallen, saving an estimated $1.8 million over the 11 year tenure review cycle. The system has been used to set rents for 17 leases in the past year, with only one dispute which was swiftly resolved.

There are 15 reviews in the system this financial year at a net cost to the Crown of $6 million. Of the 303 pastoral leases that initially existed, 119 are not in tenure review; 94 have been through the system; 85 are going through the system; and there were five whole-
property purchases. We heard that the process which used to take 10 years on average, now takes three to four years, and there is more understanding among stakeholders of the process involved, and the economic and conservation aspects of valuation. The Tenure Review Quality Assurance Board concurs with the view that the process now works well, and that the figures are an indication of the success of the programme.

We asked about the process involved in these valuations. We heard that all financial transactions related to the tenure review process are supported by market valuations, conducted by external valuers who assess the following:

- the value of the lease over the land
- the value of the portion of the property that will be sold as freehold to the lessee
- the value of the remaining portion of the property that is to become conservation estate

In the tenure review process, the Commissioner of Crown Lands pays a sum to the lessee to purchase the perpetual lease. LINZ receives money for the portion of the land sold freehold to the lessee. The remaining portion of the property is non-productive land but may have significant inherent value. This land is valued and is transferred to the Department of Conservation. No losses to the taxpayer are incurred in relation to the land tenure review process.

**Foreign ownership**

We asked why it was not easily possible to determine foreign ownership of land and whether this information could be entered into Landonline. We heard that the logistics of collecting this information and defining the various categories of foreign ownership while tracking constant changes in the status of owners made this proposition unviable. It was not simply a question of adding a field to an online form, but would require the addition of discrete status categories, which would need constant updating. We were told that a resource-intensive service would be needed to at best provide a very superficial service. Some of us disagree.

We asked about the conclusions of the review of the Overseas Investment Office. We heard that the office sits within the Crown Property Group and the review covered the group as a whole. No change has been recommended to the structure of the office as a result of the review. Despite growing interest from overseas buyers in New Zealand land and farms, we were assured that the capacity of the office to deal with the situation was adequate, and resources to meet future demand sufficient. There is interest in buying land from overseas investors, but few have in fact made applications, and land acquisitions have neither increased nor decreased in recent years. LINZ will continue to monitor the number of enquiries.

Few applications are turned down by the office because much of the work, such as advice on eligibility and requirements, is completed in advance, and only those deemed eligible can apply. When applications are made, they are dealt with promptly. The least complex cases are generally decided within 30 days, the most complex within 70. The complexity of an application is dependent upon ownership, land value, and the projected use of the land.

Foreign ownership of land is monitored, and if a complaint is made to the office, it is investigated. We were told that foreign ownership of forestry land does not affect local employment prospects or mill use, but it has the advantage of capital release on purchase of the land.
Red zone land in Canterbury
We asked about the situation regarding red zone properties in Christchurch. We were told that they would be held until a decision has been made on their disposal. Some settlements are moving very slowly, so a decision cannot be taken yet. LINZ provides advice on geodetic data issues, but does not make decisions on possible uses of the land.

Rationalisation of property holdings
We were concerned that while LINZ managed approximately 5,000 properties, only 10 or 12 of them provided a rental profit of over $10,000 per annum. We asked if these extensive but fragmented holdings were being rationalised in any way, and sought an explanation of the background to these holdings. We heard that many of the properties were inherited by LINZ from other agencies such as the Kiwi Rail. Many were small pieces of unusable land, and some had unidentified owners. The Minister conceded that a rationalisation process might be a good idea and could be investigated.
Appendix

Approach to this examination
We met on 22 May 2014 and 19 June 2014 to consider Vote Lands. Evidence was heard from the Minister for Land Information, Hon Michael Woodhouse, and Land Information New Zealand.

Committee members
Shane Ardern (Chairperson)
Steffan Browning
Colin King
Ian McKelvie
Hon Damien O’Connor
Eric Roy
Meka Whaiteri

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

Minister for Land Information, Response to standard Estimates questionnaire, received 16 May 2014.

Minister for Land Information, Response to supplementary questions, received 19 May 2014.

Minister for Land Information, Response to additional written questions, received 10 June 2014.
2014/15 Estimates for Vote Māori Affairs

Report of the Māori Affairs Committee

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Vote Māori Affairs

Recommendation

The Māori Affairs Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Māori Affairs, administered by the Ministry of Māori Development, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Māori Affairs increase to $231.446 million in 2014/15, from an estimated actual expenditure for 2013/14 of $212.404 million.

Appropriations relating to Whānau Ora include over $30 million for purchasing the commissioning of services to achieve Whānau Ora outcomes from newly established non-government commissioning agencies, and $13.5 million for the purchase of the service delivery capability.

Māori language strategy

We asked the Minister about plans to restructure the management of Te Reo Māori by the Government. A proposal is before the Government to move responsibility for strengthening and growing Te Reo Māori from central organisations to iwi groups. The proposed strategy is based on recommendations from a review by a panel of language experts appointed by the Minister. That review had in turn been established in response to the Waitangi Tribunal’s report on Wai 262. The Minister believes it is important for the strategy to be driven by Māori, who have a vested interest in the future of the language, rather than entirely by Government employees.

We asked if putting iwi in charge of language revitalisation would allow the Government to avoid any responsibility in this area. The minister said this concern had been raised previously, and in response he had amended the proposal so that two government appointees would sit on the board of Te Matawai, the proposed steering group for the new strategy.

Relationships with Chinese community

We asked the Minister for his reasoning for funding the $1-million production of a stage show, Xin and Tane. He told us it was motivated by a desire to continue building strong relationships between Māori and Chinese. The Minister believes that personal relationships are the key to economic success in China. He has found that Māori participants on economic missions to China have been invaluable to building personal connections because of some cultural affinities. Understanding each other’s background and beliefs has allowed Māori and Chinese business people to form high-trust relationships, and thus to close economic deals that might have not otherwise come to pass. The stage show will be a collaboration between a Chinese performance group and a Māori counterpart.

The Minister is also working to ease racial tension between Māori and Chinese in New Zealand, and has hosted a number of hui bringing the cultures together to improve
understanding and acceptance. He emphasised that manaakitanga is an important Māori cultural value, and any prejudice is held by a minority of the Māori community.

We asked about long-term plans for using economic connections with China to benefit all Māori. The Minister said any business visits focus first on meeting with the Chinese government, to ensure the sustainability and stability of any ventures. He has found that Chinese culture is similar to Māori in the value it places on loyalty and commitment.

We asked the Minister for examples of economic benefits achieved from his trips to China. He cited incoming fee-paying students as good example, as well as business deals in the areas of housing, seafood, and honey.

**Operations**

The Minister said there are no confirmed plans for further staff reductions at Te Puni Kōkiri, although a review of management structure is still in progress. A number of senior managers are still in acting roles.

We asked why the department does not differentiate between front-line and back office staff, and heard that all staff are seen as vital to supporting direct interactions with whānau, hapū, and iwi.

**Contractors**

We asked why Te Puni Kōkiri does not record whether contractors have formerly worked as permanent employees for the department. The department feels that to retain such information is inappropriate. We would like to see sector-wide collation of this information to improve the transparency of operations.

**ICT funding**

We asked if the new $30 million Māori ICT Development Fund will be open to tender or has been earmarked for a specific purpose. The Minister told us that none of the money has been allocated yet, but he would like to see strong applications from the Māori radio sector and others with an interest in broadcasting spectrum.

**Whānau Ora**

The Minister told us that fundamental mindset changes are required from social service providers with the introduction of the Whānau Ora approach, which involves empowering whānau to make changes for their own benefit. Whānau Ora providers employ “navigators” to help whānau to take a holistic approach to addressing health, education, and social challenges. Whānau Ora is moving towards delegating the administration of funding to three new commissioning agencies – one in the North Island, one in the South Island, and one for Pasifika families. The agencies will be responsible for contracting various kinds of providers to build whānau capability, and to work with groups such as marae and whānau trusts. We asked if there were risks in transferring responsibility to the agencies, but the Minister said that there will always be ministerial responsibility for Whānau Ora.

We asked the Minister for Whānau Ora about the demographic makeup of families using Whānau Ora services. The Minister is heartened by the number of non-Māori whānau who have responded to the Whānau Ora initiative. For example, 26 percent of whānau engaged in Tamaki Makaurau are not Māori or Pākehā. Pacific whānau in particular have embraced the approach enthusiastically.
We also asked how long it might take for whānau to work through Whānau Ora to self-sufficiency, and heard that some of the first whānau engaged are now becoming independent. In the last three years around 40,000 whānau have been engaged, and about 8,600 are being actively worked with at present.

We asked the Minister how the Whānau Ora approach addresses the systemic challenge of whānau not accessing support services. She told us that there is growing recognition among whānau and social service providers that focusing on individuals has not been working, and a parallel willingness to engage in whānau-centred initiatives. Whānau must volunteer to engage with this approach, as it is not compulsory. The Minister also noted that existing social service providers, in addition to the specialised navigators, can adopt the Whānau Ora approach; she was pleased by their growing acceptance of Whānau Ora. Adopting the approach requires them to be willing to work flexibly with whānau, changing entrenched mindsets throughout the sector.

**Privacy concerns**

We asked if constraints on information sharing hamper Whānau Ora providers. The Minister said that patients of health services must still give permission for their information to be shared with whānau members, but that with a holistic whānau approach prevailing, this should not be too difficult to secure. Appropriate limits would need to be observed. Doctors would not be expected to share teenagers’ information with parents, for example, but parents might be encouraged to attend appointments alongside their children. We anticipate that effective service quality responses will require greater sharing of information, and we expect that further work will be done in this area.
Appendix

Approach to this examination
We met on 28 May and 18 June 2014 to consider Vote Māori Affairs. Evidence was heard from the Minister of Māori Affairs, Hon Dr Pita Sharples, the Minister for Whānau Ora, Hon Tariana Turia, and the Ministry of Māori Development, and received advice from the Office of the Auditor-General.

Committee members
Hon Tau Henare (chairperson)
Te Ururoa Flavell
Hone Harawira
Claudette Hauiti
Joanne Hayes
Brendan Horan
Hon Nanaia Mahuta
Rino Tirikatene
Metiria Turei
Hon Nicky Wagner
Meka Whaitiri
Jonathan Young

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

Briefing paper, prepared by committee staff, dated 26 May 2014.
Office of the Auditor-General, Briefing on Vote Māori Affairs, received 28 May 2014.
Minister of Māori Affairs, Response to standard Estimates questionnaire.
Response to additional questions, received 28 May 2014.
Ngā whakapae mō te Pōti Take Māori o te tau 2014/15

Pūrongo o te Komiti Whirīwhiri Take Māori

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Tūtohutanga

Ka tūtohu te Komiti Whiriwhiri Take Māori kia whakaaetia ngā wāwāhanga moni mō te tau ka mutu hei te 30 o Pipiri tau 2015 mō te Pōti Take Māori, e whakahaere nei e Te Puni Kōkiri, e ai ki tērā kua whakatakotoria i te Pepa Pāremata B.5.

Kupu Whakataki

E $231.446 miriona te pikinga o ngā wāwāhanga moni i rapua mō te Pōti Take Māori i te tau 2014/15, nō mai i tētahi whakapaunga koa e $212.404 miriona i whakapaetia mō te tau 2013/14.

I ngā wāwāhanga moni mō Whānau Ora, e $30 miriona neke atu i roto mō te hoko mai ratonga kōmihana kia tutuki ai ngā hua o Whānau Ora mai i ngā pokapū kōmihana kore-kāwanatanga kātahi noa nei ki whakatūria, ā, e $13.5 miriona mō te hoko mai i te pūmanawa tukunga ratonga.

Rautaki Reo Māori

Ka pātai mātou ki te Minita mō ngā mahere whakahou i te whakahaerenga o Te Reo Māori e te Kāwanatanga. He kaupapa kia e kia kōrero kei te kohinga o te iwi. Noho ai te rautaki kei te whakahaorohia i runga i ngā tūtohutanga nō mai i tētahi arotakenga ki te pūrongo i te Tiriti o Waitangi mō Wai 262. Ko te mea nui mō te rautaki ki te whakakono o Minita, me riro mā te iwi Māori te rautaki e ā haere i te mea, he pānga tō rātou ki Te Reo i te wā kei mua i te aroaro, ēhara katoa kei ngā kaimahi kāwanatanga.

Ka pātai mātou, mehemea ki te tukua mā te iwi te whakaainga kōrero kei Te Kāwanatanga ki te karo i te wāhi māna i tēnei takiwā. Ka mea te Minita, ko ngā hononga whaiaro te mea nei, ki whakaariki Whānau Ora i rere i te wāhi māna i te ōhanga i Haina.

Ngā hononga me te hapori Hainamana

Ka pātai mātou ki te Minita mō ōna whakaaro pūtake mō te hoatu pūtea āwhina ki te whakatakinga e $1 miriona e pā ana ki tētahi whakaaturanga atamira, a Xin nāna ko Tāne. I kī maia ia ki a matou, nā tētahi hiahia a ia i kipakipa kia haere tonu te mahi whakatūtū hononga pūioi i waenganui i te 30 o Pipiri tau 2015 mō te iwi Māori me te ōhanga i Haina. Ko te whakapono o te Ōhanga, ko ngā hononga Whānau Ora o te Ōhanga i rere i te ōhanga i Haina. Ko tāna kua kītea, he tino taonga ngā kaiwhakauru Māori i runga i ngā haerenga ōhanga ki Haina mō te hanga hononga Whānau Ora a ēhara tō i te ōhanga i rere i te ōhanga i Haina.
Kei te mahi anō hoki te Minita ki te whakamāmā ake i te manawapā o te whakatoihara i waenganui i te Māori me te Hainama i Aotearoa, ā, kua whakatūria hoki e ia ētahi hui whakako i ēnei ahurea e rua kia piki ai te mōhiotanga me te whakaaetanga. I kaha tana ki, ko te manaakitanga tētahi uara ahurea nui ki te Māori, ā, ko tētahi hunga iti noa o te hāpori Māori he hunga whakatoihara.

Ka pātai mātou mō ngā mahere wā-roa e pā ana ki te whakamahinga hononga ōhanga i te taha o Hainana kia whai huanga ai ngā Māori katoa. Ka kī mai te Minita, mō ngā toronga pakihī ko te tūtaki i te kāwanatanga o Hainana te arotahi tuatahi, kia pūmāu ai, kia ū ai ngā hinonga. Ko tāna kua kītea, he rite he ahurea o Hainana ki tērā o te Māori e pā ana ki te uara ka utaina ki runga i tēnei mea te ngākau pono me te ū ki te kaupapa.

Ka pātai mātou ki te Minita mō ētahi tauri e pā ana ki ngā huanga ōhanga i taea i ēna ētahi āhuatanga. Ko tētahi tauri pai ka whakahauatia e ia, ko ngā ākongoa e uru mai ana, ā, e utu ana. Tua atu hoki i tērā, ko ngā whakaritenga mahi pakihī i ngā takiwā e pā ana ki te whiwhi whare, kaimoana, mīre. Ngā mahi

Ko tā te Minita i kī, kīhai he mahere e whakatūturu anaka whakaheke nga kaimahi i kō atu i Te Puni Kōkiri ahakoa, kei te haere tonu he arotakenga e pā ana ki teanga o te tumu whakahaere. Kei roto tonu ētahi kaiwhakahaere matua i ngā turanga whakakapapai. Ka pātai mātou, he aha he koe nei e whakarerekē mai i ngā kaimahi ki mō mahi anō hoki. Ko tā mātou e kī mai, ko ngā kaimahi katoa ki te tautoko i ngā pāhekohekotanga e haere hāngai ana i te taha whānau, hāpū, īwi.

Te hunga mahi kirirmana

Ka pātai mātou, he aha Te Puni Kōkiri e koe nei e tuhi kua mahi wākikī he hunga mahi kirirmana i mua mō te tahi. Ko tā te tari whakaharo, ēhara te pupuri pārongo pērā i te mahi tika. Kō tā mātou e hiahia ana, kia kī i tētahi kaiwhakahaere rātonga ēhara-Whānui e pā ana ki tēnei mō pārongo, kia pērā ē kō atu ai ē te mārama o ngā mahi. Pūtea āwhina ICT

Ka pātai mātou mēhemea ka tuwhera te Pūtea Whanaketanga ICT Māori hou e $30 miriona hei mea kia tāpaenga, ā, tērā rānei kua tohua kēngā mō tētahi ake tino take. Ka kī mai te Minita ki a mātou, kī tēnei wā kāore anō tētahi paku wāhi o te moni kia tohaina ēngari, e hiahia ana ia kī ki te kī i ngā tahi reo rētii mō mai i te whakahaere ēhara-Whānui e pā ana ki tēnei mō pārongo, pērā ē kīhia anō hoki i te mārama o ngā mahi. Whānau Ora

Ka kī mai te Minita ki a mātou, ko ngā kīhiahaia he tino whakarerekētanga i te hīnengaro o te hunga tuku ratonga pāpori, i te whakaurunga mō te ara mā Whānau Ora, tērā ēhauatanga whakamana whānau ki te whakahau i ō rātou whakaharo hei painga mō rātou ake. Whakamahi “kaiwhakatere” aia ngā kaituku Whānau Ora he āwhina whānau mā te kawe i ngā ara katoa hei whai ake i ngā whenua o te hauroa, o te mātauranga, o te pāpori. Kei te neke whakamahia atu a Whānau Ora ki te wā e apatono ai i te whakahaere a te pūtea āwhina ki ngā pokapū kōmihana hou e toru - ko tahi ki Te Ika-ā-Māui, ko tahi ki Te Wai Pounamu, ā, ko tahi mā ngā whānau Pasifika. Ka noho tonu te mahi tuku kirirmana ki te tīni māhia momo kaituku waihanga i te pūmanawa o te whānau ki aua pokapū e toru; me te mahi hoki i te taha kohinga pērā i ngā poutiaki whanau, poutiaki marae. Ka pātai mātou mēhemea he
tūpono whara anō ka puta, ka whakawhitia ana te haepapa ki ngā pokapū. Ko tā te Minita, ahakoa aha, kei reira tonu te haepapa ā-minita mō Whānau Ora e noho ana.

Ka pātai mātou ki te Minita mō Whānau Ora e pā ana ki te āhua tatauranga ivi mō ngā whānau e whakamahi ana i ngā ratonga a Whānau Ora. Manahau ana te Minita ki te maha o ngā whānau ēhara i te Māorí kua urupare mai kīte kōkiringa hou Whānau Ora. Anei te tauira, ēhara ngā whānau whakaware e 26 ōrau i Tāmaki-makau-rau i te Māori, i te Pākehā rānei. Kua rika rawa atu te awhi ake te whānau Pasifika i te ara.

Ka pātai anō hoki, tēnā, ka pēhea te roa o te wā e mahi haere ana te whanau i roto i te kōkiringa hou Whānau Ora, ā, puta noa ki te taumata tū motuhake me te rongo kua puta, kua tū motuhake ētahi o ngā whānau whakaware tuatahi. E 40,000 tata atu pea ngā whanau kua whakaware i ngā tau e toru kua pahemo, ā, e 8,600 tata atu pea kei te kakamā i te wā nei.

Ka pātai mātou ki te Minita, ka pēhea te whai ake te ara Whānau Ora e ngā wero e pā ana ki te whānau e kore ana e whiwhi i ngā ratonga tautoko. Ka kī mai a ia, kei te tipu haere ake te mōhio i waenganui i ngā whānau me ngā kaituku, kihai te hāngai o te arotahi ki runga hunga takitahi i te mahi, me whakarara i te hiahia kia whakaware i ngā kōkiringa hou m te whanau-kei-waenganui. Me tino tūao ngā whānau ka whakaware ana i tēnei ara, ā, kāore hoki e herea ki te tono me pērā rātou. Kua kīte hoki te Minita, ka kaha ngā kaituku ratonga pāpori me ngā mātanga kaiwhakatere i tua atu ki te whakapūmau i te ara Whānau Ora; i te koa a ia ki te piki haere o tō rātou whakaae ki a Whānau Ora. Mō rātou ki te whakapūmau i te ara, me hiahia, me ngāwari te mahi i te taha whanau ki te tī i tā tētahi tirohanga puta noa te rāngai kua roa kē nei e whakaaro pērā ana

He māharahara e pā ana ki te taha wehenga

I pātai mātou mehemea ka whakararu ngā aukatinga kei runga i te mahi tuari kōrero, i ngā kaiwhakarato Whānau Ora. I kī mai te Minita, me hoatu whakaaetanga tonu ngā tūoro o ngā ratonga hauora mō te tuaritanga o ā rātou kōrero ki ngā mema o te whānau, engari, nā te whai o te aronga whānau kotahitanga, ēhara tēnei i te mahi uaua ki te whakapūmau. Me matua whai hoki i ngā tepe hāngai. Hei tauira atu, ēhara i te mea me tuari ngā rata i ngā pārongo taiohi me ngā mātua, engari tērā pea ka whakatenatena kē i ngā matua ki te haere ki ngā hui ki te taha o ā rātou tamariki.
NGĀ WHAKAPAE MŌ TE PŌTI TAKE MĀORI O TE TAU 2014

Tāpiritanga

Ara ki tēnei tirotirohanga
I hui mātou i te 28 o Haratua me te 18 o Pipiri i te tau 2014 ki te whakaaroaro i te Pōti Take Māori. I rongo taunakitanga nō mai i te Minita Take Māori, a Hōnore Tākuta Pita Sharples, nō mai i te Minita mōm ngā Take Whānau Ora, a Hōnore Tariana Tūria, nō mai i Te Puni Kōkiri. I 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
Joanne Hayes
Brendan Horan
Hōnore Nanaia Mahuta
Rino Tirikātene
Metiria Turei
Hōnore Nicky Wagner
Meka Whaitiri
Jonathan Young

Taumakitanga me te whakamaherehere i whiwhi
Nā mātou te taunakitanga me te whakamaherehere ka whai ake i tēnei tirotirohanga i whakaoaro:
Te pepa whakatakoto tohutohu nā ngā ringa whakatutuki mahi i takatū, i te 26 o Haratua tau 2014.
Te whakatakotoranga tohutohu aTe Tari o Te Tumuaki mō te Pōti Whirihiritinga Take Tiriti, i whiwhi i te 28 o Haratua tau 2014.
Urupare a te Minita Take Māori, ki ōrairau pātau mō ngā Whakapae noa.
Urupare ki ngā pātau i tua atu, i whiwhi i te 28 o Haratua tau 2014.
The Government Administration Committee has examined the 2014/15 Estimates for Vote Office of the Clerk, and recommends that the appropriations in respect of Vote Office of the Clerk for the year ending 30 June 2015, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2014/15 Estimates for Vote Ombudsmen, and recommends that the appropriations in respect of Vote Ombudsmen for the year ending 30 June 2015, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2014/15 Estimates for Vote Pacific Island Affairs, and recommends that the appropriations in respect of Vote Pacific Island Affairs for the year ending 30 June 2015, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
The Local Government and Environment Committee has examined the 2014/15 Estimates for Vote Parliamentary Commissioner for the Environment and recommends that the appropriations in respect of Vote Parliamentary Commissioner for the Environment for the year ending 30 June 2015, as set out in Parliamentary Paper B.5, Vol. 3, be accepted.

Maggie Barry
Chairperson
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Vote Parliamentary Service

Recommendation
The Government Administration Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Parliamentary Service, administered by the Parliamentary Service, as set out in Parliamentary Paper B.5, Vol.5, be accepted.

Introduction
The Speaker of the House of Representatives, The Rt Hon David Carter, is the Minister responsible for the appropriations in Vote Parliamentary Service. The appropriations sought in 2014/15 increase to $149.233 million, from the $146.733 million in estimated actual expenditure in 2013/14.

Under the Parliamentary Service Act 2000, the service has two main roles, to provide administrative support to the House of Representatives and members of Parliament, and to administer payments of entitlements under the directions of the Speaker.

Structure of the appropriations
This year the structure of the appropriations in Vote Parliamentary Service has been substantially changed. The appropriations for Party and Member Support and Additional Support for Members for each Parliamentary party have become multi-year appropriations for the duration of a Parliamentary term.

Parliamentary precincts
The 2014/15 appropriations for Vote Parliamentary Service budget $7 million in total—$4 million this year and an estimated $3 million for 2015/16—for maintaining the Parliamentary precincts and constructing steps linking the precincts to Cenotaph Square.

Steps to Cenotaph Square
Wellington City Council is planning to upgrade Cenotaph Square, and link the parliamentary precincts directly with Cenotaph Square by constructing a grand staircase. The Parliamentary Service is funding the construction of the staircase, which it expects to cost about $1 million. We were concerned that this design may not be accessible to some disabled people. We heard that a ramp had been ruled out, but the Parliamentary Service and Wellington City Council are looking into the possibility of installing a lift. We strongly recommend that a lift or comparable access be provided.

Maintenance of Parliament buildings
The other portion of the funding for maintaining the parliamentary precincts is for restoring and maintaining Parliament House, which needs urgent work to make it weather resistant. Internal water damage needs to be repaired and the leaks fixed.

Security changes
The Parliamentary Service plans to upgrade the security cameras around Parliament from analogue to digital, and to install cameras along the tour routes and around the forecourt. We observe a trend of increasing security measures, which some of us consider intrusive.
The Speaker assured us that he carefully weighs privacy for members and the public against security concerns. The Speaker pointed out that there are increasing dangers to members, which he said was ultimately the most important consideration.

**Wages for cleaning staff**

We asked about the remuneration for cleaning staff around Parliament and how it was set. The Parliamentary Service told us that the cleaning is contracted out and that the current supplier is Spotless, which had won the contract by tender. The Parliamentary Service held regular meetings with Spotless, who had not raised the remuneration issue. Spotless pays the remuneration of its employees, but there is a provision in the contract for the Parliamentary Service to increase the wages of the cleaning staff by paying Spotless more.

**Working hours of the Parliamentary Library**

We are concerned that recently while the House was sitting under Urgency, the Parliamentary Library was closed. We asked the Speaker to consider establishing procedures to have the library remain open while the House is sitting. The Speaker agreed to consider this and acknowledged the importance of the library for members.
Appendix

Approach to this examination

We met on 21 May and 18 June 2014 to consider Vote Parliamentary Service. Evidence was heard from the Speaker of the House of Representatives, The Rt Hon David Carter, and the Parliamentary Service, 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

We considered the following evidence and advice during this examination:


Office of the Auditor-General, Briefing on Vote Parliamentary Service, received 26 May 2014.

Speaker of the House of Representatives, Response to standard Estimates questionnaire.
Response to additional questions, received 13 June 2014.
Vote briefing paper, prepared by committee staff, dated 21 May 2014.
2014/15 Estimates for Vote Police

Report of the Law and Order Committee

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Vote Police

Recommendation
The Law and Order Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Police, administered by the New Zealand Police, as set out in Parliamentary Paper B.5, be accepted.

Introduction
The total appropriations sought this year for Vote Police amount to $1.561 billion in 2014/15, a decrease from the estimated actual expenditure for 2013/14, which was $1.605 billion. Significant allocations include $385.442 million for police primary response management, $368.059 million for investigations, and $296.667 million for the road safety programme.

Resources
We noted that the Police’s output expenditure decreases in 2014/15 by approximately $42 million, and asked the Minister to explain which areas she expected the reductions to affect, and how this would affect day-to-day operations. She told us that the decrease in funding was largely due to operations the previous year having been completed. Projects or activities where funding is no longer required include human resources, restructuring, deployment to the Solomon Islands, and training on the introduction of the Criminal Procedure Act 2011. Any staff losses were in areas other than front-line policing, and the number of sworn police officers remains constant.

Police station closures
We asked the minister to justify the closure of 15 or so police stations in 2013/14. The Minister told us that the Police are now taking a more community-based approach to their operations, with the help of mobile technology. Police stations now serve as a base from which the Police work, rather than where they spend most of their time. They are also seeking to share premises with other agencies which, especially in smaller communities, work very closely with the Police.

Technology
The Police are extending their use of smartphones and tablets. They consider mobile technology to be a good way of extending the amount of time officers can spend in the communities they police; they can check background information and file reports, for example, while they are away from a police station. The use of technology also allows constant contact with command. The Police said that they estimate that every front-line officer will gain 30 minutes per shift from the efficient use of such devices, and officers can be mobile in their communities rather than static in offices.

Cooperation with other agencies
Starting in August 2014, the Police and the Inland Revenue Department will share information where serious crime is suspected. They told us that this is one of many cooperative arrangements they have with other agencies, which they are finding beneficial
Gang members and their families

The Minister updated us on a proposed all-of-Government initiative to combat gang-related crime and associated social problems. She said that the focus is to be largely on addressing the drivers of gang-related crime, rather than punishing offenders. The Department of Corrections has previously attempted to do this, but she believes an all-of-Government approach will be more effective.

The approach will be to help in three areas: supporting people, especially on release from prison, who would like to leave gangs; supporting their families; and strengthening any related legislation. The Minister expressed confidence in the work that is being done, but acknowledges that it is difficult, long-term work.

Diversity

We asked the Minister how the Police are adapting to represent the changing demographics in parts of New Zealand, and especially connecting with new migrants. She told us that the Police made efforts to ensure that their ranks represent the communities that they serve, and the diversity of new recruits is increasing. Every Police district manages a committee with members representing different ethnic communities. Meetings of these committees result in outcomes that resolve some issues that are common throughout New Zealand, and some that are unique to that particular community.
Appendix A

Approach to this examination
We met on 4 and 18 June 2014 to consider Vote Police. Evidence was heard from the Minister of Police, Hon Anne Tolley, and the New Zealand Police, and advice received from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
Jacinda Ardern
David Clendon
Hon Phil Goff
Hon Todd McClay
Ian McKelvie
Mark Mitchell
Richard Prosser
Lindsay Tisch

Evidence and advice received
We considered the following evidence and advice during this examination:
Office of the Auditor-General, Briefing on Vote Police, received 3 June 2014.
Minister of Police, Response to standard Estimates questionnaire.
Minister of Police, Response to additional questions, received 30 May and 18 June 2014.
Vote briefing paper, Vote Police, prepared by committee staff, dated 4 June 2014.
Appendix B

Corrected transcript of hearing of evidence 4 June 2014

Members
Jacqui Dean (Chairperson)
Jacinda Ardern
Kanwaljit Bakshi
David Clendon
Hon Phil Goff
Jo Hayes
Ian McKelvie
Mark Mitchell
Richard Prosser
Lindsay Tisch

Witnesses
Anne Tolley, Minister of Police
Mike Bush, Commissioner of Police
Viv Rickard, Deputy Commissioner
Grant Nicholls, Acting Deputy Commissioner

Dean We’ll get started [no audio on tape at this point]
Tolley [Introductions] If I could start with a few comments. I think the police are coming here with a really good story to tell. We are seeing recorded crime at a 29-year low, and last year we had a 4.1 percent reduction, which adds up to 20 percent reduction in recorded crime over the last 4 years, and we’ve also seen last year’s road toll, at 254, was the lowest since 1950.

The Better Public Service targets that the police are focused on achieving are—as at December last year, those three targets were: total crime to be reduced by 2017 by 15 percent, and we are, at December at minus 14 percent; violent crime, where the target is 20 percent reduction, we have seen a reduction of 10 percent; and then youth offending—and remember this is the number of youth that appear before the Youth Court—we had an initial target of 5 percent. We increased that to 25 percent by 2017; we’ve actually achieved 27 percent. So, you know, fantastic results.

At a function yesterday the police gave us some stats that I thought I’d just share with you. On an average day police will respond to more than 1,950 emergency calls and answer more than 2,790 non-emergency calls. They will also respond to about 1.74 million phone calls annually for assistance or advice. On any one day there’s 220 foot patrols operating around the country, and there will be just under 8,000 random breath tests administered
on any one day. So, you know, it’s a busy, busy service and they’re out there doing their best.

We’ve talked, as I’ve come to you in the last couple of years, about policing excellence and the massive change that police have undertaken. I think it’s fair to say that today New Zealand’s police service is better trained, they’re better equipped, they’re far more mobile, they’re far more visible, and they’re far more accessible than they’ve ever been before, and they are a modern, intelligence-led, victim- and prevention-focused service.

We have carried out huge investment, so over the past 3 years we’ve opened 16 new police stations, and next week I open the one in Rotorua. And, of course, we’re in the process of constructing the first ever justice sector precinct in Christchurch where, for the first time, Courts, police, Corrections, and emergency services will all be co-located. That’s a really exciting project.

We’ve been able to invest in some pretty old and neglected infrastructure that the previous Government has left as little bombs for us, like the HRMIS system, which is the pay system, the HR system. It manages all the leave and all the shift provisions—a really, really critical part to the operation of the police. It is in a very sad state and we have started with preparing the business case to invest in upgrading that, and, of course, we’ve heard about the migration from Windows XP. We’ve put the money into that over the last few years and speeded up that process. We expect to complete that next year.

In addition to that, we’ve invested heavily in technology. So 9,500 iPhones, and just under 4,500 iPads have been distributed to police around the country. That’s enabled them to get instant information. We’ve talked a lot about that, but it’s important that you know that the application of the use of that technology is growing on a daily basis, generated from the police themselves out on the street.

We’ve seen 12 district command centres set up—and I know you’ve been and visited the one in Christchurch—so that decisions about deployment of staff, use of resources can be made on a district-wide basis, intelligence about hotspots of crime, etc., are available to the district commander at any time of the night and day, and yesterday the Commissioner and I had the great pleasure of opening the National CCC—national centre of command and control—which then enables those sitting in PNHQ to see a nationwide view of where police resources are.

The most exciting thing for me that I saw yesterday, apart from being able to sort of drive a national strategy or manage a national occasion like the royal tour or the upcoming cricket world cups that have taken place, is the ability for a policeman or woman on the beat to be in direct touch with the Commissioner, and vice versa. The Commissioner would have all the information about how that police person was deployed, what their tasking was, what they were involved in, and would be able to get direct feed. So we saw yesterday a covert operation where the—I was just going to pick up one of those microphones—but where the phone was turned to show
those back at PNHQ exactly what was happening in a covert operation. So that instant, real-time information is able to come in both to district level and now to the national level. So instead of someone trying to describe what a crowd mood might be, for instance, they can actually see that. So that was a pretty exciting development for the New Zealand Police, and I have to stress that this is cutting-edge technology that we are now the proud users of. It is real-time intelligence and it means that even from the national PNHQ they can be identifying where resources are needed. So, if districts are not using resources, is there another district that could actually use those resources? So, again, the efficient use of resources that we talked about in Corrections.

I’ve talked a bit about the justice sector—sort of the mantra of the justice sector is that we work together and we work smarter—and we’ve used that justice sector fund in order to fund cost pressures, and also to fund initiatives. Now the Government is very willing to invest in new initiatives as long as we’re going to get something for it. So we want to get better results. That’s what we’re about—better results for the public of New Zealand—and police have actually benefited with a number of initiatives from that justice sector fund, as they have from the proceeds of crime—the Prime Minister’s methamphetamine action plan, and that was some announcements just made last week. Police put up some proposals and benefited by about $3 million.

So under the justice sector, it’s not just about funding. There’s a large number of joint programmes that are being run around the country. It was trialled in Lower Hutt, and we talked a bit about that last year. That’s now been rolled out to Hawke’s Bay, to Hamilton, and there’s one other—Taranaki I think. Which is the other area? I didn’t write it down because I was sure I’d remember it. Anyway, so we’re rolling out these joint programmes and sort of looking at the business. So you might remember last Christmas e-bail was creating a significant problem for police. Their resources were stretched. We had a review of that and, in fact, e-bail is now being managed by Corrections, so the funding has been transferred across to Corrections and they’re managing it. We’re still working with police on the ground, but the actual responsibility for it is now with Corrections.

We are working more and more together because we’re getting better results, and the justice sector pipeline understands—the Minister certainly understands—that the work that police do can have an effect right through the courts, through the Crown prosecution and into Corrections, and that’s, you know, really where the youth offending reduction is having its greatest effect. Those figures are outstanding, and that reflects the huge emphasis that the police are putting into working with young people, keeping them out of the justice system, but also it reflects the wider work that the Government’s doing in the social sector around keeping kids in school—
the Youth Court judge says that a hidden school isn’t in the court—and keeping them engaged.

So, finally, to sum up this really good story that we have for the police, is the public trust and confidence. I have to say that that is at record high
levels, and that’s simply because they are performing so well and responding well to the public. So in the latest results, 91 percent of New Zealanders surveyed had full or great confidence in the police, and 81 percent satisfaction with services. What those surveys do in the regular surveys that are conducted by the police, by an independent company, they show that actually the more people have to do with police, the more their confidence in them goes up. So it’s a really, really good story, and we can all be proud that we have a highly competent, highly respected—in fact, I would say around the world we’re envied for a police service that all New Zealanders can be, and I know are, extremely proud of.

Dean  Thank you, Minister. I’m going to direct my first question to the new Commissioner. Mike, congratulations—

Bush  Thank you, Chair.

Dean  —and thank you for appearing in front of us today. I’m interested to know what you are going to bring to the role.

Bush  Thank you, Chair. My vision for the police in the next 3 years is quite a simple one, in that we have the trust and confidence of all. Now whilst it’s at probably a record high, we don’t rest on our laurels. We can do more in that space, and we drive trust and confidence through a culture of high performance driven through excellent leadership. So that’s the focus, and that’s to effect our purpose, and we know what that is—it’s to ensure everyone is safe and feels safe.

Dean  Thank you very much.

Ardern  Thank you, Minister and Commissioner. I wanted to come to probably the most significant part of the Budget for police and that was the $40 million that has been cut out of the operational budget for the police. I was wondering, Minister, if you could tell me the specific areas where that money is coming from, and what anticipated impact you think that will have on day-to-day policing?

Tolley  Look, I’m happy to get the Commissioner to talk to the specifics, but they haven’t been cut out of the budget. They were one-off expenses or they were carry-overs. So, for instance, $10 million was carried over in road policing. That’s not continued on. So their baseline remains intact, but—do you want to answer it?

Ardern  What about the remaining $30 million, then?

Bush  So as the Minister said, the $40 million was over and above—it was one-off funding over and above our $1.46 billion budget. It was for specific purposes, so the $10 million was the overrun from road policing the year before. We had some extra funding for the implementation of the Criminal Proceeds Act. We had some other funding for other initiatives which have been completed. I think there were five or six of those—

Tolley  HR, restructuring, Solomon Islands—

Bush  HR, restructuring, Solomon Islands deployment.
Because, Commissioner, just to be specific, $7 million has come out of investigations, several million has come out of general crime prevention, $7 million out of primary response—so none of that’s severance, none of that is Solomon Islands—and some of those areas had actually been subject to supplementary estimates, extra bits of cash going in mid-year, because, obviously, there was inadequate funding in those areas. So are you telling me that that $40 million reduction will have no impact on your day-to-day operational side of policing?

Yes, I am, and the reason is the $40 million extra funding in last year’s budget is being used for the purposes for which it was granted. So we are now dealing with the same $1.46 billion for the same requirements.

OK—

And they’ve come out across individual appropriations. So that’s why you see changes in individual appropriation, because it’s not just a particular sum that went in. In some cases, it’s crossed over a number of areas, and so they’ve come off. So the Criminal Procedure Act is in place, so all the training and all the preparation that went into implementing that is complete. As the Commissioner says, the money was granted for a specific purpose; it’s been used for that specific purpose.

Minister, this is on the same topic really. I was interested to know what you think the use of performance measures will make in the future when you come to reallocate these kinds of appropriations. Will they help in that respect?

Yeah, look, you know, there’s a lot talked about performance targets. I can tell you, as a Minister, I find it focuses the mind. So the Prime Minister has determined four foci for the justice sector, three of which apply to the police. So violent crime, I think, is one of the most important Better Public Service targets that we have, and you can see that we’re only halfway to that. It does focus the agency’s minds on what they’re trying to achieve, and, as I say, this Government has certainly shown itself willing to invest in areas where we can see we’re going to get better results. So we’re not prepared to pay more money, to keep throwing more money in, just to get the same service and the same results. What we want to do is to be able to invest money in the areas where we know we’re going to get something extra, and by setting up some performance targets you actually, as a Government, have determined that those are important, and then that helps to focus the agency’s mind on that.

And, of course, I haven’t had to strong-arm the police into focusing on violent crime. They deal with it on a daily basis, and would rather not because they know the effect that it has on our communities. So things like the whole-of-Government work that we’re doing around gangs, domestic violence—those are really, really important, and they’re driven by those performance targets, which is really just making sure, as we talked about in Corrections, that where the investment goes, we are actually measuring and evaluating that we’re getting results.
Can I come back to issues specifically around staffing, Minister. You had in the last financial year 143 severance payments paid out. I understand that’s why you dipped into that justice sector fund. What was the driver behind that significant increase when in past years it was as low as two?

Well, my understanding is—again it’s an operational issue, but my understanding is that as part of policing excellence we saw HR and finance taken from the areas and managed at a district level, and that was one of the significant changes under—what is it—Policing Excellence, and so there were redundancies. Unfortunately, we lost some very good people from around the areas, but they were backroom staff—

Minister, they’re not all backroom staff though, are they?

Yes, they were.

All of it?

They were all backroom staff.

You can absolutely guarantee that all those 143 severance payments paid out of the justice sector fund were backroom staff?

Well, HR and finance are backroom jobs, yes.

Are you satisfied that staffing levels currently are adequate as in front-line police staff—sworn staff?

Sworn numbers—my ask of the police is that they maintain them at 8,907.

That’s interesting, Minister—

Minister, I’ve got Mark here.

Minister—

You just told him to ask a question!

—just very quickly on that. Commissioner, I just want to congratulate you on your new role. It was great to see you up in Rodney the other day at the Rodney police pay parade. It was great for the public to see you, and I know that the morale within the local staff is at an all-time high, as well. In terms of staffing, because I’ve seen personally in the last 5 or 6 years there’s a massive transformation—right—in the way that the police service is doing their job, the use of technology, and things like that. So there are going to be some incremental changes in terms of staffing and things like that. Do you just want to share some thoughts on that?

I could first talk to it. The Minister talked about the launch yesterday of the NCCC—the National Command and Coordination Centre—so that gives us a very much a live view at the centre of our full resource. So as Commissioner, and with my fellow executive colleagues, we are absolutely focused on ensuring that we have the right people deployed at the right time in the right place and doing the right things. That enables us to see that virtually 24/7. And with a lot of the changes through Policing Excellence, our staff are far more productive, and we’ve mentioned here the 30 minutes per shift gained by every front-line staff member through the use of
mobility devices. So (a) we keep a very close eye on how many people we have and where we have them and when we have them there, and what they’re doing, but also we’ve made them more productive through mobility and a number of other initiatives.

Ardern Minister, obviously an iPad doesn’t replace an officer, though. We accept it does create efficiencies, but your electoral promise when you came into office was that there would be one police officer per 500 citizens. You’re shy of that by about 500 police. Is it your intention to reach that promise?

Tolley Well, that was the promise that the National Government made when it was elected in 2008. We didn’t repeat it in 2011, and mainly because—actually, it isn’t about the numbers that you have; it’s about the way that they perform. And, yes, an iPad or an iPhone doesn’t replace feet on the ground, but, actually, our feet are out there in the community—not sitting in a police station waiting for someone to come and visit them, and not sitting in a back office filling in forms. So we’ve been able to generate much more productivity and much more active visibility of our police in our communities by investing wisely in technology that’s enabled them to be out there.

Ardern But, Minister, it’s quite difficult to measure success in some of these areas, isn’t it? I know you’ve been—

Tolley No.

Ardern —very reliant on crime—

Tolley No. Recorded crime has gone down.

Ardern —if I could just finish my question— but, of course, that relies on members of the public to report, and that relies on members of the public feeling like they get an adequate response. Now, when it comes to things like property crime, we’ve seen a decrease in resolution rates in a number of areas, and we see stories more frequently now of—a case here in Taranaki, a burglary. It took the police till the next day to come. In Timaru they got an answerphone when they called about a disorder. A burglary—they got a calling card 4 days later after they called the police. Here again—rocks thrown at a house and no response at all. If we don’t get responsiveness, you will actually see a decline in the amount of recorded crime, and you’ll claim that is a success. So my question is—actually, numbers do matter, because it means that the police can be responsive, which means, actually, some of those calls coming in might increase, but it might mean they’re doing their job.

Tolley No, you’re making some very broad assertions, and I gave you some very good statistics. But at the beginning what I did say about the survey that’s done on trust and confidence is quite the contrary to that. In fact, it shows that the more people have to do with police, the more confidence they have. So that gives me confidence that, actually, people are reporting crime. Now, yep, when you have a burglary—I’ve heard it from people—they say: “Look, I’m not going to bother them if it’s”—actually, they do, because they need an insurance number if they want to claim it. So that’s always a
good incentive for people to report burglaries. But what we are seeing is—I mean, it’s a very old-fashioned view now. It’s actually, if I could quote it, very last century. But the more police you have out on the streets, the better it’s going to be. What we want is—sure, we want very visible police. We want them focused on preventing crime before it happens. But we want them to be effective, so it’s about results.

Ardern: Quite a big change of heart since 2008, Minister?

Tolley: Well, we’ve learnt a hang of a lot.

Mitchell: I think that Jacinda actually makes a good point, right, which is that people are reporting these incidents, and I’d expect that the police prioritise their response in terms of, you know, whether there’s violence involved, the defender’s there—whatever reason. But the good thing is that this information is being received and it’s being received very quickly, and we even, in our visit to the communications centre in Auckland, could see that very clearly. It’s huge progress that has been made, and actually I’d expect—and we see it happening—is that the police service is going through a transformation. If we’re still doing the same things today that were happening back in 2008, then probably people wouldn’t be doing their job.

Tolley: Crime was rising in 2008—

Mitchell: —so, you know, dramatic change has happened within policing. It’s self-driven by policing itself, and we’re seeing the results. Yes, you’re right and you know that the police prioritise, but I would also say that they haven’t been afraid to invest their—yes, you know, change their priorities when they’ve needed to. And it was clear that the communication centres were getting an increase of work, and so there were a large number of extra staff put in there. So whilst there were a number of redundancies from backroom staff in areas like finance and HR, there was an increase in those backroom staff in the communications centre to manage the increased calls from the public. So, you know, it’s a very responsive service, and that’s exactly as we want them to do—to be able to prioritise where they make their investment.

Mitchell: Can I just ask one very quick operational question. Because they’ve got the iPhones and they’ve got the iPads, haven’t they. Is anything emerging as being more favourable—do they prefer using the iPhones or the iPads?

Bush: It does depend on the size of their fingers and thumbs! For more complex matters they will use the iPad, and it’s fantastic to go and visit staff who are at a scene—maybe, a family violence scene—and see two officers dealing with the situation while a third officer stands back and operates the iPad, does the check on the address, the people involved, gets the history, understands all about everyone involved, and then they go forward and inform the others. But at the roadside they use their iPhones as well. So the iPhones have more use—different purposes.

Nichols: And this isn’t a static programme of roll-out. This is very dynamic. We’re continually innovating our use of the iPad and the iPhone. And just to make a point, I’ve been in policing for 30 years and I think this is the most
exciting time to be a member of the New Zealand Police. It’s innovative, it’s
cutting edge, and a lot of the things we’re doing are world-leading and we
should be proud of it.

Bakshi Minister, I’ve got totally different feedback from what my colleague from
the Opposition has. People are very confident about the police now, and I
would like to share an incident from about 2008. You must be
remembering, Commissioner, the killing of Navtej Singh. I’ve been visiting
that shop from time to time. Initially, the partner wanted to sell his shop
and get rid of the business because of the incident, but earlier this year I
went to see him and he mentioned to me that he doesn’t want to sell the
business. He could not sell the business, first of all. He continued. But he
doesn’t want to sell the business because not a single incident of shoplifting
has happened ever since. So he’s very pleased with what the police have
done and the confidence he has gained in that area. My question is that the
demography in South Auckland and the eastern suburbs of Auckland is
changing a lot. So what are the police doing to connect with the new
migrants in those areas? Is there any specific plan? And I know for Mike,
for the Commissioner, it’s very—South Auckland and Counties Manukau is
very close to his heart. So what’s happening on that front?

Tolley I’ll start and then I’ll ask the Commissioner to comment, but I can tell you,
I don’t know how many police graduations I’ve been to now—it must be
nine, maybe even into double figures—but I have been astounded at the
change and the diversity of those new recruits. I think at the last graduation
there were something like 11 nationalities represented in the new constables
graduating out of the college. So I do know, and you’ll know from some of
the advertising, there’s been an enormous effort put in to make sure that
New Zealand police reflect their communities, but I’ll hand over to the
Commissioner, who’ll have more details.

Bush So to add to that, every one of our districts manage a number of
relationship forums with ethic communities to engage on a regular basis. So
every district commander in the country, of which there are 12, has a
committee involving members of different ethnic community
demographics. At a national level we have an officer of Maori-Pacific ethnic
services, which is led by Superintendent Wallace Haumaha, which at a
national level engages with every diverse community so that we understand
their needs and then we deploy to that. So add that into the mix—the
diverse range of people that we’re employing—because we must represent
the community we serve. It’s about building those relationships, but
ensuring that we build them for a purpose, so it’s not just to make everyone
feel good. At the end of the day we get outcomes from those meetings and
we resolve issues that are common or unique to different communities. And
that’s just to touch what we’re doing in that area.

McKelvie I wanted to change the topic a bit and just go to the relationship with other
agencies, Minister. You’re right—we visited Christchurch—but we also
visited, I think it was a place called Mount Roskill. I’m lost when I get off
State Highway 1, you know—
Goff The one that’s closed to the public now—that’s the one, Ian, isn’t it? “Temporarily closed”—doesn’t appear on the statistics—

McKelvie —I think it was Mount Roskill; it was off the motorway, somewhere—and I was very interested in the approach they were taking there. There was a lot of agencies involved in the same building, and I thought it was pretty impressive. It occurred to me that that would be very useful in some parts of rural New Zealand, if it was possible to extend it. I just wanted a view on how that was going, first of all, and whether there is some potential for an expansion of that type of ______

Bush Absolutely there is, and Deputy Commissioner Rickard is leading a piece of work on looking at every new building or premises we might establish, we do it in combination with others. But I’ll ask Deputy Commissioner Rickard to speak more on that.

Rickard So two parts to the answer. On the first part if you think about rural communities, you know, you have police, a lot of times we have a volunteer St John’s, and a fire service. It just makes sense. You’ve got a lot of infrastructure. We go to the same jobs more often than not. We know each other very well where they end up being the core of the community, along with the school, so it just makes sense when these opportunities—that we work together and look at our infrastructure to support each other because we do that operationally, and we think there’s opportunities to do that in terms of the way we accommodate our people, and that actually drives different types of behaviour when you get people under the same roof as well. So I would do that on a case-by-case basis because sometimes these new fire stations and the new police stations—so obviously we won’t change those very quickly.

I think, on a broader basis though, we’ve seen that. You know, as you’ve indicated, you’ve been to Christchurch. Down there we have Corrections and New Zealand Police working together. And human behaviour in agencies, when you bring them together, at the start there’s some concern, but now they would never be apart. And that’s not people like us talking about this; this is our people on the ground who are actually seeing the benefit in terms of working together is agencies to get the outcomes that both agencies are there for. So I think it’s really about doing our business better and operating better for New Zealanders, and I think we should continue to look at those opportunities.

Tolley Can I just also say that as a rural MP I’m aware that the police work very closely with Fed Farmers. We’ve had a huge increase in stock thefts over, particularly through the times of the financial crisis, so the police work very closely with the local Fed Farmers to address some of those issues. I’m sure you have it in your patch, but in mine it was starting to get out of hand, where farmers were taking a gun to bed, and so police were very actively involved in some of that.

Tisch Mine follows through on that Minister in terms of integrated services with other agencies, SFO—which we heard about before—border security, Corrections—those areas. In terms of the success that police are
experiencing now, how much would you put down to sharing information, ideas with other agencies, how integrated is this in terms of your success at this time?

Tolley Well, I mean, you’ll be aware we announced just last week the information sharing with IRD, so I think Government-wide there’s been frustration that a lot of the intelligence has been siloed. Now some of that’s for very good reasons, for privacy reasons—you take information for a particular purpose and you have a responsibility to not then use it for other purposes—but we are certainly working our way through.

So when you come to something like a sex offender—you know, the work that we’ve been doing on a possible sex-offender register, the police have very good information about some of these people and Corrections have very good information. It makes sense that they put those together and, in fact, we did. We set up an organisation called ________, which is the two sharing information and working together out in the community.

The work that’s been done on the whole-of-Government response to gangs is about making sure that the police are able to share the information that they have on gang members with, again, Corrections. Some identify themselves in prison as a gang member and some don’t. I mean, we know that about 30 percent of prisoners self-identify as gang members, but we have issues that arise in prisons that are gang-related where these people haven’t identified. So if the police have got good information, well then, we should be able to share that. Equally, agencies like MSD and Housing and Customs and IRD—all of those also have good information that will help us (a) prevent crime, and (b) solve crime. But it’s just working through how that’s managed on a day-to-day basis that protects the privacy of individuals.

Goff I’ve got four quick questions, all to the Minister, if I can. My first question is this. Why have police appropriations in real terms been cut by $114 million over the last 5 years?

Tolley And I think I’ve put that very well. We are prepared to invest in police where that money will get us better results, but we’re not—I think we’ve come a long way from just chucking money at something and hoping we’re going to get better results. So we have been very clear with police. We expect them to manage within their budget. As I outlined, there’s been a huge amount of investment that has gone into police and that’s taken place because they have prioritised their spending, and it has been successful because we have seen a 20 percent reduction in crime over that same period.

Goff So you accept that’s been the real cut in police budget—

Tolley Well, I don’t accept that there’s been a cut. We have maintained their baseline.

Goff Well, I can table the document if you’d like to look at it.

Tolley We’ve maintained their baseline.
Goff Why is Police less important than a whole range of Government departments in the sense that police expenditure, as a percentage of GDP, for example, has been slashed, from 0.78 to 0.65—as a percentage of total Government expenditure, from 1.86 to 1.65? Most important Government agencies have at least stayed still in those indicators, but Police has been singled out as the organisation that seems, in the Government’s opinion, to have too much fat and, therefore, should be frozen in nominal terms and cut in real terms. Why?

Tolley Well, it hasn’t been singled out. As I’ve said about three times this morning, we have the very unique situation of being part of the justice sector. So the decision was made in 2011, when that sector was put together, we put a proposal to Cabinet that we maintained our base funding until 2020—and the 4-year budget showed that—but that we be able to retain in the justice sector fund underspends and savings and reallocate those to the members of the justice sector, of which Police is one, based on their needs, whether it’s cost pressures or whether it’s new initiatives. You see, Mr Goff, the difference in this Government—and we’ve made it very clear—is we are no longer willing to pay more money for the same. We are willing to pay more money for better results.

Goff Well, would you accept—well, tell me: are there less sworn police officers as of January of this year than there were 2 years earlier, are there less overall police staff this January than there were 2 years earlier, and don’t you accept what Inspector Greg O’Connor says—that this means that policing will become harder over the coming year?

Tolley No, I don’t accept—

Goff You don’t accept that?

Tolley No, I don’t accept that.

Goff So when—

Dean Let the Minister finish.

Goff Well, my questions are very short and the answers are quite long and not to the point, Madam Chair—

Dean Well, you asked the question.

Goff —so if you’re going to regulate one, please regulate both.

Tolley I thought you’d asked the question. So the answer is—

Goff I ask the questions—right.

Tolley No, there aren’t less police now than there were 2 years ago. We actually funded an extra 600 police when we came into Government.

Goff No, I can tell you—less than 2 years ago, Minister. Are you saying to me that there were more sworn police officers in January of this year than there were 2 years ago?

Tolley No. What I’m telling you is that when I became Minister, the figure was 8,907—
Goff: Sorry, can you please answer the question?
Dean: Phil—
Goff: It’s a specific question. No, I’m entitled to have an answer, Madam Chair, to this specific question.
Dean: Phil, if you cannot behave yourself in this committee, I will move on to the next questioner. You’ve asked a question, so allow the—
Goff: I expect an answer to the question, Madam Chair.
Dean: Well, then, that’s excellent. So what we’ll do is we will allow the Minister to finish the question.
Goff: Good. So let’s get an answer to the question—very specific.
Tolley: On any particular day I couldn’t tell you, but what I can tell you is that my requirements of Police are to maintain 8,907 sworn police. They budget for that, they train and recruit for that, but on any one day it might differ. Your second question was about the overall police staff.
Goff: Yep.
Tolley: I don’t know the answer to that because we have reorganised and lost a number of backroom staff, but, as I’ve said, we’ve also put extra backroom staff into the communications centre. I don’t know whether the Deputy Commissioner has that figure or the Commissioner. And the third part of the question was—I can’t remember.
Goff: The question was, do we have less sworn—OK you can use January; you can use any month of the year. Have we, on average, over this last year, had less sworn police officers out there doing their job than we had 2 years ago?
Tolley: The answer to that is no.
Goff: The Commissioner backs that up? Can I just check because I think the Minister may be wrong according to my figures, so I don’t know whether the Commissioner has figures in front of him for that.
Bush: I don’t have the exact figures. All I can say is that our numbers fluctuate from day to day, but we’re focused on having the full resource, and I can say that in the last financial year we have recruited—and Viv will give me the exact numbers—close to 500 staff, and we are on track to recruit between 400 and 500 staff in the next financial year to ensure we maintain numbers. But we can get back to you with the exact—if you give us a date, we can get back to you with exact numbers.
Goff: OK. Well, let’s take the start of this year compared to the start of 2010.
Dean: Phil, OK. So what we’ll do is we’ll maintain order—is the first thing we’ll do. Could the Minister please provide us with police numbers as of?
Goff: As of, say, January 2010 and January—
Tolley: Total staff, and sworn?
Dean: Thank you—excellent.

Rickard: I think the only one extra piece to add to it is that it's all about timing in the end. So at the moment I've got 180 people in at the police college now. One of those wings will graduate, right? So if you take a particular month, next month I'll have 80 more out in the field—

Tolley: Because they're not in the count.

Goff: No, no, acknowledging—yeah.

Rickard: —because they're not counted. So you will get timing issues around if you take January or March.

Tolley: But we can indicate that.

Dean: OK, yes, all right. Moving on—

Goff: I'm trying to be helpful here, please.

Dean: Well, you can try.

Goff: Taking on board this point, can we have the average number of police staff through 2012 as against the average number of police staff through—oh, it'll have to be the financial year, obviously—so 2011-12, and 2013-14. Can we get the average number of sworn police officers and overall police staff for those comparative dates? That's the beginning of this parliamentary term and the latest information that we'll have credibly available to us.

Tolley: Happy to do that.

Dean: Great, thank you.

Mitchell: Minister, this is a slightly different line of questioning. Just coming back, because you made a comment earlier about the sort of the all-of-Government gang initiative that is going to be rolled out. So could you just share some details on that and how that's actually going to be—or what the vision is in terms of the implementation?

Tolley: Well, I can't because it hasn't been to Cabinet yet, but what I can say is that the Commissioner in his former role as Deputy Commissioner led a whole-of-Government—so I led a ministerial group and the Commissioner led an officials group looking at how—because we've tried to arrest our way out of gangs. If you look at—again, we tried to get at the drivers of crime. So if you look at the drivers of violent crime, a significant one is around gang violence and gang-related violence, and the other, of course, is domestic violence. So trying to get underneath the old idea that you can, you know, just arrest all these guys and put them in jail and that will be the end of it, because that hasn't worked. We've tried that for a long time.

So trying to get a whole-of-Government look at it to really focus on, how do we stop young people from being attracted and conscripted into gangs? So, how do we stop feeding the growth of those gangs? How do we support people who want to get out of gangs? And, again, Corrections have focused on that. It hasn't been particularly successful because they've been trying to do it on their own, but if we've got a whole-of-Government—if we've got...
someone coming out of prison who’s a gang member and you know that they’re going to go back into that environment, how do we support them if they really want to get away from the gangs—and their families, more importantly, want to get away from the gangs? And then, is there any legislative strengthening that—you know, some other things that we can be doing to strengthen the legislative arm? And so those are the three sort of pillars of the work that we’ve been doing involving a wide range of agencies.

The Commissioner and I went, as you know, to LA and New York to see what they were doing. Some of that is applicable. You can’t just pick it up and plonk it back here in New Zealand, but it did give us some very good ideas. And all of that has been about not throwing more money at it, because this isn’t about throwing more money. This is about how we can get what’s already happening working together in a concerted way with a different lens that focuses on gangs. And so I think we’re putting together a pretty good piece of work that we can take to Cabinet. It’s long-term work. It’s not going to get easy wins, and so it would be helpful if we had a cross-party accord, that didn’t matter which Government was in. It might change some of the priorities, but, actually, there is a determination across Parliament to reduce the impact and the harm that gangs do in our community.

Mitchell Just a very quick supplementary. I’ve noticed that the gangs seem to almost be running a bit of a PR campaign around how they’re coming together and almost—you’re right—“Kumbaya”-type stuff, right? Has the Commissioner or the Deputy Commissioner got any comments on that in terms of—because you are seeing a different level of sophistication right now. So do you think this is just another ploy on their part to try and lull people or try and get public support for actually people that are still out there committing serious crime and causing harm to the community?

Tolley I’ll make a comment and then I’ll hand it over to the Commissioner. I’ve been quite clear that from the Government’s perspective, we are willing to work with gangs who do show a willingness to work with us, but they’ve got to stop committing crime. So they’ve got to stop beating their women, they’ve got to stop committing crimes against innocent victims, and they’ve got to send their kids to school and support them in that. But, sure, where there is a genuine will to change, then, sure, we will work with them. But where it is just setting up a legitimate front that enables them to launder money gained from criminal activity, then that ain’t going to happen, right? So you might like to—

Bush I’ll only really repeat what you just said, Minister. They have been very sophisticated. They are growing in sophistication and complexity, and they have had their own PR campaign for many years to try and convince the public that they are really just groups of people going about good deeds. We are extremely suspicious of that. That’s not true. But I have met one or two senior gang members that I believe are genuinely keen to change the way the new generations live. And if they are honest in their endeavours, then we’re prepared to take a new approach. But, on the whole, a lot of what you see is a PR campaign.
I would add one other thing. From what we saw operating reasonably successfully in the States, a lot of the on-the-ground programmes involved former gang members who were used in order to get credibility of the programmes, in order to get the contacts, and that was one of the questions that we asked—were they sincere or was this a PR campaign? And they were genuine about reducing the harm, because they have a different problem there in that most of their gangs seem to be shooting one another and other people, so a lot of it is around shooting—

—retribution. But they did involve former gang members, and that was reasonably successful. It was hard to actually see anything operating that didn’t involve that, because you just didn’t have the ability to reach out and be taken seriously.

They were carefully recruited, carefully trained, well deployed, and were actually doing very, very good work.

In this new era of the gangs wishing to engage in normal society a bit more, there was—in the previous examination with Corrections, Minister, you made a few comments around how hard it is to reintegrate some prisoners, and one of those groups is gang women. Is it time for a conversation—and I don’t know where that’s to be held—around the role of women in the gangs, given that it is women who often are the ones who take their children to school, for example—you know? Because part of the conversation—if the gangs wished to be regarded in a different light, then, yes, they have to do things differently, and I’d have thought that the care of children, getting them to school, getting them to the doctor, would be really integral to that. So what are your thoughts on that?

I’ve got a very good—if I think of my own electorate, where there is a significant gang presence on both sides, actually, of the Waiōeka Gorge, there’s one initiative that is being run. The work that the police are doing with Māori is called Turning the Tide, and in Gisborne we have a significant initiative that’s been taken by police and iwi where a police officer is seconded to work with the iwi and develop initiatives and programmes and things that the iwi fund, and work to try and reduce, particularly, youth crime. But this particular intervention works with the women of a particular gang in a particular area in Gisborne, and this police officer has convinced Housing New Zealand to make a piece of land available.

The approach actually came from the women themselves, who didn’t have enough food to eat, despite the fact that there was a great deal of expenditure on alcohol and drugs by the gang men in their activities. Women and children didn’t have enough food, so the police officer developed with them a community garden. It had to be one in their midst because they didn’t necessarily have transport, and she started working with a group of half a dozen. I believe that’s now up to about 18—I’m actually meeting with them next week—and they are growing their own food. They have, this year, started horticultural courses to augment the work. You know, they were just basically growing some extra food for themselves.
Out of that, of course, a relationship has developed whereby the police officer is now dealing with issues like: “Will you help me get my children to school, because the old man won’t let them go? He wants to use these children for petty crimes, and I want my boys to go to school. So will you come with me to the school, and can we set up some safe mechanisms for getting my children to school?”. Things like changing the names—I mean, one of these kids was called “triple M”, which is Mighty Mongrel Mob. That’s a terrible name for a child to have. So: “How do I go about changing my child’s name?”. So out of that initial relationship that the police officer and the iwi—because it’s being supported by the iwi—have developed, so then a lot of changes in behaviour can happen.

Now if we can replicate that—it might be in a different way—but if we can replicate that we have a chance of getting some long-term change in those communities away from the men. I mean, my understanding is the men are not allowed anywhere near the gardens. This is done completely separate from them, and so this is a chance for those women themselves to develop—so educational opportunities and that sort of building of self-esteem, that they might not necessarily get in their home environment.

McKelvie Just following on from that, I suppose I’ve always wanted to deny we had any gang members in the Rangitikei, but some have infiltrated us. I was a bit interested in the last discussion that you just had, Minister. I guess the challenge that I see for our communities—and perhaps the police are a large part of this—is the fact that these kids in schools are quite disruptive and they create a lot of hassles, from not turning up to school to turning up to school in no condition to go to school, and that sort of thing. I wondered what sort of a challenge that was for the police, particularly in the smaller communities?

Bush Absolutely. If I could just talk about women and children in gangs, they are the silent tragedy of gang life, and you have to be either a police officer or a health worker or a CYFS officer, really, to see the lives of partners and children of gang members actually lead. It’s horrendous, and that’s one of the reasons that really motivates us to take a fresh approach to what we do around gangs. So the more we can do in that space is essential. But in those smaller communities, it is a frustration. In talking to an ex-senior gang member recently, his view was we must make gangs irrelevant—they must disappear. That’s the only way. We shouldn’t even talk about them in a community in the way you talk about. They should be, not displaced, but they should be made irrelevant. They are not, in any way, a healthy part of any healthy community.

Goff I see from the police’s written answer 81 to questions for written answer from this committee that three community police stations are being closed in Manukau. I just wonder what the total number of community police stations is that have been closed over the last 2 years, and does that include stations like Mount Roskill South, which has, as members of this committee observed for themselves, been “temporarily closed” to the public now for up to 2 years, and when do you think it might cease to be temporarily closed to the public—after a 2-year period?
Tolley: So, do you want me to—
Goff: Yeah, of course.
Tolley: Well, on the first question I’d say to you, Mr Goff—as you well know—is that bricks and mortar don’t solve crime. So in this modern policing world, it’s about making sure that our police are out and about, and as I said at the beginning they are much more accessible to the public. Yes, we have closed—and I thought that in the answers there was a list of stations or kiosks and things that have been closed.
Goff: About 15 or 16, would that be about right—the number of community police stations closed?
Tolley: I don’t have it in front of me, but—
Goff: Oh, I’ve got the list. Would you like me to read them out to you?
Tolley: No. So you’ve asked the question, but you know the answer.
Goff: Well, I want to see the justification for it.
Tolley: And we also have invested in 16 new police stations—
Goff: But not in the same areas.
Tolley: But how to manage people and where to place them in the community is actually the responsibility of the Commissioner, so I will hand over to him to answer the rest of your question.

Goff: So, Commissioner, when can we expect Mount Roskill South to cease to be “temporarily closed”?
Bush: Again, it’s actually—a police station like that can almost be a distraction.
Goff: Ha, ha! I can write that down. That’s really good, thank you.
Bush: And the reason for that is we want our police officers out on the street, and if we continue to have “temporarily closed”, that will just serve to frustrate the community. What they need to be able to do is contact those police officers and to have those police officers in that community, and those police officers are very much in those communities. They’re very mobile and they’re very contactable.
Tolley: With their iPads.
Goff: And, traditionally, people, if they had a complaint or a concern—as the regional commander found out when he was standing outside this very police station with me—people coming in wanting to register an immediate concern about an event in the neighbourhood, they know where the police station is, they know where to go, they get there, and it is closed.
Bush: My point exactly.
Tolley: Yeah, you’re happy for a policeman—a highly qualified, highly skilled policeman—to be sitting in there, just on the off chance that someone’s going to come in.
Goff Actually, we had it staffed by volunteers, who would immediately help the people who came in and were happy to play their role in the community by volunteering. They’re devastated that they no longer have the very effective role that they once played, Minister.

Mitchell That comes with its own risks, though.

Goff Well, they did it for about 30 years while I was a member of Parliament there. It never seemed to be a big risk.

Tolley Madam Chair, I just have to have the last word. I’m sorry, Phil, but policing has changed dramatically, and the public’s—

Goff So we don’t believe in community policing—community police stations any more?

Tolley Well, we absolutely believe in community policing—

Goff But we don’t believe in community police stations?

Dean Just a little bit of courtesy would be excellent.

Tolley —and what we believe in is having much more mobile, visible, accessible police, and that means that they have to be out and about in the community. That is producing the sort of results that we are seeing, and that’s what’s going to drive further decreases in crime, which will lead to less victims.

Goff So community police stations are now a thing of the past—is that what you’re telling the committee?

Tolley Oh, that’s not my decision to make, but what I’m saying to you—

Goff Oh, well, maybe I can put that to the Commissioner.

Dean Yes, Commissioner, would you? So, this is the final question—we’re out of time.

Bush So where a base is required—absolutely. But, again, it’s—and you talked about South Auckland police stations, and the one that replaced the ones that were closed was the Ōtāhuhu Police Station, which is an investment that the staff there are very proud of. But they use it as a base, and I was there only 2 weeks ago. The staff who had completed their shift were there finishing their paperwork, but the rest of the staff were out and about in their community, where they should be. So it served as a base only.

Tolley And it also serves as a base for other community organisations—

Bush Yes, there are.

Tolley —that are working with police. So it’s a different model.

Goff I don’t think that’s the way my electorate would see it—or other electorates.

Tolley And in the end they can just pick up the telephone and ring the crime reporting line. They don’t have to go anywhere.

Dean Thank you very much for that, Minister and Commissioner, and your staff. From this side of the House, I want to congratulate on bringing crime
down. I think the police are doing a fantastic job. Mike Bush, congratulations on what you do. I hope you have another successful year.

Bush Thank you.

conclusion of evidence
2014/15 Estimates for Vote Primary Industries

Report of the Primary Production Committee

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Vote Primary Industries

Recommendation

The Primary Production Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Primary Industries as set out in Parliamentary Paper B.5, administered by the Ministry for Primary Industries, be accepted.

Introduction

The appropriations sought for Vote Primary Industries increase to $628.297 million in 2014/15, compared with an estimated $612.244 million for 2013/14.

Vote Primary Industries includes the following approximate appropriations:

- $136 million for the development and implementation of policy advice
- $159 million for border and domestic biosecurity risk management
- $74 million for management of Crown forestry assets

The Minister told us that the Ministry for Primary production (MPI) had recently aligned its structure around three core systems: Biosecurity, food safety and primary production, to improve its support to the primary sector in increasing the value of exports in line with aims for the sector. Exports for primary products exceeded forecasts and reached $37.7 billion during the year, much of the gain deriving from rising demand in China and high commodity prices. The dairy industry now accounts for 46 per cent of primary production exports by value and, along with increased exports of other primary products, has made good progress towards the aim of doubling exports by 2025.

Dairy exports

One of us asked why Fonterra was still having problems exporting certain of its products into China and Russia following the botulism scare. The minister explained that this was a small restriction in terms of Fonterra’s total exports, and was confined to dairy base powder containing whey protein concentrate. This product amounts to about three per cent of dairy exports to China, and Fonterra is taking the opportunity to open new markets for this product. China is waiting for the conclusion of the ministerial inquiry into the issue, and in the meantime the Government is continuing to raise the issue with the Chinese authorities. Notwithstanding, there has been an increase of 75 per cent in dairy exports to China in the past year, and total dairy exports to that region are now worth $5 billion per year.

Forestry prices

We note that despite a good overall result from the forestry industry, the value of forestry exports to China have fallen in the last month, reflecting a fall in market prices. We asked if
the Minister was concerned that prices of other exports might fall similarly, given the growing dependence on China for exports.

We heard that there appeared to be an adjustment in the Chinese market as banks tighten funding for building and construction, depressing demand as a result. The outlook, however, is still strong and there is an opportunity to add value to the product in New Zealand. Prices for pulp and sawn products had risen, and with a construction boom in Christchurch and Auckland, demand and prices, especially for sawn products, will continue to increase.

**Recreational fishers**

We asked about funding for recreational and customary fishers. We heard that support is being provided in a variety of ways. For example, recommendations from the Review of Sustainability and other Management Controls for Snapper 1 (SNA 1) in 2013 were being implemented. Cameras and observers have been placed on 25 per cent of commercial fishing vessels, with an aim of 100 per cent coverage by 2015. MPI is also establishing rules about fish sizes, and is setting up a GPS-based monitoring system for all commercial fishing vessels which will tell MPI where they are fishing at any time.

A study of snapper movements is being initiated, which will help to ensure the sustainability of the fishery. Commercial fishing restrictions of the paua stock on the Otago coast have been retained and four mātaitais have been established for the benefit of recreational and customary fishers.

**Primary Growth Partnership**

We heard that the Primary Growth Partnership invests in research and innovation for primary industries. Funding allocated for PGP projects forms a significant portion of this vote, reflecting the Government’s intention to grow the primary production economy by seven percent annually over the next three years. We heard that research and development is crucial to achieving this goal, and 18 PGP projects have been announced to foster innovation in the sector, and $708 million committed by industry and government. As at 30 May 2014, we heard that a total of $105.58 million in government funding had been paid to programmes already in progress. A recent report by the New Zealand Institute of Economic Research (NZIER) estimated the benefit to the economy at $6.4 billion by 2025, with another $4.4 billion if all the projects are successful. Additional benefits afforded by the scheme include the transfer and spread of knowledge across the sector, the fostering of partnerships, the development of environmental sustainability, and improvements to health and safety.

We asked about the capability of industry to obtain the full benefits of the PGP scheme, particularly as regards the transfer of knowledge across the sector, which would be vital for the future success of primary industries. We were told that PGP innovation can bring the sort of skills that the sector needs to reach the 2025 goal of doubling exports. It is estimated that the sector will require an extra 50,000 employees by 2015, 26,000 of them highly skilled, with tertiary qualifications. Agriculture is becoming far more sophisticated and technical, and the sector will require engineers, food scientists, environmental planners and other highly qualified employees. Such people will drive the sector and enable it to obtain the benefits of innovation and new knowledge fostered by the PGP scheme among others.
A member expressed concern about an apparent lack of evaluation of the PGP scheme, especially as some of the projects are more than half completed. One of us suggested that while the NZIER report used flattering rhetoric, it provided no clear evidence that the PGP projects are giving taxpayers value for money, and that there is no clear evaluation of this area of government expenditure. The Minister disagreed, and assured us that in addition to the NZIER report, there is now a considerable amount of information on the MPI website, providing a high degree of accountability. He said that the PGP scheme was heavily scrutinised, and he looked forward to the forthcoming results of the Auditor-General’s inquiry into the scheme. Some of us were concerned that the inquiry, which was meant to conclude in June 2014, had been delayed, but we were assured that MPI was not behind the delay.

We asked how the value and benefits of the PGP projects could be seen by the tax-payer and how the benefits would accrue throughout the sector. We heard that the NZIER report provided ample evidence of value to the taxpayer as well as to the primary industries sector. For example, the fishing industry now has the potential to increase exports of live fish to the Asian markets, as a result of an award-winning net design developed under the PGP scheme.

We asked about the PGP evaluation frameworks for projects, and the rate at which evaluations are carried out. We heard that evaluation mechanisms include financial audits of each programme, progress reviews, and end-of-programme evaluations. Eight financial audits have been carried out and a further seven will be completed this year. Programme progress reviews are carried out when the programmes reach maturity; one has been completed and a further eight will be done this year. The first end-of-programme evaluations will be carried out this year; depending on capacity in MPI, they may be outsourced.

**Biosecurity**

The Minister said that biosecurity is one of his top priorities, since only by protecting New Zealand’s primary industries could the Government reach its objective of doubling the value of primary production exports by 2025.

Risk analysis was carried out continually; and the importance of biosecurity was rapidly increasing with huge trade volumes and increasing passenger traffic across borders. Biosecurity was being greatly enhanced, with more staff, dogs, and detection machinery in use or planned; and Government Industry Agreements in biosecurity were proving very successful. The construction of the National Biocontainment Facility at Wallaceville, costing $65 million over the period 2014–2018, is a significant item of new capital expenditure; $15 million has been included in the 2014/15 appropriations for this purpose.
We asked about plans to combat any outbreak of foot-and-mouth disease and the diagnosis and treatment of the disease. We heard that MPI had comprehensive preparedness and response programmes, and New Zealand veterinarians were working with an Australian team on a live exercise in Nepal to develop this expertise. We were told that although the Wallaceville facility would not contain any live foot-and-mouth reference material, MPI’s technical diagnostic staffs are still able identify the disease within six to 12 hours. Once an incursion is confirmed, MPI has direct access for referencing purposes to the World Reference Laboratory for Foot-and-Mouth Disease at Pirbright in the UK, for diagnostic purposes, and for the issuing of vaccinations if this is deemed necessary. If the disease is diagnosed in New Zealand this would automatically initiate a programme of support and vaccination from Pirbright.

We asked whether MPI had determined how two Australian fruit flies found in New Zealand had got here. We heard that it had not. The insects were not DNA-related, coming from different species, and probably entered the country as eggs or larvae in a host fruit or vegetable. The possibility of the flies having entered on a yacht had been considered and the clearance processes for this traffic have been reviewed.

One of us raised the escape of a genetically modified fungus from containment at Lincoln University. The member was concerned about the length of time taken to report findings. The minister assured us that an investigation is being carried out and a full release of information is due shortly. It appears that the issue arose because of mislabelling so that the release was authorised in error. One of us was concerned about New Zealand’s ability to prevent or respond effectively to the emergence of a new strain of Theileria orientalis. We were told that farmers were well used to dealing with this longstanding pest, and MPI was working towards providing a drug to help affected farmers stabilise stock. One of us was concerned that the new strain of T. orientalis (Ikida) is more costly to animal health and management, and that MPI could have explored eradication of the outbreak as a test for its foot-and-mouth disease preparedness and response programme.

**Organic farming methods**

One of us asked why MPI had put large amounts of funding towards irrigation and water storage, yet little or nothing towards organic farming methods which he believed would better resist drought conditions than current farming methods. We heard that one of the country’s major natural resources was water and to fail to capitalise on this would not be in the interest of farming. Currently only around two per cent of the rainfall in New Zealand is stored, yet even this small amount has major benefits to both agriculture and the environment, and it would be irresponsible to disregard this resource.
Appendix

Approach to this examination
We met on 19 June 2014 and 26 June 2014 to consider Vote Primary Industries. Evidence was heard from the Minister for Primary Industries, Hon Nathan Guy, and the Ministry for Primary Industries, and advice was received from the Office of the Auditor-General.

Committee members
Shane Ardern (Chairperson)
Steffan Browning
Colin King
Ian McKelvie
Hon Damien O’Connor
Eric Roy
Meka Whaiteri

Evidence and advice received
We considered the following evidence and advice during this examination:
Minister for Primary Industries, Response to additional written questions, received 17 June 2014.

Minister for Primary Industries, Response to standard Estimates questionnaire received 19 May 2014.

Office of the Auditor-General, Briefing on Vote Primary Industries, received 19 June 2014.
Vote briefing paper, Vote Primary Industries, prepared by committee staff, dated 10 June 2014.
2014/15 Estimates for Vote Prime Minister and Cabinet

Report of the Government Administration Committee

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Vote Prime Minister and Cabinet

Recommendation

The Government Administration Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Prime Minister and Cabinet, administered by the Department of Prime Minister and Cabinet, as set out in Parliamentary Paper B.5, Vol.5, be accepted.

Introduction

In 2014/15 the appropriations sought for Vote Prime Minister and Cabinet are $41.756 million, a decrease from the 2013/14 estimated actual expenditure of $46.055 million. This decrease reflects the cessation of a number of one-off appropriations from previous years.

This year the appropriations for the Ministry of Civil Defence and Emergency Management functions were transferred from Vote Internal Affairs to Vote Prime Minister and Cabinet.

We heard evidence from the Department of the Prime Minister and Cabinet. We regret that the Prime Minister was unable to attend.

Improving capability

We asked what improvements the department was developing to increase its capacity and the quality of its services. The department told us that since the Canterbury earthquakes it had been improving its capability to respond to large events. While it considered that its response to the Canterbury earthquakes was good, it had recognised that it could improve in a number of key areas. The department analyses local and overseas information, working with other government departments and with agencies in other countries to improve its ability to respond.

The department told us that it was improving its public communication skills which are perceived to be inadequate. It hoped that by engaging with the public, through consultation and sharing information, it could help close the gap. It welcomed input from the public and sought to share information to keep the public better informed. We support this initiative.

Security risks to New Zealand

The appropriation for National Security Priorities and Intelligence Coordination increases by six percent to $8.86 million for 2014/15. We heard that the department is using the funding increase to improve its security and intelligence capability in various areas.

Cyber-attacks

We had heard that government departments and private companies may be vulnerable to cyber-attacks and asked the department how it is preparing and planning to deal with them. The department told us that it works closely in this area with the other members of the “Five Eyes” agreement, Australia, Canada, the United Kingdom, and the USA. The department’s main role is leading and coordinating the intelligence sector in New Zealand.
Watch groups

We asked about the department’s role in coordinating New Zealand’s responses to major security risks. The department said that once a risk is detected, the chief executives of the relevant government agencies form what is called a watch group. Its role is to examine the issues and assign a lead agency to address the risk. The aim is to prevent risks being realised.

Cabinet Office

The Cabinet Office advises the Government on constitutional, policy, and procedural issues, funded from the appropriation for Policy Advice – Prime Minister and Cabinet, which decreases to $4.131 million in 2014/15 from $5.714 million in 2013/14.

We were interested in the role of the Cabinet Office regarding Ministers’ potential conflicts of interest. The department told us that Ministers need to disclose any information that could represent a conflict of interest; this might include previous and current positions and affiliations, and interests pertaining to family members. The department analyses every case individually, and decides whether there is in fact a conflict of interest.
Appendix

Approach to this examination

We met on 28 May and 18 June 2014 to consider Vote Prime Minister and Cabinet. Evidence was heard from the Department of Prime Minister and Cabinet, and advice received from the Office of the Auditor-General.

Committee members

Hon Ruth Dyson (Chairperson)
Chris Auchinvole
Kanwaljit Singh Bakshi
Hon Trevor Mallard
Mojo Mathers
Eric Roy

Evidence and advice received

We considered the following evidence and advice during this examination:


Office of the Auditor-General, Briefing on Vote Prime Minister and Cabinet, received 22 May 2014.

Department of Prime Minister and Cabinet, Response to standard Estimates questionnaire. Response to additional questions, received 13 June 2014.

Vote briefing paper, prepared by committee staff, dated 28 May 2014.
2014/15 Estimates for Vote Revenue

Report of the Finance and Expenditure Committee

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2014/15 ESTIMATES FOR VOTE REVENUE

Vote Revenue

Recommendation

The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Revenue as set out in Parliamentary Paper B.5 Vol.5, administered by the Inland Revenue Department, be accepted.

Introduction

The appropriations sought for Vote Revenue increase by just under 2 percent to $6.772 billion in 2014/15, from estimated actual spending of $6.652 billion the previous year.

Over half the appropriations are for benefits and related expenses: tax credits, KiwiSaver kick-start payments, child support, and paid parental leave payments. The total would increase by just over 1 percent in 2014/15, to $3.735 billion.

A third of the Vote covers the write-off, write-down, and impairment of debt. The total of $2.253 billion in 2014/15 represents an increase of $71 million (3 percent) from 2013/14.

Just over a tenth of the Vote funds the operations of the Inland Revenue Department (IRD). Departmental output expenses, at $712 million, would be about the same as the previous year, while departmental capital expenditure would increase by 22 percent to $62 million in 2014/15. The $11-million increase in capital spending (including a capital injection of $2.336 million) would fund reforms to the child support scheme, detailed design of IRD’s business transformation programme, and compliance with recent US legislation affecting financial institutions in New Zealand.

Business transformation programme

Budget 2014 proposes an additional $19.5 million for IRD’s business transformation programme. This major 10-year project aims to update the department’s business practices and ageing computer system so it can serve customers better in its various functions, especially through online services. It consists of four stages: setting up secure digital services and improving arrangements for PAYE and GST; streamlining business tax processes; improving the delivery of social assistance payments such as Working for Families tax credits; and finally, linking up the remaining components.

The project has been in the planning stages for some time; the funding in 2014/15 will allow it to move into the detailed design phase for the first stage. We heard that after receiving expressions of interest for this work, IRD has shortlisted two multinational consultancy firms, CapGemini and Accenture, to provide formal proposals. The Minister said the programme will also offer opportunities for New Zealand businesses to participate; for example, the New Zealand firm Assurity Consulting had recently been awarded a contract for $30 million of IT work.

Some of us are concerned by the pace of progress with upgrading the department’s IT systems, as IRD currently has limited ability to implement policy changes affecting its tax and payments processes. For example, proposed legislative changes to child support arrangements were recently deferred by a year as the department needed more time to test and implement the changes. The Minister said that new policies inevitably entailed
complexities, and he believed it was right to take the necessary time to provide confidence they were implemented properly.

**Engagement with the public**

As part of its business transformation process the department is working to improve its communication with the public. It believes it does well at engaging with corporate taxpayers and professional tax advisers, but has started some projects seeking feedback from individual taxpayers and small businesses about ways it can improve its services and reduce the compliance burden for them. It has also increased its digital services, with 1.7 million taxpayers now registered to manage their tax affairs online through “myIR”, a million registered for voice identification, and a million businesses doing their GST returns online. These approaches allow both IRD and taxpayers to save significant amounts of time.

**Staffing**

We note that IRD’s planned spending on consultants represents over 8 percent of its operating expenditure. We asked whether it is using consultants to replace expertise lost in various restructurings over the past five years, for which redundancy payments have totalled about $40 million. The Commissioner of Inland Revenue told us that the mix of skills needed by the department is changing as it moves through the business transformation. Consultants are brought in where staff do not have the expertise needed; none are simply undertaking the same tasks as staff made redundant.

Some of us are concerned about the department’s steeply increasing expenditure on public relations and communications staff and consultants, and sought assurance that it is for core functions and not simply “spin”. The Minister and the commissioner said that communicating with the public about their tax obligations and how to comply is an important part of IRD’s work. For example, it arranges public meetings with new migrants so they understand New Zealand’s tax system, and recently produced a series of YouTube videos.

**Information sharing and privacy**

We asked what strategies IRD is using to protect its customers’ privacy, as it is disappointing that privacy breaches have increased despite previous assurances that it was taking steps to prevent them. The commissioner said most breaches arose from manual handling of correspondence by staff; the department takes the secrecy of taxpayers’ information very seriously, but as it handles large quantities of information, errors sometimes occur. The strategy involves a combination of more stringent training throughout the department, and reviewing and tightening processes where there have been breaches. She said the department has also taken steps to ensure all breaches are reported; the greater transparency accounts for some of the increase.

We note that the Minister has announced plans for information sharing between IRD and the New Zealand Police as a means of combating serious crime, and asked how the privacy of innocent parties would be safeguarded. We were told that the agreement was developed in consultation with the Privacy Commissioner, and the circumstances in which information could be shared were closely prescribed. There must be reasonable grounds to suspect a significant offence had been committed; there were strict controls over the use of the data within the agencies, and the Privacy Commissioner would be notified in each instance.
Foreign Account Tax Compliance Act

IRD would receive new funding of $4.6 million in 2014/15, including a capital injection of $2.336 million, for it to help financial institutions meet the requirements of the USA’s Foreign Account Tax Compliance Act (FATCA), which comes into force on 1 July 2014.\(^1\)

FATCA is part of a global effort to combat international tax evasion. It will require financial institutions in all countries to provide information to the US tax authorities about the accounts of their customers who are US taxpayers. To reduce the compliance costs of FATCA for New Zealand financial institutions, the Government is negotiating an inter-governmental agreement with the USA. It is proposed that financial institutions will obtain the required information and provide it to Inland Revenue, which will in turn transmit it to the US tax authorities.

We heard from the Minister that the inter-governmental agreement between New Zealand and the USA has been agreed in principle, with negotiators now finalising the details. He told us he has not yet seen a copy of the agreement, but understands it is based on a standard model, and expects it to be concluded and approved by Cabinet in time to fit in with the FATCA legislation becoming effective.

Some of us would have expected the Minister to have seen the agreement, since the 1 July deadline is so close, and remain concerned about aspects of the proposal, particularly the coercive nature of the US legislation, and the fact that New Zealand’s facilitating legislation did not require reciprocal information-sharing. The Minister said that the agreement would provide for reciprocity. He noted that the double tax agreement between New Zealand and the USA already provides for reciprocal exchange of information about both countries’ taxpayers.

Protecting the tax base

IRD and the Treasury continue to work on the problem of international erosion of the tax base, known as BEPS (base erosion and profit shifting). The work covers complex issues arising from globalisation, including appropriate ways of taxing large multinational corporations. The Minister said he endorses New Zealand’s working through international forums like the OECD and the G20 on this issue, as part of the problem stems from inconsistent rules between tax jurisdictions. He told us he recently visited the OECD and is optimistic about the body of work being undertaken, and the level of cooperation and progress. He noted that New Zealand cannot on its own do all it might like to protect its tax base, but he has confidence in the OECD process. He believes part of the solution lies in the automatic exchange of information between tax jurisdictions, for which a multilateral agreement is being developed within the OECD and G20.

Compliance activities

Over recent years IRD has received additional funding for various initiatives to ensure that taxpayers comply with their obligations. The results have been good, improving compliance in areas such as property speculation, the hidden economy, and aggressive tax planning, and returning several times more than the sums invested. Budget 2014 supports further such work, with new funding of $17.8 million to address unfiled returns in 2014/15.

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\(^1\) We outlined the issues around FATCA in our commentary on the Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Bill, presented on 14 April 2014.
Child support payments

IRD facilitates child support payments by collecting money from non-custodial parents and passing it on to the families. Budget 2014 proposes to allocate $43.5 million over the next five years so IRD can do more to encourage non-custodial parents to pay what they owe for child support. The extra spending is expected to result in $174 million of additional child support payments that would otherwise not be collected—a return of about $4 for each dollar invested. We strongly support this additional funding to encourage non-custodial parents to meet their responsibilities.

Tax revenue and forms of taxation

We note that tax revenues totalling $60.378 billion are forecast for 2014/15. The Minister told us the strong revenue base underpins the forecast budget surplus, and demonstrates a very healthy tax system.

Some of us remain of the view that New Zealand should introduce a capital gains tax. With regard to the Minister’s recent public comment that New Zealand already has a capital gains tax on investment property, some of us note that the tax can be applied only when it is proved that the intention was to buy the property for profit. We sought information on the proportion of New Zealand’s 600,000 rental properties to which the capital gains tax has applied. We were informed that the IRD does not have data on the proportion of investment housing that is held by people who systematically sell property.

On taxing property speculation, the majority of members noted that $53 million worth of discrepancies were found by the IRD in the previous year, a return of about $8.40 for every dollar invested on enforcement. The Minister said that some taxpayers would not have been fully aware of their obligations, or made a mistake, while others wilfully sought to avoid their obligations. Where people wilfully or knowingly do not meet their obligations, it is the responsibility of the commissioner to ensure compliance. The Government started an initiative in 2010 where additional resources were given to IRD to ensure property compliance, and the returns have been initially higher than expected.

Labour and Green members believe the Minister cannot properly claim that New Zealand already has a capital gains tax on investment property, when he and his department are unable to provide any data on the proportion of investment property sales which are taxed on the capital gains. The importance of this issue is repeatedly underlined by the OECD and the IMF.
Approach to this examination

We met on 28 May and 18 June 2014 to consider Vote Revenue. We heard evidence from the Minister of Revenue, Hon Todd McClay, and the Inland Revenue Department, and received advice from the Office of the Auditor-General.

Committee members

Paul Goldsmith (Chairperson)
David Bennett
Dr David Clark
John Hayes
Dr Russel Norman
Simon O’Connor
Hon David Parker
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Hon Kate Wilkinson

Evidence and advice received

We considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Revenue, prepared by committee staff, dated 26 May 2014.


Minister of Revenue, Response to standard Estimates questionnaire.

Office of the Auditor-General, Briefing on Vote Revenue, dated 28 May 2014.

Responses to additional questions, received 26 May and 13 June 2014.
Appendix B

Corrected transcript of hearing of evidence 28 May 2014

Members
Paul Goldsmith (Chairperson)
David Bennett
Dr David Clark
Julie Anne Genter
John Hayes
Dr Russel Norman
Simon O’Connor
Hon David Parker
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Hon Kate Wilkinson

Witnesses
Hon Todd McClay, Minister of Revenue
Naomi Ferguson, Commissioner and Chief Executive, the Inland Revenue Department
Struan Little, Deputy Commissioner, Policy and Strategy

Goldsmith Welcome, Minister and Commissioner, and Deputy Commissioner to the meeting. We’ve got your detail, but if you could give us a summary of the highlights, that would great. Then we’ll move on to questions.

McClay Good. Well, Chairman, thank you very much, and thanks for the invitation to come and join with you today. I just want to recognise that, as Minister, it’s my first time appearing before the committee, and recognise the Chair looks somewhat different than the last time a Minister was before him, although I understand this one is a very good Chair. [Introductions].

I want really just to talk about a few of the things going on in revenue and some of the things I think are important at the moment, and I am very keen to keep that as brief as we can and engage in questions.

First is around the Budget and the hearing today. I think it’s important to recognise that the Budget returns us to a surplus. It’s underpinned by strong tax revenues, and I think it demonstrates a very healthy tax system. It combines responsible fiscal management and the requirement to assist those who have most need in society. A couple of highlights I think importantly that the Inland Revenue Department is involved in is around the parental tax credits and paid parental leave, for which we don’t necessarily have the policy responsibility but around implementation, but some important changes to R and D tax settings that have been welcomed by businesses, and I think they do support a growing economy. In
particular, The Inland Revenue Department received $132 million over the next 5 years for tax compliance work, and we expect to receive, or the taxpayer can expect to receive, a $297.5 million return on that. We also, quite importantly, received $43.5 million over 5 years to improve child support payments, and there’s an expectation that this will return $174 million in extra child support that wouldn’t be collected otherwise during that period of time, which goes a long way to helping families, and particularly those children. And I think it’s important to note that this builds upon other compliance work that The Inland Revenue Department has done over the last few years in areas of property speculation, unfiled returns, the hidden economy, and we’ve seen very good returns on these investments across the board.

I want to talk a little bit about the Inland Revenue Department and a vision for its serving the public. One of the things that has struck me over the last year as Minister is there is a disconnect between the work of the Inland Revenue Department, the importance of it, and the value of that, or perception on the part of the public. So what we’ve done over the last period of time—we’ve looked at ways that we can engage with the public, with taxpayers at all levels, more. I think we do it very well when it comes to corporate taxpayers and the tax advice profession, but I think at all levels of society—you know we have 7.5 million registered taxpayers and tax paying entities in New Zealand, and we need to do as much as we can to engage with them. So we’ve started a project called IR4U, and that’s very much about saying that the Inland Revenue Department is for the taxpayer, and it’s about making sure that in everything we do we think about service to the taxpayer—how we can impact upon their lives much less, give the Government the guarantee, the Crown the guarantee, of the revenue it requires to pay for schools, hospitals, police forces, and so on, but actually to make sure that we’re not burdening or overburdening the taxpayer unnecessarily.

The first is a listening campaign—or an example of this is a listening campaign—that’s been started by way of a pilot in the Hawke’s Bay earlier this month, and since 7 May we have been engaging with people in the Hawke’s Bay, offering them an opportunity either online via apps or text messages to tell us a bit about what they think are parts of the tax system that they engage with. Since we started on 7 May we’ve had 300 responses there, which I think is quite good, given that it’s a start, and this is individuals telling us about what they think about the tax system. It’s going to help the Inland Revenue Department to look at exactly what we’re delivering, how it impacts upon taxpayers, and how we can make that better.

Often overlooked is SMEs and individual taxpayers, and it’s important that they have a say in the future of the tax system. Therefore, I am happy to announce to the committee today the creation of a taxpayer simplification panel, and this will be a means for individual taxpayers and small business owners to engage directly with the Inland Revenue Department about the tax system today. It’s a means for them to talk about the type of tax system
and service they want and require in the future and for them to directly be involved in. It’s a very first stage, and I’ll come on to this more in a moment around the business transformation agenda that we have under way. So there will be more detail to come out about this, but this is a way for taxpayers, small businesses—I think there’s about 450,000 of them registered in New Zealand, and people who pay their tax through wages and other ways, around about 3 million of them—to have a direct line of communication with the Inland Revenue Department about their ideas, their frustrations, the things they’d like to change, and some of the things that will make their lives easier. It will give us a chance to evaluate that—to look for some easy, quick wins to assist them, but also to make sure that they’re part of the business transformation process that we’re going through.

A couple of other areas that I think are important to note that have changed—1.7 million taxpayers have registered for myIR. That means they can now manage all of their tax affairs online, a significant saving of time to them and it also frees up resources within the Inland Revenue Department. One million taxpayers have registered for voice recognition. That means that when they call the Inland Revenue Department, they are identified through voice recognition technology. That saves a significant 8,500 hours of telephone time every year, and we now have more than 1 million entities doing their GST online, which again is a significant saving of time, not only for the Inland Revenue Department but most importantly for those businesses.

I want to come to business transformation now. Generally, the BBLR—broad-based low rate—tax policy settings in New Zealand are best of class. Since becoming Minister I’ve had an opportunity to engage with revenue services from around the world, and they often look at the tax system we have in place in New Zealand with some admiration. I think it serves us very well. But now’s the time to concentrate on building a tax administration system fit for the 21st century, and this is a huge undertaking for the Inland Revenue Department. It’s not just about what we do today, but it’s about making sure that as we move forward over the next period of time everything we do is about the taxpayer and about making their lives better. It’s about simplification, about modernising, and about transforming the way that we do our work.

So BT is broken down to be delivered in four stages. The first is to move to a digital environment for interacting with taxpayers, and this will lead us to be able to deliver a paperless PAYE and GST environment. The second is to streamline business taxes and company taxes, and for us to have a really good look at provisional tax and ways to make that better for businesses in New Zealand. The third is to look at streamlining the delivery of social assistance—Working for Families is an example—and the fourth then will be to tie this all together. The projected time frame is 10 years, although I would say that this is modular and we will be taking this stage by stage and step by step. At all stages we will be engaging with taxpayers at every level. BT is about making their interaction with the tax system easier and simpler,
and, quite honestly, we can only do that when we’re talking to them and listening to them about creating a tax administration system fit for them and for the 21st century.

We have reference groups and contact groups with the IT sector, with tax professionals, and many others, and the announcement today around the simplification panel means that many other taxpayers who may not have had a means to engage with us now will be able to.

BT has necessarily been in the planning mode for some time, and the next step on this is to contract a design partner for the detailed design of stage one. So far we’ve undertaken an expression of interest stage, a competitive dialogue, and now an RFP has been put out there. The RFP is expected to be completed later this year, with Cabinet to make a decision before the end of this year.

I announced a short while ago that at the end of the competitive dialogue stage the Inland Revenue Department had invited two companies, Capgemini and Accenture, to move through to RFP. It’s important that we get the skill set and experience needed to provide the level of expertise and assurance for this project, but I would say that these two companies, if selected are one of a number of transformation partners that we can expect to see during the lifetime and journey of BT.

I’ve also made it very clear, as the Government has, that we expect that there will be significant opportunities for New Zealand businesses during all stages of business transformation. I think this has been demonstrated so far through a number of contracts that have been issued, including a $30 million contract to Assurity issued earlier this year, around some of the IT services provided to the Inland Revenue Department. We’ve also just been out and looked for crowdsourcing of an app for IR’s new business application, and received a significant number of proposals from New Zealanders and New Zealand businesses. Both companies as part of the RFP have confirmed that they will be partnering with, and using, local expertise all the way through the project should they be selected.

We’ve also devised a policy vision for what the tax administration system should look like when we’ve finished this 10-year process, and there will be ideas which will be discussed and debated in June of this year when we will hold a tax administration conference, which is an opportunity for us to have a look at exactly what the tax system should be like in the future.

Just around the IT component of the Inland Revenue Department, I think we know, and it’s clear, that we have a current system that has served us very well with the FIRST computer system, but it is 20 years of age and the world has changed over the last 20 years. We do a lot of work to make sure it’s robust and it serves us well, but we’re not far away from the time when the cost of maintaining it becomes more than it would to replace it. So we need to be aware that there are going to be some challenges as we move forward to balance out the requirement of making sure the current system continues to serve us as business transformation and the changes around that take place. But further reforms of an IT component are inevitable.
before the new BT system can be up and running, and this is something that we’ll need to continue to manage through. Two other points that I want to raise, Mr Chairman: the first is around—

Clark

We will get a chance to ask some questions hopefully, Mr Chair?

McClay

We’re here for an hour, so, I’ll go as quick as I can. Base erosion and profit shifting—so these are issues that have featured in the media and that we’ve had discussions about previously. The OECD and both the G20 have focused on this. It’s a global problem, and it’s not one that New Zealand faces alone. It’s very important, I think, that whatever solutions are found in any country in the world that has concern around base erosion and profit shifting—you know, the involvement of multinationals in local tax or national tax jurisdictions—that countries don’t get ahead of the others, because some of the challenges that we face is because different parts of the world have created regimes that may benefit a corporate to the detriment of other countries.

I’ve asked officials to be fully engaged in these processes. I had an opportunity a few weeks ago to be in Paris just for a day and went to the OECD to talk to them about what they thought was likely to happen, and I’ve got to say, I came away more optimistic than perhaps when I went into the meeting. There is a very large body of work underway there, and I think there’s been some, at the very least, useful discussion amongst countries, and we can expect at least a first level of proposals later this year. Australia as part of the G20 have put this on their agenda as being of importance to them, and of course New Zealand has been invited to take part in that and we’ll be working as closely with them as we can there.

It’s my feeling that the way forward in this is the automatic exchange of information between tax jurisdictions, and it’s certainly work that’s under way in the G20 at the moment. I’m sure some of you will ask whether or not a number of companies from around the world are paying their fair share of tax in New Zealand. Well, the OECD came out with a list of recommendations, and we feature fairly well, or do well, in a significant number of them. But until we have a clear idea of what happens across the tax jurisdictions I would suggest it’s not easy for us to be able to do all the work that we would want, that we would need to, at this time, to ensure that the tax base in New Zealand is as strongly protected in the future as it has been in the past. But I have confidence in the OECD process, and we’ll be doing our fair share to make sure that’s driven forward.

There’s FACTA and other things, but we’ll get into that in questions. Thank you for your time. I’m happy to take questions now.

Goldsmith

Thanks very much; that’s very good.

Clark

The FACTA legislation, if we can start with that—when did you first see the final copy of the negotiated text, given that it’s only 1 month away from being enacted?

McClay

The IG— I haven’t seen it yet. What I was about to tell, but I’m happy to answer that question for you now, is that I am advised by officials that the
IGA has been agreed in principle between New Zealand and America. It’s following a similar process to many other countries of the world that are putting in place a similar sort of regime, and we are now having discussions with America about a time for it to be signed, so I haven’t seen a copy.

Peters Did you say you had or you hadn’t?

Clark One month away from being implemented in New Zealand, and you haven’t seen a copy of this legislation yet?

McClay That’s right, so let’s try and put this in context for a moment, shall we? The first thing is it’s clear—and I think the committee expressed this view—that if we didn’t—

Clark This is outrageous.

McClay I’ll answer your question before you see if it’s really outrageous. The first thing is we need to keep this in context. New Zealand and the Government have decided that it needs to have an IGA with the United States to assist financial institutions in New Zealand to meet an obligation imposed upon them by the US through US law. It doesn’t alter the tax commitment of any individual in New Zealand over and above the requirements upon them by the US dollar.

Clark Can I just ask—the officials have finalised the agreement and you as Minister have not asked to see it?

McClay No, so what I said was that the document’s agreed in principle with America, and now I understand that the officials are having discussions with America about the final parts of that—

Clark Is it agreed or not agreed?

Ferguson It’s agreed in principle, and we’re working through the detail on that.

Clark Why has the Minister not been informed?

Ferguson The Minister has been informed about the principles within that, and we will work through the draft and then—

Clark So he is aware of what’s in the agreement?

McClay Cabinet’s been pretty clear that in as far as the IGA’s concerned with the legislation, it must do as much as required to assist financial institutions in New Zealand meet their obligation under US law, but we should do no more than that. So at a higher level I have understanding of what’s included, but, no, I haven’t seen a copy of the text, and the officials have been negotiating to a matter. This is a negotiation at a Government to Government level, and as far the Minister is concerned it’s very much at an operational level, and I think it follows—

Clark Well, that’s unfortunate—

McClay It’s not unfortunate, because it follows a similar process of—

Parker Point of order. We ask short questions and we get speeches. Can we please have the Minister answer the questions so that we can get the chance to ask another question rather than hear another speech.
From the point of view of—no, no, I don’t need any—if we can have our questions simple, concise answers, and then if we can eliminate the chatter around the answer so we can get a clear answer, and then we’ll move on to the next question.

Why are the principles of the IGA not in the legislation?

So, two things there—the first is that US legislation has a date of 1 July for financial institutions to comply with their legislation. The second thing, I think, is that this is imposed upon all financial institutions everywhere in the world. So a large number of countries are going through a similar process to that of New Zealand, and it’s clear that we need to get legislation in place to assist our financial institutions with the collection of information, and thereafter with the IGA would need to be negotiated.

Commissioner, does the Minister on this matter know as much as you on it? That is, we know it’s not an agreement; you’ve got an agreement on the principles. Has the Minister been informed as much as you have, and have you been informed?

We regularly keep the Minister up to date with what is happening in this world, and it’s following a standard international process. There’s a model agreement in place. We’re working with that with the United States in the same way—

Excuse me, I’m not interested in the process. I want to know have you been informed—

Yes.

—or are you in the information loop yourself—

Yes.

—and if you are, is the Minister in that information loop as much as you are?

Yes, I—[Interruption]

That’s OK—just a supplementary from me: when do we expect the IGA to be signed?

That’s being discussed, I understand—informally discussed—with the US at the moment, and we’re keen to schedule the date so that we meet the requirements of the legislation.

But you haven’t read it yet.

Before it’s signed—

Next question.

Can we move on to the computer systems upgrade. You’ve spent $50 million so far to get a report that tells you to proceed. There are a number of things happening that are not ideal in the meantime—reports from tax professionals that they’re getting increasingly erratic responses saying tax returns haven’t been filed when they have; privacy breeches up 400 percent last year after the year before the department said it was putting in a strategy
in place to make sure that there were no further incidents. If I can quote the then Minister, “We’ve got to tighten up to make sure that we have no incidents.”, followed by 400 percent increase the next year, and also at the same time the child support legislation being postponed by a year at Christmas because it was unable to be implemented. After you as Minister had taken that through the House, then you were forced as Minister to put another bill through the House un-enacting the legislation that was due to go through. This sounds like a department in crisis that is really struggling to keep up. How are you keeping on top of that, and what’s your plan to actually lay out a proper strategy for having a system that is going to function and maintain the confidence of the people using it?

McClay Yes, a good question. I don’t think it’s a department in crisis at all. Whenever we look at new issues around tax policy there’s always going to be additional complexity built into them. The first thing I would say around the child support issue—the Inland Revenue Department came to me and said they didn’t have confidence it could be delivered in time, and I think to give parents and children certainty, it was the right decision to make to put it off by a year. We’ve seen other situations in histories of Government where people have decided to push on and the consequences have been greater or more significant. I asked at the time for assurances about not only what happened and the way forward, and the GCIO and others have been involved, and not only was it the right decision at the time, but the Inland Revenue Department is very well placed to deliver the child support system within the frame work of the new period of time proposed.

I am going to ask the Commissioner maybe to talk a little bit around some of the issues you raised around privacy breeches. What I would say, though, is that I agree with you: we need to be doing everything that we can to make sure that information is held to those who have access to it and others should not. I would say though that one of the outcomes of the Inland Revenue Department putting in place a new system around privacy and the management of information is an increase of reporting. So whether that means that perhaps there were issues of privacy that may not have been reported previously, I think we’re in a pretty robust place now that all officials in the Inland Revenue Department are paying due attention to reporting appropriately. Commissioner, you might want to talk about it.

Ferguson We do indeed take the issue of secrecy and privacy of taxpayers’ information very seriously. There have been a number of privacy breeches, and I’m pleased that actually that is reported and visible. Seventy-five percent of those relate to manual handling. We handle large volumes of information, as this committee knows from many of our reports and previous appearances in front of you. So on 75 occasions a member of staff has inadvertently sent the wrong information, put it in the wrong envelope, paper-clipped it in the wrong way. We are a department of people who care about the information and we take very serious and fast action whenever a member of staff identifies that they’ve done that to contact the person and to manage the issue for them.
Clark What new strategies are in place to deal with that? The most recent information you’ve supplied said there was 7,290 complaints in one year—that was the 2012-2013 year, and this is in page 81 of the documentation you’ve supplied. Over 7,000 complaints—this is off the back of previously saying you were going to clamp down on it. What new strategy have you put in place since you said you were going to clamp down on it? The following year a 400 percent increase—what are the new strategies that are in place to make sure this doesn’t happen in future?

Ferguson So we’ve done a number of things—one: increase and make more transparent that reporting; secondly, that we have introduced more stringent training across the department; and we have reviewed a number of the processes where there have been incidents to understand if we need to change that business process and tighten them up. So a range of some simple things and some more structured pieces around training.

Wilkinson In relation to the privacy, and in your announcement that you’ve just made today about the information sharing agreement with the department and the police—I think your press release said that you take a balanced approach that protects the taxpayers’ right to privacy while making sure offenders are held to account when evidence of serious wrongdoing is found. How are you going to do that? How are you going to make sure that innocent taxpayers haven’t got their privacy endangered? Is there a trigger at a certain level? You know, it’s the lowest crime rate we’ve had for years and years, and I can see that this is another great tool, but there will be a lot of innocent taxpayers there who aren’t criminals as well.

McClay Thanks very much for that. Today the Minister of Police and I announced an information-sharing agreement between the Inland Revenue Department and the New Zealand Police Force to combat serious crime. I think there’s an expectation on the part of society that where the Inland Revenue Department or any Government department is aware that a crime has been committed, is being committed, or may be committed, that agencies will work together. So this information-sharing agreement which we’ve been able to work through with the Privacy Commissioner allows the Inland Revenue Department with the police under certain prescribed circumstances to share information when it comes to deciding that we can hold those who may be committing serious crimes to account.

The information is going to focus on organised crime, significant crime, certainly drug offences, and so on. It can be used for any crime that would be punishable by a sentence of 4 years’ imprisonment or greater. I’ll ask the Commissioner maybe to talk about some of the detail of how that would work, but certainly in the development between departments of this agreement, it was important that information that the Inland Revenue Department has which has a special place, or a special treatment in the tax Act, would equally have the same treatment with the police force. So we’ve reached assurances that on the first hand the Inland Revenue Department, the Commissioner, must believe that the provision of information is warranted and would be useful to an inquiry but at the same time when it’s received by the police that they keep it separate from all other information.
and that only those who have a reason and are authorised to view that information are able to do so. But, Commissioner, you might want to say a bit more.

Little

Just a couple of comments, just endorsing what the Minister’s saying—one, it relates only to specified serious crimes. That’s 4 years or more for an imprisonable offence, and both agencies have to have reasonable grounds to suspect that an offence has been committed before this can trigger this, then there’s a whole series of controls in terms of the treatment of that information and the security of the information when it occurs. Senior officials in both departments are dealing with the information. Each time we do this it’s with the notification to the Privacy Commissioner, and there are strict controls about the use of that data within the agencies—the dealing, the treatment, and the subsequent destruction of that data. But the overall agreement has been endorsed with the Privacy Commissioner, and that’s really important.

Wilkinson

So it’s a neutral triggering. You can trigger, or the police can trigger, and then you do your double check and you decide I would often protect it, and—

Little

Correct. So if either agency has reasonable grounds to suspect that a serious offence has been committed they can notify the other agency to provide that information.

Peters

The serious drug industry in this country is run by the Māori gangs—how many of them have you nailed lately?

McClay

So here’s an example of why it’s important that we have an information-sharing agreement. If a member of a gang with his patch on walked into the Inland Revenue Department, No.1 he’d break the law because we’ve got a provision in place that says he can’t wear that patch any more—

Peters

I’m not worrying about his apparel; I’m worried about what he’s doing.

McClay

If he walked in there and had a million dollars in cash and said “I’ve just earned this selling drugs in the community or to children.”, then under the current Act the Inland Revenue Department would be under an obligation to take the tax off him but we wouldn’t be able to tell anybody else. So in this instance, and as far as the crime is concerned, the information could and would be shared. As Mr Peters knows, I’m not able to be party to specific taxpayer information to answer his question.

Peters

Oh, so secrecy is still important in your department?

McClay

Oh, I think it was as important when last a Minister was before you as now—absolutely.

Parker

On Focus on Politics in the weekend, Minister, you backed the Prime Minister’s claim that we already have a capital gains tax in New Zealand but then conceded that in respect of investment property for the capital gains to be taxed you have to prove the intention to buy for the profit, but wouldn’t answer questions about what proportion of houses fall within that category. There are homeownership rates now that are the lowest that they’ve been in
New Zealand for over 50 years. We’ve got close to 600,000 houses that are now rental houses. Can you please give me an estimate of the number of that 600,000 of rental houses that are caught by capital gains taxes when they’re sold?

Wilkinson What’s this got to do with the estimate? It’s Labour Party policy, not the estimates.

Parker I’m asking him questions relating to his comments on radio this morning. He’s been willing to talk widely about tax policies.

McClay No, look, I’m happy to answer it. It was on Sunday, and there was a fairly lengthy interview with a number of parliamentary colleagues on Radio New Zealand. The premise was that there is no capital gains tax in New Zealand, and squarely anybody who buys something with an intention of making a capital gain and therefore a profit is taxed in New Zealand.

Parker I’ve already said that and I understand that. My question is quite simple: of the approximately 600,000 investment properties that there are in New Zealand for rent, what proportion attract capital gains tax on sale?

McClay I don’t have that information. I don’t know whether my colleagues do.

Parker Is it closer to zero percent than 100 percent?

Goldsmith You can come back to us with those figures.

Parker Well, no—

McClay I would be happy to see what we can— Part of the challenge may be in the way that—

Parker No, no, it’s a serious question—

McClay Good, and I will give you a serious answer if you want an answer. It will be a serious answer.

Parker Well, you either know or you don’t know. Is it closer to zero percent than 100 percent?

McClay So part of the challenge we have is the way that tax is paid in New Zealand. So it depends upon the entity and it also depends on whether it’s an individual in this case.

Parker Well, I ask my question again: is it closer to zero percent than it is 100 percent? You must know, at least whether it’s more or less than 50 percent.

McClay So, what I probably want to do just so that I wasn’t in danger of misleading the committee, I’d like to get some information—we can try, and we can get back to you. All right?

Goldsmith You can’t have a yes or no answer.

Parker Well, can I follow the line of questioning?

Bennett A taxpayer that would be caught under that 10-year rule would effectively be paying tax as income tax so would be taxed at their income tax rate. If you look at capital gain taxes that are employed in places like Australia,
they’re generally at a lower rate than the income tax rate, and they involve an inflation component to basically half the tax rate taken into account—

Goldsmith: What’s the question?

Bennett: That it’s an income—

Peters: Do you have a question, rather than going around the Commonwealth?

Bennett: So, effectively, in those cases, would the income taxpayer that is currently paying an income tax rate be paying less tax under a capital gains tax regime similar to Australia than they would under the current regime where they pay it at an income tax rate?

McClay: It would depend upon the circumstances. That could well be the case. My understanding—and I would ask Struan to maybe give a bit more information—is that individual tax is paid based upon the marginal rate. If there is a profit that they declare in a given year, it could have an effect upon the rate that they pay, and so in some cases they would be paying at the top tax rate and others at a lower tax rate, so in that case it would be 33 percent. But, Struan, maybe there’s some more.

Little: In New Zealand, obviously, any tax would be paid at the taxpayer’s marginal rate, so it’s just part of their income. The other jurisdictions have different ways of dealing with this, but obviously if their capital gains tax is at a lower rate, then they’re paying less.

Bennett: So the Government would actually lose money on those transactions.

Little: Well, it’s a policy decision in terms of what the jurisdictions are doing.

McClay: So, just to finish on it, that would depend on how broad the capital gains tax was. What we see in some countries of the world is whether the capital gains tax is on everything. It could work well, then Governments have choices to either use the extra revenue they receive to spend on behalf of taxpayers or to broaden the tax base and make it fairer and lower rates. That’s a choice that they face. What we also find often is there are a lot of exceptions that are put in place, and the more exceptions you have the less income is often derived.

Parker: Are you aware that Treasury has told your Government that a capital gains tax on investment housing, excluding the family home, would have a significant effect on taking price pressures out of owner-occupied housing?

McClay: I think there is a probably a number of things that can and do have an effect upon the cost of housing in New Zealand. The very first one is interest rates. So we came into Government at a time when interest rates were 9 or 10 percent—

Parker: It would be helpful if you answered the question as to whether you knew or not.

McClay: I’m aware of a range of advice Treasury has given on a number of issues, including that one. But what I would say is—
Parker Thank you, that’s my question. I’ve got another question—I want to go back to the IGA with America. You’re telling us that it’s been agreed in principle and you are now trying to arrange for it to be signed, but you haven’t read it. Are you aware of whether it is reciprocal?

McClay Before the document is signed it will have to go to Cabinet for a decision over that, so I’m not trying to suggest that—

Parker Are you aware of whether it is reciprocal?

McClay You asked two parts of a question; I might try and go through both of them. The first is before any agreement is signed in New Zealand, Cabinet must give agreement to that, and that’s still to happen—that’s the first thing.

Peters But you take it to Cabinet, don’t you? You’re the Minister that takes it to Cabinet.

Bennett If we could hear the answer.

McClay The answer would be before I take it there I assume I will get to see it.

Robertson You “assume” you will get to see it?

McClay That’s right. I assume I will get to see it, and that would be reasonable, wouldn’t it? Since I will be the one taking it into the room, I assume I’ll get to see it beforehand.

Robertson Well, maybe not, actually, given what we’ve heard today.

McClay Just by way of clarification, there’s a model IGA published a period of time ago. It was clear that we would meet or use that model. The US has since published a list of countries who comply and they’ve released additional guidance, and New Zealand fits within that. I have been advised that it will be reciprocal. We already have a DTA with America which enables us to get information on New Zealand taxpayers who may be in America, but I’m informed it is reciprocal.

Parker If it’s to be reciprocal, why wouldn’t you allow this select committee to limit the discretion of IRD and you to enter into IGAs that weren’t reciprocal? We just wanted the principle of reciprocity set out in the legislation. Why did you block that?

McClay Well, if it’s reciprocal, then actually we’ve achieved the same thing. But you have to be very, very careful about when it comes to negotiating with other organisations, bodies, and countries around the world of working out what’s best for the county on a case-by-case basis when it comes to that negotiation.

Parker But don’t you think that’s Parliament’s right to want to constrain the ability of Government departments to go further than might be proper? What was wrong with the principle of reciprocity being set out in the legislation?

McClay Well, so, firstly, through our DTA, we have the ability to get information. So we already have the ability through direct double tax agreements to get the information that you’re seeking. It’s always an issue, I understand, when
you're negotiating information exchange agreements or DTAs with parts of the world. When it comes to IGAs, I think in this case it is reciprocal. Just before we go on, the other very important part of this is when we come to considering the vexed issue I spoke of earlier. The OECD and the G20 are looking at an automatic exchange of information with tax jurisdictions around the world, and that, by nature, will be reciprocal because it will be in agreements that happen at a multilateral level.

O'Connor Just to draw out around the whole thing, I heard earlier from yourself, Minister, and the commissioner, that this is business as usual working at an operational level—you negotiate at an operational level? You and the Minister, of course, have been briefed and informed as it goes along, and, if I am hearing you right on the second part is that obviously once the operation agreement has been put in place you then take it to Cabinet through a process, and of course, through a parliamentary process, where we the members—

Peters Is that a question?

O'Connor It is. There's a question mark at the end.

Peters When?

O'Connor On those two parts—the operational and then the process for you as a Minister.

Peters Don’t waste people’s time.

Ferguson The very first information of a normal working process around this is that we will discuss in principle with the Minister, do the work, and come back with something to then work through and through the process to move into Cabinet in due course.

McClay At all times through this, the FACTA process, we’re working to make sure that New Zealand’s financial institutions don’t have an additional unnecessary burden placed on them. It’s passed on to their customers, and in many cases it will be taxpayers who are US-registered taxpayers and fall under US tax jurisdiction. It doesn’t change the definition of who the US believes is a taxpayer. All we’re doing is assisting them to collect under New Zealand law and then pass that information on, and actually the job of the committee is to make sure that there are some frameworks to this and some boundaries as to what can and can’t happen and what should and shouldn’t happen. Ultimately, any financial institution that doesn’t meet the requirements faces a 30 percent withholding tax on their business with the US. The majority of EU countries, Australia, Singapore, and many other countries of the world are going through the same process as this, with the exception of one which was one of the new countries in the European Union, I was told, who decided to allow each financial institution to go it alone and negotiate with the US. After 6 months there really was not a lot of progress made in that country. Now it’s following the same procedure that we are and that every other country of the world is to assist efforts.

Genter I hear what you're saying—you mentioned the OECD forum on cooperation on tax transparency. Isn’t the US kind of jumping the gun here
in going ahead? I mean, what is the purpose individually negotiating with all these different countries agreements specific to their legislation rather than everyone working together?

McClay That sort of comes to the problems that we have with base erosion profit shifting. New Zealand is responsible for the laws it sets within our own jurisdiction, the tax jurisdiction, as each individual country is. America has a different regime in New Zealand. If you are an American citizen you are an American taxpayer for the rest of your life.

Genter I’m very aware of this.

McClay Exactly, there you are. So this is American saying that they believe they have people around the world who may not be meeting their legal tax obligation to the US and they want to be able to have information on their taxpayers, and their taxpayers only, to balance this and measure it up. So that then comes on to what is happening in the rest of the world, and certainly there will be instances where there are New Zealanders who have tax obligations in New Zealand but may be somewhere else in the world and who are not meeting those obligations. We will only know that and be able to work through a process with them when we have access to that information.

Secondly, there will be companies that are not resident in New Zealand, or not as involved in New Zealand, as they would historically have been, who trade with a number of countries of the world. The ability through the OECD for us to share information with other tax jurisdictions—and for that to happen automatically—will give us an opportunity to work out whether or not they are meeting their obligations as a New Zealand taxpayer, and, where they are not with other likeminded countries to create rules to constrain that so they do meet their obligation.

Genter Still it seems extraordinary that we’re being forced, and other countries are being forced, to comply with US legislation.

McClay I suppose we’re not being forced to comply—

Genter Bullied.

McClay—but the legislation is targeted upon financial institutions. But ultimately if we decided not to assist banks in New Zealand, then they would have had to have done what we’re done, the Government, on their behalf, individually all of them with the US. They wouldn’t have met the time lines required, they would have been in breach of the legislation, and they might have faced significant financial penalties. So I think that if you had asked me if we’d had something else to do would we have done it, well it’s probably a fairly rhetorical question, but actually I think we did the right thing to assist our financial institutions to meet an obligation imposed upon them by US law.

Genter Is the department on track to spend $1 million again on overseas travel, and, if so, how much of that is related to the procurement of the new IT system?
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Ferguson So we look at year on year as to that. We do spend a significant amount on travel, and a lot of it does not relate to the procurement system. For example, we have a number of staff over at OECD working on FACTA and issues like that. I wouldn’t be able to give you that breakdown off the top of my head. I would be happy to supply some further information.

Genter OK, thanks—we would be happy to get further information.

Goldsmith Sure.

Genter Minister, you mentioned the surplus from the Budget—$372 million. I note that the loans to Auckland Council for motorways is about $375 million. Is it the case that we wouldn’t have had an operating surplus if we hadn’t structured that as a loan, which is ultimately going to be paid back by ratepayers?

McClay You’d have to direct that to the Minister of Finance.

Goldsmith We have the Minister of Finance in a couple of weeks. You might be able to ask him that question.

Ross Minister, can I—

Peters No, hang on, hang on.

Goldsmith Is that a supplementary?

Peters Yes.

Bennett No, it’s not.

Goldsmith There’s time for everybody.

Peters We’re talking the FACTA deal. Do you understand why some countries are not going along with it, and, secondly, that this is a matter of political sovereignty; it’s not just about bankers?

McClay Look, I’m not aware of all countries of the world and what they’re doing here. I know there’re a significant number of likeminded countries who are responsible and take their obligations to their taxpayers seriously and that are following the same procedure as New Zealand is. The issue of sovereignty—in the same way there was a request from this committee that the agreement should be reciprocal so that we can collect information on New Zealand taxpayers to make sure they’re meeting their obligations to other taxpayers in New Zealand, it’s about sharing information.

Peters I’ll give you a true example. Somebody emigrates from the United States to New Zealand. He’s a New Zealand citizen and he comes under our law.

Bennett Where’s the question?

McClay No, it’s all right—this is important.

Peters Well, the question, if you can possibly follow it—and that’s not certain—is, in that circumstance, what right has the United States Government to be pursuing him inside our legal jurisdiction?

McClay The first thing is, if you are a New Zealander and you move to another part of the world and you no longer have tax residence in New Zealand, New
Zealand has no interest in your income. If you are an American citizen, they have tax citizenship that stays with you for the whole of your life. Irrespective of where you are in the world, you have obligations under their law.

Peters I appreciate that. Why are we going along with it?

McClay Well, it’s not so much that we’re going along with it. All that we’re actually doing is helping financial institutions in New Zealand meet an obligation that they have to provide information on US taxpayers to the US Government. In the case that those financial institutions decide not to, if they sit squarely in New Zealand and have no involvement with the rest of the world, there will be no implication upon then. But in the case that they do with anything with America—and most institutions do, through money markets, and so on—there would be a significant financial penalty of 30 percent withholding tax automatically. So I think what the Government has done, it’s found a way to reduce retake and compliance and to assist them.

Peters Hey, we’re still in the committee. We know exactly what’s behind this bill. We’ve got all the submissions. All I want to know is do you understand that you’re foreclosing significantly on this country’s sovereignty when you allow another country—I don’t care how big it is or where it is—to take control of people’s legal rights within this country, which we have assumed to protect because they have emigrated here?

McClay Just on that point, Mr Peters, as a former and a very effective Minister of Foreign Affairs, you will know that international negotiation comes down to the finer points of—

Peters But we don’t sell ourselves out.

Ross Minister, can I ask you about child support. Why has Budget 2014 allocated $43 million for a child support compliance initiative? Can you give us more details about that initiative, and also the forecasted return on investment?

McClay Yes, I can. Thank you. This is really important. We have—I’m trying to remember the figures—around 210,000 as part of the child support system in New Zealand, and about 290,000 parents who are involved in the system as well. The Inland Revenue Department has the role to collect and pass the child support on. It’s not actually our money; we’re there as an agent to facilitate. So one of the very important things that we’ve done is receive additional budget over 5 years—$44 million over 5 years—and this will assist us in looking at how we can help people to meet their obligation to their own children on time. The money will be used in a number of ways. In particular, we’ve learnt quite a lot from the student loans scheme in the way that we’ve gone out and engaged earlier. When people start to go into default, we’ve found better ways to interact with them, to assist them into better ways to make their payments, and we’ve seen a significant change in student loans. In the case of child support we estimate that the $44 million over 5 years will bring in about $170 million of additional payments that we wouldn’t expect otherwise. So this isn’t money to the Crown; this is $170
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million of payments of core child support that will go to the families of the children, and we think that’s a return of about $4 for every dollar invested.

Ross On the wider question of tax compliance, last month you attended the OECD hidden economy conference. Can you talk to us about New Zealand’s role in the international world and also New Zealand’s role in trying to ensure greater transparency and ensure there’s more effort put into tackling tax dodgers and tackling the hidden economy. What efforts is New Zealand putting into that?

McClay This is really important, and actually goes across what we do here in New Zealand and also some of the international work that we’re quite involved with. It’s very much about the tax system we have in New Zealand—broad-based, low rate—and it’s a voluntary compliance system. People meet their obligations and pay their taxes because they see it’s fair and they need to do their fair share. However, there are always going to be some that for one reason or another don’t meet their obligation, either purposefully or because of errors. So whenever the Inland Revenue Department is given funding from Government to invest and look at a particular part of the tax system, they’re quite efficient at finding where those challenges are and finding a return, or gaining a return, for the taxpayer.

In the case of the hidden economy, the target was to raise $44 million. The Inland Revenue Department did better than that and we had a return of about $5.60 for every dollar invested. In fact, I’ve got quite a long list here. If we go through all the different parts—property compliance, aggressive tax payment, fraudulent claims, debt collection, and so on and so forth—where we’ve invested money in the Inland Revenue Department they have done a very good job and there has been a return. The reason this is important, though, is not just about the actual revenue gain; it’s about that fairness. So other taxpayers who are meeting their obligation think it is appropriate and right that we find those who are not, but at the same time in any area where we go and do a piece of work and there’s additional compliance because of that, then it would be my expectation—although I haven’t seen any figures around this—that others pay attention and start meeting their obligations voluntarily as well.

Ross When it comes to property speculation I’ve seen some figures that state that $53 million worth of discrepancies were found by the IRD and that was a return of about $8.40 for every dollar invested, and I know that the Opposition are quite interested to know what the IRD is doing about people who speculate through properties.

Peters How could you possibly know that? Are you clairvoyant?

Ross I listen to what they say, and you might fall asleep in Parliament.

[Interuption]

Goldsmith Order, gentlemen! Can we just get through our questions.

Peters Stop wasting the Minister’s time.

Ross I’m not wasting any time.
Robertson  Now, now!
Ross    One of the issues that’s interesting is property speculation—
Peters  Cut to the chase. Come on, we’re all busy here.
Goldsmith  Yes, quickly, Jami—I’ve got one question as well, please.
Ross    Minister, I am just wanting to ask you: effort has been put into property speculation and trying to tackle any tax dodgers in that area—is further effort going in, and do you expect more return on the money invested in that area?
Peters  Yeah, that’s better.
McClay  So in that area there would be two things. There would be people who are not fully aware of their obligations or who’ve made a mistake, and there would be others who wilfully don’t want to meet their obligations. It was my expectation that the Inland Revenue Department works with them, helps them, advises them, and collects the extra tax off them. Where people are wilfully or knowingly not meeting their obligations, it’s the responsibility of the commissioner. I would expect all legal avenues available to the Inland Revenue Department would be used. The $53 million that you mentioned, extra that was collected, was for last year alone. We started an initiative in 2010 where additional resources were given to the Inland Revenue Department to look at property compliance and the returns have been initially higher than that and have levelled out about at that level.

The way that the Inland Revenue Department does this, I understand, is they will look at an area of the market where there may be movements and fluctuations. They’ll go in and study sales, go and do a number of audits, and, as they would in any other part of the economy, go through on a case by case basis and target these areas.

But I just want to say that—a final thing—we need to keep this in perspective. So $53 million in one year is important, but the Inland Revenue Department collects $54 billion of revenue every year. It’s important that we do this from a fairness point of view, but, you know, we need to keep it in perspective as well.

Goldsmith  A supplementary from Mr Parker, then we’ve got one from Grant Robertson, and if we’ve time, one more from—
Peters  Well, you’re certainly going to have time. I am not going to sit here for this time and not get a fair amount of question time. With the greatest respect—
Wilkinson  You’ve asked half the questions!
Peters  We are not going to experience a filibuster here.
Goldsmith  We’ll come to you.
Peters  All right—get on with it.
Parker  How can you sit there with a straight face saying you’re pursuing fairness when you won’t tell us what proportion of investment housing is taxed on
the economic profits that are made upon a sale when you know that it is closer to zero percent of those transactions than it is to 100 percent?

McClay No, what I said was we’d try and get some figures back to you, and I didn’t answer your question. So I don’t know that it’s closer to zero or to 100.

Parker You don’t know?

McClay I don’t have the information available to me right here right now. But what I would say to you is that in many parts of the economy the Government provides additional resource to the Inland Revenue Department to look at tax compliance. It’s a very long list. They’re very good at it. They never go out and find that nobody has not complied properly; there is always some more work to do. I think they do a pretty good job in this return, and the taxpayer can be happy that they’re out making sure that as many people as possible are meeting their obligations to them.

Robertson I want to ask you a couple of questions around the HR area, drawing from your answers to our questions. There were $40 million worth of redundancies over the last 5 years, and just looking at the equivalent period for the expenditure on consultants, it now represents 8.2 percent of your operating expenditure on consultants. I am wondering about the loss of expertise and the extent to which you are now needing to make up for that from bringing in consultants. What’s the correlation between those?

McClay I’ll ask the commissioner in a moment maybe to speak specifically around the organisation, the Inland Revenue Department, and its operation, but what I’d say is that we’re moving through a business transformation, and if you look at a number of things the Inland Revenue Department are doing in that and other areas, it’s about making sure that we have the right skill set at the right time. The commissioner will speak to it, but in as far as the figures and amount of money that’s being spent around redundancies, that largely will be contractual based upon the contracts people have in the period of time that they worked there.

Ferguson We have made a number of restructures over recent years, and that has resulted in the redundancies that are there. And, yes, those redundancies have been paid out in terms of contracts. It’s a matter of different skills, so we not replacing members of staff with consultants to do the same thing. The consultants are doing different jobs, different activities, helping us in areas that traditional employees and our own employees don’t have skills and expertise in.

Robertson In this last year we will have seen a 20 percent increase in communications staff—spin doctors, effectively. That’s been carrying on. Is that the right skill set at the right time at the moment for IRD—needing to have more spin doctors?

McClay Again, I think it is important to be able to have a fair appreciation of the process that the Inland Revenue Department is going through and what we need to do. The more we talk to taxpayers about the tax system and how they can meet their obligations of fairness, the greater the response will be. So we’ll take the example of the listening campaign in Hawke’s Bay at the
moment. In only a week or two they had 300 individuals take their time and
text us and start telling us what they think of the tax system and the changes
they’d like to see. I think it’s very useful for the Inland Revenue
Department. But in particular to the mix of employees, that’s the
commissioner’s responsibility. She may want to answer that.

Ferguson Communications for us is a way in which we engage with New Zealanders
to let them understand what the tax obligations are, how to get it right, and
how to know what to do. One of the things we’ve done in the past year is
to introduce a series of short videos for people that are on YouTube. So
communications for us is a frontline activity as much as a corporate activity.

Robertson OK, Minister, are you confident that you’ve looked at that growth in
communications staff and that it is fulfilling what you think are the right
skills at the right time and it’s not just about spinning the message?

McClay Looking at the level of ministerial responsibility, the commissioner and I
talk frequently about the direction of the Inland Revenue Department and
the work they’re doing—

Robertson So you’re confident that it’s fulfilling that?

McClay At that level I’m confident. But what I would say when it comes to the day
to day operation of the Inland Revenue Department and the way they
deliver, that’s up to them. I want to give you an example of why this is
important, though. Last year the Inland Revenue Department conducted
22,000 public meetings to talk to taxpayers about how to better understand
their obligations. An area that’s really important actually is when it comes to
migrants and new entrants to the New Zealand tax system, where they sit
down with them and talk to them about paying tax in New Zealand and
how the system works, which inevitably will be quite different than
anywhere else. So that’s an important part—

Robertson That’s not the communications staff.

McClay Well, no—this is an important part of the work that we do, and I think that
we shouldn’t single out one part only when it comes to the way we
communicate.

Peters We have the agreed unanimous merger between Australia and New Zealand
accounting societies. Frankly, the person who can drive that to a conclusion
because it needs statutory recognition is you, right? Well, you’d think of any
other Minister, you’d be the one, because you’re the most proximate to the
business—

McClay I guess all that I’d say is that those—

Peters No, no, I want to ask you this—

McClay Those highly sort of pander to Government and the legislation has gone
through, and so they’ve voted—they’re working through it.

Peters No, no. The legislation hasn’t gone through.

McClay Has it gone through?
Peters No. That’s my point. They’ve agreed, between these two countries, Australia and New Zealand, our closest economy—now, if every political party in Parliament understands that and would support it, why can’t you get it through now?

McClay So you’re talking about NZICA and the equivalent body in Australia. The responsibility for that is Minister Foss. It doesn’t fall within the Inland Revenue Department, so—

Peters Yeah, but he’s not doing anything. I’m asking would you do something about it.

McClay I’m not sure that’s the case at all—

Peters I’m certain it is.

McClay You’d better check. I thought the legislation had gone through, and the reason I thought that is I met not so long ago at a conference—NZICA was there—and they were speaking highly not only on the work the Government was doing but they thought Minister Foss was a great Minister. So I’ll check that for you.

Peters If the student loan debt default is projected to—IRD’s only calculating—get $14 million per annum, and you’re using the same criteria, where on earth would you get $172 million with respect of the other taxation recovery regime you’re talking about? Is this a stab in the dark, or what?

McClay Tell me again. I didn’t understand the question.

Peters The student loan debt default recovery new initiatives were projected by your legislation and these papers to bring in an extra $14 million per annum. Then I’m told by you that the sum is $172 million when it comes to the new initiative you’re launching, just announced today, and based on the criteria that IRD and Treasury talked about where student loan default was concerned. One gets $14 million for a massive sum of default and one gets $172 million. Where do you get those figures from?

McClay So the process of working out exactly what return we might get on investment is a fairly robust one that I think most Governments, or all Governments, have used. The student loans are particularly on default by borrowers overseas. The return was quite significant—greater than had been forecast by IR or Treasury. I think it was $10 to $12 for every dollar invested, and the reason that’s important—these are people that have borrowed money from the New Zealand taxpayer to get an education who generally have gone overseas and are not meeting that obligation. Half a billion dollars’ worth of debt sitting overseas around student loans—people who have borrowed from the New Zealand taxpayer are not meeting that obligation. But I think that the figures I was using earlier were around child support, so they’re always going to be more modest and the reason for that is this is around not chasing bad debt but assisting those who may be tardy in their—

Peters No, it’s not more modest. One figure is $14 million for student default. Parental abrogation of responsibility—mainly men involved here—and you
get $172 million. That’s my point. How do you get those calculations so high?

Goldsmith  I’m struggling to understand the question.

Ferguson  I have to admit I am—are these the—?

Peters  Well, maybe you should listen. The fact of the matter is he’s taken a criteria from the Inland Revenue Department with respect to student default and applied it to parental—

McClay  I understand the question.

Peters  And he just wants to—I can’t understand how he got there.

McClay  I understand the question. Maybe what I can do is just provide the committee with is written information on how that’s worked out.

Goldsmith  That would be very helpful. We’ve come to the end of our time, so thank you very much, Minister, and Struan and commissioner for your time today. It’s much appreciated.

**Conclusion of Evidence**
2014/15 Estimates for Vote Science and Innovation

Report of the Education and Science Committee

Contents

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Vote Science and Innovation

Recommendation
The Education and Science Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Science and Innovation, administered by the Ministry of Business, Innovation and Employment, as set out in Parliamentary Paper B.5, be accepted.

Introduction
The appropriations sought for Vote Science and Innovation increase to $966.595 million in 2014/15, from an estimated actual expenditure for 2013/14 of $798.807 million. The Minister of Science and Innovation, Hon Steven Joyce, remains responsible for the appropriations within Vote Science and Innovation. We heard from the Minister of Science and Innovation, from the Ministry of Business, Innovation and Employment, and from Callaghan Innovation.

Business research and development spending
Budget 2014 included two changes to business taxation to increase the funding available for private research and development. The minister told us that the first change corrects an anomaly in the tax system to make certain research and development expenditure tax deductible; the second would allow loss-making start-up companies to cash out their tax losses from research and development. These changes should help reduce disincentives for companies to undertake research and development.

These changes are in addition to the support Callaghan Innovation already provides to businesses for research and development, including growth grants and project grants. Only companies that conduct their research and development in New Zealand are eligible for government support, and if a company moves its research functions overseas, the government can recover up to three years’ funding from them. We heard, however, that government support is not contingent on the firms then manufacturing goods and services in New Zealand. Another initiative designed to help raise research and development spending to 1 percent of GDP is a student grants programme administered by Callaghan Innovation. The grants allow companies with active research and development units to employ up to 70 Master’s and PhD graduates and 200 undergraduate, honours, and postgraduate diploma or certificate students.

National Science Challenges
In Budget 2012, the Government launched the National Science Challenges to determine the science issues that are most important to New Zealanders. We heard that the Government is slightly behind schedule in progressing the response to the challenges, with a research team established for only one, High-Value Nutrition, at the time of our hearing. The Minister said an announcement will be made soon about a second challenge. One reason for the delay has been the complexity of bringing together research teams, and agreeing on the governance structure for them. The Minister told us that he is comfortable with the time taken to clarify the governance issues, as it is important they are resolved at
the start of the process, and he is comfortable with the costs to the institutions of establishing the governance structures.

**Energy and minerals spending**

The Energy and Minerals Research appropriation decreased slightly to $11.645 million. It funds research to improve mineral extraction and energy security, and bring about efficient and affordable energy use. We heard that about $3 million is spent on energy demand and system management, about $5 million on renewable energy resources and supply, and about $2.5 million on non-renewable resources and minerals.

**Contestable funding**

Budget 2014 included a $56.8 million increase over three years in contestable science funding. The Minister told us that the recently released Draft National Statement of Science Investment scrutinises among other things the way contestable funding is allocated. One of the goals of the review is to simplify the system of applying for such funding. The review is not concerned with the amount of contestable funding available to researchers.
2014/15 ESTIMATES FOR VOTE SCIENCE AND INNOVATION

Appendix

Approach to this examination

We met on 4 and 18 June 2014 to consider Vote Science and Innovation. Evidence was heard from the Minister of Science and Innovation, Hon Steven Joyce, and the Ministry of Business, Innovation and Employment, and advice received from the Office of the Auditor-General.

Committee members

Dr Cam Calder (Chairperson)
Maggie Barry
Catherine Delahunty
Chris Hipkins
Colin King
Tracey Martin
Tim Macindoe
Hon Maryan Street
Hon Maurice Williamson
Dr Megan Woods

Evidence and advice received

We considered the following evidence and advice during this examination:


Office of the Auditor-General, Briefing on Vote Science and Innovation, received 3 June 2014.

Vote briefing paper, prepared by committee staff, received 3 June 2014.

Minister of Science and Innovation, Response to standard Estimates questionnaire.

Minister of Science and Innovation, Response to additional questions, received 30 May 2014.
# 2014/15 Estimates for Vote Senior Citizens

Report of the Social Services Committee

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- **Introduction** 2
- **Elder abuse and neglect** 2
- **Social isolation** 3
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Vote Senior Citizens

Recommendation

The Social Services Committee recommends that the appropriations for Vote Senior Citizens for the year ending 30 June 2015 as set out in Parliamentary Paper B.5, administered by the Ministry of Social Development, be accepted.

Introduction

Vote Senior Citizens funds the Office for Senior Citizens, which is part of the Ministry of Social Development. The office provides support and advice to protect the rights of older New Zealanders. The Vote does not fund the delivery of services to senior citizens, or the management of the SuperGold Card, which are funded from Vote Social Development.

The appropriation sought for 2014/15 is $1.01 million, a $3,000 decrease from the estimated actual spend in 2013/14. This decrease reflects the Vote’s share of the efficiency savings sought by the Ministry of Social Development.

The Minister specified a number of priorities for the Vote in 2014/15: improving knowledge of elder abuse and neglect, expanding the number of businesses participating in the SuperGold Card programme, addressing social isolation, reviewing the 2007 amendments to the Protection of Personal and Property Rights Act 1988 regarding Enduring Powers of Attorney, and implementing the next five-year plan for the Carers’ Strategy.

The Minister for Senior Citizens is Hon Jo Goodhew, and the Office for Senior Citizens has a director and two staff members. Although the office is small, we were assured that it has the capacity to carry out its work programme, and that it is assisted by the ministry when necessary.

Elder abuse and neglect

The Minister told us that she is committed to raising awareness of elder abuse and neglect, but that all New Zealanders, and not just the Government and other agencies, have a responsibility to look out for it and to respond when they encounter it.

We asked the Minister about the ways older people are abused, and the prevalence of sexual victimisation amongst this group. We heard that much of the abuse perpetrated is financial in nature, but that some sexual abuse occurs. We discussed the necessity of finding ways to recognise which older people are at risk, and the Minister explained that the office’s role is limited to raising awareness; social agencies providing abuse and neglect prevention services may have specific strategies for working with older victims of sexual abuse. We heard that raising awareness of elder abuse is also a component of Age Concern’s work.

We heard that the Ministry of Social Development funds 24 elder abuse and neglect prevention services, which are provided by non-governmental organisations. Service provision gaps have been noted in Wairoa and Kawarau. Although the Vote does not fund service provision, we were pleased to learn that some re-prioritising within Vote Social Development in 2014/15 will free up funding for services in these areas. Vote Senior
Citizens will fund training at Age Concern, previously funded from Vote Social Development, as other funded projects are completed.

**Social isolation**

Older people with limited connections to their communities may become socially isolated. The Minister told us that social isolation is a risk factor for poor health, loneliness, and elder abuse and neglect, and that she intends to investigate the issue further in 2014/15. She also reminded us that the SuperGold Card is intended to address social isolation, and told us that a “tool kit” is being assembled, on the basis of a pilot project in Napier, to help communities address social isolation.

We discussed the social isolation of older people in ethnic communities, where language barriers may prevent connection with the wider community. The Minister told us that the information provided with the SuperGold Card in Auckland has been translated into seven languages, in an effort to reach ethnic groups who were not utilising the services offered by the card. She said that the translations have proved popular, but there remains a lot of work still to be done on the issue.

We were pleased to learn that ethnic-specific projects are also operating in Auckland, in Asian and Pacific Island communities.

**SuperGold Card**

In 2013/14 the number of businesses participating in the SuperGold Card Scheme grew to 6,580, and the number of outlets accepting the card rose to 11,000, increasing its utility. We were pleased to learn that the public transport concessions are being particularly well utilised, with an additional $2 million spent to provide free off-peak transport trips in 2013/14.

The Minister told us that the office is running a campaign to recruit more businesses into the scheme. It is particularly seeking to recruit lawyers in 2014/15, to make it easier for older people to set up enduring powers of attorney to protect their personal and property interests. We heard that the office will also continue its efforts to recruit more rural and provincial businesses, and businesses that provide benefits for older people “trying to make ends meet in difficult times.” For example, discounts on petrol, on health-sector costs such as physiotherapy sessions and visits to the dentist, and on some “big hit” items such as new tyres and Warrant of Fitness costs for vehicles would be valuable.
Appendix

Approach to this examination
We met on 28 May and 18 June 2014 to consider Vote Senior Citizens. Evidence was heard from the Minister for Senior Citizens Hon Jo Goodhew, and the Ministry of Social Development, and advice received from the Office of the Auditor-General.

Committee members
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

Evidence and advice received
We considered the following evidence and advice during this examination:
Minister for Senior Citizens (Presentation), received 28 May 2014.
Office of the Auditor-General, Briefing on Vote Senior Citizens, received 26 May 2014.
Minister for Senior Citizens, Response to standard Estimates questionnaire.
Response to additional questions, received 11 June 2014.
2014/15 Estimates for Vote Serious Fraud

Report of the Law and Order Committee

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Recommendation

The Law and Order Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Serious Fraud, administered by the Serious Fraud Office, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Serious Fraud are $7.695 million in 2014/15, down from the estimated actual expenditure for 2013/14 of $9.505 million. Of the total appropriation, $7.595 million was allocated for investigation and prosecution of serious financial crime.

Reduction in funding

We asked the Serious Fraud Office if it expected a reduction in its capacity to investigate serious fraud as a result of the decrease in funding. It told us that the funding was previously increased to cover investigations into failing finance companies. These investigations are now largely concluded, with a high success rate in prosecution.

The Serious Fraud Office told us in its Estimates hearing for 2013/14 that it intended to undertake an expenditure review. We asked the Minister why the funding had been reduced before this review. The Minister said that if the review found that more funding was needed, the Justice Sector Fund could provide it.

Prevention of fraud

The Serious Fraud Office does not have sole responsibility regarding financial crime in New Zealand. We asked if it had the capacity to take preventative action, and heard that it is a highly specialised organisation, and concentrates on investigating and prosecuting complex cases, which represent an increasing proportion of such crime. Other agencies, such as the Financial Markets Authority, also have responsibility for investigating financial crime, and the challenge for the Serious Fraud Office is to ensure all the agencies concerned are working to the same framework, and no cases of fraud go uninvestigated. The Minister said that prevention is largely the territory of the Financial Markets Authority, for which the Minister of Commerce is responsible.
Appendix A

Approach to this examination
We met on 4 and 18 June 2014 to consider Vote Serious Fraud. Evidence was heard from the Minister of Police, Hon Anne Tolley, and the Serious Fraud Office, and advice received from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
Jacinda Ardern
David Clendon
Hon Phil Goff
Hon Todd McClay
Ian McKelvie
Mark Mitchell
Richard Prosser
Lindsay Tisch

Evidence and advice received
We considered the following evidence and advice during this examination:
Office of the Auditor-General, Briefing on Vote Serious Fraud, received 3 June 2014.
Minister of Police, Response to standard Estimates questionnaire.
Minister of Police, Response to additional questions, received 30 May 2014.
Vote briefing paper, Vote Serious Fraud, prepared by committee staff, dated 4 June 2014
Appendix B

Corrected transcript of hearing of evidence 4 June 2014

Members
Jacqui Dean (Chairperson)
Jacinda Ardern
Kanwaljit Bakshi
David Clendon
Paul Foster-Bell
Hon Phil Goff
Jo Hayes
Ian McKelvie
Mark Mitchell
Richard Prosser
Lindsay Tisch

Witnesses
Anne Tolley
Julie Reid

Tolley Are we ready?
Dean We are. Thank you very much.
Tolley Can I take this opportunity to introduce the new chief executive of SFO, Julie Reid. This is her first time in this process, so she’s a bit nervous.
Dean Welcome.
Tolley Just a few comments about SFO. I think I said last year we had done a pretty good review and come to the conclusion that as a Government we needed this highly specialised unit. They deal with complex and serious fraud, and they work in between FMA, who sort of have regulatory responsibilities, and OFCANZ, that take a bigger picture and deal with international fraud, etc. But they also work with a variety of offices and agencies throughout Government. Some of the work we’ve done to date has been with Customs, with IRD, with the Department of Internal Affairs, so they are able to provide those highly specialised skills, where those other agencies are making inquiries, and can often come to SFO for advice or for specialised help.

They have had a very successful year, so 100 percent of their prosecutions have been successful through either an early guilty plea or a trial which has concluded with a guilty finding. The last of the finance company trials, of course, South Canterbury Finance, is under way in your part of the world, in Ōāmaru, and that is to conclude over the next few months, or so.
Reid

End of July.

Tolley

Yes, end of July. They have been the subject of a PIF, a Performance Improvement Framework review, and that has been published, and they have an expenditure review under way and, of course, as you know, the Budget will return to that pre-finance company an amount of $7.5 million. But I thought it might be quite a good opportunity to throw Julie in at the deep end and just give her the opportunity to make a few comments about what she’s doing as an incoming chief executive, given that background.

Reid

Thank you, Minister. Thank you, members of the committee. The last 6 months for the SFO have been a time of considerable activity and change—considerable activity in the last of the finance company cases, in South Canterbury in particular, and another three finance company cases have been completed in this financial year.

In addition to that, we’ve done 15 other matters. We’ve had 15 other matters in the court, many of them trials, so finance company cases have not, by any means, been the only focus of the office.

In relation to finance company cases overall, we had 15 cases which we investigated and 10 of those were the subject of prosecutions, not all in this financial year. As I mentioned, just four of them were completed this year. In all but one of the cases, guilty verdicts were obtained, with sentences of imprisonment or home detention. The one case in which we were unsuccessful was a matter in which we were successful in another prosecution in relation to the same company and the same case. So overall those matters proceeded very well for the office.

In addition to what’s been a very busy trial load, we’ve had another 21 ongoing investigations. One characteristic of these investigations, I think it is fair to say, is increasing complexity. To refer to a matter that is public, Zespri, for example, gathering evidence in foreign countries and complex evidence about not just where the money has gone but what the operating environment is adds complexity to some of our matters.

In the period since I’ve joined the office, as the Minister has just mentioned we’ve undergone our Performance Improvement Framework review. That’s provided us with some very useful and concrete guidance for achieving our Four-year Excellence Horizon. In particular, we’ll be focusing on connecting with our partners in both the public and private sectors. We want to do that in a smart way, a way that allows a very small agency to engage effectively with a wide range of parties and stakeholders.

In this regard I would like to acknowledge the support we get from our partner agencies. In the last 11 months or so I’d particularly note the support received from the police and OFCANZ, FMA, DIA, and Customs.

The report makes some recommendations about a system-wide approach to financial crime intelligence and a strategic approach to financial crime generally across the system. We look forward to playing our part in achieving those objectives.
Finally, the report also recommends a review of our operating model, to assist in identifying the right size for the office. This operating model issue will be addressed in our expenditure review, which is presently under way, in addition to looking at any avenues available to improve economy of the office, efficiency and effectiveness. That process is well under way, and based on the work to date I expect that it will be a very helpful report for us.

I’d also like to briefly mention our staff engagement survey. The results have not yet been released, so I don’t want to pre-empt that, other than to say that the results are very positive with, for example, 90 percent of our staff saying that they’re proud to work for the SFO, as am I. There are, of course, some matters to be worked on, and we hope to address those to the satisfaction of the staff and for the benefit of the office.

Finally, I would also like to thank the Minister for her support in my first 7 months or so as chief executive of the SFO. It’s been a very good experience for me, and I’ve learnt a lot. That’s all I’d like to say. Thank you very much.

Dean Thank you very much, and welcome to the committee.

Ardern Thank you to you both. I just want to come to the reduction in funding in the Budget for the Serious Fraud Office, which I believe is between $2 million and $2.5 million. The Performance Improvement Framework identifies that there’s already quite a high level of efficiency within the Serious Fraud Office and that you spend three-quarters of your budget on human resource, obviously in your capacity to take prosecutions and investigate cases. What kind of reduction are we likely to see, then, in staffing levels and in your capacity, based on that quite significant reduction in funding?

Tolley If I start first, then I’ll hand over to Julie. It’s important to remember that the budget was increased to deal with the finance companies. So the extra money went in at a time when we had a large number of finance companies falling over, and the workload of the SFO office—it was determined it wasn’t able to cope. It needed extra resources. That’s why that money has come back out. It was always profiled to finish in this Budget, and that’s indeed what has happened.

The expenditure review now, and as Julie has alluded to, both the PIF and the expenditure review—and, by the way, that’s a bit tough to put on a brand new chief executive, to go through that in the first 7 months, but because of the budgetary imperative we decided we would do that—has been to get that right sizing of the department. So heaven forbid we never have another finance company crash like we saw. But some of the work that Julie is doing is: what is the right size for this very specialised group? By its nature it is small. How do we support that within the wider justice sector and within the wider Government? Is there an ability to upscale that, should we need it, and to take it back down to size?

Ardern Just on that, Minister. So an extra boost of money went in to deal with—
A large number of finance companies.

But if you track back, that financial crime itself occurred in the years prior to the time at which the Serious Fraud Office eventually intervened, at a time when there were some high-profile collapses. Now, in the UK work has been done to size the cost of financial crime and the scale of it. If you’re anticipating that actually the need is diminished in New Zealand, what work is being done to establish that financial crime in New Zealand has diminished?

Well, I think you heard the chief executive say that the PIF actually sends the signal very strongly that we need to have an overall good fraud intelligence strategy, and highlight the risk of that dropping between the gaps, if you like, between our major agencies that we expect to deal with fraud like FMA, SFO, and OFCANZ. So the chief executive—and Julie alluded to it—is looking to lead some work that develops a whole-of-Government strategy.

So no one is saying that the risk has changed. In fact, SFO led some work, which I passed on to the justice Minister 18 months ago that shows the risks are reasonably high, particularly around a place like Christchurch, which is why some proactive work has been happening for the last 2 years, led by SFO, in Christchurch, working with CERA and the city council and police. But the actual workload of the SFO office itself was ramped up because of the collapse of a large number of finance companies, which is coming to an end. So when you look at the investigations that are being started now, it has dropped back to reasonable levels, and now the challenge for the expenditure review is to work through the implications of that and work through the right sizing of the actual department.

Minister, it still doesn’t really get to the heart of my question, which is that you’ve said that you’ve put in the extra money to deal with a period of crisis and collapse—

Finance company crisis and collapse.

The argument I’m making is that when it comes to financial crime, early detection and intervention is one what that we can stop these things escalating, but you have reduced funding for the SFO to a point where they are not going to be able to self-instigate as many evaluations as they otherwise might. In fact, you’ve decreased the target for the number of self-initiated evaluations for the Serious Fraud Office. When they raised with you that they had concerns about the amount of financial crime that might be occurring in Christchurch, you refused their Budget bid, and instead they’ve been left with the option of giving presentations in Christchurch on detecting financial crime.

That’s not true.

So there is no capacity for a preventative approach in the SFO’s budget?

The SFO is not the agency that is responsible—it doesn’t have the sole responsibility for financial crime. If you look at what this Government has done right across the board, a large part of the commerce legislation that’s
gone through the House has been to strengthen some of the regulatory and some of that initial addressing of fraud. So the FMA has a huge responsibility around their— I was going to say regulations— regulatory responses. The SFO is the highly specialised—it deals with the high complex crime. Then you have OFCANZ.

Now, the significant issue, I think, for us—which isn’t a costly issue at all—is making sure that they are all working to the same framework and that there are no gaps between them. That’s the challenge that we have. It isn’t about resourcing; it’s about actually having a complex strategy that involves all of those agencies with a very clear focus.

Mitchell Just on that, Minister, because I think that’s a good point—you know, you used Christchurch as an example. I know for a fact that the Commerce Commission is down there working very hard in that area as well along with the SFO and FMA.


Mitchell So we’ve probably got more resources than ever actually focused in issues like that. But the other thing that I was interested in is: because of the pain that we did go through in terms of our financial market and these finance companies and things like that, have we actually got better now at sort of being able to maybe look at the market and identify red flags or problems earlier and being able to put resources towards that? So have we become more efficient at actually doing this because of that process?

Tolley The person who could answer that question much better than me would be the commerce Minister, Minister Foss, but certainly there’s a large part of his work in this term of Government that has gone into strengthening the legislative and the regulatory responses and capability of the market to regulate itself and to throw up those red flags. As I say, the SFO works very closely with FMA, but they have a job to do, just as the SFO. That’s been part of the review work that we’ve done around the future of the SFO. I repeat: they are a highly specialised, highly skilled group who deal with that complex fraud. We are seeing a trend for lesser cases but more complex, and that’s why we have responded by retaining SFO in its current form and developing those specialised skills to cope with this new trend.

Mitchell So historically the SFO and an organisation like the FMA would probably work in silos, and with the new chief executive here I’d be quite interested to hear that, obviously, there’s a real willingness to work with these other agencies.

Tolley They’re working towards an MOU, because both of them have new chief executives. So the initial work was done by the previous chief executives, but that work in ongoing. That’s part of what Julie wants to do in leading this strategy to identify that whole-of-Government strategy to addressing fraud.

Goff This is a huge cut. I can’t think of any other agency on any committee that I’m listening to that is suffering a 25 percent cut. What really I can’t understand—and maybe, Minister, you can help me—is why would you do
the cut before the expenditure review, when logically you would do your expenditure review and then decide on what you’d do with the finances after that? It doesn’t make sense to cut it and then say now we’re looking at it to see whether they had too much money or they didn’t. I can’t understand that. There’s no logic.

Tolley OK, well, I think that’s because you don’t understand the function of the justice sector fund. I said before in corrections the justice sector agencies—

Goff I think I do understand—

Tolley —made the decision in 2011 to hold the baseline, and we were allowed to put our underspends and savings into that justice sector fund instead of returning them to the centre. You will know that is most unusual. So, yes, the ideal would have been a new chief executive, a PIF, an expenditure review, and then any changes to the Budget. If we had the normal scenario where we didn’t have that justice sector fund available, that’s perhaps the way it might have been structured. But because we have that fund, we are able to say to the incoming chief executive: “This is the scenario.” At the end of the expenditure review, there is every opportunity for them to come back to justice sector—and the Ministers responsible make the decisions—if there is a need to change the Budget. At this stage, it’s looking like that might only been minor changes required.

Goff Well, why I ask the question is because I went back and read the transcript of our discussion last year, and I was quite optimistic about what might happen between last year and this year, because you said that you agreed with the comment that a cut of that nature would leave the SFO less able to carry out the job that we expected of them. You said we’d see a different picture this year. I understand the position you’re in as Minister; I’ve been there many times. And the finance Minister has come along and he’s made this big chop. But you’ve lost all this money. Your forecast complaints are going up, not down, according to the answer to the question that you’ve given us.

Last year, Simon McArley said that he’d predicted fraud on quite a big scale arising out of Christchurch, and we also talked about the importance of having the fence at the top of the cliff, not the ambulance at the bottom. So we’ve still got this big problem with fraud that will come out of Christchurch. We’ve anticipated it, but you’ve cut your resources—or you haven’t cut it, Minister; I’m quite sympathetic to your position. Your finance Minister has cut your resources by 25 percent.

Dean The question is coming?

Goff Yeah, well it is why would you do that, even before you’d done the expenditure review, when you know you’ve got a big problem with fraud coming up and you know that prevention is better than cure?

Tolley Well, it’s important that we don’t get carried away with what’s happening in Christchurch. As we’ve said, there’s a lot of activity on the ground that is proactive and preventative, and we haven’t seen—I mean, Simon predicted
that we would see in the next 12 months, and he made that prediction quite responsibly, that we would see a proliferation of fraud. That hasn’t happened.

Ardern  You only find worms in your garden if you go looking.

Tolley  And part of that—well, they are looking. There’s a lot of work being done on the ground by more than just the SFO. The review that we did showed that SFO has a particular role and we want it to play that. I repeat that the justice sector fund is available for meeting any cost pressures, so that at the end of the expenditure review, if that then shows that the SFO needs more funding, then there are funds available. And it can make a bid to that fund. But at this stage, it’s not looking like that would be major. The extra money was put in for a purpose. It’s been in the 4-year budget that that money was coming out of the budget, and that is, indeed, what has happened. So there’s no conspiracy, no one’s come and chopped anything out; we have worked steadily and assuredly through this process.

Dean  Just a procedural matter here. We will be finishing this SFO examination in 3 minutes, and if we go over that, we will cut into police, with your leave.

Tisch  Three questions. How large is the justice sector fund? What is the quantum of that?

Tolley  $109 million.

Tisch  Thank you. My next question relates to the comment that Julie made regarding Zespri and offshore investigations. How many offshore investigations does SFO get involved with, and is this an increasing trend.

Reid  At the present time, without wanting to guarantee that I’ve got the number right, we have three offshore investigations, and two of those three have commenced in the last 7 months. So that’s about—sorry, I won’t give you any maths; I’m hopeless at maths. I’m not a forensic accountant, I can assure you. Three of our current 19 to 20 investigations are offshore, and they’re all quite complex. I expect that that’s going to increase. Because of New Zealand’s increasing engagement overseas, the global economy is becoming much more pervasive, and we can’t expect that everything will be isolated to the shores of New Zealand. Exactly what rate of increase we’ll see and how that will actually affect complexity I’m not in a position to predict, but certainly having to go overseas to get information is a complex step.

Tisch  Do you external agencies to act on your behalf or do you have investigators here that go offshore?

Reid  It depends on the particular investigation. In some countries you can’t go to investigate; you have to get assistance from overseas. And, of course, there are avenues for assistance from overseas—mutual assistance—whereby you do ask another country to provide you with information. So we use all of those. We sometimes have to send our investigators, but we certainly look for as much assistance as we can get from the countries where we are investigating.
Tisch You’ll know my line of questioning this time next year.

Dean Last question because we’re going to run out of time.

Ardern These are really, really quick ones. Which Votes did the justice sector fund—

Tolley Cover?

Ardern No, not who did it cover. Where was the underspend that contributed to the justice sector fund, with the pool that you created? Where did the underspend come from? And, secondly, are you anticipating—how many jobs will go from the SFO as a result of the cuts?

Tolley Right, so from memory, and I don’t have it in front of me, but from memory we’ve had underspends from justice, corrections, Crown Law, and I’m not sure whether police carried over 1 year or not. But it is broad. It has been operating now for 2 and a bit years. So I’m going back.

Ardern And jobs?

Reid I would expect that there will be very minimal cuts to jobs. We’re certainly looking at other ways of decreasing our expenditure. For example, we’re consolidating from two floors in our present building to one. But I would have thought that if we have redundancies, taking into account that we haven’t replaced a number of staff who’ve left, that there’d be one or two. So we’re not talking about significant numbers.

Ardern How many vacancies?

Reid That’s a good question. I think we presently have something like four or five vacancies. Some of those we would probably not ever fill.

Dean OK, thank you very much.

Reid Thanks.

Tolley Thank you.

conclusion of evidence
2014/15 Estimates for Vote Social Development

Report of the Social Services Committee

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Vote Social Development

Recommendation

The Social Services Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Social Development as set out in Parliamentary Paper B.5, administered by the Ministry of Social Development, be accepted.

Introduction

Vote Social Development is by far the largest Vote in the Budget. The Minister for Social Development has responsibility for most of the appropriations contained within the Vote. Others are the responsibilities of the Ministers for Disability Issues, Health, Revenue, State Services, Veterans Affairs, and Youth Affairs.

The appropriations sought for 2014/15 total $23.325 billion, an increase of $628 million from the estimated actual expenditure in 2013/14. We were told that this difference reflects an increase in the projected demand for existing services, particularly New Zealand Superannuation, and that approximately $500 million will be injected to fund other services provided under the Vote.

The Minister specified three priorities for the Vote in 2014/15: working with other agencies to protect vulnerable children and young people, consolidating changes resulting from the Government’s welfare reform programme, and improving access to social housing for people in need.

Welfare reform

The Government’s welfare reform programme seeks to reduce long-term benefit dependency. It 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. We were advised that the ministry is on track to achieve this target, and that its liability for benefit payments has decreased by $4.4 billion as a result of the reforms.

The Minister told us that the number of people receiving a benefit decreased by 5 percent, to 295,320, and that the number of parents in receipt of the Sole Parent Support benefit decreased by 10 percent, to 68,932 in 2013/14. The Minister said this is the largest drop in the number of sole parents on the benefit since 1993.

Some of us are concerned that a large number of those no longer receiving a benefit are not in employment and, as a result of the reform programme, no longer have any income, or have reduced income. We were told there are a number of reasons why people cease to receive benefits, including securing employment, changing their relationship status, or becoming eligible for New Zealand Superannuation. The ministry has no mechanism to find out what happens to people who lose income due to the welfare reforms, because such people have no obligation to provide this information. The Minister told us that 66,000 people in the past year had indicated they had found employment. She said she does not believe the welfare reform programme is resulting in people being worse off, and considers that the reduction in benefit numbers is due to more beneficiaries finding work. She attributes this to the ministry’s “investment approach” to welfare, which seeks to
reduce financial liability by directing the most intensive services to clients that have the greatest risk of long-term welfare dependency.

The ministry intends to continue its investment approach. We heard that the Improved Employment and Social Outcomes Support multi-category appropriation, established in January 2014, will invest $639 million in 2014/15. This funding will go towards developing and providing services to improve work-readiness and employment outcomes for beneficiaries, including those with disabilities.

Budgeting services

Budget 2014 has allocated $22 million to fund budgeting services over the next four years. The Minister told us that services are to be provided to people who are under “immense pressure” as a result of changes to the ministry’s provision of hardship assistance. We were told that the funding will be directed to areas where there are gaps in services, or more need than providers can respond to.

Social housing reform

Under the Government’s reform agenda for social housing, responsibility for managing social housing applications, including the administration of needs assessments and the management of waiting lists, was transferred from Housing New Zealand Corporation to the ministry in April 2014.

The Minister told us that an additional $95.7 million will go towards social housing in 2014/15, of which $80 million is related to the transfer and administration of needs assessments. We heard that some of this funding has been used to employ 192 new staff members, some of them transferred to the ministry from Housing New Zealand, and to fund the operation of a call centre, which can carry out pre-assessments with clients over the phone.

The Minister assured us that clients will have the option of face-to-face interviews with a housing case manager or contacting the call centre, but that the latter is likely to provide faster service when local Work and Incomes centres are busy and appointments with case managers fully booked. We were told that the call centre provides clients with a mechanism for having queries about their housing status easily resolved, and that the social housing service would be compromised without it.

The Minister confirmed that the waiting list for social housing is updated daily, but that the ministry has decided to publish its waiting-list figures quarterly, along with other performance information, to provide a truer reflection of its performance trends. However, some of us are concerned about the delay in the publication of the waiting list, which was due to be published on the ministry’s website on 1 May 2014.

Working with children

Child, Youth and Family

The day before our hearing, Child, Youth and Family reported the findings of an internal review of social workers’ caseloads. The review found that the quality of work done by Child, Youth and Family is being compromised by the high workloads of its social workers, with almost three-quarters of these staff managing caseloads of 19 or more children. The report noted that the international standard for an optimum caseload is eight to 18 children, and the Minister acknowledged that there is considerable strain within the
department. She considered that high caseloads have resulted from an increase in the number of notifications and increasing complexity in the needs of some children.

We asked how the Minister intends to address the situation and were told that an increase in staff numbers is likely. However, she believes a number of other actions are needed, including a review of the notifications system and the threshold for intervention. Some of us expressed concern that changing the threshold might result in children who need intervention missing out on support from Child, Youth and Family. We were told that social workers have been “going under” the threshold to work with children needing support but falling just below the threshold, and that this has been compromising the quality of work with the children who need it most. We heard that the purpose of the Children’s Action Plan, and associated Children’s Teams, is to provide support services for children who fall just below the threshold for a statutory response from Child, Youth and Family.

Children’s Action Plan

The Children’s Action Plan sets out 25 intended measures to support and protect vulnerable children. The Minister is seeking $16.35 million to implement the plan in 2014/15.

The Children’s Teams are one of the plan’s major initiatives, aiming to provide wrap-around support to children recognised to be at risk of harm. The ministry, in conjunction with local health, education, and social-sector professionals, has been operating two demonstration teams and intends to establish eight more teams in 2014/15.

Since the Minister expects the teams to support children who fall just below the threshold for intervention from Child, Youth and Family, we asked if she believes the teams will be operating on a sufficient scale, with adequate funding, to meet demand in the community. The Minister said the focus is not on funding, but on ensuring that the government agencies and non-governmental organisations cooperate in a different way to ensure sustainable change is made. We were told that these organisations already have the resources to work with vulnerable children.

We understand that an important aspect of effective collaboration is sharing information. We are pleased that work is being done to allow professionals working with vulnerable children to share important information more easily, and that the ministry considers the Vulnerable Kids Information System to be a critical initiative.

Youth justice

The Government set a Better Public Services target of reducing the youth crime rate by 5 percent by 2017. We heard that this target had already been exceeded, along with a revised target of a 25 percent reduction by 2015, with 27 percent fewer cases now appearing before the youth court. The Associate Minister for Social Development told us that the success of the Youth Crime Action Plan is partly due to better inter-agency collaboration, at an earlier stage, regarding youth offenders.

We asked about the impact of the Youth Crime Action Plan on the rate of re-offending amongst Māori youth, who are over-represented in the criminal justice system, and were pleased to hear the ministry is observing a reduction in offending by this group. We were told that Tikanga Māori principles have been incorporated into the ministry’s rehabilitation programmes, iwi and community involvement in the rehabilitation process has been
increased, and the Rangatahi Court initiative has recently been extended to Hamilton and Christchurch. The Minister also told us that family group conferences involving Māori offenders have been improved, with more acknowledgement of Tikanga Māori processes and empowerment of families to make resolutions that address offending. We were pleased to learn that the ministry will continue its work with family group conferences, with additional funding allocated to this initiative in 2014/15.
Appendix

Approach to this examination

We met on 28 May and 18 June 2014 to consider Vote Social Development. Evidence was heard from the Minister for Social Development, Hon Paula Bennett, the Associate Minister for Social Development, Hon Chester Borrows, and the Ministry of Social Development, and advice was 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

Jacinda Ardern replaced Louisa Wall for this item of business.

Evidence and advice received

We considered the following evidence and advice during this examination:
Hon Paula Bennett (Presentation), received 27 May 2014.
Office of the Auditor-General, Briefing on Vote Social Development, received 26 May 2014.

Minister of Disability Issues, Response to standard Estimates questionnaire.
Minister of Health, Response to standard Estimates questionnaire.
Minister of Revenue, Response to standard Estimates questionnaire.
Minister for Social Development, Response to standard Estimates questionnaire.
Minister of State Services, Response to standard Estimates questionnaire.
Minister of Veterans’ Affairs, Response to standard Estimates questionnaire.
Minister of Youth Affairs, Response to standard Estimates questionnaire.
Ministry of Social Development, Output Plan 2014/15, Vote Social Development Responses to additional questions, received 11 June 2014.
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Vote Statistics

Recommendation
The Government Administration Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Statistics, administered by Statistics New Zealand, as set out in Parliamentary Paper B.5, Vol.8, be accepted.

Introduction
The appropriations sought for Vote Statistics decrease to $133.811 million for 2014/15 from the 2013/14 in estimated actual spending of $146.059 million. This decrease is due to the variable levels of funding allocated each year for the Census and the continued implementation of the Statistics New Zealand Strategic Plan 2010 to 2020 (Statistics 2020).

Statistics New Zealand administers Vote Statistics, and the Minister of Statistics, Hon Nicky Wagner, is the Minister responsible for the appropriations within the Vote.

The objective of Statistics New Zealand is to produce the highest priority statistical information for electoral purposes, policy setting, and other decision-making. We were interested in the process for deciding what constitutes a priority or tier-one statistic. The Minister told us that Statistics New Zealand, in consultation with other departments, proposes a list which is submitted to Cabinet for approval. These are considered to be the most important statistics, and the census questions are based on them. The priority statistics are reviewed every five years.

We were concerned to hear reports that the 2013 Census and 2006 Census had significant gaps in the information sought on home ownership. In the 2013 Census, no ownership information was collected for approximately 282,050 dwellings. This was mainly because of properties being unoccupied on census night, people not answering the question, or people giving unclear answers. Statistics New Zealand told us that this was a matter of concern and it was working on ways to close this information gap.

The Disability Survey has been held alongside the census since 1996. We were concerned to hear that some of the questions in the Disability Survey had been changed, which creates problems comparing data with previous years.

Completing the census online
In the 2014/15 appropriations, $1.778 million is allocated to completing the 2013 Census and $13.1 million to beginning initial preparation for the 2018 Census. Administering the census is the primary focus of Statistics New Zealand’s work.

During the 2013 Census, 34 percent of people nationwide completed the census form online; this is a significant increase from 6 percent in 2006. Statistics New Zealand is looking at new approaches to running the census with an emphasis on online completion.

We heard that a new approach was trialled in Oamaru during the 2013 Census; instead of the normal door-to-door census deliveries, direct mail was sent to people with instructions to complete the census online or request physical papers. This resulted in 65 percent of the
population completing the census online. However, some problems emerged. The system relies on information being held on a high proportion of the residents, particularly postal information; in some rural areas this information is not complete and some people do not have readily available access to the internet. It was concluded that using this system nationwide would be difficult.

**Identifying as a New Zealander**

In the 2006 and 2013 Census a large number of people identified their ethnicity as “New Zealander”. This is not a standard option in the Census, and must be manually written in under the “other” category. We asked why the category of “New Zealander” was not included in the options as in 2006, 429,429 people identified themselves thus. These people no longer identified with their background ethnicity (European for example). Statistics New Zealand told us that the question was constructed intentionally to exclude “New Zealander” as it was trying to understand the ethnic makeup of New Zealand; also including the new category of “New Zealander” would not allow accurate comparisons with previous years.
Appendix

Approach to this examination

We met on 21 May and 18 June 2014 to consider Vote Statistics. Evidence was heard from the Minister of Statistics, Hon Nicky Wagner, and Statistics New Zealand, 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

We considered the following evidence and advice during this examination:


Office of the Auditor-General, Briefing on Vote Statistics, received 26 May 2014.

Minister of Statistics, Response to standard Estimates questionnaire.

Response to additional questions, received 5 and 13 June 2014.

Vote briefing paper, prepared by committee staff, dated 21 May 2014.
2014/15 Estimates for Vote Tertiary Education

Report of the Education and Science Committee

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Vote Tertiary Education

Recommendation

The Education and Science Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Tertiary Education, administered by the Ministry of Education, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Tertiary Education decrease to $3.036 billion in 2014/15, from an estimated actual expenditure of $3.039 billion in 2013/14. Hon Steven Joyce, the Minister for Tertiary Education, remains responsible for the appropriations within the Vote. We heard from the Minister of Tertiary Education and from the Ministry of Education.

Increased funding for sciences

Budget 2014 included increased science investment, including an additional $67.9 million in tuition subsidies for science, $8.5 million for agriculture, and $20.2 million for some health sciences. The Minister told us that these areas have historically been underfunded relative to the cost of provision, and had also been assessed by the Tertiary Education Commission as underfunded compared with humanities and commerce courses, and with their counterparts in Australia. The subsidy increase is designed to encourage universities to invest in these areas, and boost the low numbers of graduates in these fields. Course fees are not expected to be affected.

ICT graduate schools

We are aware that the Government has committed $28.6 million over four years to the establishment of three ICT graduate schools. They are to be located alongside ICT firms in the main centres, to strengthen the connections between businesses and education providers. The first school is expected to be established by mid-2015, and all three by 2018. These schools are intended to ensure students about to enter the workforce are “work ready”. Part of the training is expected to take the form of internships.

Centres of Research Excellence

The Centres of Research Excellence fund was established in 2001 to encourage the development of excellent tertiary education research. There are six centres: the Allan Wilson Centre for Molecular Ecology and Evolution, the Bio-Protection Research Centre, Gravida: National Centre for Growth and Development, the MacDiarmid Institute for Advanced Materials and Nanotechnology, the Maurice Wilkins Centre for Molecular Biodiscovery, and the Riddet Institute. Budget 2014 includes an additional $53 million over four years for these centres. The Government intends to fund four additional centres from 2016, towards an eventual total of 10. Three of the new centres will be new funding, with the fourth being funded from existing allocations. One of the new centres will be dedicated to Māori development research; the focus of the others will be determined through a closed tender process.
Reduction in available qualifications

Over the past three years the New Zealand Qualifications Authority has been reducing the number of qualifications available to students by the end of 2014. The process is intended to bring consistency to the requirements for particular qualifications from all providers. This is intended to give employers more confidence in the qualifications of potential employees; we heard that feedback from employers has been largely positive.

Post-graduate allowances

We asked about the impact of the removal of student allowances for post-graduate students. The minister said that between 2012 and 2013 the number of Master’s students had increased and the number of doctoral students has stayed the same. Early indications for 2014 suggest another increase in Master’s students but a slight decline in doctoral students.

The TEC noted an increase in the number of institutions offering a Bachelor’s degree with honours, while fewer were offering a postgraduate diploma. We consider the effects of these trends are worth watching carefully.
Appendix

Approach to this examination
We met on 4 and 18 June 2014 to consider Vote Tertiary Education. Evidence was heard from the Minister of Tertiary Education, Hon Steven Joyce, and the Ministry of Education, and advice received from the Office of the Auditor-General.

Committee members
Dr Cam Calder (Chairperson)
Maggie Barry
Catherine Delahunty
Chris Hipkins
Colin King
Tracey Martin
Tim Macindoe
Hon Maryan Street
Hon Maurice Williamson
Dr Megan Woods

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


Office of the Auditor-General, Briefing on Vote Tertiary Education, received 3 June 2014.

Vote briefing paper, prepared by committee staff, 3 June 2014.

Minister of Tertiary Education, Response to standard Estimates questionnaire.
2014/15 Estimates for Vote Tourism

Report of the Commerce Committee

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Vote Tourism

Recommendation

The Commerce Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Tourism, administered by the Ministry of Business, Innovation and Employment, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The appropriations sought for Vote Tourism decrease slightly to $130.989 million in 2014/15 from an estimated actual expenditure in 2013/14 of $131.875 million.

New Zealand Cycle Trail

This year’s budget includes $2 million for the maintenance and enhancement of the “Great Rides” of Nga Haerenga, the New Zealand Cycle Trail. The budget also includes $349,000 to promote the long-term sustainability and success of the trail.

We remain interested in the progress of the national cycle trail project. The Associate Minister reported that 16 of the 23 trails are now open, with four more to open in summer 2014/15. He reported a 56 percent growth in usage of the trails in the past year, with 100,000 riders in January 2014 alone. We asked the Associate Minister about the economic benefits generated by the cycleway, specifically in new business growth and creation of new full-time jobs. We were told that a September 2013 survey of four trails showed that 50 full-time jobs had been created and the turnover of businesses on the cycleways had increased on average by 5 percent. The number of construction jobs created by the trails was 1,160 as of 30 April 2014.

We asked the Associate Minister how long he thought it would take to reach the target 4,000 new jobs that the Prime Minister had originally stated. The Associate Minister pointed out that the 50 new jobs mentioned arose from only the four trails surveyed, and that there were also less direct benefits in wider communities. Increased tourism from the trails benefits businesses such as bicycle rental and repair shops, restaurants, and accommodation operators. The Associate Minister said that the cycleways were also about promoting what New Zealand has to offer; he said that at the recent Tourism Rendezvous New Zealand conference the feeling was that the cycleways are adding significant value to the New Zealand economy. We also heard that the trails have contributed to an increase in international tourism and act as a stimulus for domestic tourism. An evaluation of jobs and business growth resulting from the trails is planned for the summer of 2015/16.

Safety

Some concern was expressed about the safety of roads in cities that lead to the cycle trails, as the trails attract more users. We asked if an integrated approach was being taken to transport planning, to provide for safe cycling on city roads. The Associate Minister said he was not aware of any formal integrated approach being taken by central and local governments, but that local governments were going to need to examine their contribution to the overall tourist experience, and the issue needed thought.
International markets

We were told that tourism has grown significantly in the recovery from the global financial crisis. The greatest increases in visitors over the last year have been from the United States, Germany, the United Kingdom, and Australia.

There has also been strong growth in developing as well as traditional markets. For example, there has been a quadrupling of the effort in India, and a single-visa border policy with Australia has been adopted with India for the upcoming Cricket World Cup. The Indonesian market has increased by 17 percent over the last year, an office has recently been established in San Paulo, Brazil, and efforts continue to improve air connections with Singapore.

Chinese visitors

The Associate Minister told us that the Chinese market was now the second most important source of visitors, with a 19 percent growth to $870 million in the last year. In Canterbury alone, arrivals increased by 60 percent in the 2013/14 summer period. Despite law changes in China that affected the number of package tours and shopping tours coming to New Zealand, Chinese visitors are now staying longer and spending more; they tend to be younger and traveling in smaller groups. We were told that one of the challenges is managing peak travel times and spreading demand throughout the year.

Safety and adventure tourism operators

There are approximately 409 adventure tourism enterprises in New Zealand, which must be registered by 1 November 2014. We asked how many safety audits remained to be done, and heard that approximately 350 audits were outstanding. WorkSafe New Zealand is responsible for conducting these audits; the Associate Minister said he had been assured that they would all be completed on time.
Appendix A

Approach to this examination

We met on 29 May and 19 June 2014 to consider Vote Tourism. Evidence was heard from the Associate Minister of Tourism, Hon Todd McClay, and the New Zealand Tourism Board, 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

Evidence and advice received

We considered the following evidence and advice during this examination:

Vote briefing paper, prepared by committee staff, received 26 May 2014.


Office of the Auditor-General, Briefing on Vote Tourism, received 26 May 2014.

Minister of Tourism, Response to standard Estimates questionnaire.

Minister of Tourism, Responses to written questions, received 27 May and 13 June 2014.
Appendix B

Corrected transcript of hearing of evidence 29 May 2014

Members
Jonathan Young (Chair)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Clare Curran
Kris Faafoi
Julie Anne Genter
Mark Mitchell
Hon Chris Tremain
Dr Jian Yang

Witnesses
Hon Todd McClay, Associate Minister of Tourism
Lisa Barrett, General Manager of Tourism, Sectors, Regions and Cities, MBIE
Kevin Bowler, Chief Executive, Tourism New Zealand

Young Welcome, and I’m pleased to have you here—a former chair of this committee. I’m sure that you’ve asked questions to the honourable Mr Tremain, so we’ll have our turn back. Look, we’re going to give you 5 to 7 minutes to make a presentation and then we’ll come to questions.

McClay Thank you very much. Well, chair, thanks, and it’s very good to be back.
Can I say that since your last chairman left, I hear great things about the current chairman and his ability to keep what is known as one of the rowdier committees in Parliament under control, so I’ll do my best not to antagonise you.

Cosgrove I think that’s a very accurate description.

McClay It’s true—exactly. You’ll know the people with me, but can I introduce Lisa Barrett, the general manager of tourism, sectors, regions and cities, from MBIE, and Kevin Bowler, chief executive of Tourism New Zealand.

Look, my comments are going to be pretty brief because I remember the most useful time is often with the questions, but I want to just give you an overview of a bit of what’s happening in tourism at the moment and really to say, on the back of the Trenz meeting in Auckland a week ago, that tourism in New Zealand is fairly buoyant at the moment. The sector is feeling good. They see that a lot of very important work has been done over the last 5 or 6 years of what’s been a tough time for them and operators around the world, on top of the global financial crisis. But, actually, they’ve used that time very well to look at what they’re doing in their businesses,
and we’re starting to see in some of the statistics that there is improvement—in some areas, significant improvement.

So just to put it in perspective, Tourism New Zealand is worth about $24 billion a year, both domestic and international spend—about 3.7 percent of GDP—it employs almost 111,000 full-time equivalent jobs, and is worth 5.7 percent of the workforce. It delivers 16 percent of export receipts, and it’s our second-largest export only to dairy, and so it has a very important place in the New Zealand economy.

Visitor numbers have been improving over the last year or two, and to March of this year are showing quite some startling improvements. We have just under 2.8 million international visitors coming to New Zealand, to March 2014, spending collectively $7 billion in our economy. This is an increase of spend of about 9 percent over the last year. Total arrivals increased by about 5 percent during that period of time. In the month to March, again of this year, there’s also evidence of an increase in the average spend by each visitor. Those coming to New Zealand for holidays, their spend was up 18 percent. So at the same time that the numbers of visitors are increasing, I think very important for the sector and the economy is the amount that those visitors spend is increasing quite sharply.

Efforts in the sector to grow the Chinese visitor market have also been delivering results. China now is our second most important market for visitors to New Zealand, replacing some of our traditional tourist partners, and the expenditure by Chinese visitors over that period of time has also grown by 19 percent, to just under $870 million. What’s very interesting with the Chinese market is those that are coming are staying longer and spending more. And so whilst we saw, on the back of changes to domestic law in China last year around the types of visitors who come here around package tours and shopping tours, a slight decrease in numbers, actually, those that still came were staying longer and spending more than the total group were before the change, and so I think that’s quite positive for us.

A number of other areas—some of our traditional markets, we still place a lot of importance on them, so it’s not only about the growth in new areas of the world but our traditional markets. And it’s fair to say over the last few years some of these have been fairly flat or declining. But expenditure by visits from the United States in example has grown significantly over the last year—55 percent. So the numbers of US visitors coming back is increasing, but those that are coming, the amount they’re spending, is significant—$727 million a year. German visitors, UK visitors all up, and so on.

I just wanted to talk a little bit now about the positioning of New Zealand as a high-value destination market. The Government’s decision last year to inject an additional $158 million into tourism, starting from 2013, was very much about driving up productivity in the sector and to drive up the value of tourism. A couple of headlines there—$34 million to market New Zealand as a destination for international businesses, $44.5 million to position New Zealand right from the start as a high-value destination of
emerging markets. There’s been a lot of work done in India and Indonesia and Latin America, including a quadrupling of effort in India, in part because of some of the great opportunities we’re seeing there; $24.5 million to lift yields from our traditional and established markets; and $20 million to attract premium luxury visitors. So from a number of parts of the world, Europe and the US, high-value visitors are coming who spend a lot of money in parts of our economy.

I wanted to talk a bit about the cycleways. Of the 23 trails, 16 now are open.

Cosgrove I missed that.

McClay Of the 23 trails, 16 of them are now open, with four more trails expected to open in the summer of 2014-15. All the trails have experienced growth in usage, and there’s a 56 percent growth in usage in the year ended January 2014. Nearly 100,000 riders across the network in January alone used the cycleways. They created about 1,100 jobs during the build stages, and we’re starting to see many opportunities of businesses associated in and around these cycle tracks starting to grow some prevalence. The Prime Minister announced a few weeks ago $8 million as a contestable fund to help with the maintenance of the cycle tracks over the next few years, and it’s contestable, and those trusts or councils involved with that will have an opportunity to bid for them.

Just finally, two last areas, team, I want to talk about around some of the opportunities to leverage the screen industry’s work and Canterbury tourism. The first is around the screen industry. What we’re seeing is Tourism New Zealand—the Government’s decision to leverage off films made in New Zealand is having a big impact upon visitors. So between October and December 2013, 14 percent of all holiday arrivals said the Hobbit trilogies were factors that influenced their decision to visit New Zealand. And if you look some of our key markets, and more traditional markets, one of every five visitors to New Zealand says that the Hobbit is a large part of the reason that they chose to come here. So it’s obvious that the Government’s investment and the additional work and resource being put in by Tourism New Zealand to promote New Zealand in part—not only but in part—through these films is starting to pay off and show dividends for New Zealand.

The final bit, just for Mr Cosgrove, because I know this is dear to his heart in Canterbury. The Government has also provided $865,000 to the Canterbury tourism partnership to work with Canterbury to help Canterbury and Christchurch get back on their feet. There’s some quite good news there—a 60 percent increase in Chinese arrivals during the 2013-14 summer period to that area, and international guest nights are up by 4 percent in the year to February of 2014. Look, it’s fair to say there’s a huge amount more work needed and a lot more support needed in Canterbury, but we’re very much committed to working with them, and I think there starts to be a very good story that we can tell there together.

Young Excellent. Well, thanks very much for your introduction, Minister. We’ll come to questions now, and I think we’ve all got some.
Cosgrove Just on the Chinese arrivals, do we thank Judith Collins for that in part, or is that all your own work?

McClay Well, look, I think you should thank all members of Government that are very supportive of making sure that good visitors will come and spend money with all of our locals economy.

Cosgrove Could you pass on our thanks to Judith for us, thank you.

McClay I'll do that when I see her this afternoon.

Cosgrove Minister, that hardy annual, the cycleway—1,100 jobs created, you said, in the build phase. How many of those have resulted in permanent jobs?

McClay So, look, I'll ask Lisa to speak to that in a moment.

Cosgrove Your predecessor was very detailed in his answers—

McClay Was he? Good on him.

Cosgrove —with respect to job and business creation, so you've got a high barrier to hit.

McClay So I refer you to the answer from my colleague last year.

Cosgrove He didn't know.

McClay So a survey was done of just four of the tracks. A survey was done of just four of the tracks to get a bit of a guide of this. So I think it's fair to say, look, for some of the tracks, as they're newly opened, it is early days, but an estimate of 50 full-time jobs just for the tracks themselves have been created. But I think what's most important is what happens in the local economies that you leverage—

Cosgrove Are they permanent jobs?

Barrett Full-time permanent, yes.

McClay Full-time permanent—that's right. But then what happens, I think most importantly to the local economy, is the leveraging around that. So if one assumes that there—and the statistics show us that 100,000 people used the tracks in January alone. I would guess some of the service industries to be providing the bikes, the rentals, to be fixing the tyres, the accommodation, all the other things that go with that, are having and will continue to have quite some impact on local economies. When I talk to [Interuption]—just finally—when I talk to MPs who have cycleways in their areas, and the West Coast is a pretty good example, some of the stories that have been told by the previous constituent MP for the West Coast and now the new MP for the West Coast, Damien O'Connor, suggest to me we've got the settings about right because there is a lot of interest from local businesses in the cycleways.

Cosgrove Cheers. If we could just go back to the jobs, though, what was the original Government commitment for—I just can't recall off the top of my head the total number of full-time jobs.

Barrett I think it was a thousand.
Costgrove Pardon?

Barrett I think it was a thousand.

Costgrove I think it was north of that.

Barrett I’d have to double-check for you, I’m sorry.

Costgrove OK, if you could get back to us. I tried to get that information myself. So what was the total expenditure to date on the cycleways and what was the budgeted total expenditure for full completion?

McCay I think spending so far is $47.5 million. I’ll just check this but, from memory, I think the budget was $50 million.

Barrett $50 million; that’s right. Over 3 years.

McCay That’s from the Government but there’s also, importantly, contributions from local communities, trusts, and others.

Costgrove So that’s about a million dollars a job.

McCay I wouldn’t say it’s a million dollars a job.

Costgrove Well, hang on; it’s 50 jobs to date, and $47.5 million to date. That’s roughly a million dollars a job.

McCay So let’s look think about this a little bit more broadly for a moment. If one includes the jobs that have been created in the wider community as a result of that, if we then have a look at the 2,800 kilometres of cycleways that so far have been completed, if we just look at the number of people using them, the number of visitors from around the world coming to New Zealand, I think it was an excellent investment on behalf of the taxpayer that’s showing returns.

Costgrove Just on that, have you conducted any specific analysis, because you talk about—you use the words, that there is some business growth. I’d like to know, as I asked your predecessor, how many new businesses have been created and what level of growth is there. Presumably, your ministry has conducted economic analysis, as other ministries do, to provide you with figures as to what exactly, in dollar terms, the economic growth has been.

Barrett We have undertaken an evaluation last year.

Costgrove And what do they show?

Barrett It was released in September. Basically, what it showed, it was in relation to four of the cycle trails that are open, only, at the moment. There are 16 that are open. Those four cycle trails, it indicated that there were 50 full-time permanent jobs as a result of it, that there was a 5 percent turnover increase for the businesses that are located around those cycle trails. I’m not sure on any further exact figures on that but we can definitely provide you with further information around that.

Costgrove So you’ve looked at increased turnover; 5 percent. You’ve looked at 50 jobs created.

Mitchell Out of those four, was it?
Barrett: Yes, out of the four cycle trails. So there are other cycle trails that haven’t been included.

Cosgrove: But you say you haven’t done any analysis as to new business development.

Barrett: We do have that information. I just—

Cosgrove: So how many new businesses have grown as a result of the cycle trail?

Barrett: I don’t have all of that information with me. I don’t have that information with me. But I can provide you with that. That’s no problem.

Mitchell: Just a quick supplementary on that. In terms of overall experience for tourists coming to New Zealand, do you feel that the cycle trails have added to an already pretty impressive list of activities that tourists can get involved in? I just actually want to make an observation as well, because I was lucky enough to be invited to the opening of the Rotorua cycleway. I was talking to one of the restaurants at the end of the ride that said they’d noticed immediately that their turnover had gone up. The local pools, there’s some thermal pools there, the turnover there had gone up, so there are lots of benefits that are actually seeping into the economy. You can’t necessarily just measure it off full-time equivalent positions. Would that be a fair statement?

Barrett: That’s right. I think it’s fair to say that we are seeing a lot of international visitors using the cycle trails, particularly in the older grouping as well. It’s also been quite a good stimulus for domestic tourism. So a lot of people located around the cycle trails all across New Zealand are actually travelling to actually experience the cycle trails.

Mitchell: Do you think it’s getting more Kiwis out, in terms of overall health and things like that? Getting them more active?

Barrett: Yes, I’d hope so. Yes.

Cosgrove: If I could just go back, Minister, to your Government’s commitment regarding the cycle trail, my advice is that the Prime Minister stated there would be 4,000 jobs, not 1,000—4,000 jobs as a result of the cycle trail. You tell us that 16 of the 23 cycle trails are up and running. You tell us that there are 50 full-times jobs created thus far, so when in the future do you think we’re going to get—given that over three-quarters of the cycle trails are now up and running, you tell us that you’ve got visitors coming out the kazoo, as it were, blah, blah, blah. So when are we going to get from 50 to even close to 4,000, which was the commitment of your Prime Minister?

McClay: Well, I think if we look at all stages of the cycleway and its importance and impact upon the wider economy, some of those figures are probably underestimated. If we look at the number of visitors who are using cycleways in different parts of the country, where previously they would not have visited, in the wider economy there is significant job growth, Clayton.
Cosgrove  But do you stand by the Prime Minister’s statement that there will be at least 4,000 jobs created in the medium term?

McClay  I’ve only been a Minister for a year, but I stand by everything the Prime Minister says.

Cosgrove  So given you have a department that conducts analysis, given that you have 16 out of 23 cycleways operative, given the visitor numbers, what are the projections on job creation? We have 50 jobs at a million dollars a head. When do we get near the magical 4,000?

McClay  Look, I don’t think—

Cosgrove  With respect, does the analysis provide you with projection?

McClay  Just before the officials answer, I’m not sure that the fairest comparison of cost to value is over a set number of jobs. This isn’t only about job creation, although it’s a very important part of the cycleway’s objective—

Cosgrove  That was the Prime Minister’s principal objective.

McClay  No it wasn’t, but it’s a very important part of the reason why the cycleway was created. But this is about what New Zealand offers, and it’s about everything that we do and we do well. So here’s what’s really interesting that’s happening in tourism in New Zealand. As the world gets over the global financial crisis and starts to travel again, compared to most of our nearest competitors, those we compete with for international visitors, we are doing better than they are. And the reason for that is when it comes to the _Hobbit_ movies, which the Government’s been supportive of, to the cycleways up and down the country that people are enjoying, to everything else we’ve done around investing in tourism in New Zealand and promoting tourism in New Zealand, it’s starting to work and it’s starting to work well, and that’s the reason that at Trenz last week not only were all the operators optimistic, they thought the cycleways had added significant value to the New Zealand economy.

Cosgrove  Minister, are you aware that the original premise for the cycleway came out of a thing called a Job Summit that your Government sponsored and that the Prime Minister has repeatedly said—and the points you make are valid, but all those centre around a singular objective of growing the economy and creating jobs.

McClay  Well, I do remember the Job Summit, and there were a number of very good ideas that came from that, including the cycleway. It was very widely supported, but what I also do know, Clayton, is this has been well received, it’s good for the economy, and, as with most other things the Government’s done over the last 6 years that are good for the economy, the Opposition hasn’t liked it. We’ll agree to disagree.

Cosgrove  Could I read you a quote from 1 June 2010, the _New Zealand Herald_. Quote, Prime Minister: “He remained confident the economic stimulation the cycleway would offer communities would create work for 4,000 people, as he predicted at the Job Summit in Auckland last year.” You’ve spent 50
million bucks, you’ve got 50 jobs, and you can’t tell us how many new businesses have been created.

McClay No, I didn’t say we’ve only got 50 jobs. What we said was, directly employed on those cycle trails themselves was 50, but in the wider economy significantly more than that, and I—

Cosgrove Why can’t you tell us the number?

McClay We’ve said we’re going to come back to you with some numbers.

Cosgrove Why haven’t you got it today? You knew we were going to ask this. We’ve asked it every year—how many jobs? Simple. You’ve got 16 trails. You’ve told us: four of them; 50 jobs. How many for the other 12?

McClay What I think is important is to think about every one of these people in New Zealand who, before the Prime Minister made his announcement, wasn’t employed in different parts of the country and who now has employment, gainfully, as a result of the cycle tracks. So I think they are not only grateful for the investment of the New Zealand taxpayer, they’ll be enjoying getting on their bikes and riding them, but when it comes to exact figures we’ve said we’ll come back with some figures.

Cosgrove Well, with respect—

McClay It doesn’t matter how many times you ask, we’ll come back to you with some figures.

Cosgrove For 3 years we’ve asked these questions, Minister, and for 3 years you and your counterparts have never been able to tell us. Everybody’s enjoying riding bikes—wonderful—and that you have a department which conducts economic analysis, and I would have thought, if you were so confident of this, your department would have conducted extensive nationwide economic analysis, and you’d be able to give us some figures. And you’ve told us 50 jobs that you know of and a whole host of people who are feeling good about cycling.

McClay Despite (inaudible) there has been significant analysis done. We’ll get some figures back to you, but at the same time, rather than just studying things, we’ve been building cycling tracks up and down the country.

Cosgrove How do you measure public accountability, Minister

Tremain Minister, I’d like to change the topic, please, and look at the new spend, $158 million—that spend on particularly some of the smaller markets that we’ve focused on as second or third-tier investments. That’s through yourself and Mr Bowler. I’m really interested to hear how it’s going. Say, it would be good to talk briefly about India, but how’s it going in Indonesia, how’s it going in—I understand we had investment in South America. Just how some of those other markets are progressing.

McClay Yeah, good. So look, the investment itself is very important, and particularly when we look at some of the markets where we have the most opportunity to grow, people with disposable income, India is a great example of this. So you’ll know that we have the Cricket World Cup coming next year. We’ve
reached agreement with Australia for a single visa border policy for the Cricket World Cup. India will have two games in New Zealand, and we’ve put significant investment into that Indian market. I see real potential there.

I’ll ask Kevin to speak more widely on that, but what I wanted to say is that a very important part of that $158 million is the $34 million set aside for the Tourism Growth Partnership—$4 million of that is solely for Canterbury, but the other $28 million is for the Government to partner and invest at least on a dollar-for-dollar basis to drive innovation and productivity in the tourism sector. We announced the first five projects last week that had been evaluated and agreed by an expert group—not by Government or Ministers; an expert group. What is significantly important is of the—what is it, $3.5 million—

Barrett Three point eight.

McClay —$3.8 million invested, there was an extra investment of $6 for every dollar the Government put in. So that’s leveraged by the private sector to drive productivity and innovation in tourism to over $30 million. I think there’s some excellent projects there—three more funding rounds to go, and we’ve just called for the second round of proposals. But Kevin, would you like to add some more?

Bowler Yeah, sure. We’ve had an office in India for quite some time. So what we done is we’ve really expanded our operations in India, and we seem to have broken that bit of that market as a result. So we had a large number of Indian travel specialists come down to New Zealand for Trenz, and we’re very confident about that market in the long term. Indonesia as well is growing very strongly—in fact, in the full year to the end of May, up 17 percent, so really positive. Quite dependent on air connections, so we’re really anxious to see stronger air connections between Singapore and New Zealand, which will facilitate further growth.

We’ve just, in the last few months, opened an office in Sao Paulo, Brazil, and that’s enabling us to really get in and do the media trips and press trips from Brazil, start getting New Zealand’s reputation and brand much better understood in the market there. We don’t have really strong connections as a country, so we’re getting in there. I’m really pleased with the progress we’re making.

Tremain Great. Can you also just give us an indication of the bounce back in some of those traditional markets where we saw quite significant fall back? Obviously Australia carried us through, but how’s the United Kingdom, Germany, the United States? What are the numbers like for those markets now?

Bowler The United States has been a real success over the last 12 months. So through the global financial crisis the market was pretty flat for us, but in the last 12 months we’re up 11.3 percent over the year, and holiday arrivals are actually up more than that. Germany, likewise, again, quite flat over the GFC; now up 16 percent. So we’ve seen quite a strong turn-round there. The UK, after many years of seeing less and less visitors arrive, we’ve
actually seen some growth and expect to see a little bit more for the major events—the cricket, FIFA, and the Lions tour as well—coming from the UK. And Australia as well, from, you know, being reasonably flat to up 5 percent. So we’ve had quite a transformation in our industry, from being quite reliant on growth just from China, to seeing growth from China continuing in a healthy way, but also supplemented with some of these traditional advanced economies doing really well as well.

Yang

Yes, the China market, of course, you just said has kept growing. I said it before, that it appears that we may become the victim of our own success—that is, not having enough accommodation for Chinese visitors, particularly during the Chinese New Year time. I understand in Auckland there’ll be two more five or six-star hotels there that’ll be Chinese business friendly. I’m just wondering: do we have any other plans or are you aware of any other plans, like hotels, accommodation building, in other parts of New Zealand?

McClay

I think it’s fair to say there’s significant interest from the business community in growth and potential growth around the Chinese market into New Zealand. I’ll tell you what’s really interesting in the changing sort of demographic of Chinese visitors: we’re finding many more free independent travellers starting to come here—smaller groups, younger, different languages—coming to, you know, very much experience all that they can of New Zealand. So in that regard, it’s quite similar to many other travellers from other parts of the world. We’ve always thought that that would be the case, but I suppose what’s surprising, or maybe not surprising as far as China is concerned, is the speed with which this is developing and growing.

So one of the challenges, certainly, the sector and the industry faces is around managing some of those peak times during the year and being able to spread out some of that demand throughout the year. You know, we’re starting to see a lot of interest from airlines of more flights, a great commitment, themselves marketing New Zealand in China as a great destination to go to. So I think what we’re going to see is that’s going to continue to evolve.

It’s also clear that where there is additional demand—you know, smart business people are looking at how they should invest to support that. What’s been very important in as far as helping them make some of those business decisions, I think, is the investment and work that the sector and the Government have done over the last 6 years so that they can see that as the world comes out of the trough that it was in, there is more opportunity, there’s more certainty, and certainly more stability, around some of these numbers.

Genter

I have two questions. Firstly, congratulations on the cycle trails. I know I’ve been spending money in my time off, using some of the cycle trails, in local economies. It’s excellent.

Cosgrove

There’s one!
Genter With friends and family. But I'm just wondering if there's a risk to our brand internationally, if people are coming to New Zealand to ride bicycles that—roads in our towns and cities and in between a number of cities, are quite unsafe compared to other countries. I just wonder to what extent the Government as a whole has considered taking a more integrated approach and to ensuring that there is the opportunity in the transport plan to provide for safe cycling in towns and cities and on intercity roads, both for New Zealanders and for tourists.

McClay Yeah, well, look, I think it's fair to say at a local level, as the cycle trails have gained popularity and have become increasingly more successful, that local government is starting to think about what they offer. So it's not just about, you know, quality of life or enjoyment of life or just, you know, the experience, but it's very much about the local economy.

So I know, Julie Anne, you were down in Taupō with us for the opening of one of the trails there. Certainly, Destination Taupō and the Taupō council are thinking, you know, very deeply about what more they need to do to offer an experience—in my area, the woods of Rotorua—and that's the case in lots of other parts of the country. So I think up and down the country more thought is put into this, and the reason for that is there are more cyclists coming and enjoying themselves, demanding more, and spending in the local economy, which gives, you know, more opportunity.

In as far as integrated is concerned, so the cycle trail was never to be joined up all the way through, but I know in many parts of the country, you know, those who see a cycleway but don't have it on their doorstep are talking to different organisations about more of them and linking them more, because of economic development. So, sure, there's a bit more work to be done there—

Genter I guess I'm just wondering if the Minister of Tourism is having any discussions with the Ministry of Transport on how they can improve their approach to road safety in order to protect our tourism brand, given that—

McClay I think probably at a general level, but I'm not aware of anything specific on that.

Faafoi Can I just stay with safety, and I'll ask the three questions at once, to save time, and that's around the adventure tourism safety audits. Can I get a bit of a situation report with how many have been completed and how many are left outstanding, what your opinion on that is in terms of the 1 November deadline, and also, if you do not think that is good enough, what's going to get done about it to make sure that the 1 November deadline is met?

McClay The Government put in place legislation and regulations around adventure tourism in New Zealand. I think we have a very good adventure tourism industry, but by nature there will always be more risk around it. It's part of the reason that people want to be involved in adventure tourism, I suppose, when they come from overseas. The regulations themselves, I think, are fit for purpose. There is the legislative deadline of 1 November for all
adventure tourism operators that fall under the scope of the Act to be registered, and audits are under way at the moment. There are about 460 adventure tourism enterprises that fall within the scope of the Act.

But I understand that the department—it’s WorkSafe and therefore the Ministry of Labour, not tourism, that has responsibility for this policy, the implementation. I understand they’ve been out talking to many more than that to make sure they’re aware of their obligations, and so on. They’ve also been putting in place extra capacity to work with many of the operators so they know what their obligations are, they can get the paperwork in order, and can be ready for audit. I’m advised by officials that the 1 November deadline will be met.

Faafoi I don’t think that question was answered, to be honest. I didn’t get—
McClay I haven’t got that information available, because the Department of Labour is responsible, but we can (inaudible) that through—
Cosgrove He had two hits, but with one question.
Young And he used it, all right?
Cosgrove What, with one question?
Young And including the answer, all right?
Faafoi So hold on, so you don’t have that number with you right now?
McClay Unless—
Barrett Sorry, so what number was it you were wanting?
Faafoi The number of completed safety audits and the number of outstanding left to do before 1 November.
Barrett So my understanding is there are about 460 operators that are subject to the regime. I think there’s around 350-ish—
??? Outstanding?
Barrett —that are outstanding at the moment, but those figures are changing as we speak.
Faafoi So you’ve got 350 to do before 1 November?
Barrett I think that’s right, but I think that, as Minister McClay has said, this falls under the labour portfolio. They have a lot more information than we do.
Faafoi You’re confident they can be completed by 1 November?
McClay I’m advised by officials that they’ll meet the 1 November deadline.
Barrett That’s right.
Young All right, thanks for that.
Cosgrove Sorry, just to confirm, you’re going to come back to us with those figures, and the other requests we’ve made about detail around jobs, new business—
McClay People have noted it down, but if you get it sent across to make sure.
Cosgrove: I’m sure it’ll come in in a forklift.

McClay: I’m going back to do it right now! Thank you.

*conclusion of evidence*
2014/15 Estimates for Vote Transport

Report of the Transport and Industrial Relations Committee

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Vote Transport

Recommendation

The Transport and Industrial Relations Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Transport, as set out in Parliamentary Paper B.5, Vol. 1, administered by the Ministry of Transport, be accepted.

Introduction

The total appropriations sought for Vote Transport in 2014/15 are $4.518 billion, compared with estimated actual expenditure of $3.548 billion in 2013/14. A large part of the difference between years relates to the appropriation of $750 million that provides the New Zealand Transport Agency with a borrowing facility for short-term advances (the estimated actual expenditure for 2013/14 was $160 million).

Transport infrastructure

The Minister told us that the Government’s aim is to put more investment and infrastructure into the transport system to address a 30-year lag in these areas. The focus is on the land transport network, particularly the Roads of National Significance (which we were told are on time and on budget), investing in transport in Auckland, and rebuilding the road network in Christchurch. There are upgrades of most maritime ports, and continuing investment in KiwiRail, and the Minister also told us that options are being examined for “intelligent” transport systems.

Roads

Funding

Most of the Vote, $3.873 billion or 86 percent, is for roads. We note a reduction in expected revenue to the National Land Transport Fund, and that in 2014/15 the Crown is forecast to collect $3.165 billion in road tax revenue. The Minister acknowledged that road tax revenue has been lower than expected for the last several years because of the economic downturn, but said he is confident that projections are now back on track, and he foresees no disturbance to the long-term plans for road improvements.

We heard that local authorities spend around $1 billion each year on roads, and some of us questioned the fairness of this in large areas with small populations, such as Grey and Southland Districts, particularly when their roads are used for tourism. The Minister told us that this matter is currently the subject of negotiation between the New Zealand Transport Agency and local authorities, and that the funding will be between 52 and 97 percent of the cost of the road. Some of us noted that rural local authorities are disadvantaged by having to spend a significantly higher percentage of their rates on roads than big city councils do.

Safety

We are pleased that there have been big improvements in road safety and we note that the road toll last year was the lowest since 1950, despite the larger number of vehicles on the roads. We agree, however, with the Minister that the toll is still too high. The Minister
expects that a bill currently before us, to lower the legal alcohol driving limits, will help to reduce the number of deaths and serious injuries.

We questioned the Minister about the removal of driver licencing sites from small rural locations. We observed that many rural learners cannot afford the expense of travelling a long way for a driving test. The Minister did not think this is a major barrier for young rural drivers, and said that in sparsely populated areas it is expensive to maintain a driver licencing site because of the small number of drivers being tested.

The Minister said he is pleased that New Zealand is moving away from six-monthly safety checks on cars manufactured after 2000. He observed that it is time for this change because vehicles are becoming intrinsically safer. We note that the change is saving motorists money.

**Technology**

We were interested to hear about the effects of technological developments such as satellite navigation, electric cars, and driverless cars. The Minister expects a move to driverless cars over the next 50 years or so. More immediately, changes to the road user charges system have caused transport operators to reconfigure their fleets, and satellite navigation has made them more efficient. We were pleased to hear that the Minister is trying to ensure that legislation keeps up with changes in technology.

**KiwiRail**

The Minister acknowledged that bringing KiwiRail’s infrastructure up to standard is a challenge, and told us that a billion dollars have thus far been put into the Turnaround Plan. He said that, notwithstanding asbestos problems, the recently acquired engines can be expected to provide better fuel efficiency and allow bigger loads to be carried.

We are concerned about the lack of barriers on some level crossings. We questioned whether the Government’s investment in KiwiRail was adequate, particularly given the recent deaths at two such crossings on the West Coast; and we agree with the Minister that all level crossings should be controlled by barriers. We encourage KiwiRail to make safer crossings a priority in its work plan.

**Auckland**

**Auckland Rail**

Appropriations relating to the Auckland rail network will pay for new trains and the electrification of lines. There is a loan to the Auckland Council of $192 million (part of a $500-million loan over several years), and a grant of $90 million.

We asked about the Government’s previous commitment to contribute to the Auckland City Rail Link (a 3.5-km double-track underground rail line), starting in 2020, or in 2017 if certain patronage targets are met. Some of us referred the Minister to a recent report claiming that these are unattainable: current office capacity in the city is too limited, for example, to allow the employment target to be reached. Some of us suggested to the Minister that the targets the Government had announced as preconditions for beginning to build the rail link before 2020 should not have been set because they cannot be reached; and that it is better to start building the rail link ahead of the targets because by 2020, traffic congestion will be severe. Some of us noted that the capacity of the Britomart station without the City Rail Link is 20 trains per hour, and it is already coping with 18, which are full at peak times.
The Minister said the Government’s willingness to bring the project forward is demonstrated by the fact that it had halved the original proposed targets; but he confirmed that, unless the halved targets are met, Government funding will not be made available for the project until 2020. We agree that it is important to meet demand before it becomes too high, and we were encouraged to hear that there is a preparedness to advance on the project earlier should the situation change in the next three years.

**Roads in Auckland**

We heard about the Auckland Transport Package loan to accelerate key Auckland motorway projects. The appropriation is for $375 million over five years, and $55 million in 2014/15.

Some of us contended that initial proposals regarding the East-West link had been emphatically rejected by local communities and we asked, now that this link has been confirmed and some funding made available, how appropriate consultation and a minimum of disruption to those in the area will be assured. We were told that the $10 million allocated to this project in the Vote is intended to start discussion and to ensure a better understanding of the options for progressing the link. The Minister assured us that there would be appropriate community consultation over the next 12 months, as the New Zealand Transport Agency explores the various options.

**Auckland Airport**

The Minister told us that New Zealand now has 64 international air services agreements, more than double the number three years ago.

We asked what efforts are being made in Auckland to find a balance between allowing the airport to operate efficiently and minimising disruptions for residents. This would be particularly important if a second runway were built at Auckland. The Minister told us that while most airports have a 55dB noise limit, there is no single decibel standard across the country. The Minister pointed out that he has set the level in Christchurch at 50dB, but that some people still want to build inside the 50dB boundary. We suggest that the Minister explore the ways the issue has been dealt with in other countries, with a view to following international best practice.
Appendix A

Approach to this examination

We met on 29 May and 19 June 2014 to consider Vote Transport. Evidence was heard from the Minister of Transport, Hon Gerry Brownlee, and the Ministry of Transport, and advice received from the Office of the Auditor-General.

Committee members

David Bennett (Chairperson)
Chris Auchinvole
Carol Beaumont
Dr Cam Calder
Darien Fenton
Phil Twyford
Simon O’Connor
Denise Roche
Mike Sabin

Denise Roche was replaced by Julie-Ann Genter for this item of business.

Evidence and advice received

We considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Transport, prepared by committee staff, dated 29 May 2014.


Minister of Transport, Response to standard Estimates questionnaire.

Minister of Transport, Response to supplementary questions, received 16 June 2014.

Office of the Auditor-General, Briefing on Vote Transport, received 29 May 2014.
Good morning, Minister. Welcome to the committee.

Thank you. I will be as brief as I can be. [Introductions] We take transport, obviously, as being the big enabler of both better lives and also as being a big facilitator of economic activity in New Zealand, and that’s always been the case with transport anywhere in the world, ever since the Romans first started to expand the empire.

We’ve had, over the last couple of years, the goals of putting more investment and infrastructure in the system. Prior to coming into Government 6 years ago, we’d identified what we thought was about a 30-year deficit in infrastructure in New Zealand. We’ve set about trying to close that gap. We want to create a safer transport system. We’ve also had a big focus on transport regulation at various levels, trying to get a higher degree of quality in that regulation so that it has relevance to those who are using it, and also, through the air services arrangements, opening up international markets and, of course, also making sure that our sea lanes and maritime legislation is up to date, as well.

We’ve had a $3 billion investment in the land transport network, through the roads of national significance. That’s accompanied by a billion dollars of local money over the last period. So about $4 billion a year is going into the roading infrastructure in New Zealand.

In Auckland we think we are achieving significant effect with the movement of traffic across the newly opened roads, but you can certainly see that with
that billion dollars a year investment in transport across the sectors in Auckland, there is a progression towards a more movable city.

We announced last June, or the Prime Minister did, an additional package for projects in Auckland, bringing some of those projects forward by as much as a decade, and we will be progressing those in the years to come, should we be given that opportunity post-September.

The situation in Christchurch is a difficult one. The Crown is contributing about $250 million to the rebuild efforts there, the roading network. That’s through the NZTA budget and it’s part of the $16 billion Crown commitment to Christchurch. It’s very pleasing that the New Zealand Transport Agency is taking a lead role inside what’s called the SCIRT programme, and is using its contracting expertise to have moved a lot of the project work ahead of what would be the usual time. So we’re very pleased about the way that’s coming together.

The roads of national significance programme is going very well, on time, on budget, and the reception that you get from new roads and the project itself, the public have been very, very positive.

Public transport—we’re putting about $1.7 billion into the Auckland rail network, including the electrification, which was long planned, I have to concede, and bringing those new trains on as well. You can just see that public transport is going to grow exponentially in Auckland over the years to come as facilities enable that to occur.

We have a big emphasis on safety, and it was pleasing to see last year the lowest road toll in New Zealand since 1950. We just need to keep on doing that. I think it’s significant, because the vehicle numbers on the road, of course, between 1950 and 2013 were substantial, absolutely massive, multiple times the number of cars. But with safer roads and safer vehicles you can get that good result, but it’s still a significant number of people to lose their lives on the roads practically daily in New Zealand.

We’re progressing the land transport bill. We think that will contribute to lowering certainly accidents and deaths that are caused by drivers drinking to impaired levels. We’d hope that legislation is—your committee has dealt with it, so I’m sure it’s in every good shape, and will be back to us in no time.

New Zealand has 270 pieces of legislation that relate to transport, by way of regulations and rules, as well as primary legislation. We’re constantly trying to remove unnecessary costs and to recognise the fact that vehicles are intrinsically safer these days. The work we’ve put in to extend the time of warrant of fitness requirements for post-2000 vehicles should save about $1.8 billion for the vehicle fleet over a period of years. I think, more importantly, it recognises that the vehicle fleet age should start to come back, and therefore you’ll have a much larger number of safer vehicles.

I spoke briefly before about air services. Over the last 3 years I have been able to sign 32 new air service agreements or improved air service agreements, giving us a total of 64 agreements with countries across the
world. So we’ve, in 3 years, doubled the number of agreements we’ve got. I think the significance of that is that, New Zealand being a more isolated country, having as many competitive options for people to travel out of here internationally, to move goods out of here internationally, is extremely important.

For example, I was able to sign the deal with Finland—my good friends the Finns—just a couple of days ago, and they were delighted to sign, I must say. They were even more delighted to meet me. The photographs have gone back to the front page of their various newspapers. I expressed my desire that they may soon join the modern world, etc., as you would expect. But the point is that Finnair is able to work with Cathay Pacific and we get a fourth direct line into Europe, which still is a significant trading destination for New Zealand. So the more of that we can get, the better.

So these programmes, I think, show that we’ve got progress going on in the portfolio, and with those comments I’m very keen to just take your questions. The last comment I would make is about intelligent transport systems. I think often New Zealand gets to places ahead of the curve, but too often we get there behind the curve. Anything electronic, it seems, I think New Zealand is very much in a place where our citizens here embrace those things pretty swiftly. So I’ve tried to keep work programmes going that look at future transport systems, look at so-called intelligent transport systems, and to make sure that our regulation is well ahead of the curve so that as these things come on board there’s no difficulty with them operating here in New Zealand. So we have, for example, the prospect in the future of driverless cars as well as much greater use being made of satellite communication for travel.

One of the interesting consequences of the way we changed the RUC structure—two things. I think large freight movers have rapidly reconfigured fleets, which is pleasing, but, more importantly I think, taking greater use of GPS to minimise the amount of time they actually spend on the road, and that’s an incredibly positive thing. So having a regulatory base that enables all of that I think is very, very important.

Bennett Thank you very much, Minister. I appreciate that very good introduction.

Twyford I would like to ask a few questions about the City Rail Link, if I may. You will have seen the PricewaterhouseCoopers report, PwC report, recently on the targets?

Brownlee Yes, I’m surprised they published it.

Twyford What’s your view of it?

Brownlee Well, I’m surprised they published it. I mean, I think if it was a retail operation, what they would be saying is “Look, you don’t have enough customers, but we think you should go ahead and expand the store anyway.” So I think we’ve taken what we consider a pretty realistic view of it. We’ve said OK, there is a point where—if you’re trying to meet a demand once it’s there, then you’re behind. What we’re saying is let’s see that demand coming forward. Let’s have a look at how it’s progressing and
see if we can predict the point where we would, despite the demand actually not being there, get the thing built and move it forward.

Twyford The report casts doubt on the validity of the targets, so, specifically, it basically says that the employment targets were always unachievable because of the constraints on office capacity in the CBD. It basically says they could never have been achieved. What do you say to that?

Brownlee Well, it just says that there’s never going to be enough people there to make this thing viable under the—

Twyford No, it doesn’t. It doesn’t say that.

Brownlee You’ve asked me what I think. So you’ve got an analysis; I’m giving you my analysis. My analysis is it’s saying that the targets that Auckland Transport originally proposed the rail link on are unobtainable.

Twyford Can I quote you the report, Minister: “The Government’s employment target is practically unachievable.”

Brownlee No, hang on. Wait, wait, wait. Let me be clear, Phil. We worked on—we looked at the Auckland Transport - Auckland City Council targets and halved them and now we’ve got the Auckland City Council coming back to us and saying “We’ve got a report from PwC that says the halving of our targets is unreasonable, because they’ll never be met.” So what it really says is that the Auckland Transport and Auckland City Council were wildly inaccurate in their initial assessments of what might be achieved for the city.

Twyford But, if I may continue, these are targets that you announced as a condition for considering starting work on the CRL before 2020, and PwC are saying that the employment target is practically unachievable given short to medium term constraints on city centre office space. The patronage target is technically achievable and not inconsistent with growth rates observed. However, the timing of full rail electrification in 2015 and 2016 means the growth is not expected to materialise until it’s too late. So they’re basically saying both the targets were always unachievable. So it doesn’t make any sense, does it? So why did you adopt targets that are unachievable?

Brownlee Well, what we said is that we would be prepared to fund our part of the rail from 2020, and if half of the targets set by Auckland Council and Auckland Transport were reached prior to that time, then we would obviously want to bring it forward. That’s not an unreasonable position.

Twyford But do you accept that the targets were never achievable in the period, in the time period? They might be achievable in 10 years’ time or 15 years’ time.

Brownlee What I find interesting is that having halved the initial targets, PwC are now saying that the halved targets were unreasonable. What it would tell you is that if Auckland had got PwC doing an analysis of the proposal right at the start, it would never have got off the ground.

Twyford Minister, what time-saving would you expect and what journey frequency would you expect the CRL to deliver on the Auckland rail network?
Brownlee  Well, that’s not something for me to decide.
Twyford  But you must know how frequently trains will be able to run as a result of
the CRL.
Brownlee  What I’m told is that the current electrification is moving towards—I think
it is—10-minute frequency, and that would be a useful thing for parts of
Auckland, but in the end, people have to get on these things and use them.
Twyford  But what frequency would you expect the CRL to deliver on the network?
Brownlee  Well, I don’t know. I’m not a planner to that extent. All I look at is the cost
and the usage. They are the two things important for a Government making
a determination about committing very, very significant funding.
Genter  Do you think that if the trains were more frequent and more reliable and
faster, that more people would use them?
Brownlee  Well, I think that it doesn’t matter what I think.
Genter  I mean, you did say that it’s important that we build infrastructure before
the demand is already there, and you’re concerned—
Brownlee  About the time, yeah.
Brownlee  —that the demand isn’t there, but isn’t the demand likely to grow much
more after the CRL is there, because—
Brownlee  I think there’s a big difference between demand and a trend, and what we’re
looking for is a trend, quite clearly.
Genter  So do you think that people will be more likely to take the train if it was
evory 5 minutes instead of every 10 minutes?
Brownlee  I think people will take the train if it’s convenient for them.
Genter  Yeah, and so—
Brownlee  But, look, can I just—
Genter  But how can we bring the patronage—
Brownlee  Hang on, hang on. It’s not a courtroom. So what I’m saying is that when
you talk about demand and I talk about making sure that we have the
infrastructure ahead of demand, I think we indicated our willingness to do
that by halving the targets put in place by Mayor Len Brown and Auckland
Transport.
Genter  Mr Brownlee, those targets weren’t targets for starting construction on the
CRL. You are aware that they were predictions of what employment and
patronage would be about 10 or 15 years in the future, not 2017.
Brownlee  No, they were on a much closer time frame than that, and we thought they
were unrealistic and needed to halve them, and said well, look, if the
prediction for the increased patronage once electrification starts, starts to
indicate that we’re heading towards that big number—and let’s give
ourselves a go button at half that number—then we can bring it forward
any time in that 3 years. But you’re talking 3 years; it’s not a long time.
Mr Brownlee, do you know what the practical capacity of Britomart is without the CRL—the number of trains per hour at peak?

No, I don’t know that.

Well, I can tell you that it’s 20 trains an hour, and we’re already at 18, so until the City Rail Link is built, we can’t increase the frequency of the trains.

You can put in as many trains in there as you like; if they’re not full, it’s no indication at all of how much use is of them.

But they are full at peak, so how do we increase patronage if we can’t run more trains through Britomart?

Well, let’s just go 1 more year and see what happens. I was very impressed by the 11 million passenger movements in the last 12 months, and if that were to continue as a trend, then you’d be looking at 16 or 17 million in the coming year.

Given the trend of declining vehicle kilometres travelled on State highways—

The decline in what?

—vehicle kilometres travelled—so there’s fewer people driving on State highways and have been per capita since 2007, do you think it’s time to revisit some of the Government’s priorities—

No.

—given that you’ve said you don’t want to get out ahead and build something if the demand isn’t there?

No.

OK, so it doesn’t apply—

Well, no, it’s not, because your goals are different entirely.

What are the goals that are different?

Well, you can’t put freight, for example, on a train and get it to all destinations.

But if you get people on the train, doesn’t that free up the roads for freight?

Hang on, just move away from trains for a minute. You’ve also got traffic congestion and choke points around Auckland that we think would be alleviated by going ahead with these roading projects. That’s why we’re doing it. If you take, for example, the one we’ve put up in the Budget just read the other week, we’ve put, I think it’s $10 million, into the east-west link so that there can be a proper consideration of the land programme. My understanding is that there’s something like 50 traffic lights from one point to the other. If you’ve got the bottom of your network constrained like that, then it’s always going to create choke points at that similar frequency throughout your network. So, we still think—we are very committed to the roading projects that we’ve got on the books.
Can I just pick up on that, Minister? Obviously, it’s been a substantial investment by the Government in terms of Auckland Transport, and it’s obviously a comprehensive network of transport mechanisms, so it’s not a case that investment in any one area is a silver bullet, if you like. But can you give the committee a sense of what that investment picture looks like in terms of transport in Auckland and a bit of a progress update on where things are at with it.

Well, the RONS programme is on target, it’s on budget, and should complete in the time span that was set out for those projects, so that’s pretty good news. We’ve set those targets around the CRL. Electrification, which I can see was previously agreed by a previous Government, we’ve continued to fund that. It’s up and running, and we should have all those trains available, I think it’s mid-next year, the time they’re all there. We’ve previously looked at the Northern Busway, various things like that. Currently under consideration is the second harbour bridge and the site for the on ramp, the off ramp for that.

You just have to keep on keeping all these things on the horizon, so if your question is are we satisfied that we’re keeping a close eye on Auckland infrastructure and not going into one of those long lulls that occurs where—to be fair, I think from about 2005 Governments have been trying to catch up on that. I think we’re in pretty good shape.

Just on that point, so you suggested before there’s been some 30-year lag in terms of meaningful investment to keep pace with—

Not just roads; infrastructure in general.

Yeah, infrastructure in general. So what sort of turn-round do you think the Government’s programme in terms of pushing back on that substantial lag, because, obviously, you’ve got to pick up a lot before you can be front-ending a lot of this infrastructure. So give us a sense of where the investment has moved that programme forward.

Well, you’re asking me to stray outside my portfolio area into a previous portfolio area, starting in electricity, where we’ve had very big investment in Transpower, for example. But coming back into transport, I think the investments in those roads of national significance are important. I think the regions are the part that we’ve got to pick up the game a bit on, and we’re having a bit of a look at that. It’s a long-term thing; it’s not a short term. I think you’re looking around at all the ports, for example, port infrastructure—rebuids or additions occurring in just about all the ports at the present time.

You’ve got an extraordinary number of airports in New Zealand. So we have in New Zealand—I think we worked out, Mr Matthews—seven that are internationally capable, four that are taking international flights. For our size, we’ve got 23—is it 23 or 27—28 regional airports. So on that side of things I think we’re very well served as a country, particularly when you look at countries much bigger that have significantly less and much further to go to get to—air journeys.
Our big challenge remains KiwiRail, where we’ve put, so far, a billion dollars into the Turnaround Plan. It’s not an easy prospect. We’ve bought the new engines, and I think, notwithstanding the issue around the asbestos, they’ll be very, very useful in getting better fuel efficiency, but better loads also, out of the trains. Your question was where else are we spending. We’re spending in just about anywhere in the transport network that is required. There’s changes coming to air navigation, all that sort of thing as well.

Fenton I wonder if you could talk about driver licensing and the changes that have happened since 2012. I ask you if, in the coming year, you plan to put any more resources into trying to improve the pass rates, because they have significantly declined on class 1 restricted licence and class 1 full licence, and the fail rates have significantly increased.

Brownlee Yep.

Fenton And so what do you plan to do about that?

Brownlee Nothing.

Fenton Nothing? So you think that’s a good place to be?

Brownlee Well, I do. I think if you’re going to have road safety, people have to know the rules of the road and they have to know how to drive. It’s pretty simple.

Fenton So you’re not concerned about the reports that we had in Auckland a few weeks ago about some of the responses—people complaining about the way that they were tested and the responses they got?

Brownlee Well, those sort of things will always occur at various times. I remember when the driver’s licensing system was changed some years ago, there was a huge outcry about all of that. That happens from time to time. But in the end you can’t drop standards. If there are issues about the way licensing is being applied, then I’ll ask the questions and see where we’re at. But it’s not something that has taken a lot of time just yet.

Fenton You’ve also removed driver licensing sites from some of our rural areas, so poor kids in Wairoa and some of the other small communities around the place can’t actually get their licences any more unless they spend a lot of money travelling to other centres. Does that concern you, as well?

Brownlee It concerns me if it’s a total barrier, but we don’t believe it is. We’re looking at the options for—for a start, if the issue is going to be that you need to be assured that people are getting a licence in a genuine test, then you have to be comfortable about where the testing sites are. So maintaining testing sites for very low populations with a small amount of people coming through the door for a licence on a monthly basis is extremely expensive. So there has been that rationalisation by the New Zealand Transport Agency.

Fenton You’ve made it extremely expensive for those rural kids who depend more on driving than most urban kids. You’ve made it almost impossible for some of them to be able to afford to get a licence.

Brownlee Well, I don’t accept that and I don’t have evidence to suggest that that is the case.
Because it leads into other things, Minister. As you know, there’s an issue around truck drivers at the moment. We can’t get truck drivers in New Zealand. We can’t get enough people to actually get to the point where they can get to a class 5 licence in driving trucks. Immigration has pulled the plug on that, on overseas truck drivers coming in. We’ve got a significant problem there now—

No, hang on, let me finish—let me finish. What I’m saying is if you make it difficult at the beginning, which is what you’re doing, because a lot of truck drivers will come out of rural areas—if you make it difficult for poor kids to get their licences, their initial licences, how on earth do you expect New Zealand workers to get to the point where they can get a class 5 licence without spending huge amounts of money, which they can’t afford?

I make the point that the changes to the licensing sites occurred about less than 2 years ago, and so the new licensees at that time would have been 16 and 17. They would not be—that would have made no difference at all to the number of people in New Zealand or New Zealanders holding class 5 licences for heavy transport.

Minister, you’ve touched upon different modalities of transport important to Auckland like the port, the airports, of course. We know—140,000 flights in and out of Auckland every year. But the major artery, if not the aorta, that services Auckland is State Highway 1. You’ve announced that we are going to be doing a little bit there. Can you just maybe give us a bit of an idea of the time line of when some of those things are going to happen. Particularly people who are based around Manurewa heading south, out around Takanini, there’s a bit of widening that’s been flagged, and that’s very, very popular and getting a great response in that community. But we all use—those of us who live in Auckland—State Highway 1, and anything that unblocks that is very positive.

Whereabouts is that, Martin, just so I know—oh, yeah, OK. So this is the Auckland package that we announced.

Just a few ideas that lie on the time line on that?

Yep, I can. If I just go to my own notes here, which is the same as Martin’s notes, I can give you exactly those things. I’ll read them out for you. So three-laning highway 1 northbound, Constellation to Greville; and the State Highway 1 - Greville Road interchange improvements; and the State Highway 1 to State Highway 18 motorway-to-motorway link—it’s part of the northern corridor projects. It’s got a benefit-cost ratio of 3:8, and it would be done in two parts. Some of it is done in this current year. The whole of that would be completed out to about 2019, and the full cost of that is around $450 million. It’s progress over that time.

A couple of questions, Minister. First of all, also part of that Auckland package, the east-west link—after, of course, the initial proposals were put on the table and strongly rejected by communities, that got taken off the table. What I want to know is what’s the process now around consulting
with the community and developing some solutions in there that are less disruptive to communities?

Brownlee

Well, look, there’s a couple of possibilities there. So what we’ve done in the last Budget is put up $10 million to start the process of discussion to have a full understanding of what the land acquisition programme might be, and to come to a determination about whether or not it is a project that has significant—very significant—improvements on it which were disruptive, or do you just go and say “Right, we’ll put a motorway from one side to the other.”? And—

Beaumont

I hope you don’t do that.

Brownlee

Well, I mean, there’s the range and the options that are there. That’s my point. So we want to get that clearer over the next 12 months.

Beaumont

So there will be some stages and that, in terms of community consultation and analysis of what those options might look like?

Brownlee

In the end, all these projects have to get consent, and so there’s a need to have a process that the consenters respect.

Beaumont

Sure, but, I mean, a consenting process is not necessarily one that easily engages with a community, so what I’m really asking is do you think there will be some significant effort put into talking to those communities?

Brownlee

Well, I’m sure there will. But, you know, what I would say is that if you look at—if you were to do a public survey and say “Is that a good project that Government should look at doing?”, it would be overwhelmingly in favour. So it’s a matter of how wide that community is. I think that’s always the challenge for NZTA.

Beaumont

Just a different question, but my second area is kind of a more abstract one, if you like. But as you will be well aware, a number of MPs in Auckland have been getting quite significant feedback from the community about aircraft noise and a whole range of scenarios, including the smart paths, or whatever it was, but not limited to that, because that’s finished at the moment and is currently being reviewed—but suggestions of lower flight paths and disruption to different communities than previously. My question really is what efforts are being made to look at that balance between enabling the airport to operate efficiently and listening to the community about noise and other implications of flight paths?

Brownlee

So noise contours around airports are always very contentious. In Auckland—well, you know about the trial that they trialled the flight path in to see if they could get a greater optimisation out of the one runway that they’ve got. I think it’s highly likely that they’ll, from those trials, conclude that it is a good idea to progress their second runway, which will bring its own challenges, no doubt.

But we don’t have a single decibel standard across New Zealand. Fifty-five is what most operate to, and, interestingly, I’ve lowered it to 50 in Christchurch, which, you know, takes the distance out a lot further. So if you can appreciate that, that’s like the lower the number, the further you are
from the airport. Interestingly, there are MPs who are actually saying that that’s far too restrictive and taking the case of people who want to build inside that 50 decibel line. So it’s a very difficult one for people to get a single handle on—MPs in your own party, I might add.

Genter I wanted to come back to road tax revenue. It’s been I don’t know how many years now that road tax revenue’s been lower than expected, and there’s probably going to be a difference between planned expenditure and revenue again. What is the Government’s plan to deal with this, other than borrowing and deferring the problem to future years?

Brownlee Just to pick up on that last part—borrowing and deferring to future years. It sort of defeats your former argument about saying “Well, we’ve got to get well ahead of the demand field.” All we’re saying is that if you could plan out for, in this case, to 2025 and you can see a funding stream that’s in front of you, why wouldn’t you use—

Genter What’s the funding stream in front of us?

Brownlee The revenue that comes off the roads.

Genter But given that it’s been lower than expected for, like, 5 years now, why would you think it will be higher in the future?

Brownlee At the moment it’s tracking back to projection. I think you can’t underestimate the effect of the slowing down in our economy. So two things, I think, were significant. We did have economic downturn—there’s no question. Towards the end of 2007, in fact, you could see that dip off. We’re getting back into the position for some years where we’re back on the right track and we’ve got good growth prospects in front of us. I think what has happened is the convergence of that event, and then transport companies in particular taking advantage of new technologies—so, by and large, the simple old GPS.

You’ve seen less of a connection between GDP growth and transport revenue. But on the projections that we have, my understanding is, and Mr Matthews may want to comment, that we are tracking. Firstly, you have a projection. So you don’t know what it’s going to be, but the projection line is what you hope it will be. I understand we’re tracking back very, very close to that line at the present time.

Genter So the plan is to continue spending big on particularly State highway projects—

Brownlee No, responsibly.

Genter—in the hope that road tax revenue will be higher in the future and presumably that will mean putting up fuel taxes again in the future, to help pay back that expenditure.

Brownlee Don’t get carried away by your own attempt at a headline, because the reality is that $4 billion spent on roading in New Zealand, a billion of that coming from—

Genter Rates.
Brownlee: From local communities.

Genter: Not road users.

Brownlee: Well, it’s an interesting argument, when you talk about not wanting to have isolated communities, for example. But my point is that we spend a huge amount also on public transport in New Zealand.

Genter: What percentage of the total transport budget?

Brownlee: I would say close to 20. I think it’s 17—is that right? Around that figure.

Sabin: Changes to the warrant of fitness scheme—so, warrant of fitness and certificate of fitness—what sort of benefits are we seeing with that?

Brownlee: Well, I think it’s just the fact that you get away from that 6-monthly routine where you’ve got to go down and hand over your $50 to be told that your car is safe. If you take a car that’s, say, 15 years old now and you went back to the year 2000, went back to a car that was 15 years old then, they are significantly safer vehicles—much, much better constructed. The whole vehicle, the engineering of it, is entirely different. I think we’ve got to recognise that, and I think the annual warrant of fitness, with its potential saving of about $1.8 billion over a period—what is the period?

???: It’s 11 years.

Brownlee: Yeah, it’s quite a significant amount.

Sabin: That’s direct savings to the road user, isn’t it?

Brownlee: Consumer, yep.

Twyford: Minister, if we could look at the funding assistance rate and the whole question of local roads. I know you’ve got a reform process under way, but I’m mindful, and wanted to put it to you, the concerns of some of the smaller regional councils who are feeling pretty anxious about what’s being proposed.

On the West Coast the Grey District Council has warned there could be, in their words, “a devastating effect” if the council lost road funding of $790,000, which is what they project, based on the proposals that have been put to them. They say the review could compromise the funding for the Haast-Jackson Bay Road and both glacier access roads.

The Southland District Council, which I think everyone knows is in a particularly difficult situation with, I think, about 10,000 ratepayers and the biggest local roads network in the country, they say that the proposals could reduce its funding by more than a million dollars annually and that Southland residents already spend 32 percent of their rates on local roads—18 times the rate that Aucklanders do.

So I suppose my question to you is if you accept that those would be the effects of the proposal in those two examples, how is that more equitable? Isn’t this just another example of provincial New Zealand getting it in the neck as decision making gets centralised more around the needs of Auckland and Canterbury, and, in particular, what’s your proposal about...
tourist roads, which arguably have a significant wider economic benefit for the nation, but many of these smaller provincial councils are tasked with maintaining those roads?

Brownlee Well, you’ve said “given that you accept” and I don’t, because it’s a discussion that’s going on at the present time. I would suggest to those councils that going out and scaring their ratepayers is not going to do them much good. They’re better to put the time into discussing it with NZTA and to understand the system that’s proposed for them. The minimum rates will be 52 percent and the maximum rates will be about 97.

Twyford Are you saying that in these two examples, in terms of the Southland District and the Grey District—

Brownlee Let me tell you about Southland District—

Twyford Are you saying their numbers are wrong?

Brownlee No, I’m saying that they’re clearly doing what Southland has done for so long—is making a big noise. I recall being lined up on a television programme by Frana Cardno, the former district mayor down there, Southland District mayor, complaining about, in this case not the FAR rates but the R funding, and noting that they still had $18 million sitting in their account unused.

Twyford So are you saying they have nothing to worry about?

Brownlee No, I’m saying that there will always be a degree of tension, and people will always fight their corner for whatever they can get, and that’s fair enough. I accept that. But the rates aren’t struck. There’s a discussion going on, and the rates will range somewhere between 52 and at the extreme end about 97 percent.

Twyford But do you not accept that even a very small decrease in the rate could, for example, reduce, in cases like this, the amount of money for one of these councils by up to a million dollars? And when you’ve got 10,000 ratepayers, that’s a lot of money.

Brownlee Let me tell you that there are some where you could make the case that the rates are going to increase, and ask is that fair? I think, in the end, you have a discussion with them to try and get a rate that’s reasonable for their particular needs.

O’Connor I want to come back to the technology elements. You’ve mentioned them a few times in passing—GPS being one example of it and the efficiencies gained there. I suppose I’m just curious—elaborating on that for context, but also the other technology elements you are exploring within the Ministry of Transport that’s helping our systems.

Brownlee Well, look, this will sound slightly off the wall, but I had the experience of riding in the Google driverless car on the freeway in California—San Francisco. At the moment the gear that you’ve got to put on that car to make it work in that way and in a safe way is quite large, but I’ve seen recent reports where they’ve been testing these cars on all roads. They had a problem—at the time I was there—that the car was unable to pick up what
would be a right-hand turn. It was a difficulty because they hadn’t quite got the sensors right, so nine times out of 10 when it made that turn, it hit whatever was coming at it, which wasn’t tidy.

They’ve now overcome that, and they’ve been testing it on normal roads. There was a report from one of the county police organisations where they were able to say that the driverless cars that had been on their roads for a period of about, I think it was, 10 months had had no accidents but the incident rate of accidents at the difficult points remained unchanged. So, in other words, the driverless cars were doing OK. The drivers’ cars were still causing the problems.

The other thing that struck me was that they said that if from Palo Alto, is it, driving into San Francisco, you had bumper-to-bumper traffic moving at 17 miles an hour at peak time, you would arrive 25 minutes earlier than you do at the moment, where there is free-flow on the freeways, simply because you reduce the distance between vehicles but also the time that you stop or slow down or something else because of human activity.

So those things, I think—you just know that that’s where the world is going to go. That’s going to happen. In 50 years’ time that will be the deal. You will go out and get a new car and tell it where to take you.

Calder And the electric cars will recharge at induction pads.

Brownlee Well, I think that’s right. I think electric technology for vehicles has just made such huge bounds in the last 6 years, from what I can see.

Bennett So those cars, Gerry, they’ve got no steering wheel, so they just do it on Google Maps or whatever—

Brownlee Yeah, they have a steering wheel. Well, they do at the moment, because they have to. It’s like a normal car. So you’re driving along the road and the guy hits a button and then he swings round and says “OK, we’re being driven by the machine.” Right? It’s very unnerving for a start, I must say.

Genter I’m just wondering, since driverless cars are going to mean that one road will be able to carry many, many more cars, doesn’t that sort of obviate the need to build new, wider roads?

Brownlee No—population growth.

Genter Because we’re going to be able to move twice or three times as many cars.

Brownlee All it will mean—every advance in transport technology has meant that more people use it.

Genter Yeah, but given that you can move more people—

Bennett OK, Julie Anne—

Brownlee Julie Anne, we could talk for ever.

Bennett Phil’s got the last question, OK?

Genter Oh, can I ask one more?

Bennett No, no. That was your last question.
Genter I’ve got to ask about GPS—government policy statement.

Brownlee Let her ask that in a minute. I’ll stay a bit extra.

Bennett You want to stay a bit extra?

Brownlee Yeah, yeah—just for that last question.

Genter I’m just wondering if the Government policy statement on transport funding is going to be released—both the draft for consultation and the final.

Brownlee The GPS?

Genter Yeah.

Brownlee Well, look, we’re working on that at the moment, but we’re running up against an election, and Government ability to make decisions going up to it are somewhat limited. We could decide to go ahead with it but that would require us to directly consult with other parties, and that in itself would take significant time. So we’ll see where we get to. It may be up for discussion prior to an election, but any Government wants to stamp its own mark on things, so it might be better left till after the election.

Twyford Minister, do you think that adequate investment has been made by KiwiRail in safety? I ask that because of the two recent deaths on the West Coast, both on level crossings. They are basically uncontrolled level crossings on the Reefton-Westport line. On 21 May an empty coal car hit and killed a Reefton couple only 3 kilometres away from another uncontrolled level crossing, where a local woman was killed in January. Is that acceptable?

Brownlee Look, I agree with you. I know the West Coast pretty well. There are a number of spots that I can think of where, even though they are controlled by lights, the roads cross them often on a diagonal. I don’t know about the two spots that you’re talking of, but it does concern me, and I think we do need to try and make the—

Twyford So what are you doing about it?

Brownlee Well, I’ve obviously asked them for the reports when they get them. They’ve got to through that process. Then I think we’d want to have a look at whether some sort of barriers should be there. I have a personal view that all railway lines should have barrier arms on them.

Twyford Have you got a costed programme of—

Brownlee Not at this point, no. But I can ask KiwiRail if that’s where they’re at. My concern with KiwiRail has basically been keeping the thing afloat.

Twyford I understand that. Can I ask that you request from KiwiRail a costed programme of introducing controlled facilities at all of those crossings, and a plan that could be reported back?

Bennett Well, we can ask that as part of the committee, and then whatever reply you’re able to give us—

Brownlee I don’t think there’s any problem with asking them that. And if the committee were to ask it, it’s probably got a little more clout than just one
member. I’m certainly prepared to back that. I think it’s not a bad thing to
look at.

Bennett   OK, well, we’ll do that. OK, thank you very much, Minister. Really
appreciate your time.

Brownlee  Oh, is that it?

Genter    Minister, can I ask one question? Have you been on the train at Britomart at
peak time?

Brownlee  Ah, I don’t live in Auckland.

Bennett   Thank you very much, everyone.

conclusion of evidence
2014/15 Estimates for Vote Treaty Negotiations

Report of the Māori Affairs Committee

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Recommendation

The Māori Affairs Committee recommends that the appropriations for the year ending 30 June 2015 for Vote Treaty Negotiations, administered by the Ministry of Justice, as set out in Parliamentary Paper B.5, be accepted.

Introduction

The total annual appropriations for Vote Treaty Negotiations in 2014/15 amount to $70.709 million, substantially less than the previous year’s estimated actual expenditure of $100.71 million. In addition to the appropriations sought for 2014/15, Vote Treaty Negotiations includes a multi-year appropriation of $1.4 billion for the five years from 30 June 2014 to 30 June 2018.

We heard from the Minister about the current progress of Treaty settlements. Further agreements in principle and deeds of settlement are expected to be signed in the year ahead. The Minister is particularly focused on ensuring the durability of settlements.

Post-settlements

The Minister has established a post-settlement unit within the Office of Treaty Settlements which maintains relationships with post-settlement governance entities. We asked how the unit is working so far, and heard that a group of senior iwi leaders is advising the unit. There is particular support from the unit for post-settlement groups building relationships with local authorities. The Minister is concerned to ensure that the groups have strong internal structures to face the “post-settlement world”. We commend the establishment of a post-settlement unit, and consider that this provides a useful ability to review settlement provisions that may inform the development of related legislation.

Utilising Māori land

The Minister is concerned that land that is currently lying idle should be utilised. He believes that a different approach to managing land is needed and the process towards change will be slow. However, it should be accelerated somewhat by proposed changes to Te Ture Whenua Māori Act 1993. We asked about the scale of the land in question, and heard that 1.42 million hectares, comprising 27,000 ownership blocks, are governed by Te Ture Whenua and could be used better to benefit the owners. The Minister classes 80 percent of this land as underperforming. His goal is to free up land for both economic development and accessible housing for land owners.

We asked about relief for whānau struggling to utilise small underperforming blocks of land. The Minister said a suite of mechanisms are planned, including steps to eliminate legal barriers to owners accessing land that is part of larger blocks. He acknowledged the logistical challenges presented by some pieces of land having hundreds of owners. We asked how the Office of Treaty Settlements differentiates between engaged owners and those who are not engaged. The Minister acknowledged the sensitivity of the issue and told us that clarifying it is likely to be an important part of any changes to Te Ture Whenua.
Settlement models

We asked if recent innovative settlements could be used as models for others, but the
Minister emphasised that each settlement is unique, and while some good ideas could be
repeated, each group has their own challenges and history to be considered.

Completion of settlements

We asked if the Minister thought that all settlements could be finalised in the next three
years. He said that no group should be forced to sign, and recognised that some may
choose not to enter negotiations; but he suggested that if the current pace continues, it is
possible that all deeds of settlement will be signed in that period. At present 82 percent of
mandates have been signed, and the Minister observed that assigning mandate is often the
longest part of a settlement process.

Water rights

We asked the Minister how he saw his role in the management and allocation of water
rights. He acknowledged that recognising these interests is an important part of Treaty
settlements, but pointed out that local government and waterway authorities are
responsible for allocations and consents.
Appendix

Approach to this examination
We met on 28 May and 18 June to consider Vote Treaty Negotiations. Evidence was heard from the Minister for Treaty of Waitangi Negotiations, Hon Christopher Finlayson, and the Office of Treaty Settlements, and received advice from the Office of the Auditor-General.

Committee members
Hon Tau Henare (chairperson)
Te Ururoa Flavell
Hone Harawira
Claudette Hauiti
Joanne Hayes
Brendan Horan
Hon Nanaia Mahuta
Rino Tirikatene
Metiria Turei
Hon Nicky Wagner
Meka Whaitiri
Jonathan Young

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

Briefing paper, prepared by committee staff, dated 26 May 2014.

Office of the Auditor-General, Briefing on Vote Treaty Negotiations, received 28 May 2014.

Minister for Treaty of Waitangi Negotiations, Response to standard Estimates questionnaire.

Response to additional questions, received 12 June 2014.
Ngā whakapae mō te Pōti Whiriwhiringa Take Tiriti o te tau 2014/15

Te pūrongo a te Komiti Whiriwhiri Take Māori

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Te Pōti Whiriwhiringa Take Tiriti

Tūtohutanga

Ka tūtohu te Komiti Whiriwhiri Take Māori kia whakaaetia ngā wāwāhanga moni mō te tau ka mutu hei te 30 o Pipiri tau 2015 mō te Pōti Whiriwhiringa Take Tiriti, e whakahaerea nei e Te Tāhū o Te Ture, e ai ki tērā kua whakakotoria i te Pepa Pāremata B.5.

Kupu Whakataki

E $70.709 miriona te katoa o ngā wāwāhanga moni ā-tau mō te Pōti Whiriwhiringa Take Tiriti o te tau 2014/15, ā, he nui te itinga iho ki tērā whakapaunga koa e $100.71 miriona, i whakapaetia i te tau kua hipa. Tua atu i ngā wāwāhanga moni ka rapua mō te Pōti Whiriwhiringa Take Tiriti o te tau 2014/15, ko tērā wāwāhanga moni tau-tini maha e $1.4 pironia mō ngā tau e rima atu i te 30 o Pipiri 2014 ki te 30 o Pipiri 2018.

I rongo kōrero mātou mai i te Minita mō te haere whakamua o ngā whakataunga take Tiriti o te wā nei. Ko te tūmanako ka hainatia ētahi whakaaetanga mātāpono me ētahi whakaaetanga whakataunga i tua atu, i te tau tū mai. E hāngai ana te arotahi o te Minita ki te āta titiro ka pūmau ngā whakataunga.

Ngā whakataunga-whai muri

Kua whakatūria e te Minita he wāhanga whakataunga-whai muri ki roto i Te Tari Whakatau Take e pā ana ki Te Tiriti o Waitangi, tērā e whakaū hononga ana i te taha hinonga whakahaere whakataunga-whai muri. Ka pātai mātou, e pēhea ana te māhi a te wāhanga i te wā nei, ā, ka rongo he kohinga kaiarataki pakeke o te iwi kei te tuku whakamaherehere ki te wāhanga. He tino tautoko kei te puta mai i te wāhanga mō ngā kohinga whakataunga-whai muri ki te waihanga hononga i te taha o ngā mana whakahaere ā-rohe. Ko te māharahara o te Minita, ko te whakaū anga pūoioi ō-roto mā ngā kohinga ki tū atu ai ki te “ao whakataunga-whai muri”. Ka tūtohu mātou i te whakatūranga o tētahi wāhanga whakataunga-whai muri, ā, me te whakaaoroaro ka hoatu e tēnei he kaha ki te arotake pai i ngā wharatonga whakataunga kia mārama ai pea te whakahiato hanganga ture e pā ana.

Te whakamahi whenua Māori

Kei te āwanagawanga te Minitā, kīhai te whenua e noho māngere ana i te wā i te whakamahia. Ko tana whakapono, kei te hiahiatia he ara kē atu hei whakahaere i te whenua, ā, ka pōturi te hātepe whakarerekē. Heoi, ka taea pea te whakateretere mā ngā whakahounga kei te whakaaorohia mō Te Ture Whenua Māori o te tau 1993. Ko pātai mātou mō te tuaine o te whenua e kōrerohia ake nei, ā, me te rongo e 1.42 miriona heketee, ā, e 27,000 ngā poroko rangatira whenua e whakahaere ana e Te Ture Whenua, ā, tērā pea ka pai kē atu te whakamahi kia whai painga ai te hunga nō rātou te whenua. Ki te Minita, e 80 ōrau o te whenua nei kei te whenua e noho māngere. He whakawātea mai i te whenua tāna whāinga mō te whakahiato ōhanga, ā, kia whiwhi whare ai te hunga nō rātou te whenua.

Ka pātai whakamāmatanga mātou mō te whānau e nōnoke ana te whakamahi poroko whenua paikupaku e noho māngere ana. Ka mea ake te Minita, he huihuinga huarahi kei te whakaaorohia, tae atu ki ētahi āhuatanga whakakore atu i ngā ārai o te ture kia whiwhi whenua ai ngā rangatira nō mai i ngā poroko rahi rawa atu rā. Ka whakae a ia ki ngā wero
nā te te hia rau kē o ngā rangatira i roto i ētahi o ngā maramara whenua nei. Ka pātai mātou, pēhea ai te whakawehewehe a Te Tari Whakatau Take e pā ana ki Te Tiriti o Waitangi i te hunga kua whakaware, ā, i taua hunga kīhia kia whakaware. Ka whakaee te Minita ki te āririta o te take nei me tana kī mai, tērā pea ko te whakamārama i ngā whakahounga o Te Ture Whenua tētahi wāhanga nui o te mahi.

Ngā tauira whakataunga

Ka pātai mātou, mehemea ka taea ngā whakataunga wairua auaha o nā noa te whakamahi hei tauira mā ētahi atu ēngari, māro ana te whakatau mai a te Minita, he ahurei ia whakataunga, ā, ahakoa te taea o ētahi ariā pai te tukurua, kei ia kohinga āna ake wero me te hitorī hei whakaaroaro.

Te whakaotinga o ngā whakataunga

Ka pātai mātou, mehemea ka whakaaro te Minita ka taea ngā whakataunga katoa te whakaoiti i ngā tau e toru e tū mai nei. Ka mea mai a ia, kore rawa atu he kohinga e pēhia kia haina, ā, e mōhio ana, kāore pea ētahi e kōwhiri kia uru atu ki ngā whiriwhiringa; ēngari, ka mea ake anō, ki te haere pēnei te horo i te wā nei ēkene pea ka hainatia katoatia ngā whakaetanga whakataunga i taua wā. I te wā nei, e 82 ōrau ngā mana kōkiri kua hainatia, ā, kua kite te Minita i te nuinbga o te wā, ko te whakarite mana kōkiri te wāhanga roa rawa atu o tētahi hātepe whakataunga.

Ngā tika wai

Ka pātai mātou ki te Minita, ka pēhea tāna kīte atu i tōna tūranga i roto i te mahi whakahaerenga me te tohatohanga tika wai. Ka whakaee a ia, ko te mōhio ki ngā pānga nei tētahi wāhanga nui mō ngā whakataunga take Tiriti ēngari, ka tohu mai hoki i te wāhi kei runga i ngā pokohiwi i te kāwangatanga ā-rohe me ngā mana whakahaere arawai o te hau kāinga e pā ana ki ngā tohatohanga me ngā whakaee mai.
Tāpiritanga

Ara ki tēnei tirotirohanga
I hui mātou i te 28 o Haratua me te 18 o Pipiri ki te whakaaroaro i te Pōti Whiriwhiringa Take Tiriti. I rongo taunakitanga nō mai mai i te Minita mō ngā Whiriwhiringa Take Tiriti, a Hōnore Christopher Finlayson, ā, nō mai i Te Tari Whakatau Take e pā ana ki Te Tiriti o Waitangi, ā, i 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
Joanne Hayes
Brendan Horan
Hōnore Nanaia Mahuta
Rino Tirikātene
Mētīria Tūrei
Hōnore Nicky Wagner
Meka Whaitiri
Jonathan Young

Taunakitanga me te whakamaherehere i whiwhi
Nā mātou te taunakitanga me te whakamaherehere ka whai ake i tēnei tirotirohanga i whakaaroaro:
Te pepa whakatakotoranga tohutohu nā ngā ringa whakatutuki mahi a te komiti i takatū i te 26 o Haratua tau 2014.
Te whakatakotoranga tohutohu a Te Tari o Te Tumuaki mō Te Pōti Whiriwhiringa Take Tiriti, i whiwhi i te 28 o Haratua tau 2014.
Urupare a te Minita Whiriwhiringa Take Tiriti ki te rārangi pātai mō ngā Whakapae noa.
Urupare ki ngā pātai i tua atu i whiwhi i te 12 o Pipiri tau 2014.
The Government Administration Committee has examined the 2014/15 Estimates for Vote Women’s Affairs, and recommends that the appropriations in respect of Vote Women’s Affairs for the year ending 30 June 2015, as set out in Parliamentary Paper B.5, be accepted.

Hon Ruth Dyson
Chairperson
Reports of select committees on the 2010/11 financial reviews of Government departments, Offices of Parliament, and reports on non-departmental appropriations

Fiftieth Parliament
April 2012
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Introduction

This is a compendium of all select committee reports on the 2010/11 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 for the year ended 30 June 2009. 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 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-2012.
2010/11 financial review of the Ministry of Agriculture and Forestry

Report of the Primary Production Committee

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Recommendation

The Primary Production Committee has conducted the financial review of the 2010/11 performance and current operations of the Ministry of Agriculture and Forestry and recommends that the House take note of its report.

Introduction

The Ministry of Agriculture and Forestry works with New Zealand’s agriculture, food, and forestry sectors, and the Ministry of Foreign Affairs and Trade among others to promote sustainable management of New Zealand’s agriculture, forestry, and biosecurity interests.

In the 2010/11 financial year, the ministry was funded through Votes Agriculture and Forestry, Biosecurity, and Food Safety. It had a total revenue of $297.127 million and incurred a total expenditure of $289.608 million, resulting in a surplus of $7.159 million. Its director-general is Wayne McNee.

On 1 July 2010, the New Zealand Food Safety Authority merged into the ministry, and the Ministry of Fisheries did so on 1 July 2011. The ministry had originally forecast savings of $10 million per annum as a result of the mergers; from the 2012/13 financial year onwards it now forecasts savings in excess of $22 million per annum. It will cover its merger costs from these savings in the 2011/12 financial year.

Biosecurity

Joint Border Management System

The Joint Border Management System is an information technology system that will provide the ministry, the New Zealand Customs Service, and industry with information and risk assessment tools regarding trade and biosecurity, before and at the border. These organisations invested substantially in the IT infrastructure for the system, which is being built, and work has begun on a service delivery programme. We heard that that the ministry has consulted Federated Farmers of New Zealand and Horticulture New Zealand, among other organisations, emphasising that the system benefits industry financially. Initially the system received a negative response, but we were pleased to hear that industry largely feels positive about the system, and that the ministry is still responsive to users’ concerns at this stage of the process.

Border incursions

The ministry 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 risks are likely to come from, then sets up systems at the border to deal with them. We were told that the Government Industry Agreement for Biosecurity Readiness and Response sets out categories of response to types of incursions. However, 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 risk escapes detection, the ministry has generic response systems that prepare it to react immediately.

**Recent incursions**

The first report of the Pseudomonas syringae pv. actinidiae (Psa) virus in New Zealand occurred in November 2010. Psa affects kiwifruit and spreads rapidly, so once it reached New Zealand it was hard to contain. Upon discovering the outbreak, the ministry and industry set up a response group to find ways to control the disease, and to seek alternative species not affected by Psa. We heard that at least two varieties of gold kiwifruit have resisted the disease, and that Psa is now largely confined to the Te Puke area. The kiwifruit industry is hopeful of returning to healthy production in two to three years. The ministry is currently undertaking a review of the outbreak. We look forward to hearing the results of this review.

In November 2011, strawberry seeds that posed a biosecurity risk to New Zealand were found on sale in Christchurch. We heard that the seeds were imported from the Netherlands, and came with an incorrect assurance that they met New Zealand’s standards. At the border, the ministry staff missed the reference to the seeds in the import documents. The importer also incorrectly informed the ministry about the nature of the seeds. The ministry does not believe that reduced staff numbers contributed to the error. We were pleased to hear that the ministry has learnt from this experience, and is stressing that staff must read import documentation thoroughly. It is also investigating technology that might assist staff at the border.

**Forestry**

We asked the ministry to update us on the forestry industry. We heard that the price of logs was very good for most of 2011, and increased demand put pressure on the timber processing industry. We also heard that it is intended that the national forest estate profile will include more forestry on steep hills. Some of us are concerned that soil erosion and sedimentation affects fisheries habitats. A Primary Growth Partnership investment in steep hill harvesting technology is helping to open up this terrain for forest cultivation.

We were interested in why investors decide to invest in Australian rather than New Zealand forestry, when growing conditions are generally better here. The ministry hopes that changes to the Resource Management Act 1991 and the establishment of the Environment Protection Agency consent process will improve the environment for overseas investment in New Zealand forestry. It is confident that investment in this area will increase.

Methyl bromide is a product that the industry relies on for fumigating logs. It depletes the ozone, and some of us believe this factor needs to be included in New Zealand’s carbon emission calculations. The ministry agreed that methyl bromide has an adverse effect on the environment, and said that a project under the Primary Growth Partnership is researching alternatives.

**Afforestation**

Parts of New Zealand’s unique afforestation are not included under the Kyoto Protocol. For example, New Zealand hedgerows and riparian margins are not covered by the
protocol. We asked if a model could be established that suited New Zealand’s unique forestry profile better, while recognising international standards. The ministry suggested that New Zealand needs to find a middle ground in international negotiations between its unique requirements and those of the rest of the world. From an administrative perspective, we understand that it would be difficult to include this type of afforestation in the protocol. However, from a scientific view we believe that it is in New Zealand’s best interests that they be included.

**Consistency of figures**

The ministry told us that more than 71 per cent of New Zealand’s merchandise exports were produced by the primary sector, which we understand is different from the Treasury figure. We would like to see consistency in reporting between these two major departments, and the fact that New Zealand is a farming nation to be reflected in these figures.
Appendix

Approach to financial review
We met on 1 March and 29 March 2012 to consider the financial review of the Ministry of Agriculture and Forestry. Evidence was heard from the Ministry of Agriculture and Forestry and advice received from the Office of the Auditor-General.

Committee members
Shane Ardern (Chairperson)
Steffan Browning
Hon Shane Jones
Colin King
Ian McKelvie
Hon Damien O'connor
Eric Roy

Evidence and advice received
Ministry of Agriculture and Forestry, Annual Report 2010/11.


Ministry of Agriculture and Forestry, Responses to additional questions, received 21 March 2012.

Ministry of Agriculture and Forestry, Responses to questions, received 27 February 2012.

Office of the Auditor-General, Briefing on the Ministry of Agriculture and Forestry, dated 1 March 2012.

Organisation briefing paper, prepared by committee staff, dated 27 February 2012.
The Government Administration Committee has conducted the financial review of the 2010/11 performance and current operations of Archives New Zealand (Te Rua Mahara o te Kāwanatanga) 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 Finance and Expenditure Committee has conducted the financial review of the 2010/11 performance and current operations of the Office of the Controller and Auditor-General and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon Bridges
Chairperson
2010/11 financial review of the Department of Building and Housing, and 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 2010/11 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 is responsible for policy, regulation, and dispute resolution services for the building and housing sector. Since July 2011 the department has also been responsible for social housing policy. It manages occupational licensing, provides advice for the industry, and ensures an effective regulatory environment for the sector. The department monitors Housing New Zealand Corporation and works with it on behalf of the Government. It also monitors trends in the building and housing environment and undertakes initiatives under the New Zealand Housing Strategy.

In 2010/11 the department had a total income of $78.05 million and a total expenditure of $70.774 million, resulting in a surplus of $7.276 million.

Canterbury

The department has taken on a further output expense in addition to those reported in its statement of intent, to ensure that the Canterbury region is rebuilt to a satisfactory state. The department has responded on four fronts: accommodation, engineering and technical support, technical investigation, and residential tenancy assistance. It has also been working with other government agencies on matters pertaining to the Canterbury earthquakes.

Under a joint venture with the Ministry of Social Development, the Canterbury Earthquake Temporary Accommodation Service, 72,000 households in the eastern suburbs of Christchurch received welfare and building assessments within three weeks of the earthquakes. Two temporary accommodation villages were also set up, and another is planned.

Priority has been given to processing licence applications in the Canterbury region to ensure there are enough licensed practitioners for rebuilding. The department has also been responsible for a technical investigation into collapsed buildings in the region, which will help inform the Royal commission of inquiry. The earthquakes’ impact on the department has required it to redirect resources and reprioritise its work programme, but it has also led to more streamlined business processes and a refining of the department’s mandate in crisis situations. We commend the department for its efforts in Christchurch.
Financial Assistance Package

The department is assisting people with leaky homes in two ways, financially through the Financial Assistance Package, and with dispute resolution through the Weathertight Homes Tribunal. Homeowners who qualify for the package share the agreed actual cost of repairing their home with the Government and their local council. The chief executive estimates that the package will cost the Crown $857 million; at present, $48 million of Crown contribution has been confirmed and 76 percent of existing and new claimants (3,500) have indicated they will take up the package.

Some of us were concerned at the small number of claimants qualifying for the package, with only 320 qualifying for both a local government and a central government contribution and 304 for the central government contribution only. The department did not think this relatively low rate meant most claimants were not eligible for the package; it was rather that claimants were taking some time to make their final decisions on the package. The department said that at any one time 75 percent of all claims in its system are with the claimant, awaiting their final decision, and that the emotion involved in the settling of weathertightness grievances meant that claimants’ decisions often took a long time.

Social Housing Unit

The Social Housing Unit is a semi-autonomous unit set up in May 2011 to work with housing providers, allocate funding, and facilitate partnerships for purposes such as land transfers. Various types of proposals have been invited in an effort to meet the needs of those requiring social housing, such as accommodation in connection with mental health services, or housing for people moving from prison into society. The Social Housing Fund administers Niche, Rural, Māori, and Growth sub-funds. In the latest round of funding, 94 applications sought a total of about $171 million in grant funding. The full funding round is expected to be completed by April this year, and all of the $37.35 million made available is expected to be distributed.

The department has also appointed a permanent director to lead the Social Housing Reform Programme, which also involves the Treasury, the Ministry of Social Development, and Housing New Zealand Corporation.

We note that since the financial review, the Department of Building and Housing and the Social Housing Unit are to merge into a new superministry. Some of us are concerned that the future of the Social Housing Unit is unknown at this time.

Building and Construction Productivity Partnership

We heard that the construction sector is the worst-performing sector in New Zealand; it has been likened to a “drag anchor” on the economy. This was attributed to a number of factors, including a failure to train and invest in workers, and a loss of confidence in the sector, especially because of weathertightness problems. The Building and Construction Productivity Partnership was established by the department, in conjunction with the Building Research Association of New Zealand, the Building and Construction Industry Training Organisation, the Department of Labour, and local government, in a bid to raise productivity in the sector by 20 percent by 2020.
The department is working towards realising the partnership’s aim in various ways. It has adopted a new service delivery model, is developing a skills strategy for the sector, and is working with tertiary education providers to ensure qualifications are consistent throughout the country. The department also recently launched the Auckland Procurement Programme, a concerted effort to coordinate the supply of resources for major construction projects in the Auckland region. Major construction firms in Auckland, along with the Auckland Council, the Ministry of Education, transport agencies, and others, are working together on a plan showing what construction is planned and what infrastructure is needed, in an effort to avoid unnecessary competition for resources.

**Contractors**

Some of us are concerned about the department’s process of selection when tendering for contractors and at the sums of money spent on them. The department said that often it puts out requests for proposals, which are vetted by a panel of advisors. The department makes a selected handful of them available to staff. It noted that in other cases it goes directly to the market for a competitive quote or tender; the process used depends on what services the department requires.

The department also used a contractor for leadership of its weathertight programme. The role involved working with several government agencies to establish the joint venture, and the department argued that the $600,000 spent on it was value for money for such a complex project.

**Value for Money programme**

The department’s Value for Money programme is focused on maximising its ability to meet projected shortfalls in funding by improving its business performance and making cost savings. The chief executive confirms the department has saved over $7.9 million in the last three years, by changing the way it operates, engaging with staff on operational improvements, and using better technology.

**Non-departmental appropriations for Vote Housing**

The only non-departmental appropriation under Vote Housing is the Wellington City Council Social Housing Assistance appropriation, which is designed to upgrade Wellington City Council’s social housing portfolio. The reporting on this non-departmental appropriation was considered to be clear and informative.
Appendix A

Approach to financial review

We met on 7 and 28 March 2012 to consider the financial review of the Department of Building and Housing and non-departmental appropriations for Vote Housing. Evidence was heard from the Department of Building and Housing and advice received from the Office of the Auditor-General.

Committee members

Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Jo Goodhew
Hon Annette King
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

Hon Annette King replaced Jacinda Ardern for part of the hearing of evidence.

Evidence and advice received

Department of Building and Housing, Annual Report 2010–11.

Department of Building and Housing, Responses to written questions, received 2, 12, and 20 March 2012.

Non-departmental appropriations briefing paper, prepared by committee staff, dated 3 February 2012.

Office of the Auditor-General, Briefing on Department of Building and Housing, dated 7 March 2012.

Organisation briefing paper, prepared by committee staff, dated 1 February 2012.
Appendix B

**Corrected transcript of hearing of evidence 7 March 2012**

**Members**

Peseta Sam Lotu-Iiga (Chairperson)
Hon Jo Goodhew
Hon Annette King
Melissa Lee
Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

**Witnesses**

Katrina Bach, Chief Executive, Department of Building and Housing
Maria Robertson, Deputy Chief Executive, Service Delivery
David Kelly, Deputy Chief Executive, Building Quality

Lotu-Iiga I think what might be appropriate is if we just get introductions from our members and then from you. We have a 5 to 10-minute introduction if you want to go over some of the key points, and then we’ll have a question and answer session, if that’s OK. [Introductions]

Bach So I’ll introduce some of my team here with me. [Introductions]

Lotu-Iiga Thank you, and welcome.

Bach I thought it would be useful just right from the start to take you through an overview of the year, and I’m very happy to provide my notes to the committee.

It was for us, the year was a very significant one, both of achievement and challenges. Our work programme for 2010-11 was ambitious right from the outset, and it changed dramatically in the course of the year with the Canterbury earthquake. I wanted to just really put on record that I’m proud of the flexibility and the resourcefulness and the commitment shown by my people in reprioritising their work to be able to respond to the Canterbury earthquake, at the same time continuing to deliver on a very substantial work programme.

Following the 4 September earthquake, and probably more particularly the 22 February earthquake and the aftershocks, we actually added work to our
programme in terms of our SOI. We’ve added a further outcome commitment, which was that the Canterbury region is successfully rebuilt to a satisfactory state. So that was really sort of nailing our colours to the mast, as it were, and saying that we’re going to be part of this, and we’re reorganising priorities to support the work of the Government and our colleagues in this space. We remain very, very strongly focused on achieving that outcome.

The response so far in terms of the immediate response and also the recovery work has been across four fronts: accommodation, both emergency and temporary; engineering and technical support; technical investigation; and also residential tenancy assistance to those people who have had to find alternative accommodation. In the early days, in fact, within 48 hours of the 22 February earthquake, the department was mobilising more than 700 people on the ground in Christchurch, drawing on our own resources, but also building official resources from throughout the country, who flew in and offered their assistance to carry out combined welfare and building assessments across the entire eastern suburbs of Christchurch. The assessments were completed on more than 72,000 homes in 3 weeks, and what happened was the first teams went in and then there was a mixture of building inspectors and assessors, plus often the social service colleagues working alongside and sitting in behind that. There were fine teams of specialist engineers and also trauma and psychological counselling teams, because, I’m sure, as you can imagine, a lot of people were very, very deeply traumatised, and many of our people were the first ones—the first engagement with any official people that people in the eastern suburbs had. At the same time, our specialists were carrying out engineering and damage assessments on the commercial buildings in the CBD, particularly what they called substantial buildings, which were six levels and over.

Working with the Ministry of Social Development, this followed on from the September earthquake, and we had done all the work and we were ready to go, and then the February earthquake came. But we established what was a joint venture between ourselves and the Ministry of Social Development. It is the first time such a joint venture had ever been done. But it was to offer financial, social, and accommodation support to people with badly damaged homes. It was branded separately because it was for people with damaged homes rather than being positioned as sort of a welfare service. It was very focused on those who had suffered severe property damage and either could not live in their homes or could not stay in them for any period of time and needed to be moved to some more suitable accommodation. As a part of that we also established two temporary accommodation villages, one in Kaiapoi and the other one in Linwood, and those villages—Maria will probably speak more to those in due course—have been very successful in terms of people being able to move through, staying for 6 to 8 weeks while repairs are done, and it’s also helped relieve a little bit of the pressure that’s started to emerge in the rental housing sector.
The department undertook a technical investigation into the performance of four key buildings; I’m sure you’re familiar with this, but the Forsyth Barr building, Hotel Grand Chancellor, the PGC, and more recently the CTV building, and the findings of that were just recently released. You will be aware that the findings were passed to the Institution of Professional Engineers and to the police to take further if they thought that that was appropriate. And the report will contribute to the royal commission of inquiry that is already under way.

Just in summary, really, on the ground at the beginning we worked very closely with the council, with the civil defence, with everybody who was there to look to streamline processes to get things moving very quickly, and to help free up councils’ limited time so that they could focus on what they needed to be doing. We’ve worked with them and continue to work with them to develop a building consenting system because we know that there’s going to be a tsunami of building consents coming through the system soon, and we are working with them to streamline that and to look at how we can do things differently so that that doesn’t create a bottleneck. We also worked very hard with the project management offices and the building construction sector in Christchurch to really drive the uptake of licensed building practitioners, and we had a major push down there to make sure we had enough licensed building practitioners in place.

Just in closing, I mention a few things that we also managed to deliver last year, and I feel strange because it’s sort of they come at the tail end of this, and yet 12 to 18 months ago they were right front and centre, and of course that’s the weathertightness financial assistance package, which was a huge undertaking, working with local government and the retail banking sector to develop the package. It was a very complex piece of work, and the estimated cost to the Crown is around $857 million, and we already have people working through this process now availing themselves of that service to repair their homes. And we worked with establishing a productivity partnership with the building sector and committed to lifting the sector performance by 20 percent by the year 2020. I’d like to talk perhaps a little bit more about that as we go through the examination, but just on Monday in Auckland we launched the Auckland procurement forum with the Minister for Building and Construction and Mayor Len Brown, and that’s a major milestone and step forward. Just the other two things worth mentioning is the establishment of the Social Housing Unit, a semi-autonomous body within the department, and the social housing fund. And the fact that the building legislation, which is to implement the reforms, is now currently before the House. So all in all for us I think it’s been a very challenging year, and it’s asked a lot of us and of my people. I think we’ve responded incredibly well in an extraordinary situation, and as I said at the beginning I’d like to record my thanks to my people for what has been an extraordinary year.

Lotu-Iiga Thank you, and thank you for that summary, that quick summary of your key highlights for the financial year. If I could just start by saying, you
know, acknowledging the work that, as you’ve outlined, you and your staff had done, particularly after the second earthquake. I know what you did, working with other Government departments and the local authorities, certainly helped ease some of the pain for our friends down in Christchurch and the Canterbury region. So I just want to acknowledge that up front.

If we could turn to the financial assistance package programme, and I’ll just do a quick question before we go around the table, the big issue, certainly, that I’ve seen in my electorate, and we held huge numbers of public meetings to come to a resolution where there are now opportunities for people to get some level of compensation, certainly from the Government and from local councils, is apparently only two have been settled at this point in time. Can you give us an update as to how that’s trucking along in terms of settlements, how many are in the pipeline, just an overview of those that are seeking help, and maybe some time frames around, projecting forward, what it looks like, because I know there were some questions around, you know, the future liabilities.

Bach I’ll ask Maria to comment on the detail, but just I suppose an overview statement is that people have a range of options now before them, and for some people choosing between the options is quite a challenge. Once they do choose the financial assistance package, they’ll want to go down that route, which many have done. There is quite a detailed process to go through, but at least it’s a process that they are guided through, it’s structured, and they do know that there will be an end to it. So I’ll ask Maria to comment.

Robertson One of the interesting things about this, of course, is that the package has been in place for just 7 months, and this has taken some time for people to actually get their head around some of the detail, even though we’d been communicating with claimants for some time. What we’ve done is actually looked across our entire claims database and worked actively with each claimant on an individual basis. Seventy-six percent, or just over 3,500 existing and new claimants, have indicated that they would like to pursue the financial assistance package, and that is a make-up of claims that are both single dwelling but also up to multi-unit apartment blocks. At the moment in terms of the current confirmed repairs, $48 million of repairs has been approved in terms of the Crown contribution, with $19 million contributed from councils. One of the things that we have noticed, of course—

Lotu-Iiga Sorry, that last figure?

Robertson It’s $19 million from councils. So we’ve got claims in the order of near enough to $100 million that are now in the system, with significant contributions from both the Crown and territorial authorities. I think the lesson in here is that we’re working very proactively and positively. We’ve got councils across the board that account for over 90 percent of all leaky homes in the country who have committed formally to relationship
agreements with us to actually deliver that financial assistance package in partnership, and that's working incredibly well.

Ardern Just a couple of supplementaries, remind me again how many applications you’ve had for the financial assistance package. It was 3,000—

Robertson In terms of the existing claimants and new claimants, over 3,500 existing and new claimants have indicated a desire to pursue the financial assistance package, and we’ve had claims—so actual transfer of that or conversion to claims—of just under 1,200 active claims now.

Ardern OK. And how many have you assessed qualify for both the territorial authority and Government contribution?

Robertson To date, 320.

Ardern And how many have qualified for just a Government contribution?

Robertson The figure is 304.

Ardern Was it your expectation that there would—I mean, that’s a reasonably low rate of falling within the criteria. Was it your expectation that so many people with weathertight issues would not fit within the financial assistance package?

Robertson It’s actually not a matter of them not being eligible or fitting within the criteria. The criteria in terms of access to the financial assistance package are a mix of both the original criteria for all leaky homes, which is 10-year limit, the home being leaky, and there being damage as a result of that. The issue, really, is that people take time to make decisions. At any given time in our system 75 percent of all claims are with a claimant waiting for them to make a decision on their next steps, so it’s not that they haven’t met the criteria yet. There’s a number that are still in the assessment process, but of those just under 1,200 I can’t give you a number of that total at the moment exactly what will be eligible for access, but currently of those claims 304 have been deemed to be eligible for Crown, and 320-odd as eligible in general.

Ardern So of the people, then, who haven’t as yet qualified, you’re telling me that they actually haven’t made the decision that that’s what they want to pursue, or—

Robertson They may not have. At any given time there’s nothing stopping anyone coming in the door and lodging a claim. That claim is then assessed for its eligibility. They then have to make very active decisions about what option they want to pursue, whether that’s the financial assistance package or the dispute resolution service. So we work actively with every claimant on an individual basis through our claims advisory services to actually support people to make those decisions.
Lotu-Iiga  So what you’re saying is that this is an option that’s over and above the options that were already available.

Robertson  Exactly. It’s an additional option that they didn’t have before. They still have access to the dispute resolution service, and a number of people have transferred across from that to the financial assistance package, and a number of claimants are legitimately still pursuing dispute resolution through the weathertight tribunal.

Ardern  Ultimately, though, I mean, we’ve had two successfully settled. Granted that this has only been in place for 7 months, but we’ve had two who have come out the other end of the process. We’ve got another 3,000 in train. Quite a large amount of money is being set aside for this. Is this just an overly bureaucratic process that people are getting stuck in at the moment?

Robertson  There are no indications that people are getting stuck. One of the things that is very difficult for people in these situations is that they are dealing with a very emotional and very pressured situation that no one wants to find themselves in. It takes time for them to work through their options and determine a pathway that is going to be best for them and their families, and enable them to get on with their lives. We’re always under review, or always actively reviewing the way we deliver these services to make sure that we are not contributing or exacerbating the stress that people are under, and I’m confident that this isn’t about people being stuck; it’s actually about people taking time to make good quality decisions for them.

Lotu-Iiga  But it’s still, after 7 months, I mean, it’s way to early to even work out what is the right time, right? This time next year, perhaps, you’ll be here and we’ll go through another financial review. You’ll have a better picture, I think, after 19 months as to how effective or how the flow is going in terms of claims. Would that be fair to say?

Bach  We will be looking at the claims, the claim profile. One of the things I think is actually really important in terms of the question asked about whether people are getting stuck is that at the front end we’ve encouraged people to lodge claims to stop the clock, even if they weren’t ready to take them forward, we actively encourage people to come into the process so that they could protect their position and keep their options open. And I think that was a wise thing to do, and a lot of people did that, but that does mean that they now have to get themselves ready to take it forward, and that, as Maria was saying, not everybody’s quite in that position. Also, I think, bearing in mind that we’ve gone through, or have been going through, a recession when people are thinking twice about reinvesting back in their property. You know, all of these things have to be taken into account. But we did actively encourage people to get in, to stop the clock, because that protected their position and kept their options open.

Lotu-Iiga  From the 10-year limit.
Bach That’s right, the 10 years.

Goodhew I wondered if I could take you back to Christchurch again to acknowledge the speedy response—I mean, 700 people on the ground within 48 hours is pretty stunning. But to ask a similar question that I put to another department last week, and that is what have you learnt from your involvement down there that you’re now going to take to the rest of New Zealand so they can benefit from working in a different style?

Bach Well, I think the short answer to that is a lot, for all of us, and we’ve contributed to the review that civil defence are doing of the response, because nobody’s ever done a response of that size and magnitude before in New Zealand. We also brought in colleagues from overseas from Australia to assist us. They’ve been dealing with bush fires and floods, although they did say that a fire ends and a flood finally passes, whereas earthquakes kept on coming, which was a very different dynamic. I think there’s been a huge amount of learning, both in terms of from a technical perspective, in terms of how buildings perform in such extreme circumstances, and there’ve also been some learnings about what needs to happen on the ground in circumstances where communication is very severely compromised, and trying to get information across a broad spectrum, like our whole city of Christchurch, is very challenging. And also we didn’t have a mandate to do what we had to do, because the Department of Building and Housing hadn’t been in existence before, so one of the very good things to come out of it is that it’s enabled us to work to clarify what is our role in situations like this, and it’s multiple. And I think too that the ability to work together and to refine some of those systems that enable decision making to occur in a very ambiguous and fast-moving environment, you know, we’ll all learn from that and it will be—I was going to say be easier the next time round; I am just hoping that’s a long way away.

Goodhew So do you have increased capabilities still on the ground in Christchurch?

Bach Yes, we do, and—I mean, our business has basically changed as a result of this, and we’ve reconfigured the hearts of our business, and we have new business to do. And the priority of our work has shifted dramatically in terms of the earthquake rebuild and response.

Lotu-Iiga Just on the joint venture, I found interesting, with the Ministry of Social Development. I am particularly interested in how departments work together. Was that a response to the earthquake, and is that something that you’re going to take forward in terms of working in a, if not a joint venture but a multi-agency type approach to solving some of the issues in building and housing?

Bach It was a case of needs must, and because the organisations do work closely together, and I think the chief executives had a will, and the people who wanted to provide the services on the ground knew what needed to be done, and were just given permission to do it, actually. And there were no
barriers that we could find to actually just cracking on and doing it. There’ve been learnings along the way about how you do it, and how we divide stuff up, but we figured that you could sort that out later. What was most important was to get a service up and running for people so they could come in and they could—the side of the service that we looked after was about those who were in housing need and we worked with both the private housing market plus our own temporary housing, plus a range of other providers. And social welfare also worked with them in terms of what financial assistance they might require, and more broadly for those who were facing very difficult circumstances, what other counselling and support they might require. And, you know, it seems to have worked well. I think it’s just an indication of, you know, what you can do if you want to, really.

Sio I want to ask you some questions about social housing since your department took up as the lead agency for transforming the social housing sector. What have been the key priorities for you in delivering that role?

Bach The social housing reform programme is a very big programme that includes ourselves plus others: the Housing New Zealand Corporation, the Ministry of Social Development in particular.

Sio But you’ve been given the sort of lead agency role.

Bach We do in terms of sitting across the top and making sure that the bits are together and people are talking. So far in terms of the bits that we’ve actively done is establish the Social Housing Unit and get the social housing fund up and running. These are just first steps in a broader programme of work that is around developing and building the capacity of third-party providers in the social housing sector to step more into that market. There’s a lot of interest in that area. People do want to be part of growing a more diverse social housing sector. Sitting alongside this, HNZC have their own programme of work which is around refocusing their business. That’s something that they are doing, but it is part of a bigger whole.

Sio So when you’re engaging with the third sector I’m assuming you’re talking about the Salvation Army and a range of community organisations. Is the funding that they get to provide social housing—does that take into consideration the ongoing maintenance of those homes?

Bach With the social housing fund, we’ve just done a round—the first round of this fund has been completed and there are four categories in there: there’s sort of niche providers, which will often be social service providers that’ll wrap around housing; there’s Māori providers; there’s a rural fund; and then there’s what we’re calling a growth fund. Now, anybody can bid into any of those, but instead of telling people what to do, we’re inviting people to submit proposals, and the Social Housing Unit is identifying what it’s looking for and then inviting people to bring forward proposals to deliver on those.
Sio  Do you have a role to play in terms of the rental that those social housing providers issue? Or is that left entirely up to the provider?

Bach  At this stage that’s left up to the provider. When the proposals come in they are assessed by the Social Housing Unit, and they pull together quite a diverse group of people to assist them in that process. It’s not a decision that I’m actually involved in, because they’re semi-autonomous. But at this stage it’s working. People have put proposals in. Some of them are around using grants as capital, some of them are about using grants as operating, and some of them bring land and cash to the table as well, which enables them to offer a reduced rental.

Lotu-Iiga  So it’s fair to say that you’re being flexible in terms of some of the solutions in this space, and that you’re taking proposals with different angles and different—you know, there’s no one-size-fits-all, right?

Bach  No, the key to this, and I think the difference to this, and it will take a while for, I think, it to gain traction and people to kind of get into the way of it, is instead of the Government saying “We have an answer and we want you to do it like this.”, we’re inviting different parties and providers to come forward with proposals that will deliver increased social housing. And some of it’s quite diverse; some of it’s quite niche. It might be housing wrapping around mental health services; it might be housing for, for example, people in transition from prison. Or it might actually be an iwi that wants to invest in quite substantial affordable housing on Māori land.

Macindoe  If I could ask a couple of supps on this, because you talked about there being a lot of enthusiasm, and also the fact that you’re doing some work within your department for capacity building. Can you talk us through that, what exactly would you as a department be doing to assist me if I came along saying “I’ve got an interest in this—in providing some social housing.”?

Bach  Where we are at the moment, and I preface it by saying that it’s still early days. If you came in and applied for a grant through the funding mechanism you would be given some guidance about how to submit, and if you were, for example, not successful, there is a feedback process to applicants. Because not all applicants will get across the line. I mean, we do want houses to come out at the end of this. So people might have good ideas and be well intentioned, but they do actually have to deliver results, because the key point of this is increasing the available housing stock. So where people have not been successful there is an engagement with them afterwards about what they might need to do, and certainly there is work going forward with some of the larger providers, particularly iwi, but also some commercial providers, about how they might come into this market. It will take time, and we are building the Social Housing Unit and its capacity at the moment to do this work, but working very broadly across the sector with a whole range of different providers as well.
Macindoe  So you’re identifying a fair amount of land and surplus housing stock for transfer to these providers?

Bach  Part of the work that Housing New Zealand Corporation is doing is looking at its current stock and its portfolio and identifying—really doing a stocktake on its assets and portfolio, and identifying where it needs to have houses and where it perhaps has less demand for them, in which case they may be able to release or transfer those assets to other providers.

King  Good morning. You’ve said you’ve just announced the funding allocation for the four categories. Is it available now, as to who’s got that money?

Bach  It’s just due to be announced. The decisions are being finalised, and the parties involved are being worked through with, and then that will be announced. But the process is—

King  So what—a day, a week?

Bach  I think it’s the end of this month.

King  Were you aware of the Manurewa—private sector involvement in the Manurewa office to help place people into private sector accommodation, to expand the ability to house people? Were you aware of that project? There was a DVD made about it by the department, by the corporation. It was widely hailed as very successful.

Bach  I am aware of that pilot. It was a pilot between the Ministry of Social Development and the Housing New Zealand Corporation.

King  Are you aware as to why it was stopped?

Lotu-Iiga  I just want to, just as the chair, I don’t think this is quite within the financial review of this department.

King  Well, they have overall responsibility, and I noticed you were asking questions on anything, so I just thought—

Lotu-Iiga  No, I wasn’t. I was referring to programmes that they actually run, not—

King  Yes, but they have overview of—we’ve just been talking about the funding that goes for expanding housing availability, and one of the projects was to get the private sector involved in helping Housing New Zealand Corporation clients into private sector housing.

Lotu-Iiga  OK. You can answer according to the work that you do.

Bach  I’m happy to answer as far as I can. While the overview that we have is through the transfer of policy functions to the department from Housing New Zealand Corporation, it doesn’t mean that I oversee their business. I am aware of that particular pilot initiative, and I am aware that it is being
changed because Housing New Zealand Corporation is implementing a different business model and that’s impacted on that service. Apart from that, though, I don’t have any—

Lotu-Iiga You don’t have any responsibility for that service, do you?

Bach No.

Lotu-Iiga No. OK, well that’s good.

King Did you give any policy advice on the service?

Bach No.

King You weren’t asked for any?

Bach No.

Lotu-Iiga I think it’s clear she’s got no responsibility for that service.

King She’s got responsibility for policy advice, so asking her a question about policy advice is permissible.

Sabin Thank you very much for your summary, and can I just acknowledge and commend yourself and the department for what’s obviously been a very, very challenging year. On that note, you discussed and you clearly had a very ambitious work programme, and I just wondered if you could speak to the committee with regards to how the earthquake actually impacted on that work programme, and how you reprioritised as a result of that—for example, thinking about the number of licensed practitioners for the rebuild and so on.

Bach It did have a substantial impact on the organisation. Largely it was around redirecting resources, and also bringing in additional capability. The Government provided additional funding to us through the emergency provisions at the front end to enable us to move quite quickly. It did also mean discussions with our Ministers around reprioritising some work that had been on the agenda, and saying “Look, you know, there’s only so much that we can do.” But also, in a funny kind of way, it also gave us an opportunity to bring forward some work as well, because we could try some stuff in Christchurch, particularly around some of the building reforms, doing some things differently, and so it was swings and roundabouts. Some things we pushed out; other things we actually brought forward so that we could move faster in Christchurch. So it actually created opportunities to do things. Ministers, I have to say, were generous and understanding in terms of where we needed to make some trade-offs, and sometimes where we didn’t need to make some trade-offs, so it was a hard year and we needed to stay very focused on what we were doing. In some areas I think that we probably moved resources, particularly into the comms area, because we needed to be able to communicate much more actively about what we were
doing, and that took us a little while to get the hang of that on the ground of Christchurch, but we did, we sort of caught up with that after a while.

Sabin What proactive steps have you taken in terms of bringing the licensed practitioners into the pipeline, if you like, in terms of moving forward and the rebuild? So what work have you done in that space?

Bach What we did was one of the areas where we redirected was in the licensing area, and we gave priority to all licence applications from the Canterbury region, and we, working with the project management officers down there plus the entire building and construction sector and the insurers, and also the trade suppliers, they all came on board running workshops, getting people’s applications in, moving them through fast so that we wouldn’t get a kind of like a bottleneck in terms of having enough licensed building practitioners to be able to do the rebuild. In some ways we’ve been fortunate, because the rebuild has been longer coming, but the project management officers were great because what they said is that for people to work with them and to undertake the work, they needed to be assured that they were competent, and being licensed gave them that assurance. So that created a lot of impetus for people to be licensed. That did mean that we got a bit of a backlog in other areas of the country, and we’re catching up with that now. Restricted building work came in on 1 March, and as it stands at the moment we have, I think, 16,500 licences granted across the sector, which is above our target, and over 22,000 licences have been applied for. And we’re pretty comfortable about the number of licensed practitioners we’ve got in the Christchurch area.

Goodhew Just to finish that, have you turned a few down?

Bach Yes.

Lole-Taylor Thank you. I just want to bring it back to your response to the Canterbury earthquakes. You’ve actually added a new outcome here, which is the, shall we say, the Canterbury region is successfully rebuilt to a satisfactory state. And I want to understand exactly what is your definition of “satisfactory state”, because it sounds very like a short-term view to me.

Bach It’s a good question, because I think that part of the discussion going forward is going to be what does the city of Christchurch look like, and how is it configured. So “satisfactory”, I suppose I would define as a modern, functioning, well-integrated city that the people want to live in, and it has the kind of infrastructure and services that work for it. And while the devastation in Christchurch is extraordinary, and at times almost overwhelming, what it does is create an opportunity to build a different city and one that is potentially a great place to live, and I think that’s the opportunity that needs to be taken. Part of our work will be looking at the building standards required in an area that’s so prone to liquefaction and earthquakes, and there will be changes in that space.
Lole-Taylor  What I would like, then, to know is how are you going to measure that outcome? What are you going to use to measure it? Because obviously you put it on as an outcome, so I want to know how you’re going to measure it, and how will the department forecast future expectations around that same area?

Bach  At the moment what we’re doing is a lot of modelling and forecasting on housing supply and demand in Christchurch. We’re also working with the group that are looking at the—and the CERA, the Canterbury Earthquake Response Authority, and the city council in terms of the development of the CBD, but also the broader recovery plan. So we’re actually involved in that, and provide advice into that about supply, both of housing and commercial buildings and standards. One of the measures that will be for us will be that there is sufficient supply, and particularly that it’s coming in at a level of affordability that—this is for residential—people can actually utilise.

Lole-Taylor  Mr Chair, I am not sure if there’s an opportunity for this question to, perhaps, ask for a little bit more information, because I’ve asked about how are they going to measure it, and I’m not sure that I actually got that answer from you. You’ve actually explained what you’re going to do, but you haven’t given me how you’re going to—what the outcome measure is.

Bach  Some of those indicators will come out of the recovery planning that’s under way, and we will have some indicators ourselves, but they need to link into the broader indicators that are going to come through the recovery in the rebuild plan, because they can’t be non-aligned or different. So for us, your point is well made, that there needs to be specific results and it must be measurable, and that’s what we’re looking to do. But we haven’t quite got the detail there yet, and we’re certainly happy to come back to you as we work that through.

Lole-Taylor  It’s mainly around the “satisfactory state”, because that’s what I need to know how you’re going to measure that satisfactory state, because you might have a different definition than I may have, and other people have a different interpretation of that.

Ngaro  Can you just give an indication, because it is quite a complex process and, as you say, it’s something that’s not been done before—what’s the time frame and time line as the whole of the development is actually taking place with the other different agencies and departments like CERA and so forth? How do you see that tracking along? Have you got an indication of what that time frame is and meeting some of those demands, or the outcomes that the member has been talking about?

Bach  I’ll just check the time frame for the recovery plan. I don’t have the exact dates, and I’d be happy to provide them, but the recovery plan for Christchurch City per se is, my understanding is that it’s not for—I mean, it’s been out there, public consultation, submissions have been made, and
now it’s a case of finalising that. The plan itself has a 5-year horizon, and
that’s probably quite bold, because I suspect that the true horizon for the
rebuild of Christchurch will be longer, but certainly with the right resources
and the will Christchurch will be able to get a long way in 5 years.

Lotu-Iiga We’ll probably—if you could prepare a written question, we’ll submit that
to you and you’ll answer that to the best of your abilities. Thank you.

King What policy advice, if any, did you give to Housing New Zealand
Corporation on their “Smarter. Faster. Fairer.” policy they’ve just
announced for dealing with Housing New Zealand Corporation clients?

Bach We haven’t given Housing New Zealand Corporation any policy advice on
that, because it’s an operational matter in terms of how they operate their
business, and it’s within their mandate to do so as a Crown agent.

King Were you consulted on it?

Bach No, I don’t think so. Not formally. But we were informed and are aware of
the model that they were pursuing.

King And would you be monitoring the impact of that policy on the sector, on
Housing New Zealand Corporation? Would that be part of your role, to see
how it’s working? For example, closing the offices, so they’re not open to
the public any more.

Bach I think that Housing New Zealand Corporation already have a sort of
evaluation and review process in place to track this, but as part of our
broader monitoring role of Housing New Zealand Corporation’s
performance and whether they’re delivering against what they have set up
and agreed to deliver, in that context yes we will.

King And they are saying this will be a smarter, faster, fairer policy.

Bach Yes.

King How will you monitor that they are delivering?

Bach Well, they will have agreed performance indicators in their output plan, and
part of our job will be making sure that they are delivering against those and
the quality parameters. My understanding is that they do client satisfaction
surveys, so that they will be getting feedback from clients around how the
service is working for people.

King Were you aware of any client satisfaction surveys before they changed the
service?

Bach No, because it’s not my organisation.
King Thank you. I want to just return to the questions and answers you’ve provided on external contractors and consultants. I just wanted you to explain to me the difference between preferred supplier, selective process. I understand it is the tendering, or open competitive process, but what is a selective process? This is page 16, 17 of the questions, and we all received a copy of the contractors and consultants that were used in that year. But when I went through it, I saw there were these different categories: a specialist provider, open competitive, selective process. And I noticed that some very large amounts of money—for example, to H2R Consulting, $206,485 was provided for a senior adviser, operational policy weathertight programme in a selective process. We’ve all got a copy of the appendix—appendix 5. So could you explain what those different processes are for choosing outside consultants to do work for you?

Bach Either the department uses sometimes a selective process, particularly for particular skill sets, and that’s very often the case in technical areas, where there’s a very limited number of people or organisations that—

King But what does it mean? Just explain what a selective process is.

Bach What we do often is that we put a request for proposals out for a panel of providers. They go through a competitive and selective process, and then we have maybe half a dozen preferred suppliers in that space that people within the organisation can use. So it enables you to move faster, and it also means that you get a—you go through a process whereby you can have a pool of providers that people in the organisation are able to access without going through the same thing over and over again. In other instances we will just go directly to the market for a competitive quote or tender, but it depends on what it is. But in some cases we know that we’re going to need this kind of expertise or resource, and it’s better to have a pool of providers that know the organisation and are ready to go, and we can move quite quickly with.

King And what criteria do you use to decide? Because there is the ability for the organisation to be accused of using a selective provider and not allowing others the opportunity to tender for large amounts of money. I mean, if it’s a small amount and you know it, no one’s too worried. But when you get into the hundreds of thousands, then you have to be absolutely transparent in that selective process. So when you’re making that decision, sure it’s expertise, but what criteria do you decide to say “Well, we won’t go to open tender on that; we will go to selective.” You don’t use money—the amount of money?

Bach Not necessarily. It’s a case of what are those services that we know we’re going to require. Like, you make mention to H2R—I think that’s an HR, that’s probably the cost of a contract specialist project manager to come in. We know that we will want to contract some specialist HR services because we can’t carry them internally ourselves, and we don’t need to carry them internally all the time. We also have panel processes run for legal services.
We have panels run for some other technical and IT services. So I’m very happy to provide you with the detail of the process that we go through, but they’re often different for the different types of services that we’re actually looking for, so they’re designed to bring forward—and it’s an open process—a range of proposals from a range of providers to see whether they will meet our needs and meet our requirements, and then you select from them. And they go through an approval process.

King There seems to be a lot of money actually spent on staff contractors, and particularly in the HR area, and using the HR consultants. How does it stack up using consultants to having a special service in your own organisation?

Bach We have, although I think that we’ve had to work very hard to build the capability in our HR area this year, not least because we had to move so much faster and bring in a lot more people on a short-term contract basis just to do the work that we needed to do. So we didn’t have much of a business as usual, particularly in response to the earthquake, and so we needed to move fast to bring in, and contracting is the best way of doing it because it’s fixed term, or we’re contracting specialist companies, and we don’t get them locked into the overhead of the organisation. Also you will be aware that we operate within a cap, and so when we’ve got—and that’s in terms of full-time equivalent. So where we’ve needed specialist expertise but we want them to be in the organisation, not kind of contracting it out, we’ve brought them in for fixed term or fixed periods of time, and we’ve found that that’s worked best for us.

King Very expensive, isn’t it, when you look at the hourly rate that they’re paid?

Bach It is expensive, but we’re paying for expertise that we couldn’t carry internally ourselves or didn’t have access to, and if we needed to carry that all the time on a permanent basis, it would simply be impossible for us to do so, so it’s about having flexibility and variability. And some of this is just a direct result of having to move very quickly, where we were not able to—we didn’t have the luxury of building capability, particularly in the first 6 to 8 months of the year. We had to move very fast to get resources in, which is what we did.

Lotu-Iiga And are you satisfied and happy with those particular services that Ms King is referring to in terms of what it’s added to your organisation? You’re satisfied with the contractors that came?

Bach I think the measure of whether or not we put the right resources in the right place is whether or not we delivered, which we did, and we delivered on an enhanced work programme and we also delivered on our savings programme as well. I mean, ultimately that’s the measure, what is the value that we delivered? I would agree that going forward we are looking hard at what is it that we need to bed into the organisation, because our business has changed so much. It’s grown about 30 percent in the last year in terms
of our functions and our activities. So part of our job now is to say what becomes core to the organisation going forward, and what does that mean in terms of permanent capability vis-à-vis variable capability, which is what we’ve been—

King One particular one for me was the staff contracted for leadership in weathertight programme from PricewaterhouseCoopers. They were a sole provider, so no one else got to tender for that? It was $642,829.

Bach No, there was an original tender for the programme leadership and management for the financial assistance package.

King But wouldn’t you expect that to be a role that you would be playing? I mean, it says leadership for the weathertight programme. Wouldn’t that be a core function for your organisation? And there’s three chief executive salaries in that.

Bach The financial assistance package was not something that we’d every done before, and we needed resource to bring it in to actually get it set up, because now that it’s in place, now it’s running, it’s operational, but the process of establishing it was to actually contract and put together a multiparty joint venture, if you will, across local government, central government, and the entire retail banking sector, which was not a small thing to achieve. In fact, I would suspect that paying $600 for someone to actually—

King $600,000.

Bach —$600,000 over that period of time for someone to set up an entire new system of such complexity is probably good value for money.

Lotu-Iiga OK, I think that’s a good chance to segue to the next—

Prasad Can I just ask a supplementary question.

Lotu-Iiga Well, we’ve had about 12 questions on the subject.

Prasad It’s important.

Lotu-Iiga One quick supp, and then we’re going to move on.

Prasad Just what you said, mainly how you got to this point, can I take from that that your expectation is that in future years it will not be as high as this, the use of consultants?

Bach No, we use consultants as and when we need them to enhance the capability of the organisation, to bring in skills that we need, and to bring in capacity.

Prasad I appreciate that. It’s the future I’m talking about.
Bach

Well, I could have said to you last year, because it was on a downward trajectory, that it wouldn't go up, and of course it's gone up this year because we've had an extraordinary year. So it depends. We would expect in areas where we've used consultants like for the financial assistance package, that that won't continue, because that's now bedded into the organisation, permanent staff are appointed, and it's now become a service line. So we don't need that capacity any more, because the work has been done. In the other area, certainly, in the Canterbury area we've used quite a lot of consultants—or not so much consultants, but contractors—in that space, and at the moment I'm in the process of appointing permanent staff for our Christchurch office so that we actually bed that down into what looks like an ongoing business as usual.

Lotu-Iiga

OK, well this is a good chance to move on. One of your highlights in your annual report was around your value-for-money programme. So you'd saved in that financial year, I think, $2.1 million, $7.9 million over 3 years. You're still achieving the outcomes that you've been set. How is that going? That's quite a feat, given the sort of economic circumstances we find ourselves in. Is that set to continue?

Bach

Yes, it will, and the reality is we've been able to achieve that, I think, through simply doing some things differently and changing what we do, but we also engaged with our staff. We have a value-for-money kind of programme, and people simply put in ideas about how things—and, you know, it's interesting at an operational level you often find there's more low-hanging fruit than you might have otherwise thought. Small things add up over time to quite large sums of money. And then on the other side, in Maria's area, particularly, we have a new service delivery model that is being finalised, and that will change and deliver, I think, a lot more service for less, and will change the way that we deliver services. So again, that will drive savings and efficiency. The other string to our bow, which will—it's not just efficiency, because we've focused probably more on value, because I think that is actually what matters. Being efficient and delivering services that are diminished or not what people want, I don't think is a measure of success. So looking at the application of technology to deliver better value to clients, be they residential tenancy clients or whether they are clients in the building sector, and the use of technology online to be able to do this, I think is going to enable us to reduce some costs, but also to deliver better services.

Lotu-Iiga

That's good, because the next point I wanted to raise with you, just around that relationship with the sector. You've talked about your productivity programme. You've obviously got links into the sector. And I saw some figures recently where the construction sector, actually, over a 13-year period had negative productivity growth. You've got a target here of 20 percent increase to 2020. At this stage, can you identify what some of those key drivers of that productivity gains could be or should be? Have you established some of the key drivers that you're looking at with the industry?
Bach  This is—again, it’s a very different way of working, and I’ve actually brought some information for the committee on this. The building construction sector is like a drag anchor on the economy, and it’s the most poorly performing sector. And that’s not a criticism of people not working hard; it’s just a sector that perhaps hasn’t embraced technology in the same way, it’s very fragmented. There have been issues in the past about a failure to train and invest in people in the sector, and there’s been the impact of some failures in the sector, particularly in terms of weathertightness. And I think that New Zealanders lost confidence in the sector in terms of some of its performance, and weren’t confident about the level of skill and the quality of work that they were getting. Working with the building construction sector, the BRANZ—the Building Research Association—and also the building and construction ITO, so the industry training bodies, we have formed what we’ve called a productivity partnership. It’s a central government sector, and we’re hoping to have local government coming on board. And we’ve committed to lifting the performance by 20 percent by 2020 and looking at ways to measure that. We believe it’s perfectly doable, and it would deliver anywhere between 2 to 3 percent of GDP. It would also deliver better, more affordable housing for people, which is actually very important, because it’s about changing the way the building system operates, changing the way the building design and consenting operates to make it more seamless and streamlined, and making sure that when we’re focused on building consenting and building standards and quality, we’re focused on the right things, the things that really matter, rather than having a complex administrative process. Having said that, we’ve all learnt the lessons of the past, and the focus is on delivering quality and value, not just on knocking costs out of the system, because I think that’s a mistake, and we’ve been price-driven in the past and we’ve paid the price for that. I don’t know whether, Dave, you want to talk a little bit about the Building Act changes.

Kelly  Yes. This is part of a broader reform programme, and it is a whole system change. It’s not just picking one or two areas and thinking that that’s the magic bullet. So we’re working consistently but carefully across the board, as Katrina said, areas around skills, but it’s also about giving people the right tools to do the job so that, for instance, looking at the building code and the supporting documents, making sure they are fit for purpose, using technology over time so that people can use that to do the job more efficiently and accurately. So it’s actually a very well considered and careful programme of work. In terms of working with the sector we have strong support from the sector in general for these reforms. We’ve had over the last 3 years sector reference groups involved with us, helping us to do the work. So it’s not just us coming up with some ideas; it’s the sector helping us to do that work and implement it.

King  I presume you’ve read the briefing to the incoming Minister from the Construction Alliance, that’s their full name, which they pointed out that one of the barriers to construction and building in New Zealand was the loss of trained staff: 750 alone in 1 year; over 25,000 since the housing
boom. What sort of advice or work are you doing in terms of a fit-for-purpose workforce, because you’ve made the point that building and construction is a major part of the New Zealand economy? But it’s not going to happen over 20 years or any years unless we’ve got the workforce to provide it.

Bach You’re absolutely right, and one of the key focuses of the productivity partnership is actually the skills strategy for the sector, and that’s due to be launched I think on 22 March in Christchurch. And what makes a difference, I think, to all the other skill strategies that one sees repeatedly that, perhaps, deliver little, is that this is owned by the sector. It’s backed by the Government, and it’s about the sector looking very hard at itself and saying things like: “We need to think about career development. We need to invest in the people that we want to stay. We need to think about the linkage between the training and education system and what we actually need on the ground. And we need to stop having a boom-and-bust cycle that everybody comes in when it’s good, but nobody stands by anybody when it goes.” So many small companies don’t invest in their people, so thinking about ways that smaller firms can coalesce to actually get some training is important. And linking this to some changes in the tertiary education sector, I think, is going to be quite critical.

King Like group apprenticeships?

Bach Well, looking at how—when you’ve got a lot of small providers, they can’t afford, often, to take people. They might be just a one- or two-man band. They can’t have somebody offsite. So how do you work it in a way that people can get access to training but still carry out their businesses? And this is around the sector thinking and working with its members to give them better support, also to structure the kind of training and the polytechnic courses so that they make more sense. I will give you one really simple example. There aren’t nationally consistent recognised courses across New Zealand, and that needs to change, because if you went to the Blenheim polytech and you want to get a job in Christchurch, it would be good if your education and your experience was recognised as being competent. So there’s a lot that can be done in this space to make the thing act more like a whole as opposed to a whole lot of individual fragmented parts. And what I find most compelling about this is it’s the sector arguing about it and what it needs, as opposed to being told this is what it should do. It needs to be able to retain labour. It needs to work on how it’s going to do it.

King And training.

Bach And training.

Sabin To some extent you’ve addressed the question that I had around this very important area of capability building and the productivity partnership. I just
wonder if you can give us some specifics on the progress that is actually being made in building that capacity.

Bach On the skills capacity?

Sabin Yes, in the productivity partnership.

Bach Just in the partnership itself, well, the partnership is up and running. There was a launch on Monday in Auckland, and I’ve got the documentation here, which I’d be very happy to leave with the committee, of what we’re calling the Auckland Procurement Programme, or the pipeline, and that’s basically all the major constructors in Auckland plus the council plus the Ministry of Education plus the transport agencies and some of the big hotels and retirement villages actually coming together to agree to work on a forward-looking plan, so people know what’s in the pipeline, and so you can start to organise resources and you can say: “Well, there’s going to be six hotels built”. The Ministry of Education is saying: “We’re going to be building five new schools; this is where they’re going to be.” The Auckland City Council is sharing all its infrastructure and building programmes, so people start to get a picture of what the market is looking like, what the demand is going to look like, and that makes it much easier to start organising and investing in skills, products, starting to line up supply. It’s early days, but it’s an absolute first for Auckland to do this. Normally they all compete frantically and don’t talk to one another; this time they’re sharing information. This is already emerging in Christchurch, and we’re going to do a similar thing in Christchurch using the productivity partnership to galvanise action, and it’s just a way of bringing people together who would not ordinarily coalesce around a similar objective.

Prasad You mentioned the launch of the skill strategy. Can you tell me when that’s being launched?

Bach 22 March.

Prasad And who’s launching it?

Bach I’m not sure that I’ve got all the details, but I can certainly provide it to you. It’s being launched on 22 March.

Prasad Where?

Bach In Christchurch, I believe. But I can confirm those details.

Lole-Taylor My question is quite a short one. Given the involvement of the local government, can you please tell me do you have any relationship with the Ministry of Pacific Island Affairs or even the Ministry of Māori Affairs in your workforce plan? And if you do, have you also involved the local Pacific Island Chamber of Commerce, given the capability building that you’re looking at?
Certainly in terms of the Ministry of Pacific Island affairs and Te Puni Kōkiri and other community sector groups engaging with them in relation to housing particularly, not so much on the skills side, and that’s probably an area where I think we need to think and engage more, and it’s something that the sector have identified as an area where more time could be spent. Often, particularly for Pacific families, their aspirations for their children are for them to go into the professions rather than the trades, when in fact actually being skilled in trades probably gives you greater opportunity, perhaps, than being another lawyer. And I think that there is a little bit of, with all due respect to lawyers, but I do think that we’ve got some work to do there in terms of painting a career in the building construction sector as something attractive and something that you can go into, you can be highly intelligent, you can move into management positions. There is a full career—you can run businesses and companies, you can lead people, or you can be a technical specialist. And it’s not the vision I think people have for the building construction sector, or they haven’t had it, and I think part of the job of the partnership is to actually change that brand and engage with people to make it a more attractive proposition. And part of that is going to be about sustainability of your jobs, and also access to skills. But if you looked at the part of the sector that’s got to grow over the next 10 years and where a lot of the work’s going to be, it has to be the building and construction sector.

I think it’s a question that has already sort of been asked, but reflecting back to the Christchurch earthquake and the investigation you’ve actually done on the buildings like Pyne Gould and CTV, I guess what—and talking about capabilities in the sector—what work, apart from the LBP programme, are you specifically doing to increase the standard of building and construction in the sector?

The way we ran those investigations, we had a panel of experts over the top who were 11, and they were multidisciplinary, and the best people we could find in New Zealand and with international experience. As a result they put forward a series of nine recommendations, quite comprehensive recommendations. The department has accepted all of those recommendations, and we have started work already on a number of them and we have a plan looking across the whole of those. So they will have—I mean, changes to building code, to education, possibly to the way that people are trained. So it’s quite a comprehensive plan that we’ve already started, and out of the royal commission we expect that there’ll be some further work that we will pick up.

You talked about the training. How much input did you actually have in that training?

I think it’s important that we’re thinking about training across the whole. So it’s not just at the trade skills end, but certainly what’s coming out of the investigations is the need for additional training at the professional skills end, and that’s working with the universities, that’s working with the
Institution of Professional Engineers, that’s also working with the Institute of Registered Architects, so that everybody gets an opportunity to learn from this, and that we make sure that things that do need to be covered in education or training for the purposes of delivering really quality, robust buildings, that they are actually covered off, and that people actually learn from this process.

Lotu-liga  We’ve run out of time, and we could probably talk for a little while longer. I just want to say on behalf of the committee thank you for your time and your representations here today. There are a couple of items. You’ve got some materials that you’d like to leave with us. If you could just hand those to the officials, and we’ll distribute those.

**Conclusion of evidence**
2010/11 financial review of the Canterbury Earthquake Recovery Authority and the Earthquake Commission

Report of the Finance and Expenditure Committee

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Canterbury Earthquake Recovery Authority and
the Earthquake Commission

Recommendation
The Finance and Expenditure Committee has conducted the financial reviews of the
2010/11 performance and current operations of the Canterbury Earthquake Recovery
Authority and the Earthquake Commission, and recommends that the House take note of
its report.

Introduction
The series of earthquakes experienced since 4 September 2010 was a defining event of the
past year, causing unprecedented loss of life and damage in Canterbury. We chose to
combine our financial reviews of the two earthquake-related organisations in one hearing,
and to report on them together, to give a broad overview of the challenges being faced and
the lessons that have been emerging.

We also took this opportunity to clarify with the Earthquake Commission (EQC) and the
Canterbury Earthquake Recovery Authority (CERA) several issues which have caused
delays in settling claims and have raised public concern: in particular, the effect of the High
Court’s declaratory judgment about the reinstatement of EQC cover after each earthquake
event, the nature of various land zoning decisions, and new guidelines for repairs to
foundations.

Public communication
We understand the extremely significant scale of the task facing the commission and
CERA, and appreciate the inherent uncertainty under which they are operating. We thank
both organisations for the work they are doing. Nevertheless, we would like to see them
keep the public better informed about the processes they are involved in by providing
consistently accurate information, to minimise the inevitable uncertainty and distress for
people in Canterbury.

Canterbury Earthquake Recovery Authority
The Canterbury Earthquake Recovery Authority is a new organisation, and this was its first
financial review. CERA was established on 29 March 2011 as a stand-alone Government
department to plan and administer the implementation of the recovery from the
earthquakes in Canterbury. Its governing legislation, the Canterbury Earthquake Recovery
Act 2011, has a limited lifespan of five years and will be reviewed annually.

Financial and service performance
As a newly-established entity, CERA was granted an exemption from preparing an annual
report for 2010/11. Instead, it prepared statements of appropriations which have been
independently audited. The auditor issued an unqualified opinion on the statements, while
drawing attention to the uncertainty inherent in estimating the value of properties to be purchased in Canterbury’s red zone.

CERA’s funding is provided through Vote Canterbury Earthquake Recovery. In 2010/11 $3.965 million was appropriated to plan and administer the implementation of the recovery, and to purchase a vehicle.¹ A further $30 million was appropriated for Canterbury earthquake property demolitions and related costs, compensation, and property purchases.² Because of delays in commencing the demolitions, only $3.122 million of this appropriation was spent in 2010/11.

A decision by Cabinet late in the financial year that the Government would fund the purchase of properties in Canterbury’s residential red zone resulted in unappropriated expenditure of $1.039 billion.³ This spending will be validated under Section 26C of the Public Finance Act 1989. About a third of this amount is expected to be recovered from insurance on the properties.

The Auditor-General performed a high-level review of the authority’s management control environment, and as a result of its recommendations and discussions, CERA has made a number of improvements. We expect to see further enhancement of its internal systems and controls in response to the next audit.

**Priorities and achievements**

Much of CERA’s work to date has been managing the demolition of unsafe buildings, and carrying out land and structural assessments as a basis for rebuilding and insurance decisions. It considers that it has made good progress, but is aware that the delays resulting from continuing seismic activity have been very frustrating for residents.

Another priority for CERA has been coordinating with the Christchurch City Council, Land Transport Authority, and other agencies on the restoration of infrastructure. With an estimated $2.5 billion of infrastructure to be fixed, about $40 million a month is being spent on restoring water, sewerage, electricity and telecommunications services. CERA says that good progress has been made, with water, electricity, and sewerage now reconnected to all properties. Roads will be the last piece of infrastructure fixed in order to avoid repeated digging. We heard that it is likely to take four to five years to fix all the roads.

CERA has gone out into communities to provide information, and to involve community members in long-term planning, such as consultation on its draft recovery strategy for greater Christchurch. A recovery plan for the central business district has been prepared by the Christchurch City Council, and CERA is now providing advice on it to the Minister for Canterbury Earthquake Recovery.

Finally, CERA has also supported the recovery of businesses and encouraged investment in the Canterbury economy. The chief executive told us businesses have adapted remarkably well to the disruption, with many finding alternative premises, and the productive sector has been largely unaffected. Altogether, Christchurch remains open for business and he feels confident about its future.

¹ The Supplementary Estimates of Appropriations and supporting information, B7, p. 85.
² Addition to the Supplementary Estimates of Appropriations and supporting information, B7 Vol. 2, p. 929.
³ Cab Min 11 (24/15), dated 23 June 2011.
Demolitions

CERA has assessed from engineering reports that more than 1,200 buildings need to be demolished to make Christchurch’s central business district safe for rebuilding and recovery. It considers that the task is about two-thirds done, although demolishing the remaining large buildings will take some time. About 6,000 residential buildings are also being demolished or relocated.

We asked what effort is being made to recycle materials from demolished buildings, and were told that CERA’s aim is to see 75 percent of the material from demolitions recycled. It has not quite achieved this goal, but is not far off. It explained that deconstruction is a complex, specialised task. A large building takes about a year to take down, as the aim is to do so “cleanly”, stripping out reusable material in the process. Sometimes, however, the engineering advice is that a building must simply be knocked down, as it presents a safety risk and it is too dangerous to send people in to strip it out.

Recycling can consist of re-using house-lots of window and door frames, or crushing concrete to make aggregate for roading, or relocating entire houses. CERA is working with property developers and others to come up with market solutions.

Land assessments

Following area-wide land assessments by engineering experts, CERA has been working to place residential areas in three categories, or zones. Out of 185,000 properties, the majority have been placed in the green zone, meaning that owners can proceed with repairs to the land and rebuilding their homes.

CERA has zoned 7,000 residential properties red, meaning that the damage to underlying land and the risk from further seismic activity are too great for repair or rebuilding to be feasible in the short to medium term. Property owners in the red zone have been given options by the Government for the Crown to purchase their properties. There are 650 properties in areas zoned orange, where more assessment is required of the underlying land to decide whether they belong in the green or red zone. CERA hopes to complete these assessments by the end of March. Another 2,100 properties—mainly in the Port Hills—remain unmapped at this stage. CERA hopes to resolve these remaining zoning issues by the end of June. We were told that CERA has held a number of public meetings to explain the categories to people and advise on progress, and has door-knocked on every property that has been placed in the red zone.

Some of us are concerned that the decision to zone land into different categories was undertaken with insufficient consultation, was not based on clear criteria, and has proved divisive of communities.

Red zone decisions

We sought to clarify with CERA the legal status of the zoning decisions, and what being red-zoned entails for the residents affected. We were informed that the zones do not have a formal legal status, and that the decisions on which areas to zone red were not based

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4 On 23 March 2012, 251 properties were re-zoned from orange to red.
solely on geotechnical assessments, but also on the Government’s assessment of what is best for the community given the likely time and cost entailed in remediating the land.

On the basis of a Cabinet decision in June 2011, the Government has offered insured property owners in areas zoned red the choice of two options: the first entails the Crown offering to purchase the entire property and take over all earthquake-related insurance claims, while the second option entails the Crown offering to purchase the land only and take over the EQC land claim, leaving the owners free to pursue any other claims with their private insurers. We understand that 5,782 offer letters have been sent, and that 3,333 property owners have accepted an offer so far, with three-quarters choosing the second option. CERA told us that it is starting to call those who had not yet responded. It acknowledged that in most cases people were probably waiting for information from their private insurers.

Some of us are concerned about a lack of engagement with the public over these zoning decisions, which affect the future of entire communities. In contrast with normal council processes, which would involve advertising and public submissions, information flows had been confusing and poorly managed. Commitments were made to provide geotechnical data to individual landowners so that these landowners could be assured of the validity of the zoning decisions, only to be subsequently retracted. Assuming that infrastructure services will not be maintained in areas zoned red, some of us are concerned that the Government offer to purchase properties therefore involves an element of compulsion. CERA told us that the Government has not yet decided what would be done if people chose not to leave red-zoned properties.

Available land for building

CERA has been working with its urban development strategy partners (the greater Christchurch councils, Te Runanga o Ngāi Tahu, and the New Zealand Transport Authority) to free up land for people who have been displaced from their homes to build on. The Minister for Canterbury Earthquake Recovery has also used his powers to fast-track the re-zoning of land for residential purposes.

At our hearing we were told that “something like 26,000 sections” would be available for land development. We were subsequently told that some 6,600 greenfield sections in greater Christchurch will be released onto the market by developers in the next two years. This includes approximately 3,234 sections in Christchurch city, 1,300 in Selwyn district, and 2,100 in Waimakariri district.

Transport planning

We note that submissions on CERA’s draft recovery strategy indicated strong public support for an integrated public transport system, and a more cycle-friendly city. We asked what the authority was doing to pursue these objectives, and whether some interim options could be provided, such as bus lanes, even before the full roading network was repaired in four to five years’ time. CERA said that responsibility for implementing transport plans lay with the Christchurch City Council, Environment Canterbury Regional Council, and the New Zealand Transport Authority rather than with CERA. It also noted that the recovery strategy was still in draft form, with policy decisions yet to be taken.
Some of us believe CERA could do more encourage these agencies to give priority to improving public transport and active transport in Christchurch, and urged it to meet them to see how it could assist.

**Earthquake Commission**

The Earthquake Commission was established in 1993 with three main functions: insuring residential property against loss or damage caused by natural disasters; administering the Natural Disaster Fund and obtaining reinsurance; and facilitating research and education about natural disaster damage and its mitigation.

**Financial position and performance**

With claims expenses totalling $11.4 billion in 2010/11, EQC had a net deficit of $7.1 billion for the year ended 30 June 2011, compared with a surplus of $355,000 in 2009/10. The value of the Natural Disaster Fund stood at $5.9 billion at the start of 2010/11, with another $2.5 billion available from global reinsurers. The fund’s closing balance was a deficit of $1.2 billion.

Since EQC’s liabilities exceeded its assets in 2011, the independent auditor’s report on the commission’s financial statements draws attention to the going concern assumption, noting that the Crown has confirmed that it will meet its obligation under Section 16 of the Earthquake Commission Act 1993 to fund any shortfall. The report also draws attention to uncertainty about EQC’s outstanding claims liability, and the amount it will receive from international reinsurance.

The Auditor-General has acknowledged that the 2010/11 year was extraordinary, requiring the commission to respond pragmatically to pressing issues and make a number of structural changes. Nevertheless, it has noted several areas that need improvement in the commission’s management control environment and its service performance information and associated systems. The Auditor-General graded the commission’s financial information systems and controls as “good”. It notes that a review of the commission is planned once the recovery and rebuilding programme has bedded in.

**Scale of changes**

EQC’s annual report aptly describes the past year as “game-changing”. We found the following statistics particularly illustrative:

- EQC’s normal staff of 22 increased to over 1,500 in a matter of months.
- In a normal year, the commission handles about 4,000 to 5,000 claims. Since September 2010 it has had 440,000 claims from some 200,000 customers—probably the most ever faced by an insurer from a single disaster.
- Each of the two main earthquakes—4 September 2010 and 22 February 2011—ranked among the top five insurance events of the year world-wide.
- So far EQC has paid out just under $3 billion—10 percent of Canterbury’s GDP—at an average of $37 million a week.
- Up to the date of our hearing, repairs to 10,000 homes had been completed.
The commission's expanded role

Under its legislation, EQC has been geared to making cash payments for natural disaster claims. However, Government decisions in response to the earthquakes have called on it to carry out several other functions:

- Managing a substantial part of the repair and rebuilding through a contract with Fletcher Construction (involving an estimated 100,000 houses).
- Designing and supervising land remediation work.
- Providing engineering advice as a basis for decisions by the Canterbury Earthquake Recovery Authority.
- Implementing heating and chimney replacement programmes, in conjunction with the Energy Efficiency and Conservation Authority.
- Extending its emergency repair coverage to the uninsured (with the costs of repairs funded by the Government).

In the light of this significant expansion of its role, we concur with the commission that its statutory mandate as an insurer geared to making cash payments no longer appears complete. We note that Ministers have indicated that the EQC scheme will be reviewed later this year, and we expect this to be among the issues that will be considered.

Lessons from the earthquakes

The commission prepares for natural disasters on various scales, including a “maximum event”—the equivalent of a major Wellington earthquake generating 150,000 claims. Two such events occurred within six months. It believes it was adequately prepared for the first earthquake in September 2010, and was well on the way to completing assessments of the more than 150,000 resulting claims when the February 2011 quake and a dozen further tremors occurred, generating another 290,000 claims. These subsequent earthquakes added hugely to the complexity of the task, with multiple claims for the same properties raising issues about what constitutes reinstatement to previous condition, and about the apportionment of costs between EQC and private insurers. In addition, being geared to settling claims in cash, the commission was not prepared for taking on responsibility for the repair of 100,000 houses—the largest-ever construction project in New Zealand’s history.

Two significant lessons have come out of the process for EQC’s catastrophe response planning:

- Plans should cover the potential for a sequence of events, and the implications of multiple claims per customer.
- Plans should acknowledge the likelihood that, in a major event, the Government will expect agencies such as EQC to step beyond their normal roles and take on additional responsibilities.

We expect these lessons to be factored into the review of the commission.
Claims for multiple events

Because of the particular nature of the multiple large-scale earthquakes in Christchurch, it was unclear whether EQC’s building cover of $100,000 per property should be reinstated after each event. In mid-2011, EQC and the Insurance Council asked the High Court to make a declaratory judgment on this issue. The court determined that the $100,000 of EQC cover is renewed after each event, as long as the property remains insured. We asked the commission to explain the effect of this judgment.

We were informed that the judgment means EQC will need to determine what damage to a property was caused by each event for which there is a claim, and to apportion damage between multiple claims. If the property was assessed after each event, apportionment will be based on the assessments. Otherwise, EQC will use various methods to establish how damage should be apportioned, including obtaining details of the damage from each event from the homeowner or insurer, viewing pictures of the damage to a property taken after each event, and making comparisons with other similar properties in the area. The process is likely to involve estimating and allocating a proportion of the total damage value to each event. We were told that if claimants think they have been adversely affected by EQC’s apportionment of damage, they can provide evidence of damage to EQC and ask for their apportionment to be reconsidered.

EQC said that it has not reached a final position on its policy for settling cumulative claims that reach or exceed the $100,000 cap, or on how it will notify individual claimants of the apportionment decisions. It acknowledges that this adds to the uncertainty people face, but considers that in most cases apportionment will have little, if any, impact on customers. The commission says it is working with private insurers to agree on an apportionment method.

Coordination with private insurers

We raised the issue of a reported lack of coordination between the commission and private insurers, resulting in some households having their damage assessed repeatedly. The commission pointed out that the issue was not as serious as reports have suggested. Since private insurers face only about 30,000 claims compared with the commission’s 440,000, the area of overlap is only 5 to 10 percent of all claims. However, it acknowledged that the lack of coordination over damage assessments has been frustrating for those affected. Initially, it had accepted assessments done by private insurers but found them not particularly accurate, so it had to repeat the work itself. It has learned from the process, and believes there is now more co-operation between EQC and private insurers, and better coordination of resources.

Staffing issues

We understand the pressure on the commission of scaling up rapidly from 22 staff to a workforce of over 1,500. Nevertheless, reports of inappropriate hiring of family members are of concern, and we sought the commission’s assurance that proper and transparent procedures are being followed. The commission’s chairman said that a thorough review of employment records had revealed very little substance to the media reports. While it was not entirely happy with some aspects of the appointment processes followed initially, it does not believe proper public service standards were breached. We note that an
independent review concluded that there was no major cause for concern about the processes used.5

Assessors

We asked about reports that many of the 800 assessors recruited by EQC had been hired from Australia. The commission said this was deliberate, as it knew that most of New Zealand’s pool of assessors would be needed by private insurers. Many of those recruited were retired police officers, whose training in dealing with distressed members of the public was valuable.

With most assessments now completed, EQC has scaled back the number of assessors to 200, on fixed-term contracts. While it did not specify that they must come from Canterbury, it assumes that most are local as no allowances are paid.

Damage assessments

We asked why the commission’s damage inspections do not extend to checking the bracing of a house for weakness, or lifting carpets to check for cracks underneath, as any structural weaknesses could give rise to damage in the next shake, requiring a reassessment. The commission said it tries to avoid causing further damage through invasive checks, and usually foundation damage would be discernable from cracks. It was satisfied with the thoroughness and accuracy of its assessments. In most cases, it found more damage than the homeowner had claimed for, and the eventual cost of repairs—after checking such structural issues—was generally within 1.5 percent of the assessed cost.

Land remediation and rebuilding

The extent of land damage from liquefaction and landslips in Canterbury is highly unusual by world standards, and has greatly complicated the job ahead.

The commission explained that two processes are entailed: the first is assessing the extent of land damage for the purposes of paying out on claims for damaged land, while the second will entail a thorough engineering inspection of each section where there has been foundation damage to determine what sort of foundations will be required for a repair or rebuild. The commission is working on the first process at present. On the basis of a sample of 500 sites, it has completed inspections and drilling tests, and is now assessing the results, which it hopes to complete by the end of April.

The commission told us that its normal practice is to settle claims for land damage in cash, and it intends to do so in “pretty well all” cases. However, because of the unusual circumstances in Canterbury, including the unprecedented extent of liquefaction, it is still deciding the best settlement option for some areas, including properties where land and building repairs must be carefully integrated (see below).

New standards for rebuilding

We heard that by the end of December 2011 the commission had inspected almost all properties in Christchurch. However, changes to the building codes mean that about 8,000 properties will require re-inspection after site-specific geotechnical investigation involving drilling. Properties in the green zone—that is, land that can be built on—have been classified into three technical categories by the Department of Building and Housing according to the foundation systems they are most likely to require: TC1, TC2, and TC3. The most complex situation is that of land classed TC3, which is judged most susceptible to liquefaction or landslips, so rebuilding is likely to require particularly robust foundations. The Department of Building and Housing is still developing guidelines for TC3 foundation repairs, which has delayed the commission’s ability to settle claims for these properties.

We explored at some length with the commission the situation facing people with properties classed TC3. EQC explained that its liability extends to returning land to its state before the September 4 earthquake. From the analysis now being done by the engineering firm Tonkin and Taylor, and guidelines expected to be issued by the Department of Building and Housing, it is clear that some properties in areas classified TC3 should not simply be reinstated to their previous condition. They will require land remediation and stronger foundations to protect them against the high risk of damage from future events. The difficulty for the commission is assessing what their particular susceptibility means in terms of some “fair value” to pay out for land damage. The payment would be made to individuals, who would assign it to their insurance company toward the eventual cost of remediation. The commission said its plan is to work closely with private insurance companies so that its payment can be aligned with the work needed on land and foundations to provide the best outcome for property owners. The commission acknowledged that at this stage building assessments have been put on hold until the process of determining foundation requirements is completed, but work on assessing land damage continues.

We are of the view that it would be helpful to property owners if the commission explained this process to them.
Appendix A

Approach to financial review
We met on 7 and 28 March 2012 to consider the financial review of the Canterbury Earthquake Recovery Authority and the Earthquake Commission. We heard evidence from the Canterbury Earthquake Recovery Authority and the Earthquake Commission, and received advice from the Office of the Controller and Auditor-General.

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

Evidence and advice received


Canterbury Earthquake Recovery Authority, Responses to written questions, received 5 and 27 March 2012.


Earthquake Commission, Responses to written questions, received 2 and 23 March 2012.

EQC, Statement of Intent 1 July 2010–30 June 2013.


Office of the Auditor-General, Briefing on Canterbury Earthquake Recovery Authority, dated 7 March 2012.

Office of the Auditor-General, Briefing on Earthquake Commission, dated 7 March 2012.

Organisation briefing papers, prepared by committee staff, dated 7 March 2012.
Corrected transcript of hearing of evidence 21 March 2012

Members
Simon Bridges (Chairperson)
Maggie Barry
Hon Clayton Cosgrove
Hon Lianne Dalziel
Paul Goldsmith
Todd McClay
Rt Hon Winston Peters
Nicky Wagner
Katrina Shanks
Michael Woodhouse
Eugenie Sage

Witnesses
Canterbury Earthquake Recovery Authority
Roger Sutton, Chief Executive
Benesia Smith, General, Manager Office of the Chief Executive
Warwick Issacs, General Manager Operations

Earthquake Commission
Ian Simpson, Chief Executive
Michael Wintringham, Chairperson

Bridges Good morning, gentlemen and welcome to the Finance and Expenditure Committee. [Introductions]

Wintringham Thank you very much. Thank you for the opportunity to make a brief introductory statement. I appreciate that the committee has got a lot of ground to cover, so I will be making four points.

The first—you’ve heard it over and over again—but I think that we still need to keep reiterating about simply the size and the scale of the sequence of earthquakes in Canterbury along with loss of life, the scale of the destruction, the degree of physical damage, the social disruption, and the economic impact. By any measure these are world standard events, and even if you take the September 2010 and the February 2011 earthquakes individually, each one of those is in the top five world events for insured losses, each one separately. So we have two out of five.

Second, and related, is the impact on the Earthquake Commission. We’ve had the equivalent of two major Wellington earthquakes in a period of less
than 6 months. We were ready for the first one, which generated over 150,000 claims, and then we had to respond to 14 more events, generating a further 290,000 claims. In fact, probably not known, but we have had 37,000 more claims since 23 December last year. That’s five times more than the largest event we’d ever handled before the sequence of Canterbury earthquakes.

So we’ve ended up with around 450,000 claims for 670,000 exposures from about 200,000 individual customers. We think that’s the largest number handled by any single insurer in the world if you regard the sequence of Canterbury earthquakes as one event. State Farm in the United States handled about 400,000 claims from Hurricane Katrina, and settled all those in 2 years. They settled in cash, they were not responsible for repairs, and they had no land liability, which adds significantly to the complexity.

By comparison the private insurers have got probably round about 30,000 claims from about the same number of customers. So I think that we’ll no doubt come back to some urban myth about the extent of overlap sequencing and coordination with private insurers, but I think we need to bear that sort of relative responsibility in mind.

The third point I want to make is that we have not been idle. We have a piece of paper here for the committee with a number of facts and figures on it, but I just do want to point out too that as of yesterday the last nail and the last lick of paint was going on to the 10,000th house repair, and we have, as of the end of last week—I would have liked to have said that we have paid out $3 billion, but I’m afraid we are a few million short of that, but we have been putting out, on an average, $37 million a week, which accounts for more than 10 percent of the Canterbury GDP.

There are two small points that I want to make. Although obviously the focus is on Canterbury, this is very much a New Zealand Inc. issue. The way in which we and other agencies, including the private insurers, respond to the Canterbury earthquake will have an impact on the level of economic activity for some years to come. Because economic activity, as you well know, is underpinned by property rights and property rights are protected by insurance, and so affordable insurance is a benchmark of economic activity and economic performance. So that is one of the reasons why we have not responded publicly to many of the wrangles that you see in the media about the relative roles and performance of ourselves and the private insurers, because our concern is to maintain the confidence in the effectiveness of the New Zealand Inc. response to the Canterbury events.

Second, precedents set are going to carry costs forward. There are significant costs in building standards, nature of the rebuild, let alone the costs of insurance which may result. Mercifully a lot of that is not part of our direct responsibility, but we are conscious of it and we will do our bit for it.
And I’m going to make one final statement. A large proportion of our staff work in Christchurch. A number of those staff are customers as well as our employees and contractors. They suffer, put up with, and cope with considerable pressure at work, sometimes from deeply distressed and understandably distressed people. Many of them have got pressures at home as well resulting from their own experience of the earthquakes. They have also coped with an unrelenting and most often unfair media coverage, so I want to take the opportunity before the media and before this committee to acknowledge their efforts and to thank them for it. That’s all that I have to say.

Bridges Let me start. Your annual report is fascinating reading, and the numbers fascinate me most with the breadth and scale of this. But the number in relation to your organisation that gets me is you went from whatever it was—20-odd employees to now something like 1,500 employees. So I have two questions. Firstly in 2009 this committee warned your organisation that you needed to be ready for something like this, so my question to you is: were you ready? And the second question really is: today, in light of the fact that you were this small organisation, are you still, I suppose, ready and capable to handle what you’re confronted with?

Wintringham The answer to the first question is yes, and let me elaborate on that. We were planning for a medium sized event of 80,000 claims and also preparing for a maximum event of 150,000 claims, the maximum event, the benchmark, being the large Wellington earthquake. That was equivalent to the September 2010 earthquake and we responded. Obviously there’s always teething difficulties, but as far as I’m concerned we responded satisfactorily to that. We were well on the way towards completing assessments and winding down our field teams within 6 months of the September earthquake. Obviously the February earthquake and the sequence which followed that put considerable added pressure on us. And I’ll just revert back to my comments about the scale of the sequence of events.

I think there are two other aspects. We are an organisation which planned for, and is geared for, settling claims in cash. We had not planned for taking responsibility for one of the largest construction projects in New Zealand’s history, which is the repair of 100,000 houses. That having been said, by the end of November 2010 we had the contract with Fletcher’s in place under the wishes and the instruction of the Government. So not only, in my view, did we respond according to our catastrophe response plan, but we took on additional responsibilities for the rebuild of 100,000 houses, and you’ll also remember, which seems a long time ago now, the plans for land remediation and perimeter works, for which again we took responsibility as agents for the Government.

Barry Given that rebuilding programme and the prospects of building inflation from that surge in demand, how has the arrangement with Fletcher’s assisted?
Wintringham One of the reasons why we were asked to take responsibility for that rebuild was to control—effectively it was part of a control over post-event inflation as well as maintaining the quality of the housing stock in Canterbury. The control over post-event inflation is managed by the rates which Fletcher’s pay rather than having a whole lot of individuals out there all competing for the same pool of largely Canterbury contractors. That’s the first and second is the management and control that we exercise over the performance of Fletcher’s in the contract. We’ve got Bruce Empson here who is in Christchurch and who is on the project management group. If there are any detailed questions I’m sure he can pick them up.

Dalziel I just wanted to follow up on the question of, knowing what you know now, whether you would have done things differently, and the two things that I wanted you to focus on were the sort of multiple home visits with insurers and EQC undertaking that role and whether that could, in fact, be better managed for the future, and the second one is this question of Fletcher’s being the sole PMO after the reinstatement decision of the court. Doesn’t that leave you exposed to much more work being undertaken by one agent, and you might be talking about it’s better than having a whole lot of people competing for the work, but I’ll tell you what, being a competitor with the Fletcher’s work is pretty soul destroying for some of the local tradesmen as well. So I note that you said you did that on the instruction of the Government. The Government now actually has two PMO’s by default because they have taken over the AMI work for settling those claims, and AMI already had a relationship with Arrow, and is there some potential for EQC and the AMI remainder to operate on a basis that’s going to provide a better outcome for people in Christchurch and the contractors?

Wintringham OK. Can I go back to the first point, which is, knowing what we know now. One of the things we know now is that this was not one event, but a series and I do not know how we could have planned for that, and a lot of the complexity about reinstatement, apportionment between our costs and those of the private insurers, all come from the sequence of events. So I think that’s a major learning for us—we have to be prepared for that complexity. Should we have been ready for it in the past? Pretty hard—

Dalziel I wasn’t suggesting that. I mean, you couldn’t anticipate that. What I was asking was, knowing what you know now, would, in fact, the assessment process be a different process that you would put in place?

Wintringham I will perhaps come back to that. I think the second, if you like, major learning is that in an event of this size the Government will have a role and a set of priorities to which we need to accommodate ourselves. So planning solely for cash settlement is simply not adequate. And let me just put one in, which is, in a sequence of events each of our customers on average has a number of claims. So in other words we can plan for an event of 150,000 but with a sequence of aftershocks the numbers of claims is considerably more than 150,000, and sorting out duplicates, place holders, and all of that
confusion is time-consuming and deeply frustrating for our customers as well as us. On the PMO’s—

Dalziel I don’t think you’ve answered my question.

Wintringham I’m sorry—

Dalziel Would you, now knowing what you know, do things slightly differently? I’m thinking of engaging directly with the insurers so that you’ve got a mutual resource of estimators and loss adjusters, so they’re out there doing that work in a way that makes sense to people on the ground. I know people, as you would know, who had six visits and some who had none after February.

Wintringham I’ve got Ian busting to answer a question. You answer it, but I may come back, because I’ve got something I want to say.

Simpson I think it’s worth reflecting again on the scale. So EQC is handling 400,000 claims, actually 440,000, and the insurance industry as a total probably 20,000 to 30,000, so in terms of the overlap it’s 5 to 10 percent of all claims. Yes, it’s an important issue for the people it affects but overall for the industry as a system it’s not massively inefficient in terms of double-up.

I think, as you may recall, after September we were accepting the assessments of the insurers as the primary assessment. It turned out that many of those assessments were performed on an elemental basis, which meant they weren’t particularly accurate, and therefore we had to stop and go back and make our own assessments. So I think going forward us and the insurers are working far better together and I think we can come to an arrangement where we get better use of all the resource on the ground, but looking back I don’t think we could have done things differently, based on the way things played out.

Wintringham Just one comment. It takes two parties to reach that agreement. We had had some desultory and not particularly satisfactory engagement with private insurers before the events as part of our catastrophe planning. I think the incentive now is on both of us to insure that we get that right for the next one. In other words, the responsibility is not just ours, it’s a dual one.

Clayton Could I just preface my questions by acknowledging that I understand and acknowledge the job you guys have done, especially the chief executive, as I think we said to you last year. I do understand that in the sequence of the earthquakes you guys had to go from 22 staff and just ramp up and grab resources from wherever you could. Everybody accepts that. But a good 18-plus months on from the initial quake you will, of course, understand the controversy around some of the hiring practices and you will have seen some reportage around the independent review a couple of days ago, which has shown that—well, the reporting of it has shown that 30 people have relationships—appointments were made—30 people have close family or other relationships.
Now I reiterate, and accept that you had to grab resources from whence they came, but given that you only issued a conflict of interest form in November-December last year, which is a long time after all your formal processes had been put in place, what guarantee do we have, bluntly, that people aren’t being appointed on a mates’ basis and the proper procedures are being followed, and what processes are you going to put in place to ensure that’s transparent going forward?

Wintringham If I could respond to that. Can I, first of all deal with the facts of the matter. Our workforce peaked at probably about 1,350 to 1,400 people. Given the level of turnover among the field force we’re probably looking at the best part of 2,000 employees and contractors coming in. We have been back over all our records and have identified nine people who had family relationships, in other words 18 rather than the 30 that you’ve quoted. If anyone can give me any information that it is more than the nine I’d be very pleased to hear it.

Cosgrove I’m just quoting from the media.

Wintringham OK then, well yes OK. I may express some views about that, but my wife will probably tell me to restrain myself.

Cosgrove May have something to do with years in this building!

Wintringham Yes. So of those nine family relationships, again we’ve been back over the books. One, there was nobody who hired a family member. That’s the first thing. Second, there was nobody who directly managed a family member. There may have been a family member a step or two further down in the hierarchy, and three, for the most part I’d like to say in all cases, but I can’t guarantee, but pretty well for the most part, those people worked in different areas or different locations.

As far as the complaints about nepotism were concerned, all were responded to unless they were anonymous and you obviously can’t respond to an anonymous complaint and I’ve got some views about people who prefer to provide misinformation from the safety of a keyboard or an anonymous envelope. I had one complaint made to me, which I followed up, and it was from a person who had worked for us and whose contract had not been renewed. I engaged with that person and I sent a former Deputy Commissioner of Police as a very personable and independent person and the complainant refused to provide him with any further information.

So a lot of this has been, when we grab hold of it, it just sort of starts to disappear. All that having been said, are we happy with every appointment that we made in those early stages? No I can’t say that. But I can say that the stories of nepotism, of mates, of hiring practices, which according to my standards breach public service and public sector standards of ethic conduct, are either largely overrated or, in most cases, wrong. And I’ve got
some strong feelings about it because those comments have besmirched some good people who’ve been working away there, that firstly they’re not fit for the job because they’ve come in under some dodgy appointment process, and, secondly, that somehow they’re taking advantage of the distress of people in whose communities they’re living. Anyway, so as you say, I have some feelings about that Mr Cosgrove.

Cosgrove Thanks. I appreciate your response. Can I ask you again about the appointments of assessors per se. Because again we acknowledge that in the early days you had to pull in a lot of people from overseas, Australians—no disrespect—but there seemed to be a plethora of ex-policemen, and I’m sure they have skills in that area, and all sorts of folk.

Wintringham Yes, yes.

Cosgrove There is a feeling in the community though that again we’re well into the 18-month period, we do have a large number of skilled unemployed folks, and we’re still getting people from overseas turning up and making assessments. I’d just like to know, have you got a training programme to harvest the skills we have either in Canterbury or New Zealand—I don’t know how difficult it is to train an assessor or what skill base you need—rather than signalling that there may be employment from other places, from overseas?

Wintringham First let me deal with the Australians. That’s a deliberate policy. It’s part of our disaster response plan that we draw from overseas, on the assumption that the local insurers will have a large part of the local market tied up, because that’s what they’re doing all the time. So we bring them in from overseas, from Australia, they understand our Act, which is different from an insurance policy, and they understand the particular elements of the appraisal or review of earthquake damage as opposed to fire or other damage. So that’s part of the plan, and what they also do is train the next group coming through.

I think, too, unlike the private insurers we have teams of two. We have an assessor and an estimator. The estimator is the person who is the builder who crawls around under the house and examines the nature of the damage and comes to a view about (a) the damage and (b) what the damage will cost to repair. The assessor is the person who deals with the often distraught customer and those are the people who—for example, we have employed ex-police to do that. Ex-police, one of their skills is dealing with people, and getting information from them in difficult and stressful circumstances.

Now, you’re right; 18 months have gone by. In October and November last year, as part of our downsizing, we moved from that large month-by-month contracted field force, from about 800 down to 200 people, and those people are largely now drawn from Canterbury. We don’t specify they have to be from there, but they are paid no allowances for, for instance, coming
in, accommodation. They are paid as though they are Canterbury residents. If they chose to leave—

Cosgrove  Do you have a training programme in place?

Simpson  The 200 people we selected have probably the best training programme in the world. They’ve been assessing claims for us for 12 to 18 months. So we deliberately focussed on that pool of people to whittle down from the 800 people we had, down to the 200 that we now have on a fixed-term contract.

Cosgrove  I want to shift—when you do your assessments, why is it that EQC does not check the bracing of a house? The reason I ask this is because it’s been put to me not anonymously, but by people who have worked for the Fletcher’s PMO, that if we have an earthquake the place shakes. We might have mortar and gib cracking—non-structural stuff. But bracing is loose. It’s not checked by EQC, in the same way that EQC refuses to take the carpet up if they can’t see the foundation and check whether it’s a lump in the underlay or a crack, which is interesting. So your house shakes, the bracing is loose, or may be loose but it’s structurally sound but no-one knows. So another earthquake comes along and what is loose becomes very loose or may be major structural damage because it hasn’t been strengthened—therefore, more cost or worse.

Now my question is: I understand there’s an invasive test—it sort of triggered the sort of leaky buildings scenario, because it is possible, presumably that there could be a large number of houses which have been assessed which either may have cracks in the foundations that haven’t been identified because the boys won’t take the carpet up, or have the liability of putting it down, or when no bracing check has been made, those houses are weakened. Could you explain to me why you don’t do—bracing I think is the most important one—but why you don’t do those two checks. Because could you not be in a situation of having to go back on a large scale and reassess, based on that?

Wintringham  I’m going to have to defer to management on this one.

Cosgrove  I’m a layman as well!

Simpson  I think the first point to make is that in the majority of assessments that we’ve made—I mean that not just anecdotally—we have identified more damage than the homeowner has claimed for, so I do believe that we do go above and beyond a normal assessor—I do realise that.

Cosgrove  But my question is: you don’t make a specific bracing check do you?

Simpson  No, because as I understand it, the only way to check the bracing would be to rip all the gib off all the houses that we assess, which of course would be a significant additional destructive cost to the process.
Cosgrove But you don’t make a bracing check even if the house has a bracing plan, as I understand it, either. You could localise a check to a particular area, given they have a bracing plan when the house is built.

Simpson I think we might have to come back on this. I would say that when we have assessed with insurers—we are going back to check these areas—and if there are foundations that haven’t been discovered in one of the assessments we do go back and recheck that. Overall, of the 8,000 houses that we’ve repaired as of last month, the costs that are coming in are within 1.5 percent of the assessed cost. And that’s where people are going out and actually taking the walls apart or doing whatever they need to do. So overall I don’t think we have a problem with the quality of our assessments. There may be some cases where we may have missed damage and that either comes back to a reassessment later—

Cosgrove Forgive me, I’m not, there are issues around quality per se, and there always will be, but I would have thought—and if you were to go to the other issue, the cracks in the foundation, where EQC has a policy of not uplifting carpet, and they say to people: well, if you want to do it, you do it, it’s your cost, whatever, and Mrs Jones is left wondering whether she has a crack, because you can’t see it. Because what this leads to is if there was a further earthquake and what is weak becomes structurally unsound or minor damage becomes major, then there is a greater cost burden on the taxpayer, and ultimately insurers and insurance premiums.

Simpson In terms of foundation damage, in most cases if the foundations are damaged there are cracks on both sides of walls and we have other techniques we can use, rather than paying for the cost of all the furniture to be removed and the carpets taken up. So I would say in most cases we do alert the homeowner to foundation damage.

Cosgrove If you have a general policy whereby the poor old homeowner doesn’t know—I’ve got a constituent who’s had a lump in the carpet, and they’re not sure what it is. They’ve been told by EQC, well it’s not taking the whole carpet up, it’s checking is that an underlay issue or is it a crack in a foundation, and the assessors have said: “Well look, we can’t tell, we can’t see. It’s your choice.” Is that a policy, and why is it a policy?

Wintringham On the policy the short answer is I don’t know, and we will give the committee a full written response on that.

I’m just going to flag one point. Some people—and I’m not suggesting for a moment it’s your constituent or the people you’re dealing with—there are some people who want to use the EQC inspection as a free, generic home inspection. So they put in a claim and say: “What’s the damage?”, and they say “Well, we don’t know.”, “But, could you check the house please?” Well, that’s a service that we don’t provide, so we’re trying all the time to—
Cosgrove  Could I just stop you on that because, with respect, you may want to think about that answer, because I’ve been in meetings with the chief executive who’s been very up front, very straightforward, and his advice—you’ll recall a meeting a couple of months ago in Kaiapoi, because I asked you in front of about 1,500 people, what do you do if there’s a shake? Should you put another assessment in even if you can’t see damage? The clear instruction from EQC was: “If in doubt put in a claim, go for another assessment.”

So, with respect, I know you always get nefarious people trying to go and get a freebie, but the clear policy from EQC is if there’s a shake and it’s an official event put in another claim. We all know of people who’ve put in five or six claims because they don’t know what they don’t know.

Wintringham  And my answer is not inconsistent with that. That’s our instruction, and that is because of the 3-month rule from the time of the event to the time you’ve got to put the claim in, so that’s safeguarding people’s positions. But no, I’m talking about that group at the end who—maybe they don’t even necessarily think they’ve got any damage but they would still like an inspection. So we’re just trying to steer always a balance between doing enough but not providing a free service.

Cosgrove  And you will get back to us about those too.

Wintringham  We surely will.

Wagner  Talking to the constituency one of the things that they’re concerned about is their land and remediation of their land, and we all know about TC1, TC2, and TC3, and TC3 is the one that’s really bothering people. What are you doing at the moment about TC3 land?

Wintringham  A lot. You’ve asked the question, spot on, but just so there’s no confusion, there are two parts to this. One is the assessment of land damage for the purpose of settling claims for damaged land, and the second is engineering inspection per section to determine the nature of the foundations that are required for a repair or a rebuild. So we are only talking about the first one at the moment.

So we have completed the drilling and we’ve got Tonkin and Taylor here who can elaborate on this. We’ve completed the drilling and the on-site inspection sufficient for us to form a view about our liability for land damage in TC3. That now requires some in-house desk work, and then it requires testing, because in TC3 and the red zone, in those areas in particular, there are two characteristics of damage that frankly they’re a challenge for us to deal with. We’ve identified seven categories of physical and immediate damage to the land—cracking, lateral spreading, ponding, and so on. That’s fine, that’s clear, that’s damage, and you can make a judgment about how to remediate that and the cost of.

Our problem is changes to land which results in increased susceptibility to damage in further events, and that can be through liquefaction or it can be
through increased proneness to flooding. Now the thing there is it doesn’t mean you can’t build on the land, because you can build on the land, say, if it’s subject to greater liquefaction, you can build on the land to a higher standard with better foundations. Second, the future event may not occur, so—

Dalziel It did on 23 December.

Wintringham It did on 23 December, but what is imminent loss? Is it potential for imminent loss, and what is the nature of that loss?

Dalziel Try digging out your backyard for the fourth time with tonnes of silt—I mean, because that happened not only in the bordering zones of the red zone but it happened in East Parklands that brought all the publicity.

Wintringham And when the damage occurs we will apply the provisions of our Act and we will reimburse for that damage. The problem is: how do you determine the damage and the value of that damage if the “damage” is susceptibility to damage from future events?

Now step 1 is that we have accepted that that is damage. The second problem is how you actually identify or place a value on that without providing windfall benefit to many people who will be rebuilding on that same section in largely the state that it is currently in.

Dalziel Windfall benefit. What’s that?

Wintringham Yes, because what that will be is if you were to pay, say, the full value of the section, which would be of the order of—

Simpson —oh $150,000.

Wintringham —$150,000 whereas other things being equal the house is rebuilt with a re-strengthened foundation and if a future event occurs damage may or may not occur—even indeed if the event itself occurs.

Dalziel You’re saying that in that situation you would cash settle for the market value of the land?

Wintringham We would cash settle, as our intention is to cash settle for pretty well all land damage. We would cash settle for an assessment of what that increased susceptibility means in terms of “some fair value”. And that’s not easy.

McClay I want to say that probably from the outside, the images that we saw on television were heartbreaking and the despair and frustration of people having to clean up again, again, and again is something that we hope that nobody else has to go through. But when it comes to liquefaction, what did you know about this beforehand and what examples did you have of anywhere else in the world that may have suffered in the same way, best practice, so that you could have been prepared?
Wintringham: I’ll just answer—you had a question which I don’t think I finished answering. Is that right—TC3 land?

Wagner: You’ve finished your testing?

Wintringham: Yes, so the timetable for TC3—

Simpson: Based on that board decision, we are now out there having a peer review of our technical analysis of that and of the advice that was given to the board, and we’re sampling 500 sites to make sure that our costings in the model that we’ve got of our liability are actually in place, and we’re hoping by the end of April we can get some significant progress on that.

Dalziel: But it has stopped—all the assessments of the buildings—because you can’t—

Wintringham: I’m glad you asked that. That’s part of the urban myth. In TC3—

Dalziel: Well, it’s actually what your call centre told people when they rang up and asked, so before you say that it’s an urban myth, just be aware of where the myth was generated from.

Wintringham: Yes, and I’m also aware of another source that it came from. We make no excuse, yes, we are frustrating and difficult to deal with and people get conflicting information and inadequate information, and that will be sorted. If you want to have a go-round on that, we’re pleased to do so.

Dalziel: But the question is: how can you cost the repair or rebuild if you don’t know what foundations are going to be required? That is the question.

Wintringham: Yes, but there’s two separate—one is, what is our liability for land and land repair? What is our liability for the damage to the land? We will assess that in TC3 and we will, where possible, cash settle. The next question is: if you rebuild on the land—

Dalziel: This is bizarre—

Wintringham: In what way?

Dalziel: Well, I think what might be useful would be to have a full statement in writing from EQC to the committee explaining that, because that is the first time I’ve heard that you’re going to provide a cash settlement to people that had their properties damaged in the last set of shaking. I mean it’s just—

Simpson: I think the point we’re coming back to is to is the EQC liability is to reinstate land to its position on 3 September 2010, and based on new seismic loadings and DBH guidelines, that will still not be sufficient in many cases to build a standard-design house on.

Dalziel: That’s right.
Simpson: So the insurance company will still have to pay for a geotechnical investigation and significantly enhanced foundations.

Dalziel: Correct.

Simpson: So the current thinking is, if we and the insurers can work together, rather than us reinstate the land to a level that’s still no good for building, if we were to provide a cash amount, that can be combined with a broader piece of work to provide a better outcome in terms of the building as it originally was.

Bridges: I think we should begin to draw this part to a close, but before we do we’ve got Todd McClay’s question still standing and I think, Lianne, did you have one further question you wanted to ask?

Dalziel: Yes, I did, but maybe we can put it in writing.

Bridges: Todd’s question was about liquefaction in international experience.

Wintringham: Whether Tonkin and Taylor want to make a comment? But everything that I have read and seen and discussed with the insurers is that the nature and extent of liquefaction in this sequence of events is highly unusual by world standards, and that is one of the reasons why all of us are facing some challenges as to how to (a) cost it and (b) put in the appropriate repair mechanisms. So could we have foreseen it? I don’t know whether we could have foreseen it—no. It is one of the most singular and unusual characteristics of this sequence of events. Have you got anything to add to that?

Simpson: Just as we’ve looked at the repair structures for liquefaction, and Mike you can speak more authoritatively about this, we’ve looked at the international research on building on liquefaction and the first paragraph is normally “Don’t build in areas where you’ve got less than 3 metres of solid crust.” So it is largely unprecedented, and specifically in terms of the scale.

We had the Mayor of San Francisco across recently—Art Agnos—who compared it to the San Francisco earthquake back in the 1990s, which at the time was the largest insured loss in American history, and he said that the damage in Canterbury was leagues above what he saw in San Francisco at the time because of the extent of liquefaction and therefore the extent of building damage.

Wagner: Mine was just a supplementary going back to the cash settlement. I assume what you’re saying is that it’s a cash settlement, but it’s to the insurance company, so that the person who’s actually there will just see their land remediated and their house built—is that right?

Simpson: There’s a technicality about who we can pay the money to, but that’s the aim of the programme, yes.
Dalziel: I think that individuals will have to assign the money to their insurer?
Simpson: We’ve got to work through that process, but essentially yes.
Dalziel: But you didn’t answer my question, which was about the building assessments, because I wasn’t talking about the land assessments when I said things were on hold, and that wasn’t what we were told. We weren’t told that land assessments were on hold. We were told that building assessments were on hold because you couldn’t cost the actual cost of the repair or the rebuild for the foundations until you knew what foundations were going to be required on your individual site, which requires an individual site inspection.
Wintringham: Yes, yes, yes that is correct, but the assessment of the land damage for arriving at a sum of money to pay the owner of the section is a different piece of work and a different matter than doing the assessment work at the foundations. So—
Dalziel: But nobody has received a letter from EQC explaining this and it would be really good if they did.
Bridges: Gentlemen it’s a Herculean task you’re embarking on and we appreciate your time with us today.
Wintringham: That you very much.

Canterbury Earthquake Recovery Authority

Bridges: Good morning gentlemen. We'll just invite you to introduce yourselves and make a brief opening statement.

Sutton: Good morning, I’m, Roger Sutton. I’m the chief executive of CERA, and with me is Warwick Isaacs. Warwick is our general manager (operations) so he’s been the demolition king from the very beginning and has generally got an overview of our more operational parts of the business.

So I was just going to talk briefly about where the priorities of the organisation are and maybe something about how I see our future. Our largest issue has clearly been the land issues we’ve been dealing with. The land damage we see in Canterbury, I’m told, is the greatest that’s ever occurred in any earthquake event ever in the world. So that’s the land damage in terms of areas that have liquefied, but also areas of the Port Hills where they’ve seen rock fall, landslides and those sorts of things as well. So the scale of that is very, very large, and I guess I just comment from my own point of view about the liquefaction question. I previously ran the electricity utility and we did know liquefaction was something that was going to affect us so we’d always thought very carefully about big structures, heavy structures, how we designed them, so if liquefaction did actually occur they’d actually remain standing. So you can’t actually stop the stuff coming out of the ground, but what you can do with a big structure is if it is
going to be subject to that liquefaction underneath it is going to stay
together to the greatest extent; it’s not going to break apart.

The land-zoning stuff has gone on since the beginning. We started off with
185,000 properties, which we didn’t, if you like, have a land zone for, and
over these last—since we started off the process in June we’ve zoned nearly
7,000 properties red. The rest of them—7,000 properties have gone red,
2,100 are still white. They are properties on the Port Hills. We are working
through some difficult geotech issues, but there’s still 650 properties on the
flat in Christchurch that are still orange. So these are properties where we
don’t know whether they’re going to turn red or green and they’re mainly in
the areas around Southshore, but also in the river areas coming into the city.

It’s been very frustrating for those people because they’ve waited a very
long time. We haven’t always met our deadlines for getting them
information about when their land zoning would occur, but it’s just been a
much more difficult job than we’d originally anticipated. It hasn’t been for
want of trying and resource. We’ve had pretty much every geotech resource
available in New Zealand working on it, working hard to get those issues
resolved as quickly as we can.

In terms of those orange properties, we’ve said that we want to get those
issues resolved by the end of March. So that is for those 650 properties, and
for the white properties we’ve been doing public meetings of late—real,
proper, school hall public meetings—and we’ve told them we want to get
their rezoning issues resolved by the end of June.

I guess the other part of the land stuff is the fact that the Government has
given us special powers, and those special powers allow us to change land
zoning and similar changes to be made. So that’s been an important thing,
to give people confidence. This has been an outrageous event that has gone
on for a long time, and in many ways still continues. In fact, we know that
there may be further aftershocks. They’re giving people confidence that if
they do want to buy a new bit of land that it is going to be available and at a
price level that actually reflects the fact that we’re bringing—how do I put
it? We’ve tried to do our best to have the land market flooded with land.
We’ve freed up something like 26,000 sections within the greater
Christchurch region that are actually going to be available for land
development. I don’t have the precise number here, but we can answer it in
a written form if you like, of how many sections we hope to have on the
market, of those 26,000 actually on the market, by next summer.

I see that a lot of the people, from our market research, have indicated that
they don’t want to move into a new house. A lot of people actually want to
stay close to where they are living, and a lot of people in those red zone
areas actually simply want to buy an existing house.

The next part, I guess, the physical stuff, is the infrastructure rebuild.
There’s $2.5 billion worth of infrastructure to be fixed in Canterbury. It’s
kind of a meaningless number, but it’s a really, really big number. We’re getting to spend up to close to $40 million a month—that’s fixing the water, the sewerage, there’s electricity stuff to be fixed, there’s Telecom stuff to be fixed, and I guess the frustrating stuff for a lot of people is the last thing that’s really going to be fixed is the roads, because there’s no point doing the water and the sewerage and fixing the roads and then going back and doing the power and then ruining the roads again. So that’s a process that’s going to take probably 4 or 5 years, so it isn’t going to happen tomorrow for a lot of stuff. But I think if you also reflect on the fact that a lot of people didn’t have water and sewerage and power for weeks and weeks and weeks, and everybody does have water, power, and sewerage now, we’ve made very good progress there.

The CBD plan: the city council have the responsibility for writing a CBD plan. That’s with us at the moment, or more precisely with our Minister for his decision about whether to approve or not approve that. We’re giving him advice on that at the moment, and he’s down in the next few weeks to make a decision about what he’s going to do with that plan, and I’m not going to pre-empt what he’s going to say.

I think very much within that CBD plan is the economy, and it’s quite extraordinary that something like 55,000 people used to work in our CBD up until this event, but the economy is still going gangbusters. It’s quite extraordinary, really. People have found other places to work. There were vacant sites. People have done things with warehouses they never thought they’d do to them, if that’s the right way to put it. But it’s amazing how things like unemployment, all those metrics, are still very positive. Unemployment is still below the national average, exports through the port, whether measured by tonnages or measured in dollars, are the highest they’ve ever been. And I guess it’s also a reflection of the fact that the productive sector has been largely unaffected. From time to time we hear about people in the productive sector having issues with engineering issues or building assessments and we get involved, but the productive sector, with a few exceptions, remains going.

Investors are keen to come back. I speak regularly with both local investors, but also those operating nationally and also internationally. Investors are turning up in our offices wanting to talk about the opportunity, and they see an opportunity because it’s greenfields but they also see an opportunity because of the scale that’s presented here. I think there are going to be some investors who take their money elsewhere. There’s the 74-year-old farmer from Ōāru who had always had a slug of Colombo Street. I’m not sure he wants to be a property developer going forward, but I think we’re going to see some other, different investors going forward.

Tourism, obviously, is down, but in fact the tourists who do come here, according to Lonely Planet find it a really interesting, exciting place to come to, and the tourists who do come here do actually have a very interesting time.
Cosgrove It’s called adventure tourism, I think.

Sutton Talking adventure tourism, hopefully the Marque Hotel will reopen soon and I’ll ensure you’re all invited. Let’s have a party on the 21st floor and find out who’s actually game enough to come to the 21st floor of a steel-framed building and celebrate the reopening. Those are the sorts of ideas we need, thank you Mr Cosgrove.

Cosgrove Is that an invitation?

Sutton It will be an invitation. But I mean, seriously, the thing for tourists is that the city is still open and really running. I think people who came down for the flower show know that the business city absolutely runs. If you want to have a meal out—I went out for a dinner last night. I went to a half-empty restaurant. There’s still places to eat, drink, and do all those other sorts of things as well.

We can talk about the physical stuff, and the physical stuff is extremely important, obviously, but at the end of the day it’s about people. People’s lives have been irrevocably changed by this event. We’ve got a team working in the community well-being area at the moment. They work with the NGOs, with the Government agencies, to try and provide support to the greatest extent we can to those people. You know, some of the data points I’d like to skite about is that after places turned red, every single one of those were door-knocked by somebody—

Dalziel They didn’t see everyone.

Sutton Well, they didn’t see everyone because they weren’t always there but we tried really hard, Lianne—we worked with a bunch of organisations there—and I think we’ve also tried getting out into the community with community hubs close to where the need is, but the demand there is pretty much insatiable, but we will continue to work really hard with the NGOs to try to give support to those people and those individuals in the community. But it also reflects that the communities are, in general, stronger than they were before. We are all close to our neighbours, close to our families, and we know what’s really important to us.

I guess the thing we’re famous for is our demolitions, and it’s great to have the demolition king here today. There’s something like a thousand CBD buildings that need to come down, and you can do great sound bites about how we’re two-thirds of the way through those, and we are, but a lot of the big complex buildings are much more construction projects or deconstruction projects than really just demolition projects. They require care, they require skill, they require fancy equipment, but they’re much more about construction skills rather than hiring Roger and Warwick and their digger that normally digs irrigation trenches out the back of Springston. They’re much more specialised jobs. We’re through those, but it’s still going
to take some time to get all those buildings down. If you want to talk about
cordon reduction we’re happy to talk about that later on.

CERA—we talked about. EQC did actually exist 18 months ago; we didn’t
exist a year ago. We’ve come from nothing to an organisation which has
made a lot of land decisions, both in terms of making places red but
bringing land to market. We’re well through our demolitions. We’re
working closely with the business community around investment to bring
things forward. I’m very proud of what we’ve achieved so far, but it’s a
very, very big job ahead.

People sometimes ask me if I’m optimistic about Christchurch, and I am.
I’m really optimistic about the city, and I’m optimistic for three reasons.
The first reason is the fact that people want to work together. The key
leaders, whether they be business leaders, whether they be in NGOs,
whether they be in Government departments, have each others’ cellphone
numbers and really want to make this work. I think the community is strong
and sees real hope about what can build going forward.

The second reason is insurance. If you go to most cities in the world where
they’ve been hit by an event like this people aren’t well insured. But in
Christchurch something like 95 percent or probably better have got
earthquake insurance. The business community is similarly well insured.
EQC, for the issues they’ve had, makes an enormous difference, because by
definition it’s much easier for insurers to re-enter the market when they
know someone else, à la EQC, is going to take the first $100,000 worth of
loss. So the insurance thing means that a lot of money is going to flow back
into the city and is going to allow for a really sparkly new rebuild.

But the last thing is the geography. Christchurch is still Christchurch. We’ve
still got Hagley Park, we’ve got a river that I hope we make much better use
of in the future, the Plains and the mountains are still there if you want to
go for a ski or a run at the weekends, and the Port Hills are there, and I
guess the Port Hills are higher than they were before—the Port Hills are a
metre higher than they were.

So I know you’re going to ask me questions today, but I’d also extend the
welcome. If any of you want to come down, you’ll be very welcome to
come down. We’d be happy to show you around, not just the CBD which is
very easy to do, but also show you the eastern suburbs, show you houses
that’ve still got silt in them, they’ve still got children’s toys on beds, and so
on, because that’s actually what this recovery is about. It’s about people.
Thank you.

Bridges Thank you very much.

Goldsmith I’m an Aucklander and obviously would be very keen to come down and
have a look. You mentioned you’re making good progress on the
demolition work. Do you have an idea of when you think you’ll be in the
clear of that, and I suppose from a distance what you see is TV cameras and big cranes knocking through what looks like a modern building, and what looks like pretty good window frames, and things like that. How much recycling are you able to do in that process or is it—

Sutton Can I start and I’ll hand over to Warwick. In terms of the big buildings, it takes something like a year to pull down a really big building, so we’ve got some big buildings that they’re really only just starting. The Clarendon Tower is an example of that. It’s a 17-storey building. That’s going to take about a year from now, and we’ve got a number of other buildings that are of a similar sort of scale.

One of the reasons why it takes a long time is because most of the demolition is being done cleanly, which is sort of an engineering term, meaning stuff is being separated out and sorted. So when Fletcher’s took down, under our contract, the Grand Chancellor they went through and they took pretty much everything out first. Things that could be recycled—the wood, the furniture, the windows, all that stuff—has been recycled, and that’s actually one of our challenges, to try and have engineers happy enough with a building that it doesn’t have to be done in a really destructive way. It can be done in a more careful way and all the stuff be sorted. In terms of the residential stuff—

Goldsmith And you’ve got basic models, to work out whether it makes sense to do that or whether it just quicker to bowl everything. How do you make that decision?

Issacs The decision is simply based on engineering advice and human safety. I think the one you’re talking about—that was 2 or 3 weeks ago, two 6-storey buildings, and literally they were ripped down. The steel inside the ground floor had shorn off entirely and we were concerned that that might actually collapse in a very small seismic event. So it’s based entirely on engineering advice—should we put men and women into those buildings. If we can safely then, yes we can strip out, as Roger’s talked about. If, in fact, it’s too unsafe then they’ve just got to come down. The material does go away and what post-demolition recycling can be undertaken is, in fact, undertaken.

Our goal at the start was to recycle 75 percent of material out of all the demolition sites. We’re probably a little bit below that but not greatly, and that goes from the reuse of a residential window frame through to concrete material out of the high-rise buildings. Perhaps recovering crushed, it becomes aggregate again for roads and footpaths or perhaps might go into the Port of Lyttelton for a reclaim out there.

Sutton We’re also going to manage the demolition of something like 6,000 residential properties, or some of those houses are also picked up where they’re just on bad land but they’ve survived. We put them on the back of a truck and we move them, so there’s work on to try and make that work because we want to get them on to land and a lot of building developers or
land developers don’t want second-hand houses, so there’s work going on to try and make that happen. But also for the houses that can’t be picked up and put on the back of a truck, how do we make sure the doors, the windows, the kitchens, the bathrooms and everything else is recycled? So we’re working with parties on that. If you come to us right now. You lived in a Christchurch house, as your brother did, and his house was rezoned. We are doing deals, and saying: “Look, you can take all the doors and the windows and the kitchen, and so on, for five grand. So we’re really keen on that to happen. We’re really keen to try and make markets work so people can get that stuff, and if you’re building a house in Auckland maybe you can go and buy a house load of stuff out of Christchurch and take all those bits. So we want to make that work; we’re very, very keen.

Dalziel

You know that I’ve been critical of the communication with people—you know, preparing people for decisions that are about the future of their homes. The red zone decision was devastating actually for a lot of communities, and despite the rhetoric around it, enabling people to move on, a lot of people are still stuck in the red zone waiting for a final offer from their insurance company so that they can accept one or the other of the two options.

But I want to get a clear understanding, a sort of, kind of, on the record of what the nature of these land decisions is. Because you’ve repeated the statement that CERA’s made the decisions on the land when, in fact, the Government makes the decisions and they use a formula, which I’ll ask you to confirm in a minute. But I want to know the legal status of the land decisions. You referred to the CERA legislation as giving you significant powers, or the Minister significant powers, and at the moment it would require, as I understand it, an amendment to the Christchurch City plan in order for the land zones to have a legal effect, and the only ones that I can see on the website under the city council one are the Burwood landfill and the temporary rezoning for the Christchurch Stadium at Addington, and your one adds the air-noise contours in the Kaiapoi exclusion amendments to the plan around demolitions, etc. But I can’t find a legal status for the red zone land.

Sutton

My officials will help me here, but I don’t think we have actually given it a legal status as such. I think the short answer is we’ve made offers to people in the red zone.

Dalziel

Voluntary offers?

Sutton

Voluntary offers to people in the red zone. So, in fact, right now if you want to get a building consent in the red zone you will actually get a building consent in the red zone—

Dalziel

No, you won’t.

Sutton

Yes, you will.
Dalziel: No because the Cabinet paper says that the council’s not allowed to issue any consents without going back through to get approval. So actually that is not correct. You cannot just easily get a permit to either rebuild or repair in the red zone. Is that correct?

Sutton: Benesia, do you want to talk on the legal status of the red zone—Benesia Smith, one of my key officials—

Smith: The red zoning has no legal status, so you are accurate. The zoning has no legal status in Canterbury. The key issue here is that we have, on advice from our engineering advisers, indicated that these areas are damaged and indicated that the Government would be prepared to make a voluntary offer to people if they don’t want to stay there any longer. So voluntary—it has no status.

Dalziel: OK, well there’s two things that I just want to get on the record around that, because it doesn’t seem like a very voluntary offer to me when you look at the alternatives, which you indicate on the website.

So essentially the decision that’s made by Cabinet, setting aside the comments that have just been made about basically the geotechnical issues, because that comes into the cost of remediating the land, the cost-effectiveness equation that Cabinet determines these matters on is “land reinstatement to the pre-September condition”, which we’ve already heard EQC comment about, which is the requirement that the Government would have to meet, or EQC would be obliged to meet anyway, the betterment cost, which in your own example was the perimeter treatment, and/or the additional raising of the land. Now that’s an additional cost and it’s not met by EQC, so that would be a specific cost for the Government if they were to go down this track, the infrastructure, removal, and replacement cost, and that’s an assumption that all of the underground infrastructure goes and it’s got to be replaced and probably the roads as well, and then subtracting the decommissioning costs, which would be the infrastructure decommissioning and the grassing that is occurring, so we’re told, in the red zone. And if the cost of that exceeds the improvement in the value of the damaged land, remediation is not cost-effective and if the cost is less than the improvement in the value of the damaged land, remediation may not be cost-effective.

So essentially the red zone is where “I’m not worth it.” My land isn’t worth repairing because the cost that they would have to put into repairing my land exceeds the value of my section, which I certainly know very well now under option 2.

Sutton: So the decision to red zone land came down to the need for an area-wide remediation project, and those early area-wide remediation projects tend to be expensive, but they also tend to be very uncertain as to how long they’re going to take because they’re also going to be very, very disruptive as well.
So an area-wide—I’m not certain of my facts here, but I think for all the areas we’ve turned red so far, they would have required all the houses, all the trees, all the garages, everything to be removed for a period of years. The land would then have to have had big large walls—when we say wall you can understand it is not just a wall as in something Bob the Builder does, but it maybe goes down 10 or 15 metres and it’s 10 or 15 metres wide—

**Dalziel**

We’ve all read about someone—

**Sutton**

Then the land has to be raised. So it’s about—

**Dalziel**

I think you raise the land first before you put the walls in.

**Sutton**

Well, I’m not sure, but I’ve been talking to Tonkin and Taylor about which order you do it in.

**Dalziel**

Well the risk is lateral spread

**Sutton**

Yes, that’s right, so you put those in, stop those, and then you build up the land. So we can talk about cost-effectiveness, but I mean it’s also about how disruptive it’s going to be for those people as well, and I’ve also been to those—

**Dalziel**

It’s very disruptive to lose your community, as anyone in Brooklands will tell you.

**Sutton**

Oh that’s right, but I guess I’d also reflect—I went to those meetings in Brooklands too, a lot of those meetings, and at some of those meetings with the people in Brooklands they said: “Well actually I’m really happy to get this offer.”

**Dalziel**

There are some who are prepared to go, and that’s the problem. We have a division that’s been created in our city. I mean, the earthquake created the major division sort of east, west, centre. I mean there really are three—oh and the hill stuff. Ruth’s given me a whole lot of questions for the white zone for you today, so I’ll get to those later. But the point that I’m making is that the division between red zone and green zone is really hard on the people because it’s created a “them and us” and there are a lot of people who think that people in the red zone should be grateful that the Government’s given them the opportunity to move on. And what I want to get on the record is actually the Government isn’t actually giving a—

**Sutton**

I guess, but part of my answers, Lianne—I mean, I can’t answer a lot of your questions. People are writing to us, wanting to have zonings, and the majority of people who’ve written to us actually want to be rezoned red, not green, by a factor of four or five to one.

**Dalziel**

There’s a reason for that.
Cosgrove: As I understand it, Mr Sutton, your geotechnical officials Tonkin and Taylor make recommendations to the Government through you as to the number and geographical area for red zoning houses—correct—and then it's a Government decision. Correct, is that how the process worked? So could you tell me in the case of Kaiapoi, or any other area in CERA's jurisdiction, did the Government take any decision or decisions to red zone more houses than was recommended by its geotechnical officials, and if so, when?

Sutton: The geotech officials give advice about the geotech issues, but it's up to CERA to then process that information and turn it into a recommendation, which my Minister then takes off to Cabinet. So I can't really answer the question, sorry.

Cosgrove: Why can't you answer the question, because if the geotechnical officials make a recommendation to you—

Sutton: Because it is—

Cosgrove: Hang on—then you make a recommendation to the Government, the question is simple, you'll have the information. Did the Government decide to red zone, on your recommendation or otherwise, more houses in Kaiapoi or any other area than the geotechnical officials recommended? Now you must have that written information.

Sutton: So the decision to red zoning isn't just about the geotech advice, Clayton. The decision to red zone is also about the community well-being, the time it would take to rezone land, and those sorts of things. So it's not just as simple as you present.

Cosgrove: Well, with respect, I know you've got a penchant to provide us with guidance about repeating questions, but it's a specific question. I understand everything you've said is from your own facts, but my question still stands. You receive geotechnical advice—either you don't know, you can't provide us with the information, or you won't provide us the information, or you can provide it just in writing. Can you provide the information?

Sutton: Tonkin and Taylor don't give us the clean lines, and these are the areas that should be red, and we just take it off and just put it in our reports, because other factors come into it.

Cosgrove: So you can't provide us with that information?

Sutton: I don't think I can. Benesia?

Cosgrove: Why is that? Because it doesn't exist.

Sutton: Because as I said, the decision isn't just a Tonkin and Taylor advice thing. It's about taking into account other factors as well.

Cosgrove: But the geotechnical advice does exist. You get a number.
Sutton: All the Tonkin and Taylor reports, the formal reports where they’ve done their geotech work, are all public now.

Cosgrove: I suppose it leads to another question, which briefly is this. You will recall, Mr Sutton, and I’ll preface it by saying I don’t hold you responsible for this, you’re a public servant, you do as you’re told, but you recall, and I’ll give you a specific example because you and I were both there at a meeting at Kairaki Beach where you were very generous enough to honour a request by folks to provide individualised geotechnical information. I think, because I wrote them down—your words—you looked at one of your officials and said: “Hey, there’s no reason we can hold that back. Release it”, and that was helpful.

We then had a series of events, which came out of the Minister’s office, which firstly said to a reporter, Mr Wright from the Christchurch Press that it’s all out there, then they said “It’s not”, then they said—this was in the space of 48 hours—“It’ll be on the website”. Then the Minister previous to that said he would not release any of the individualised geotechnical information “until all zoning coloured decisions were made throughout CERA’s jurisdiction”, and then, ironically at an election debate at Christ’s College, the Prime Minister, on being asked about that information, said: “The information doesn’t exist.”

So what I’d like to know, and again I don’t hold you responsible for this—I assume you went back to base and the Minister said “You’re not releasing the information”—which version is true?

Sutton: So we don’t actually have individual geotech reports on every single property. What we have is information about whether an area is going to need an area-wide fix, and I’m very confident that all that information about Kairaki has now been released to those people, Clayton.

Cosgrove: So why would the Minister say that he’s not releasing it until all areas in your jurisdiction have been colour-coded—

Sutton: I think at one stage—

Cosgrove: —and then say it’s already out there, and then say it doesn’t exist?

Sutton: I’m sorry, I wasn’t at that meeting with the Minister.

Cosgrove: Have you received any instructions in respect of not releasing any and all geotechnical information to households?

Sutton: Well, I stand to be corrected here but I thought that all the Tonkin and Taylor reports are now out there.

Smith: The geotechnical information that was taken into account for the land damage decisions, if we’ve got it and they relate to the Cabinet papers, they’re on our website.
Cosgrove

So there is other information that hasn’t been released?

Smith

There is other information that hasn’t been released subject to the Official Information Act.

Cosgrove

Mr Sutton, you were quoted, I think in the *North and South* expose as saying the primary reason that the Government had taken the decision not to release information was, I think “because you didn’t want armchair engineers” and I can understand this “sort of saying, ‘well hang on, are we in, are we out’.” Can you understand that the complete cock-up and mismanagement of this informational flow and the varying stories, which I take it you’re instructed to give, because you do what you’re told, but I don’t hold you responsible for it, create a massive confusion in our communities and this has been going on for in excess of 12 months? People are told: yes you can get it, no you can’t, it doesn’t exist, it does exist, it’ll be released later on. It’s not good enough.

Sutton

Yes, my understanding is they have that information now.

Cosgrove

Well, they don’t think so.

Sutton

Well, then I’d be perfectly happy to talk to them further about that.

Sage

Thank you for the work you do. Changing tack, on to transport. It’s very difficult to get around in Christchurch, it’s car-clogged. It will be extremely frustrating if we have to wait 4 to 5 years until the roads are fixed. Given that in your draft recovery strategy that went out for submissions last year, and a lot of the submissions that came back talked about the need for an integrated public transport system, a much more cycle friendly city, what is CERA doing to make that a reality, given the huge amounts of money that are being spent on roading, and what are you doing to amend your strategy, because public transport, cycling, and just transport generally did not figure largely in the draft strategy but it’s come through as a strong theme in public submissions?

Sutton

I think the next stage is—Benesia, do you want to speak about the transport plan we’re doing with the NZTA, and so on?

Smith

I understand that we are working closely with transport officials to develop transport plans, but the reality of it is this is the responsibility of the NZTA, ECan, and the CCC to develop this together. They had a transport plan in place prior to the earthquakes and it’s about revising that and making sure that it takes into account what’s happened as a result of the earthquakes.

The recovery strategy itself is a framework for all of the big programmes of work that are required as a result of the earthquakes, so it doesn’t set up action plans per se, but what it sets out is programmes of priority.

Sage

I appreciate that, but the fact is that transport isn’t in there clearly as a priority, and you need a good integrated system to get the city moving
again, and that there’s likely to be a high loss of people if the congestion continues. So the city council had some cycling strategies. There was an under-investment in that in the last funding round and that was quite controversial. What is CERA doing to actually give priority to improving transport in the city, particularly active transport and public transport?

Smith

So probably the key issue to reiterate is that it was a draft recovery strategy that you saw back in August-September last year. It is a draft because currently it’s with the Minister for his consideration, so I can’t talk about policy decisions that are still under development.

Sage

Surely, though, it doesn’t require the roads to be completed to put busways on them, because that’s painted. There could be measures implemented to make it easier to cycle and faster for the buses to get around. Is CERA encouraging that in terms of the revision of the plan, and working with the other agencies?

Smith

So the key thing here is that the particular items you’ve raised actually fall wholly within the responsibility of ECan, the council, and NZTA, not with CERA. We can encourage them, as a result of the earthquakes, to ensure that this is a priority programme, but in the end the implementation of it falls with them.

Sutton

I think if those organisations came to us and said: “Look, we’d like a hand in using some of these special powers we’ve got then.”, we would consider that, but would they have that–

Smith

No.

Sutton

They’ve not yet done that.

Barry

I have a question around the business support that you are able to offer. I mean, CERA has an economic recovery team so what support have you been giving businesses as a result of the earthquake?

Sutton

There’s been an organisation called Recover Canterbury, which we’ve been supporting, which is bringing together the chamber of commerce—who are the other key players—CDC—but basically the main players in Christchurch, if you think about business development in business growth, we’ve been working closely with them. We’ve also had a range of other forums we’ve been using to work with the wider business community, including some of the other key local partners like Ngāi Tahu to try and ensure that the business recovery plans we’re putting in place do actually genuinely grow our economy growing forward.

Barry

So the recovery is progressing well as far as businesses are concerned?

Sutton

Yes, I mean I think there’s an issue around the cordon. We can talk about that. The cordon is much smaller than it was, but I think in general people are saying they are pretty happy with the level of the cordon we have.
Cosgrove  What’s the latest figures on taxpayers—Cantabrian taxpayers who have left the province?

Sutton  I don’t have a taxpayer number. I have the number which they say has been brought together by looking at the IRD data — I think Health –7,000 or 8,000 is the number I consistently hear.

Wagner  I’m just thinking, reflecting on what you’ve been saying, I think there is a general feeling in Christchurch that yes, there’s a positive end coming but how long is that going to take, and what are we going to put in turn to get it there. I’m pleased to hear about the businesses because I think it’s that injection that’s going to happen. But what else are you doing, just to get us over this, probably, maybe 6 months, 18 months, 2 years?

Sutton  Well, we’ve got big chunky things. There’s a jolly big rugby stadium that opens for business in 2 weeks’ time. We are working with those business organisations that want to get things moving again. We’ve done a number of significant series of events in the parks over the Christmas period. I think we are starting to see the central city rebuild. There’s 20 actual central city projects going on right now.

Dalziel  The reason I wanted to kind of clarify the legal status of the land decisions is that if the city council is doing a plan change or a zoning change they would advertise it publicly, people would be able to make submissions, and there would be true engagement. But this has just been announced at press conferences—bang, a community’s gone—and the red zone offer, although it’s couched as a voluntary offer, your own website talks about: “The Council will not be installing new services … If only a few people remain in a street and/or area, the Council and other utility providers may reach the view that it is no longer feasible or practical to continue to maintain services … Insurers may cancel or refuse to renew insurance policies … While no decisions have been made on the ultimate future of the land in the residential red zones, CERA does have powers under the Canterbury Earthquake Recovery Act 2011 to require you to sell your property to CERA for its market value at that time. If a decision is made in the future to use these powers to acquire your property, the market value could be substantially lower than the amount that you would receive under the Crown’s offer.” How voluntary is that, really?

Sutton  Well, all I can say is that at the moment people wanted us to make them an offer, because a lot of people wanted to go. We’ve made those offers, but there have been no Government policy decisions taken as yet about what will happen to people who don’t want to go. We simply haven’t completed that work.

Dalziel  This is the difficulty about being forced to make a decision now.

Sutton  I guess you could also argue that unless we gave them the information about the fact that we don’t know what insurance companies are going to
do, we don’t know what services will remain if there’s only one person left in a street, people would probably also criticise if we weren’t giving them that information as well.

Dalziel: Yeah, but people need to know what the basis of the decision is. You’ve sent out 5,782 offer letters; 3,333 property owners have signed a sale and purchase agreement. So that’s a good result; that’s over 70 percent. Between 70 and 75 percent have signed. A further 1,246 have engaged a lawyer but have not yet signed the sale and purchase agreement. And approximately 75 percent of the owners that have signed a sale and purchase agreement have selected option 2. Now, all of your costings were based on everyone accepting option 1, but 75 percent have accepted option 2. You’re then trying to find out why the sub of 30 percent haven’t signed an agreement at this stage, and you’re not asking the obvious question, which is why is it that people are actually much better off if they get a good deal from their insurer, and yet somebody like me—I mean, if you really want to know why people haven’t accepted the offer, I haven’t accepted the offer because I haven’t got an amount from my insurer yet because my insurer tells me that he can repair my house. I am arguing that point, but why on earth should he be allowed to argue that? Why should my insurance company be allowed to repair my house in an area where you in future will zone so that it can’t be rebuilt? You’ve left me in an impossible position. You’ve told my insurer my bottom line and given me no room to negotiate.

Sutton: So we’ve been doing some outbound calling of all the people who haven’t actually responded to the offer so far. So you’ll probably get a phone call from us in the next few days, Lianne, wanting to know what the hold-up is. And as you say, the majority of them are still dealing with their insurance company trying to understand which of the two offers they should accept.

Dalziel: But it’s not a question of understanding. Do you understand that if they get a payout from you for the land, and the insurer is committed to a rebuild and they have a full replacement policy, then they are in a much better position, as indicated by the 75 percent who have taken option 2, than people who are really stuck between a rock and a hard place?

Sutton: Yeah, the people who do the best out of this Government offer are people who clearly need a rebuild and where their insurance company is going to build them a brand-new house.

Dalziel: But that’s not the Government offer; that’s the insurance settlement that’s given them the bulk of the money.

Sutton: Sure.

Dalziel: So, I mean, I think there’s been a little bit of almost myth-making that the offer is extremely fair. But the winners and losers that people keep talking about—it might be extremely fair to people who are winners, but why do
we need winners and losers? People were insured for good reason and they are entitled, in my view, to a fair settlement.

Sutton
Yeah, I think overall just about everybody in Christchurch is a loser out of this earthquake, so I don’t—

Dalziel
Absolutely, but some are losing a hell of a lot more than others.

Sutton
That’s right.

Dalziel
And when you see the impact of putting 6,000 people in the market at the same time for property, we’ve seen property prices go up for these houses that are already built or for sections that are becoming available. And I know that CERA’s done a little bit with some of the developers to try and get some of those section prices down, but, honestly, $200,000 for a section when I’m going to get $87,200 from the Government for my land—

Sutton
I’m not sure what the question is.

Dalziel
The question is, how is this enabling people in this situation to move on when they’re faced with no real choice?

Sutton
Yeah, I mean, I’m not sure I can really answer the question but to say that the Government’s never made an offer like this before and there is a counterfactual where the Government actually doesn’t do anything, and the Government clearly hasn’t done that.

Dalziel
Well, the counterfactual is that if I settled with you for option 1 and you got a rebuild deal out of my insurer, you’d pocket the difference. I’ve got a constituent—

Sutton
No—

Dalziel
Yes, it is. Option 1 is pocketing the difference; option 2 is the EQC payment where—

Bridges
Lianne, you’ve made some points there that Mr Sutton’s heard I think you just need to focus your questions. I don’t want to cut him off.

Dalziel
Can you respond to that? Is it true that the Government keeps the difference if they settle with the insurer for more than the payout under option 1?

Sutton
No, we actually give it back.

Dalziel
No, you don’t—not according to your website.

Sutton
Well, can we respond back to you in writing on that, then, Lianne?

Dalziel
Yeah, please.
Sutton Yeah, let’s respond in writing. That’s cool.

Bridges Gentlemen, thank you very much for your time; we appreciate you coming before us. We’ll let you get back to the important work that you’re doing in Canterbury.

Sutton Thank you.

**conclusion of evidence**
2010/11 financial review of the Department of Conservation

Report of the Local Government and Environment Committee

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Department of Conservation

Recommendation
The Local Government and Environment Committee has conducted the financial review of the 2010/11 performance and current operations of the Department of 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 directly manages public protected lands and marine reserves, 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.

Revenue for 2010/11 was $318.821 million and total expenditure was $316.989 million, resulting in a net surplus of $1.832 million.

Financial and service performance management
The Office of the Auditor-General issued an unmodified audit opinion on the department’s financial statements, giving a “good” rating to its management control environment and “very good” to its financial systems and controls, as it did in 2009/10.

Service performance information and associated systems and controls received a “needs improvement” rating, as it did in 2009/10. We note that the department is continuing to develop the National Heritage Management and the Destination Management Framework Systems which are intended to promote evidence-based decision-making for strategic investments.

National Heritage Management System
The National Heritage Management System is designed to maximise the natural heritage outcomes from the available resources. The system assists in priority setting, and the collection and collation of monitoring information. The department actively manages 210 species with 68 formal recovery plans, and wants to increase the number of species it manages over the next four years. We learnt that the department is using the system to reprioritise its work with threatened species, and heard that the challenge will be maintaining community enthusiasm for programmes despite changed funding priorities.

Measuring productivity
The department is an operational agency, and it measures productivity in terms of activity and cost. For example, in the area of pest control it had managed a 38 percent increase in productivity using science and technology which allowed it to lay smaller quantities of 1080 poison more precisely.
Christchurch earthquake

Following the February 2011 earthquake the department provided assistance to the National Civil Defence Emergency Response including rural fire-fighting staff, thermal imaging cameras, a specialised fire engine, and staff with geospatial information skills for the emergency operations centre.

We were told that the department had received some additional appropriations for the Canterbury Conservancy and the Southern Regional Offices which are both in the commercial red zone and have been condemned. All other activities were funded from baseline appropriations via a contingency fund.

Staff involvement in politicised activities

In early March 2012 the Royal Forest and Bird Protection Society of New Zealand led a “bioblitz” on the Denniston Plateau to locate and identify as many species as possible.1 We questioned the department about reports that it had told staff they could not participate. The Director-General told us that his advice to staff was that they could participate as individuals, but not as Department of Conservation staff. He said that the society, by stating that one of the aims of the event was to encourage public pressure on the department to decline Bathurst Resources’ mining application, had placed the department in a comprising position as a neutral public service organisation.

Wilding pines

Pine tree species that grow wild are categorised as weeds. The department has investigated a number of chemicals as possible control mechanisms. Some are still being trialled. We heard that an economic solution to removing wilding pines could be an option. We would be interested to see this idea given further consideration.

Hector’s and Māui’s dolphins

The department, in conjunction with the Ministry of Fisheries (now part of the Ministry of Agriculture and Forestry), released a draft threat management plan for the Hector’s and Māui’s dolphins in 2007. We were pleased to learn that Ministers have asked for the plan to be brought forward. Subsequent to our hearing of evidence, it was announced that the department and the Ministry of Agriculture and Forestry will review the Māui’s dolphin portion of the Hector’s and Māui’s Dolphin Threat Management Plan this year, and that meanwhile agencies will consider interim measures to protect Māui’s dolphins. We look forward to the release of the reviewed threat management plan.

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1 An Australian company, Bathurst Resources Limited, has applied for resource consent to mine coal on the Denniston Plateau on the West Coast, which is considered to be a nationally significant ecosystem.
Appendix

Approach to financial review

We met on 8 and 22 March 2012 to consider the financial review of the Department of 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
Hon Chester Borrows
Jacqui Dean
Paul Goldsmith
Gareth Hughes
Dr Paul Hutchison
Hon Annette King
Moana Mackey
Eugenie Sage
Andrew Williams
Dr Megan Woods

Dr Paul Hutchison was replaced by Nikki Kaye for this item of business.

Evidence and advice received


Department of Conservation, Responses to questions, received 6 March 2012.

Department of Conservation, Responses to additional questions, received 21 March 2012.

Office of the Auditor-General, Briefing on the Department of Conservation, dated 8 March 2012.

Organisation briefing paper, prepared by committee staff, dated 28 February 2012.
2010/11 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 2010/11 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 help address the cause 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 chief executive of the department is Ray Smith.

Revenue for the 2010/11 year was $1.187 billion, with total expenditure of $1.135 billion, resulting in a net surplus of $52.482 million.

Financial and service performance management
The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance reporting of the Department of Corrections. Its management control environment, financial information systems and controls, and service performance information and associated systems and controls were all rated as “good”.

The department’s rating for its service performance information and associated systems and controls improved from last year, when they were assessed as “needing improvement”.

Financial performance
To meet the Government’s expectations of better service delivery, the department established a performance improvement programme (the Way Forward) in 2009. In 2010 the department told the committee that it was committed to saving $131 million over the next five years ($112 million of it through “value creation”).

More recently, in its Briefing to the Incoming Minister 2011, the department noted that efficiency gains and cost savings from the Way Forward programme amounted to approximately $40 million to 31 May 2011. We learnt that these cost savings were redeployed to fund new spending in priority areas such as rehabilitation. We asked how much of these savings have been absorbed by inflationary costs associated with wages. The department told us that more information would be available on the full inflationary cost once its current review of expenditure was complete. We will continue to monitor this.

The department told us that cost savings have been made mainly in “back-room” functions such as IT, travel, administration, and management and no front-line services have been
cut. We note that outsourcing catering and cleaning services to Spotless\(^1\) has also saved money and led to efficiency gains.

**Serious assaults and unnatural deaths**

We are concerned that the number of serious assaults and unnatural deaths in custody were much higher than expected in 2010/11. Assaults by remand prisoners on other prisoners in particular were 85 percent higher than expected and those by prisoners on staff were more than twice as many as expected. The rates of unnatural deaths among prisoners were also high. We asked about the factors underlying this spike in violence. The department told us that while these numbers have fluctuated they have stayed within a consistent range for some years. The figures are still small enough that percentages can be misleading. The department saw this year’s results as a “blip”, but we will continue to monitor the incidence of harm in custody.

The department said there appeared to be no common factors in most of the assaults. It has a policy of debriefing every officer involved in a serious assault, and has discovered that the one consistent factor in serious assaults is their unpredictability. The department is, however, committed to an action plan of new measures to reduce the number of assaults. Among those trialled this year were pepper spray, lowering the temperature of the hot water, more self-defense instruction for staff, and a review of clothing and bedding that might constitute a risk. Corrections told us that they are constantly reviewing initiatives that might make a difference to their staff.

**Private–public partnerships**

**Serco**

In December 2010, the Minister of Corrections announced that an international service provision company, Serco Asia Pacific, had been selected as the contract partner to manage Mt Eden Corrections Facility. While the day-to-day management of Mt Eden is now undertaken by Serco, it is still owned and maintained by the Department of Corrections. The prisoners remain the responsibility of the chief executive of the Department of Corrections.

The department spent $24.261 million in 2010/11 on managing third-party custodial sentences. This included the costs of switching the managing of prisoners to Serco, the management fee paid to Serco, the costs of managing and monitoring the contract with Serco, and costs associated with the Wiri Prison proposal. This expenditure was twice the amount originally budgeted for ($12.9 million) and we are concerned about this discrepancy. The department explained the extra $12 million represented the one-off cost of managing this transition, and came about because the prison was opened earlier than scheduled.

We were also interested in the large number of redundancies during the year. The department confirmed that this was caused by the contract management of Mt Eden. We consider some continuity of service important, and we note that at least 200 of the original staff of about 300 have taken up employment with Serco.

\(^1\) Spotless is an international services company specialising in outsourced facility management.
Proposed prison at Wiri

At the time of our hearing of evidence, the Government was still considering whether to continue with plans to build a 960-bed prison at Wiri under a Public–Private Partnership. Some of us were concerned that $8.5 million had been budgeted towards setting up a new prison without any indication as to whether the building would go ahead. We note that Cabinet has since decided to proceed with the building of the prison. Construction will start in the second half of this year and operations will commence in 2015.

Mental health

We noted a large increase in the number of acutely mentally unwell people in prison. If they are a danger to themselves and those around them, some of us wonder whether prison is the appropriate place for them. When necessary, mentally ill prisoners can be transferred from prison to medium-security forensic psychiatric hospital facilities under sections 45 and 46 of the Mental Health Act 1992; but the department pointed out the huge logistic challenge of moving prisoners, for example, to the Mason Clinic from Paremoremo prison. The department acknowledged that they could improve the transfer process by working with health professionals within the prison before transferring prisoners to more specialised facilities.

We consider it important that offenders are correctly assessed upon entering prison. The department assured us that the mental health screening process that prisoners go through upon entering prison is robust and gives a strong sense of the potential issues associated with every new prisoner.

Extended supervision

Extended supervision is aimed at managing long-term risks posed by child sex offenders in the community. An extended supervision order imposed by the court allows the Department of Corrections to monitor child sex offenders for up to ten years following their completion of a prison sentence.

We discussed a recent high-profile case involving extended supervision orders. Some of us note that the effectiveness of the programme is questionable if the monitoring of offenders has failed to detect a pattern of parole breaches.

The department acknowledged occasional breaches but prompt responses had showed that staff are extremely vigilant in following them up. Probation officers manage 223 people on this programme, and strict reporting regimes and adherence to mandatory requirements are vital to ensuring public safety and holding offenders to account.

Rehabilitation and reintegration

We heard about a number of rehabilitation programmes. We were told that drug and alcohol treatment is the single most effective programme run by the department, with early signs of decreased recidivism by those who have taken part. The department informs us that this year the availability of drugs in prison is at its lowest level ever. Seven percent of random drug tests were positive in this financial year, compared with 10 percent in 2009/10.
We consider it important to provide effective rehabilitation programmes for the many inmates who are not drug addicts. Māori offenders continue to be disproportionately represented at all stages of the criminal justice process, making up almost half of the current prison population. We heard that the department has made a genuine effort to meet the needs of Māori prisoners. A key project was the establishment of two Whare Oranga Ake units. These kaupapa Māori reintegration facilities aim to help prisoners to participate in their community on release, and reduce the rate and seriousness of reoffending. A recent evaluation indicated significant reductions in rates of reconviction amongst participants.

Some of us are concerned that there has not been a comparable focus on programmes for Pacific prisoners. The department assured us that it operates a Pacific Focus unit at the Spring Hill Corrections Unit which delivers culturally-based programmes. Evaluations to date indicate that the programme is working well, and the participation rate is rising. The department plans to consolidate practices at Spring Hill before implementing this programme in other prisons. We will monitor progress with interest.

Gangs

Because of the high correlation between gang membership and re-offending, this year the department has been seeking to reduce the likelihood of re-offending by gang members on release from custody. We are concerned that the number of inmates with gang affiliations has almost doubled in the last five years. We asked whether this reflected active recruitment within the prisons. The department acknowledged that the number is rising but said that most recruitment was taking place before offenders entered prisons.

The department is considering a number of strategies to combat gang-related issues. Generally the gang population in prisons falls into three categories: those who are determined to stay in gangs, those who want to leave gangs but are scared to do anything, and those who are trying to leave gangs. The challenge for the department will be to find ways to help prisoners leave their gang affiliations safely. The department suggested that the most effective and practical strategy might be to pay released prison inmates to relocate so they can leave gangs without fear for their safety. The challenge in implementing this will be getting support from community-based organisations. We will monitor this initiative with interest.
Appendix A

Approach to financial review

We met on 29 February and 21 March 2012 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
Lindsay Tisch
Jonathan Young

Evidence and advice received

Department of Corrections Annual Report 2010/11.

Department of Corrections, Responses to written questions, received 27 February 2012.


Office of the Auditor-General, Briefing on Department of Corrections, dated 29 February 2012.

Organisation briefing paper, prepared by committee staff, dated 8 February 2012.
Good morning, and welcome to the committee. I will ask committee members to introduce themselves, since we are a new committee with new members on it. Then I invite you to give us 5 minutes’ introduction, and then we will open it up to questions. [Introductions] OK, would you like to give us an introduction?

Thank you. Perhaps I will introduce my team first. I might just get them to introduce themselves. [Introductions] I will be brief. I thought I would just table, if I could, this document, because I think with the new committee I don’t know whether everyone has had access to it. This is our wee strategy document. I’m not sure if I can just distribute these. There are probably far too many there, so I will grab one. The reason that I wanted to give you this is that it provides, I think for the first time in a long time—about May or June last year, we brought together a range of strategies under four key priorities, and this is the programme that the Department of Corrections is
trying to drive off. I think it has quite good currency across the organisation; you know that when you go and visit people and they play back to you what is in your plan. Sometimes plans are just plans. We are trying to breathe real life into this. Perhaps what is important about it is the shift in emphasis and a real focus on reducing reoffending, I think, along with the other key priorities around public safety and the leadership priorities we have. So that is an important thing, and I am happy to take questions about how we are going in relation to that plan.

Just a few things I thought I’d mention that I think we are quite proud of in our achievements. I won’t go through a long list, but four key things in the last year. I did want to say that I think we are quite proud of our achievements in the community probation service area. Katrina has led that area for some time. In the last 3 years they have implemented a significant change programme, which has put in place a practice framework for frontline staff. That means they have a set of mandatory standards as well as some opportunity to exercise their judgment with the offenders they are working with. They have implemented that entire programme and we have seen a dramatic change, I think, in the compliance with mandatory standards in the work that we do, and quite a shift in the confidence of the people working in that service. They do work with some quite challenging people, and I think it has been a tremendous success, and you’ll see that in the kinds of achievements we have with offenders achieving compliance with their sentences.

The other significant achievement in this last year was the introduction of smoke-free prisons. In the prison service, which Jeanette leads, this is, in the way that we’ve done it in New Zealand, a world first; we are the only jurisdiction to go completely smoke-free. Some jurisdictions have tried it in various prisons and backed away from it, or proceeded in some states but they haven’t gone nationwide. It was a pretty high-risk project. I think it was managed incredibly well, and the benefits I don’t think we have started to really talk about yet—probably well beyond what we imagined when we started. We’ve reached a really hard-to-reach population group, and I think the health benefits—never mind the benefits to running a prison—have been quite significant.

The third thing was I mentioned the focus on rehabilitation. Alison Thom is the general manager who leads this area. The extra effort to lift the participation rate of people in education, training, and employment, and the ongoing effort to get prisoners jobs, I think, have been a sort of a hallmark of the last year. We have a fair way to go with this yet, but the whole organisation is starting to get in behind this effort. We have done some really quite neat things. Sometimes you read about them in the newspaper; we do try to publish the successes in order to get people on board with what we are doing at a community level.

The fourth thing, just in finishing, is that I did want to acknowledge the work of my team in response to the earthquakes in Christchurch. We were a
bit in the background, but if you think about it, we have over 1,000 staff in Christchurch. We were fortunate that none of those people lost their lives, but people close to them did. A number of them have lost their homes or are in the process of working out where they sit. But everybody got up to work who needed to—got up and went to work the next day—particularly in the prison environments, and did their job. But more than that, we didn’t just manage ourselves well; we actually made a significant contribution to the community, and it was probably the first time we’d worked in this way. We came together and provided food parcels and all sorts of health-related assistance, and so on. I think it was a real contribution that the Department of Corrections made in the background, as we will be. But prisoners made a big effort, as did community workers, to do their part in the rebuild of Christchurch. So those are four highlights for me in the last year. I will hand back to you.

Dean Thank you. All right, I will open up for questions.

Goff Thanks very much, Jacqui, and thank you, Ray and your team, for your achievements. There are a few familiar faces in the back row there. I have a number of questions, but I suppose we start with the topical, and that was the events of yesterday, and there’ll be the aspects of that that you won’t be able to comment on. But it has raised the question about the effectiveness of extended supervision orders, which were a very good idea brought in via a progressive Minister a couple of years ago. But this is a case of a failure in that system. How happy are you with the way in which the system is working, and what deficiencies generally have you identified in it?

Smith Yes, you will be aware that it is difficult for us to say a lot on this. Primarily, that is because we are prosecuting this case in the first instance, because we laid the breaches around the individual concerned. The last thing—

Dean Hang on. Sorry Ray, I’m expecting you to answer this question in very general terms.

Goff It’s couched in general terms, specifically.

Smith That’s OK. I appreciate the opportunity, actually. I don’t want to prejudice the outcome here, because it is very important to all of us. It is a very serious matter and very disturbing and upsetting for the families involved. What I would say in relation to the circumstances is that I think we are dealing with a situation where there have been multiple identities created and being able to be used. The last time I can think of a situation that had this amount of notoriety was the Wayne Patterson fraud that was committed at MSD, where the individual managed to create 124 identities in order to obtain superannuation payments, and there was a large review that took place around that and what can be done about that to strengthen the systems. I think the focus here is going to be around the fact that people weren’t quite sure who they were dealing with because there were multiple identities, and the system needs to look at that.
Dean  I would prefer you to talk in even more general terms today, thank you, in terms of extended supervision.

Smith  Well, in terms of extended supervision, I think the programme itself—I mean, the core criterion around the programme is that it does require a high degree of probation officer involvement. There is a regular reporting regime, much more strongly influenced than for other orders. And that includes home visiting regimes and requirements for people on that sentence to attend for psychological services or other forms of intervention. People are unable to take up employment unless it is approved by the department, or by a front-line probation officer, and unable to associate with people under 16 without our approval as well.

Dean  Just to be clear, that is under an extended supervision order? Those are the conditions?

Smith  That’s right. They’re the core conditions of that order. Probation officers manage a range of people on those orders across the country.

Goff  How many people are under those orders at the moment? Have you got a broad—

Smith  Around 200. I think just over 200 people are on that order currently.

Goff  Before you had that, you had no form of supervision over these people when they were released, so this was a step forward. The question we’re really asking, I suppose, is: has there been a pattern of breaches that you are aware of before yesterday’s event that would lead you to believe that there are deficiencies in the way the system is set up or being managed?

Smith  I can’t talk in relation to this case—

Goff  That’s why I said before yesterday.

Smith  —but in the broader sense, this is an order where staff are very vigilant in their actions. The people whom we are dealing with on this order don’t think and behave as we do. They are a challenging group to manage. That’s why the order was created. And there is a high level of attention paid to ensuring that reporting regimes and all of the mandatory requirements for compliance with those orders are met. I think we pay a significant attention to managing this order, because of the nature of the people who get involved. People are often breached, if you look across the population of people on this order across the course of the year. What that tells me is that people are active and vigilant in making sure that people comply with the sentence.

Goff  Are they all or predominantly sex offenders?

Smith  Almost all, yes.
Dean  Any other supplementaries on that?

Young  Ray, you just mentioned that when the breach was discovered, the staff were vigilant in the follow-up. Is that what you’re saying?

Smith  Yes absolutely, as with all orders. But you know you’ll often read that there’ve been a number of breaches in relation to the very supervision orders that probation officers administer. To me, that’s a sign that people are very active in managing their caseloads and ensuring that when people are off track—sometimes the things they breach for are relatively minor in the scheme of things, and other times they are more serious. But we make sure these things are taken back before the court, so there is a process that holds offenders to account. I do think the probation service has worked really, really hard over the last few years to make sure that offenders are held to account and people get to know about what is happening with offenders when they aren’t complying.

Dean  Thank you, next question.

Lole-Taylor  I want to ask a question around reintegration services. I’m noticing in the report that there are plans for the Māori focus units, and I must congratulate you on the Whare Ōranga Ake. But there is nothing in here about the Pacific development or about other future plans for the Pacific side of things from the Department of Corrections and I’m wondering what you have in place and why hasn’t it been reported, given that the only Pacific-focused unit in the country is in New Zealand?

Smith  Perhaps I will start, I think, with the Māori population. Given that it is just over half the prison population, there has been a very legitimate focus on trying to provide change programmes and reintegration initiatives, like te Whare Ōranga Ake, that actually make a difference. On the Pacific front, I do think the programme that we’re running at Spring Hill prison is quite unique and very successful as a programme, and you’ll know that. Of course, the participation level in that programme has increased; there are a lot of people participating in that programme. Certainly when I visit that programme—I actually called into it on Christmas Day—and move around that unit, what I encounter when I talk to the Pacific prisoners who are on that programme is that they actually feel like they are making progress. They feel like they have an involvement from community members. They have access to programmes and help that is probably superior in some respects to other prisoners. So I do think we are making quite a concerted effort. Just how we spread the programme in a broader sense I think is a good question. I guess we are trying to consolidate our efforts in Spring Hill to get that working really, really well, and then transfer the learnings.

Lole-Taylor  Just another question relating to that is how would you consider _______ because it has been there since 2009, the Pacific focus unit. What evaluation or what plans have you got in the way of carrying out a proper evaluation of that unit?
Smith Evaluations to date have shown the programme working well. What I have asked the team to do is—I think what we need is a further evaluation, an update on the current one, in 12 months’ time so that we can understand what we are achieving. I think one of the opportunities to extend what has been done in Spring Hill would be to look at the te Whare Ōranga Ake model of reintegration and see whether we actually take the Pacific focus unit model another step.

Goff If I can come back to a specific question that raised some alarm bells with me out of the annual report, that was the report that the number of people in prison with gang affiliations has doubled in the last 5 years. What that tells me, and no doubt you, is that there are a lot of people who come into prison without gang affiliations but who leave with them, and you and I know that there is a clear connection between gang affiliations and ongoing involvement in criminal activities. So my question is around, really, is that trend still increasing? What is being done to reduce that increasing gang affiliation? I know it is not a simple problem. And what is being done to stop, in particular, the recruitment of non-gang members who go into prison and who are under pressure to join the gangs and then leave with that gang affiliation? It is quite a serious problem.

Smith It is a serious problem and a good question. When I travel around prisons, sort of every other week, I often talk to people and am introduced to prisoners who are gang members. One of the things I ask them is what it is like to be a gang member, whether they want to be one, or whether they would like to leave the gang. Overwhelmingly they tell me that they are scared to leave the gang. Generally speaking, they haven’t been recruited in prison, although that does happen. I know that that does happen, sometimes because people are fearful and so they look for—younger people are quite vulnerable in this regard when they enter prison.

I have asked prisoners what they think would make a difference, and some have said to me that they don’t see an issue with being in a gang: that they don’t think that when they leave they will continue offending because they are part of a gang. Of course, we don’t see it that way. A lot don’t know how they could leave a gang and are really, really scared to take that step. Some have said to me that if we could help them relocate when they leave prison to areas where they are away from associates and family, they think that would make the biggest difference for them practically, in terms of actually removing themselves from the gang. Of course, the challenge there is, who will support and sponsor these people? And that is something that we have to work out through our community networks.

Are we doing something more broadly about that conversation? Yes, we are. The big challenge on this is trying to work out a plan in which we can get a conversation going with people who actually do want to do something about their gang affiliations. It seems to us that gang members are in three camps: those who are determined they are going to stay in the gang, and often they are younger; those who have reached a decision that they think
they want to do something about it, but they are not sure how; and those who are actively saying that they are going to leave the gang no matter what the consequences are of doing that. The challenge for us is to develop a programme that helps people leave their gang affiliations in a safe way. We haven’t implemented a specific strategy on that as such, but it is absolutely on our work plan this year. And I think, to be honest, one of the things that we struggle with a bit is, where do you just actually start and how do you make it safe? But I do think the relocation option, from my direct conversations with prisoners, seems to me to be a practical one if we can get good support from community-based organisations.

Goff You mentioned in that answer that they are generally not recruited in prison, but when I put down a written question about why the proportion was increasing, one of the reasons that you’ve identified is gangs’ recruitment of prisoners with no previous gang involvement. So clearly in your own words that recruitment is happening. Is the situation continuing to get worse in the sense of more people joining gangs, or has that plateaued? What percentage of inmates would be gang members, for example, now?

Smith I can’t remember the exact percentage. But is it true that gang membership amongst the population we deal with is increasing? Yes, it is. Does all the recruitment take place in prison? No, it doesn’t. People are entering prison with gang affiliations. I think part of it is that we are getting better at identifying this as well, which is about successfully running the prison and keeping gangs safe and gang members safe while they are part of the prison environment. Look, it’s just a really challenging issue, and there has been a rise. I think you are asking about the trend, and I think it continues to rise, albeit that it might not be at the same marked levels. I don’t think we have reached a peaking in that respect. It does worry us.

Goff Yeah. Have you looked at overseas examples, for example, of what they’ve done? And have you picked up any ideas there?

Smith I’m not certain.

von Dadalszen We have. We have looked at what other countries do, but we do have some unique features with our gang membership in New Zealand. And there are examples of things that have been successful, and they usually have some quite strong elements of the system and some element of keeping them away from people who might otherwise threaten them. But how they do that is quite tricky. Strongly punitive approaches don’t seem to work terribly well, and neither do wholesale isolation approaches. It is quite a challenge to get it right, and there is a lot of work and a lot of thinking going on right through the department on this.

Goff I wonder, Madam Chair, if through you I could ask if we could maybe get a fuller report from the department on the problem and what you’ve looked
at in terms of options to address it, because I think it is something that everybody would be concerned about here.

Dean Yes, we could ask for a briefing. We can talk about that in committee, OK?

Genter I have two general areas of questions. I was just wondering if you could provide a little bit more overview on areas in which the department has achieved cost efficiencies that were reported on in the NR report.

Smith In a range of areas there’ve been changes right across the department over several years, but some of this has been achieved in backroom functions, as they’re often described. In the IT area, for example, we undertook an outsourcing arrangement that gained us—well, we got a significant gain from it, in terms of the management of our IT deliverables. We did a similar thing with our facilities management function, so if you think about a department like corrections—it has 19 prisons, a large amount of community probation sites; managing all of those—the contract that we let to Spotless, that’s been a particularly successful programme. I think they deliver a superior service to what the department was able to do, and there have been some efficiency gains in that area, as well. They are all the range of normal things like travel and the administrative costs of running a department, and a constant focus on trying to drive down those costs wherever we can. So I think right across the range, from using some private provision where we were delivering the services ourselves through to the normal kinds of areas.

Genter As a follow-up I was wondering about the $24 million that was spent managing third-party providers, and what proportion of that was for the transition cost to the Mt Eden facility being transitioned to Serco?

Smith I’m not sure of the exact make-up of the $24?

Mahony Yes, of the $24 million, $12 million was for the transition—

Genter Totalling?

Mahony Yes, totalling. Part of that was part of the transition, so just one-off costs of getting it set up, and then part of it was also the cost of actually Serco operating the prison from March last year.

Genter OK. Do you have a sense of what the ongoing costs will be and what the difference is for the management?

Mahony Yes, it’s a $330 million project over 10 years. I suppose if we divided 330 by 10 you get 33, but that’s not the effective number, because there’re also incentive payments in there as well. Serco have to achieve certain things, as you’ve heard, to be able to achieve the full amounts.
Faafoi Just of that $12 million appropriation that was new in the previous year, what exactly was that earmarked for? Can you give us an idea of what that was spent on?

Smith What happened with the contract management at Mt Eden is it ended up starting earlier in the phasing than was originally planned—some years ago is where that number is associated, so that was simply about getting the prison up and going earlier. I think that’s where that cost was. It just came forward.

Faafoi There were a significant amount of redundancies because of the transition, and the bill went up considerably. Is there a catch-all figure about how much corrections has had to pay for the transition?

Smith Yes, I can provide you with that. I’m not sure of the exact number, but there was a significant transition cost because people were leaving their occupation with us. A number were made redundant before they were able to be re-employed. I can provide that number. I think it may be in the papers; I just can’t remember.

Young Just regarding the shifting of staffing from under the department to Serco, the number of FTEs in the department has dropped by 500 around that’s the figure here, anyway.

Smith Yes, that’s right.

Young How many of those would have transferred to Serco?

Arbuckle? Around 200 transferred to Serco of an establishment of around 300 at Mt Eden

Young So two-thirds of the staff under Serco were previously there under the department, so continuity of service?

Arbuckle Yes.

Young With the prison monitor that you have there, what cycle of reporting do you receive from this person?

Smith The prison monitor reports monthly at a national level, but it is daily reporting and working with the prison manager on site. That’s quite an important part of the programme actually in making sure that we can be clear that the contract’s being observed and good things are happening with prisoners. But there’s a regular reporting cycle. It goes a bit beyond that. During the transition phase I was meeting monthly—some members of my senior team and the team from Serco, the managing director—we were meeting monthly to make sure that we managed this transition well, looked after people on the transition as well as prisoners, and we now meet quarterly to review how we are going against the contract. Those meetings are held between their managing director and me—he’s based in Sydney.
There are a range of other meetings that take place at Serco, some of which my Deputy Chief Executive attends, I think now on a monthly basis. So there’s quite a high degree of oversight to make sure that we implement this programme well with Serco.

Young

Can you comment with your assessment on the level of satisfaction in terms of the relationship and also the performance?

Smith

Oh, I think the relationship’s good. I think it’s in the early phases, and anyone that’s been associated with the construction of new prisons and getting them up and going, there’s a kind of period, probably 12-18 months, were it takes to settle a new environment. It doesn’t matter whether we’re doing it or someone else is doing it, and I think we’re in that phase with Serco in Mt Eden, so I think we’re seeing some very positive things. I think they do some very good things with prisoners, for example, and their children, and those types of things. But it will take a while to settle into that new environment and get the team doing what they want them to do there. So I think it’s about where I would have expected it to be. It started formally—in August they took over, and I think it’s about where I would expect it to be.

Goff

This financial year you’ve earmarked about $8.5 million for the PPP for the new Wiri prison, but your figures indicate that the prison population is not rising at the speed that it was originally forecast and you might not go ahead with it. How much have you spent of that $8.5 million and when will you have a decision as to whether you’re going to go ahead with Wiri prison?

Smith

That’s a matter for Cabinet, and I think it’ll be in the near future—

Dean

That’s slightly out of scope, but we’ll see where we go with it.

Goff

Well, the question is, how much of the $8.5 million has been spent and has that been well spent if you’re still pondering, or the Cabinet’s still pondering, whether you’re going to go ahead with it?

Smith

I think probably—I’m not sure of the exact amount that’s been spent, but I can identify that for you. I think the thing we’re thinking about there is—well, there are three things to think about. What we know is that our modern prison facilities, of which a number were built over the last decade or previous decade, offer substantially superior rehabilitation options. That’s not the fault of the people that work in other places; it’s just what they’ve got, and I think you can see that in the modern prisons. There is some risk around the ageing of other parts of the prison estate. I mean some are over 100 years old, and so the ability to even recover some of those, or lift them to a level that would match our more modern prison environments, is an issue that has to be thought about. And there’s also a population dynamic. As you are well aware—I mean, Auckland is a large and growing population and we already have, I think I’m accurate in saying, several hundred prisoners that are located outside the Auckland area away
from their families and where they’re going to live. Those things have to be considered in the case for Wiri.

Goff Do I take it from what you’ve just said that your advice is that the prison should proceed?

Smith Well, I think Cabinet has to think about those things.

Goff I didn’t ask what Cabinet was thinking. I was asking what your advice is—whether your advice is that the prison should proceed?

Dean What a nice try. Oh no, I think—

Goff That’s a fair question, Madam Chair. It’s a fair question. We’re talking about the expenditure of this committee, and we’re looking at the audit document. We’re about to spend $8.5 million. We need to know whether that’s being well spent at the moment, and whether the advice of the department is that it should proceed.

Dean No, no, we can ask whether it’s money well spent, but I suggest you save that question for the estimates examination and then it would be very much in order.

Goff Well, that might be your advice, Madam Chair, but I’ve asked a question and it’s within order as to what the advice is as to whether this money is being spent. It’s not an out of order question, so I’d like to have an answer from Mr Smith.

Dean No, I’m ruling it out of order because it is something that is going to happen in the future, so I’m inviting you to resubmit the question.

Goff I’m quoting from a document that has been provided for me by the Audit Office to this committee, and the public of New Zealand has the right to know whether $8.5 million is being well spent or whether we’re tipping it down the drain because a prison that it’s being spent on might not proceed. That is totally within order. You cannot rule that question out of order.

Dean Well, I’ve allowed the part of the question that relates to the expenditure in this financial year, and as this is a financial review I absolutely think that’s in order, and if you want to ask any questions around that, that’s fine. But I think asking Ray to give an opinion on something that is going to happen in the future is out—

Goff No, with respect, Madam Chair, I’m not doing that.

Dean Why don’t you rephrase the question?

Goff Is your current advice that that money should be being spent because the prison should go ahead?
Smith  Well, I think the question about, is the money well spent, I think yes, it has been well spent, and I think we’ve done a good job in understanding what it will take to build a prison in Wiri and how that might be managed. So I think yes, I’m confident about the money that’s been spent. In relation to the latter part of the question, I mean the presentation that I put before you and the thing that Cabinet has to decide, not me—and I can’t pre-empt that choice—is about what a modern facility offers, what we have within the rest of the facilities we have, and the population dynamics that we’re dealing with in Auckland. Those are some key characteristics. I think probably the fourth thing maybe just to add into that, if it’s helpful, is the relative performance regime that might be able to be achieved. Those are the considerations, I think, for Cabinet.

Goff  The capacity of the new prison, if it goes ahead, would be 400?

Smith  960.

Goff  That’s huge. But you were only talking before—in your previous answer you said that perhaps there are 200 or 300 Aucklanders in prisons outside of the Auckland region. You’re talking about creating 900 beds. That means you’ll be having to bring people into Auckland who don’t actually live there?

Smith  No, it may even be greater than that, the population that’s outside of Auckland. What we do know, though, is that—

Goff  Can you provide those figure for me?

Smith  Yes, we can do. But, of course, the growth in population, including the growth in prisoner population, continues to be where the main population base is.

Goff  If we could have those figures, Madam Chair, that would be good.

Dean  Sure.

Lole-Taylor  You’ve just answered the question about the PEP, but I’d like to ask a question or questions about Serco.

Dean  Yes, that’s fine—that’s a supplementary.

Lole-Taylor  Ray Smith, you gave us that 200 staff were to be transferred over to Serco from corrections, and I noted in one of your answers that a number of staff were made redundant in 2910-11, and the salary bands—it’s roughly 268 around the band of 40 up to 70. I just want to know, because in your report you mentioned about the performance, how many of those 200 staff transferred to Serco were part of that 268 that were made redundant?

Arbuckle?  The bulk of those staff would fall into that salary band, so that’s where those numbers would fall.
Lole-Taylor Would it be fair, then, to comment that given the salary band that you’ve identified in here, it’s very much likely to be people around PCO and SCO level? Would it be fair, then, to say that a level of experience and knowledge may have been lost in these transitions?

Arbuckle? The group that transferred over were a fair representation of a cross-section of experience: corrections officers, senior corrections officers, and PCOs. They were working on site in that prison location. It hasn’t had a significant impact on the organisation’s experience and strength.

Lole-Taylor Then through you, Madam Chair, would it be OK to ask for perhaps a report at a later stage?

Dean Make a note of it; we’ll discuss it after the hearing.

Tisch Ray, going back to 2010 you indicated that there would be a saving of $131 million over the next 3 years, of which $112 million would come through value creation. It’s indicated that with your way-forward programme approximately $40 million has been saved. So there are three parts to this question: are you on track to save $131 million, which you indicated in 2010? The second question is, what is the value creation that’s going to allow this saving, and the third question is, is the $40 million that is indicated that you have saved to 30 May last year—is that included in the $131 million? So there’s three parts to that.

Smith Perhaps in a broader sense on that, what I can say is that yes, a significant amount of value has been created, and the way you look at that is, even though volumes have increased in some areas—they had been increasing in the community probation area—the ability of that service to absorb those volumes and not have to seek additional funding to support that activity has been significant. There have been efficiencies gained right across, whether that’s in the management of prison services—as I mentioned in some of the outsourcing activities that we’ve undertaken that have derived value—and just in the general management of the department. So yes, we have done very well in terms of managing within our baseline. What that allows us to do as we go forward is to reinvest that money in rehabilitation-type programmes. One of the things we did this year is increase the number of case managers by 50 that are able to work with prisoners, when they first arrive, in the planning for their sentence and the kinds of programmes they can go on.

So being able to reprioritise funding from within the department is very good, and I think we’ve achieved quite well on those targets. We are undertaking an expenditure review currently, so we’re sort of shifting into a new phase now of looking at what further opportunities there are to ensure that where we’re spending our money we’re getting best value. And one of the things we’ve been focused on as a team is how we lift the number of programmes and interventions we have, and increase the participation rate
of offenders in the community and prisoners by reprioritising some of that expenditure. That programme is going well.

Tisch Are you going to save $131 million over 5 years?

Smith Oh, absolutely. I think we’re well within that, and that means that we’ve been able to meet baseline pressures and costs of wage adjustments and all those kinds of things. So I think we’re well on track in terms of the savings targets that we had, and we’re well on track in terms of our planning to make sure that we can do all the things we need to do for offenders and for our staff into the future. The current expenditure review, I think, is helping us look at where we spend our money and where the opportunities are.

Goff The $131 million over 5 years: how much of that do you get to reinvest in areas like increasing your case management, and how much goes back to Government?

Smith I don’t think we’ve had to return—that’s all been internal, hasn’t it?

Mahony Yes, I think I’d have to go back and check. I think $131, but that was initially set up to support the way forward; it was to be used for reinvestment within the business.

Goff And that’s to cover wage increases and things like that, which you are not getting compensation for, is it?

Mahony Well, yes, those costs as well as other initiatives that we’re undertaking, as Ray mentioned, on 50 new case managers.

Goff You don’t get any inflation adjustment at the moment for your increase in costs, wages, or other—

Smith Well, we’re in a position where I think through some good management we haven’t had to go back to Government and ask for an investment to meet those costs. I’m really very confident—and looking forward as well—that we have the capacity within the department to (a) increase what we’re doing on the rehabilitation side, (b) strengthen our security procedures and investment in security in our large facilities, and, thirdly, meet the general expectations that our people have around wage movement and so on. I think that’s because the department started a programme a few years ago around looking at its value for money. We’ve continued that programme, and I think we’re in a good position to be able to meet all those expectations.

Goff Just one other one: you said that you’re now undertaking an expenditure review. Does that imply that you’ll be making cuts in addition to the $131 million that you spelt out in 2010?

Smith I don’t think we’ve made any cuts really to achieve that. We’ve changed the way we’ve done a range of things, and I think the department did very well
in that. Largely I came into this job on the back of those changes, and they
seem to have been positive. Going forward, some of the things that we’re
looking at are we have a large investment in our rehabilitation services, and
a large number of assets. What I’m interested in is how we increase the
participation levels of people that are in prisons by thinking about how we
spend that money. Some examples are we may increase the number of
people who are participating in kitchen activities and getting qualifications
by being able to shift resource into those areas.

Goff I’m sorry, my question was—and I’ll rephrase it to avoid the word “cut”—
your expenditure review: how much extra savings over and above the $131
million do you have to find?

Smith Well, what do we think we can get, I think, is more to the point. I’m not
sitting in a position here with this committee where I don’t think we can
live within our baseline, which is about $1.1 billion, actually reprioritise an
amount of that expenditure each year—

Goff You don’t have a figure yet?

Smith Well, we’re working through that process—to do two things: (a) meet the
general wage expectations of our people—

Goff Have you got a ballpark figure, just so we know we’re talking about $5
million or $20 million, or—

Smith Well, I think we need to complete the expenditure reviews so we can see
what the full potential is.

Dean Shall we ask for that information?

Goff Yes, we could ask for that information.

Young Coming back to the community probation service, it was the first thing you
mentioned about achievements that you’re very pleased that you’ve worked
on, which is the increase in compliance management standards. You
mentioned also in that a measure of discretionary judgment or room to
move that a probation officer might have. If, in the body of your answer,
you could just let us know what that means—but what I’m really asking
about is the successful completion rates of 84 percent. What is that like in
comparison with past years, and if you have the answer, what’s the
reoffending rate out of those 84 percent who do complete? Out of the 16
percent who don’t, what sort of reoffending rate might they have?

Smith That gets more complicated. Perhaps I’ll start, and then I might ask Katrina
to talk on this. But effectively it’s been about a 10 percent lift in
performance across the last few years in relation to completion rates. One
of the things that has been very important, I think, is to get a set of
mandatory standards in place around the things that we want probation
officers to absolutely do, for which, you know, these are the black and white
things that have to be completed when a person’s coming on to a sentence or managing them on their sentence or order. And then we also want people to be able to use their judgment. If they think they need to increase checks or change arrangements or flag an issue we want them to be able to do that, and I think the system that had been built prior to this relied on a continuation of introducing more and more and more rules. Every time something went wrong a new rule got created, and you ended up with a great big book of rules for managing each situation. It didn’t really allow staff to focus on the 10 or 12 key things that must be done, and then allow them to use their judgment when they see things that might make them think that we should do a bit more or that we’re travelling well with one of the people that we’re managing.

So that’s been a big shift for the probation service that Katrina has led, and it’s lifted it much more into a practice model as opposed to just a rules-based thing where you get the rule book out and say you know, “What do I do in this circumstance?”. You can never cover every circumstance, and it doesn’t really empower your people to use their best intelligence when they’re dealing with someone face to face. So I think that’s made a very big difference to the kind of things that are being achieved in front-line probation science.

Just on the reoffending—there’s a whole recidivism index that’s published, and some of that’s in the annual report. That sort of shows you the achievement levels, and what I’m pleased to see—I think we’re all pleased to see—is that’s trending in the right direction.

Faafoi Ray, one of the things that the Auditor-General’s office pointed out was the increase in serious assaults and unnatural deaths in the past year. Has any work been done to investigate why? And what measures have been taken to make sure that we can cut that down?

Smith Whenever a serious assault occurs—not in every instance, but quite often—I will go and either visit or contact directly that front-line corrections officer. More recently, I asked 10 people who had been seriously assaulted in the last year to meet with me and my management team for half a day here in Wellington, just to talk to them about what their experience was and what suggestions they would make to us about what would make a difference for them. Together we developed a bit of an action plan, which we’re working through, that would make a difference.

First of all, I take it really seriously when this happens, and sometimes I’ve had to go to hospitals and visit my staff, which is a very frightening thing for them and their families when serious things have happened. Overwhelmingly, staff who are hurt say to me they just want to get back to work, which I’m always surprised by. But it’s something to do with the commitment they have to the job that they do, and we often have to keep them out of work for a while, while we give them a chance to reflect and
think about what’s happened, get them support, and make sure they recover from their injuries.

So I just want to say at the outset, staff safety is something that I and this team here take really, really seriously. It is an unpredictable thing and so, again, what I have observed personally with this is that it may well be planned by an offender at times, but we have no sense that it’s coming. It’s usually a one-to-one interchange, it happens quite rapidly, and people find themselves in a situation where they have to respond. Where we have more time, we have a range of safety equipment and measures that we take to ensure that we can deal with situations.

I’m incredibly proud of what people do every day to manage these situations. I think it’s a very tough job. They do it with great passion, and, as I say, we continue to focus on initiatives that will actually help make staff feel safer and be safer. And my big interest has been in their telling me what they think would make a difference.

Lole-Taylor There’s been a huge success in the area of drug treatment services highlighted in your report, and I think I need to acknowledge the work of your staff in that area. What I don’t see, though, is, what about other programmes? Are there any? Not all prisoners in the prison are there for drug-related offences, and we would like to see the other large percentage of prisoners who are involved in other kinds of offending—what treatment is being carried on, or what rehabilitation programmes, because it’s not featuring in your report? And what staff training—because your budget shows a large amount of money being spent on staff training? Are there any new developments in here in staff training in order to address those recommendations—

Smith I might just start on the staff training side. There is a big investment in staff training. We run a college for new corrections officers. Each time those corrections officers graduate, almost every time I go out, often with the Minister, and present their certificates. That’s a multi-week programme that they participate in. A lot of the cost associated with training is getting corrections officers ready for their first day on the job. I think we do that quite well and better than we’ve ever done before. There’s been a significant investment in the probation service training programme to make sure that people achieve a certificated level as well, so that we know that they’re ready for the job and doing well in the job. That training continues after they start, and carries on. So there’s a big programme, and we’ve just recently targeted the principal corrections officers—they’re kind of leaders in prisons of units and teams—and we have run a 2-day programme with them.

I think your question about the rehabilitation side is—we’re just starting to push much more strongly around what the options are there. In terms of programme delivery, there’s a big range of programmes that are available. There are the programmes that target sex offenders, there are programmes
that target people who have violence and so on, there are special units for
those things across the prison estate. But more particularly the things that I
see that I think are very impressive are things like the trade training
programme that we got up and started in Christchurch just recently. I
visited it last Wednesday. There I saw men working on automotive
engineering. I saw them in a paint workshop where they’re learning those
kinds of skills. They’re getting trained by people who are from the institutes
of technology, so they’re getting certificates—

Dean

NCEA.

Smith Absolutely, and again in the embedded literacy area. You'll often see a
prisoner in part of that programme having to do some bits of written
material, which is often a bit of a struggle for them. And that’s all about
trying to give them some help with their low literacy levels as well. So I
think across the board I see a large range of programmes. The real challenge
I think we’ve got is making sure we can help these people get a job at the
end of their programme when they leave prison.

Lole-Taylor We should be able to get a recidivism figure on the outcome of the project,
because we didn’t manage to get that.

Dean We’ll make a note of it and we’ll ask for it.

Genter I just want to come back to the trend of increasing serious assaults and
unnatural deaths in custody. With respect, I didn’t hear in your answer—
you were talking about prisoner-on-staff assaults, but I was wondering if
you could speak to whether or not the department has identified the
underlying factors or contributing factors to this trend of increasing both
prisoner-on-staff assaults but serious assaults between prisoners, and
unnatural deaths in custody.

Smith Yeah, I think what you see, if you look over the years, is it bumps up and
down a bit. It kind of stays within a range. I mean, the numbers are quite
small—albeit the consequences are quite serious. You know, some years it’s
very low, other years it might rise to 10 or 12, then it’ll be back to two. So
they’ve stayed within a kind of pretty consistent range over the years,
although they’ve come down from the highs of some years ago. I think in
identifying the underlying factors, what I was talking about is that the only
way you can really do this is to talk to your front-line staff, which is what we
do do, to try and understand what they’re encountering every day and what
would make a difference. And you try new things. We have had a pepper
spray trial, as one of the initiatives to see whether that would make a
difference for front-line corrections officers in order to reduce the impact
of violence in prisons or when we have an uncontrollable situation with a
prisoner. There are a range of things we’re trying all the time to see if they
make a difference for our staff.
There are a lot of simple things too, like, you can turn down the hot water in high-security units so it’s not so boiling, so prisoners don’t throw it on our staff in order to then carry out a further assault. So there are a range of relatively—they seem small things, but they can have a big impact. What we’re doing at the moment is just trying to understand—actually, we do it all the time. We’re constantly reviewing initiatives that might make a difference for our staff. It’s a tough area, and there are no easy answers to it.

On the unnatural deaths—I mean, this is a really hard thing for families when they lose a person in prison, and one of the things we do is we always go and talk to those families about what’s happened. It’s also incredibly hard for my staff, if you can imagine what it’s like to find somebody who has taken their own life. Perhaps what’s not reported there, which I think we should report, is the number of people whose lives we save, because they far outweigh the numbers who actually succeed in taking their own life. When I talk to corrections officers they say to me this is one of the very distressing parts of the job for them, and they do worry about that. We have a suicide prevention programme that we’re upgrading, and we’re rethinking it, because we just feel that we need to go further in terms of what we can do. One of the things I think will make a difference is the introduction of a mental health screening tool. Right across the country every prisoner who comes in will be screened appropriately, and that will mean we can get mental health support more quickly for those people whom we are concerned about.

Dean Interesting.

Faafoi Is there anything different about the sentenced prisoner and the remand prisoner as to why the unnatural deaths have gone up by 147 percent?

Burns I think remand prisoners are a little bit more unpredictable in that they’re going in and out a lot and having more interaction with troubled families. So that I think would partly explain why we have more on the remand population than the sentenced.

Young Ray, when you said you met with the 10 staff members who’ve been seriously assaulted, what sorts of things did they say to you in terms of the circumstances?

Smith Well, I think it’s the unpredictable nature. You know, if I think about the very serious incident we had in Hawke’s Bay where two men were hospitalised, they were going about their day job in the youth unit. They didn’t foresee any problems. They’d been interacting well with prisoners and had been active with prisoners, and then they were caught from behind and severely beaten. There didn’t seem to be any preceding circumstances that shed any light on it. That’s really hard to control for. Similarly, I can think of a chap out at Rimutaka who was assaulted unexpectedly. He had a good relationship with the prisoners. In fact, the other prisoners, when he returned to the prison, were all worried about him. What you find in these
situations is usually and often other prisoners assist and help if they see something going on.

Generally speaking, I see a positive relationship between corrections officers and prisoners, and that kind of active management of prisoners—talking to them every day; understanding what’s going on for them—makes a really big difference in knowing whether you’ve got some problems brewing and being able to do something about it. But I would say, generally speaking, these things are a surprise. There was one set of assaults where prisoners were planning an escape, so that was a bit different. The people got caught up in that situation. They stopped the escape, which was heroic, but they were injured in the course of it. I think we’ve been lucky that all of these people have been able to come back to work and we’ve been able to support them. But there are a range of—I can’t just reproduce the list off the top of my head—but there are a range of things that we are doing that will make a difference.

One thing they’ve asked for is, can we give them some more self-defence training? It’s fine to be in a position, if you know you’re going into a situation, to kit yourself up and to use all the tools. But usually these things just happen quite randomly, and how do they take care of themselves if they need to be able to hold an offender off?

Genter So if I understand your answer correctly there isn’t an increasing trend, that 2010-11 was just a sort of random blip, there’s not going to be any sort of analysis systematically about any potential contributing factors that might be trending up? It was up—every type was higher than expected.

Smith I think if you have a look at the annual report, where it shows it over, I think, a 5-year period, you’ll see that this year was at a particular point, which was equivalent to 2 years earlier. We dropped off; we had a good year the year before that.

What I’m saying to you is because the numbers are low—i.e., I can talk personally to the people who were assaulted, in order to understand what’s going on underneath it—the analysis is relatively simply in that regard.

Genter Can the department find an update on the figures since July 2011?

Smith Yes, absolutely happy to.

Goff Just supplementary to Julie-Anne’s, first of all: I was looking at those figures and both Julie-Anne and I were concerned that the prisoner-on-prisoner assaults were up 85 percent, the prisoner-on-staff 160 percent above what you’re expecting, and unnatural deaths at 147 percent. Now in percentage terms they look pretty horrific; in numerical terms they’re lower. But you don’t see any trend there—for example, the prisoner-on-prisoner assaults have nothing to do with double-bunking and pressures that might be created by that? There was no association that you could see in that?
Smith  No, I didn’t see an association with assaults in relation to that, particularly in relation to the staff. If my memory serves me about right, most of these people weren’t in double bunks. I think I’m right about that.

Goff  It was the prisoner-on-prisoner I was thinking of, because that would be a more natural association.

Smith  No, and in fact—I’m not saying that hasn’t happened, but I don’t think that’s been a prevailing feature. One of the things that has happened with that is there’s been—in some respects it is good. Not all prisoners are double bunked. But where they are double bunked, often there are a range of protective factors in there more than risk factors, if you get the combination right. If people who want to self-harm and hurt themselves, there’s somebody else who can actually provide the alert. So in some ways double-bunking helps us.

Goff  OK, can I raise—my substantive question was actually about another factor that might relate to this, and we saw in the last 2 years, actually, an increase in the number of acutely mentally unwell people in prison from, I think, 36 in 2008-09 to 51. Now we’ve got people who are acutely mentally unwell—they’re a danger to themselves, they’re a danger to other prisoners, and they’re a danger to staff. I think there are many people who would ask why acutely mentally unwell people are actually in prisons rather than in somewhere like the Mason Clinic that is designed specifically to deal with the underlying mental health conditions. That is, I think, a significant increase over those 2 years. What are the problems that you are facing in getting people who are in this situation out of prison and into a facility that is designed to treat their mental illness?

Smith  Look, I think that is a huge challenge. I visited the Mason Clinic and Pāremoremo prison about a month ago, because I wanted to get a bit of an understanding for myself about how those two things worked together. And they do work together well; there is a large transfer of prisoners between the Mason Clinic and that maximum security prison. The maximum security prison probably has the largest proportion of people who will need to go to one of those types of institutions. But there is a challenge in terms of getting people in there in a timely fashion, and the Mason Clinic would acknowledge that.

One of the things I think we can do is make the transfer a bit more seamless. On the prison services side I think we can do a bit more with our own, I guess, care and attendance for these people while they are with us, so we don’t just have a situation where we’re waiting for a bed at the Mason Clinic and then just transfer them over. We can do a lot within our own facility, and what I observed is that we’re doing a lot more with our own health staff to provide the kinds of supports.

But you’re right to raise it. It’s a significant issue, and I think the mental health screening process that we implement will give us an even stronger
sense of who we’ve got, much earlier, and I think for planning purposes for health services it’ll give them a stronger sense, too, of who we’ve really got.

Goff Ideally, do you want more beds in the Mason Clinic where people can be treated that are in this situation?

Smith Oh, I’m sure they would ask for more. I think one of the—

Goff Should they actually be in prison if they’re acutely mentally unwell, or should they be in a specialist facility like the Mason Clinic?

Smith It’s a difficult definition, actually, and I think the challenge—in my meetings with the Director-General of Health we’ve now formed a committee at the most senior level to try and iron out how we manage between ourselves. Rather than trying to pass people between ourselves, we work out how we could do better together. We have a large facility and we have medical people, and it may be that some of the services they provide can be provided in prison, where we actually have a large estate and opportunity. So we’re trying to find a way forward together rather than waiting for a solution in one part of the system.

Dean Can I just finally, because we’ve had our hour with you, just ask you: have you a sense of the impact that the Sentencing (Aggravating Factors) Amendment Bill, which we passed through Parliament a couple of weeks ago—has that filtered through to corrections officers the fact that now an assault on a corrections officer and the police will be an aggravating factor in sentencing?

Smith I’m not sure exactly whether it has filtered through in that way, but they will be delighted to know that they’re being supported in that way. Those staff members who have been assaulted have raised that matter with me. They’ve always said to me that they have had huge support from the New Zealand Police in terms of cases being taken to court, and support those activities. But I think it’s a recognition for them, and for front-line staff in the Department of Corrections those kinds of recognitions actually go a long way.

Dean On behalf of the committee, thank you very much for coming today and for your very full and good answering. So thank you, and you will be providing us with more information.

conclusion of evidence
2010/11 financial review of the Crown Law Office

Report of the Justice and Electoral Committee

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Recommendation
The Justice and Electoral Committee has conducted the financial review of the 2010/11 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 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—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 2010/11 was $73.883 million, and its total expenditure was $71.005 million, resulting in a net operating surplus of $2.878 million (compared with a 2009/10 net deficit of $2.349 million). Additional funding of $10.7 million was approved through the 2010/11 Supplementary Estimates, to meet increased demand and associated costs for the supervision and conduct of Crown prosecutions.

The Office of the Auditor-General issued an unmodified audit opinion on Crown Law’s financial statements. Crown Law received a rating of “very good” for its management control environment, a rating of “good” for financial information systems and controls (Crown Law received a “very good” rating for this category in 2009/10), and a “needs improvement” rating for its service performance information and associated systems and controls. We note that Crown Law has now updated its service performance framework measures and will implement changes in its 2012/13 Statement of Intent and Estimates documents.

External reviews
We heard that three external reviews were undertaken of Crown Law:

- a Performance Improvement Framework (PIF) Review of Crown Law by Paula Rebstock and Peter Doolin
- a review of public prosecution services by John Spencer
- a review of the role and functions of the Solicitor-General and the Crown by Miriam Dean QC and David Cochrane

Collectively, the reviews found that the quality of Crown prosecution services is high but that Crown Law could improve its effectiveness and efficiency in a number of ways.
Role of the Solicitor-General

The Dean-Cochrane review confirmed that the Solicitor-General should continue to be chief executive of Crown Law and to undertake advocacy and advisory roles, but should emphasise advice over advocacy. The Spencer review recommended that the Solicitor-General play a greater role in supervising prosecutions undertaken by other agencies. The PIF review recommended that Crown Law create a new role, deputy chief executive, to take over some of the Solicitor-General’s management burden.

Crown Law accordingly appointed Andrew Hampton as deputy chief executive. In this role, he is leading work to address recommendations from the PIF review on improving Crown Law’s strategic leadership and public sector management capability. Crown Law is still considering the recommendation that the Solicitor-General supervise other agencies’ prosecutions more actively, and we will monitor their response.

Forecasting and financial management improvements

The Spencer review found that Crown Law needed to enhance its financial management, forecasting, and data collection. We were pleased to hear that Crown Law is strengthening its administrative capability. It has appointed a business analyst, a policy adviser, and a deputy chief executive, and is engaging more with the justice sector. Crown Law is represented on the Interagency Courts Improvement Committee and, since 2010, has participated in the annual Justice Sector Forecasts, which are produced by the Ministry of Justice to enable strategic planning in the sector.

Rising costs of criminal appeals

We heard that the volume of trials for indictable offences and appeals has fallen, but that costs continue to rise. We understand that this is largely due to the increasing complexity of criminal appeals as a result of legislative change, procedural requirements, trends in offending, and technological advances in forensics. Despite needing a $10.7 million increase to its appropriation in the Supplementary Estimates, Crown Law is satisfied that its baseline funding is sufficient to cope with these increasing costs.

Royal Commission inquiries

Crown Law has been responding to several disasters in 2010/11. It established the Royal Commission inquiries for the Canterbury earthquakes and the Pike River mine tragedy. Crown Law also played a central advisory role regarding the Canterbury Earthquake Recovery Authority legislation, and Crown counsel represent the Crown parties before the Canterbury Earthquakes Royal Commission. We appreciate that Crown Law has absorbed the unexpected costs of responding to these events, while continuing to fulfil its core responsibilities.
Appendix

Approach to financial review
We met on 8 and 29 March 2012 to consider the financial review of the Crown Law Office. Evidence was heard from the Crown Law Office and advice received from the Office of the Auditor-General.

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

Evidence and advice received

Crown Law Office, responses to further committee questions, dated 14 March 2012.


Organisation briefing paper, prepared by committee staff, dated 9 January 2012.
2010/11 financial review of the Ministry for Culture and Heritage, the Office of the Clerk of the House of Representatives, the Parliamentary Service, and Statistics New Zealand

Report of the Government Administration Committee

The Government Administration Committee has conducted the financial reviews of the 2010/11 performance and current operations of the Ministry for Culture and Heritage, of the Office of the Clerk of the House of Representatives, of the Parliamentary Service, and of Statistics 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.

Hon Ruth Dyson
Chairperson
2010/11 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 2010/11 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 2010/11 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 providing the Government with advice 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.

Financial and service performance

The ministry received an unmodified audit opinion on its financial statements. It achieved a grade of “very good” for its management control environment, “good” for its financial information systems and controls, and “needs improvement” for its service performance information and associated systems.

The ministry’s service performance information and systems also received a “needs improvement” grade in 2009/10 but we were pleased to be told by the Office of the Controller and Auditor-General that the ministry is making good progress on a new set of performance measures. We encourage the ministry to ensure that those measures are realistic and achievable.

Defence review

We heard that the publication of the Defence White Paper on 2 November 2010 was the biggest event for the ministry in the year under review. This has been followed by the release of a Defence Capability Plan in September 2011. The plan provides a framework for implementing the changes recommended by the White Paper. We will follow the progress of the plan with interest.

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.

**Financial and service performance**

The NZDF received an unmodified audit opinion on its financial statements. It achieved a grade of “good” for both its management control environment and its financial information systems and controls, and “needs improvement” for its service performance information and associated systems. The Office of the Controller and Auditor-General told us that, like those of the ministry, the defence force’s outcome measures and targets continue to need improvement, but that the NZDF is making progress. We encourage the NZDF to ensure that any new measures are realistic and achievable.

**Savings programme**

In response to the recommendations of the Defence White Paper a savings target for the NZDF of $350–$400 million by 2014/15 has been set by the Government. The NZDF assured us that the target is achievable, and that it is confident its savings plan is adequate. We heard that $127 million in savings have been made so far, and the plan sets out further savings up to a total of $358 million; however, some components of the plan have yet to be finalised.

The NZDF is conducting a review of all the property it owns, and we were told that all possible options are being considered. It will report back to the Cabinet Committee on State Sector Reform and Expenditure Control on the results of the review in August.

We asked how the savings programme is likely to affect the number of personnel employed by the NZDF. The NZDF said its employee base has been reduced by approximately 500. We were told that the high rate of attrition in the NZDF is likely to make further redundancies unnecessary.

**Civilisation**

A programme of civilianisation was launched as part of the post-White Paper change process. Civilisation re-designates as civilian roles that were previously performed by uniformed staff; and 300 uniformed staff have been discharged from their roles as a result of the process.

A further 130 positions are scheduled to be civilianised; however, the NZDF told us that because of high rates of attrition and the damage caused by the civilianisation process, further civilianisation will not be undertaken.

We were very concerned to hear that two of the uniformed personnel who were made redundant in the civilianisation process were then reengaged in the same uniformed roles when it was discovered that they were performing essential services. These mistakes incur unnecessary costs, and undermine the change process as a whole. This is unacceptable and we have asked the Defence Force to put mechanisms in place to ensure that this does not occur again and report back to us within the next three months on progress made in this area.
Morale and attrition

The NZDF told us that the civilianisation programme has been more damaging than expected. We heard that there is a sense the NZDF has broken an implicit contract with its personnel, and that the uncertainty created by the change process has contributed to very low morale and high attrition.

The NZDF conducts a regular attitude survey of its personnel. We are very concerned that the most recent results show morale is at its lowest since the survey began, with 67 percent of personnel describing their morale as poor or satisfactory. Attrition is currently running at 19 percent.

It is vital that the morale of defence force personnel be lifted and we expect the Minister and the NZDF to take action.

Remuneration

Defence force personnel have received no significant pay increase for four years, which has also contributed to low morale and high attrition. The NZDF has to compete with private-sector employers, such as mining companies in Australia, security firms in the Gulf of Aden, and commercial airlines, who are eager to employ highly trained defence force personnel. We were told that the NZDF is aware that it needs to improve remuneration in order to retain skilled employees, and will be discussing the matter with the Minister of Defence; but also that it cannot compete with the private sector on pay alone.

Future focus

The NZDF told us that it is working to improve communication with its employees, to provide them with more detail about planned changes, and to give them more certainty about their careers. We heard that it has developed a high-level vision for the future of the defence force to 2035, which it hopes will demonstrate that a career in the defence force is a viable and desirable option, while providing for flexibility to adapt to the future.

The NZDF told us that this pathway will lead to the development of an amphibious task group, in an integrated approach to meeting New Zealand’s security needs.

Contribution of armed forces

We would like to acknowledge the contribution of the men and women serving in New Zealand’s armed forces, both at home and overseas, and express our appreciation for their efforts. They perform their duties to an extremely high standard, in challenging and frequently dangerous conditions.
Appendix

Approach to financial review
We met on 8 and 22 March 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

Evidence and advice received


Ministry of Defence, responses to committee questions, received 6 March 2012.


Organisation briefing paper (Ministry of Defence), prepared by committee staff, dated 21 February 2012.

Organisation briefing paper (New Zealand Defence Force), prepared by committee staff, dated 21 February 2012.
# 2010/11 financial review of the Ministry of Economic Development, and of non-departmental appropriations for Vote Economic Development and for Vote Energy

Report of the Commerce Committee

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

Recommendation

The Commerce Committee has conducted the 2010/11 financial review of the performance and current operations of the Ministry of Economic Development and of the non-departmental appropriations for Vote Economic Development and for Vote Energy and recommends that the House take note of its report.

Introduction

The Ministry of Economic Development provides advice to the Government on improving economic performance in general, and advises and implements policy on a wide range of economic issues, primarily from a business perspective. The ministry administers six votes (Commerce, Communications, Consumer Affairs, Economic Development, Energy, and Tourism) and supports ten ministerial portfolios. It is responsible for monitoring ten Crown entities and two Crown companies (New Zealand Venture Investment Fund Limited and Crown Fibre Holdings Limited), and delivers various services to businesses.

David Smol is the chief executive, and is responsible for services supplied to the relevant Vote Ministers.

Review of reports on non-departmental appropriations

This report also includes our review of certain non-departmental appropriations of $151.62 million for Vote Economic Development and $10.554 million for Vote Energy. 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 Power Station.
Financial and service performance
The ministry’s deficit increased from $2.22 million in 2009/10 to $8.68 million in 2010/11, considerably larger than the budgeted deficit of $2.22 million. Total revenue was $85 million from the Crown and $56.88 million (up from $52.08 million in 2009/10) from other sources such as fees, levies, and sales. Taxpayers’ funds (total assets minus total liabilities) amounted to $28.96 million, up from $24.92 million in 2009/10.

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance reporting of the ministry. It assessed the ministry’s management control environment as very good and its financial information systems and controls as good. It assessed the ministry’s service performance information and associated systems and controls as good.

Strategy for economic growth
We asked the ministry about its role in the Government’s strategic framework for economic development and accelerating growth in exports. We asked whether the ministry had provided advice to the Minister of Economic Development about its strategic thinking, and referred to the ministry’s Briefing to the Incoming Minister, which stated: “Improving the macro-economic and regulatory environment is necessary … but not sufficient”, and that “deeper and further action will be needed in the form of a refreshed and more ambitious strategy”. \(^1\) We asked the ministry for a broad overview of its strategic work. It told us that the ministry and its partner agencies focused on removing barriers to productivity and ensuring that business support activities are configured to drive growth. This required an understanding of the economy from a national, regional, and sectoral perspective, acknowledging that different cities, regions and sectors had different strengths and needs. It cited its recent work with the Auckland Council and other local councils, the Canterbury Earthquake Recovery Authority, and the food and beverage, health, aquaculture, tourism, knowledge-intensive manufacturing, and screen production sectors.

The chief executive explained that past decades have shown that “getting the conventional OECD menu fully implemented doesn’t appear to be sufficient to achieve the levels of growth to which we aspire”. He noted that New Zealand had “fallen in relative terms to other OECD countries over the past 20 or so years, although the rate of fall has moderated substantially of recent time”. The ministry saw the main obstacles to growth as New Zealand’s size and location, and the relatively small size of its businesses. He said that for New Zealand to succeed, the Government needs to “address every lever the Government can influence to maximum effect”. Opportunities for improvement included:

- regulatory settings
- infrastructure
- skills and education
- capital markets to support local firm growth
- supporting firm innovation

• more integrated use of offshore networks across various Government agencies.

We asked the ministry if it had a broad strategic framework that could overcome obstacles to New Zealand’s growth, including by region and by sector. It said New Zealand businesses needed to focus on sectors in which they could realistically compete in international markets, such as minerals and petroleum and high-value tourism. The ministry said both regional and industry-focused approaches to development warranted serious consideration, and that regional development was particularly appropriate in Auckland (including Auckland Tourism Events and Economic Development) and Canterbury. It also focused on green growth and Māori economic development issues.

While agreeing with the ministry’s view of the need for further active steps to improve economic growth, we asked for more clarity on the strategic framework by which the ministry’s future policy actions would be prioritised. The chief executive said the ministry did not “have a simple solution to this challenge”. Its focus was on “Areas where we have competitive strengths, or we can realistically aspire to have competitive strengths, and where there is significant growth opportunity”. The chief executive listed as examples “making the most of natural resources”, including the primary sector, minerals, and petroleum, and high-value tourism.

The ministry’s Briefing to the Incoming Minister cited Finland, Denmark, Singapore, and Israel as examples of small countries with proactive economic development policies. The ministry mentioned a “small country initiative” led by the Ministry of Foreign Affairs and Trade and the Ministry of Science and Innovation, which will work with those four countries to share lessons and insights. The chief executive added that in respect of Singapore, “There is a lot of debate about what the Government’s done that helped and what the Government’s done that didn’t help…”.

Some of us noted the rather different policy approaches recommended by Treasury and the ministry in their Briefings to the Incoming Ministers. Treasury placed emphasis on a light-handed business environment and fiscal retrenchment. The ministry brief recommended more active Government intervention. The chief executive responded:

It probably is fair to say there may be some philosophical undercurrents that vary a bit. I would say there is a very high level of agreement between ourselves and Treasury on the challenges our economy faces and the sorts of policy choices that the Government has. As you know, Treasuries around the world tend to take a very orthodox view. They have a very strong responsibility from a fiscal perspective. One of the reasons for having a Ministry of Economic Development and a Treasury is that we will come at things from a slightly different starting point, and that should hopefully cause a creative tension, as a result of which Ministers get the best possible advice to inform the judgments that ultimately Ministers have to make.

We then asked which entity within the Crown had authored the Government’s 120-point action plan. The chief executive responded that it was “part of the National Party’s manifesto going into the election, so no Government department had anything to do with

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2 Ibid.
“it”, and that the ministry had not provided any advice. A majority of us viewed that as appropriate.

**Trade and public understanding**

The ministry was providing advice on free-trade negotiations and Trans-Pacific Partnership discussions to the Ministry of Foreign Affairs and Trade and to Ministers, but could not comment on current negotiations. We were concerned that the public was under-informed on these issues. The ministry said it was happy to support Ministers in keeping the public informed without compromising efforts to achieve positive outcomes for New Zealand.

**Growth and the environment**

The ministry recognised the interdependence between the economy and the environment. We asked whether it saw any contradiction between this opinion and its work on the mining sector. The ministry acknowledged the situation was complex, but considered that as long as environmental and human safety protections were adequate, minerals and petroleum should play a part in New Zealand’s economic future.

**Petroleum and mineral resources**

A capability review concluded that the petroleum and minerals sector was under-resourced for the level of activity it was undertaking. In May 2011 Crown Minerals was replaced by New Zealand Petroleum and Minerals, with larger resources. The ministry believes the new unit will provide more royalties and tax benefits for New Zealand, as well as resulting in increased economic activity.

We asked how much funding would be needed to bring New Zealand Petroleum and Minerals to full operating capacity. The ministry said it requires $15 million per year, rising to $17 million per year over two years. For the 2011/12 year $6.32 million of this amount is covered by fees paid by organisations, but there is also a significant Crown contribution of $8.558 million.

Some of us inquired what provisions were in place to prevent any perceived conflicts of interest between the ministry’s energy and resources division, and minerals and petroleum companies that have recently hired ministerial staff. The chief executive said the ministry looked at these circumstances on a case-by-case basis, and it is “potentially a concern, but it’s not always a concern”. The ministry told us it had a robust process in place and undertook to provide further information on its processes, including those in the particular case referred to during the hearing.

**Petroleum and mineral royalties**

We asked whether the ministry had any involvement in the Crown Minerals Act 1991 review, and whether it had recommended that petroleum royalties not be increased. It provided preparatory advice to Ministers that weighed up the need to derive income for the Crown against the need to attract investment, and concluded that the current petroleum royalties and policy were appropriate. The cost of operating Crown Minerals in 2009/10 was $9.385 million, and the royalty income was $450.65 million. The ministry is working to ensure that it has the capability to realise the considerable potential returns.
Seismic data surveying

The 2010/11 non-departmental appropriations for Vote Energy included funding for seismic data surveying. We asked how much money was spent on surveys to find mineral deposits, particularly aerial surveys of Northland. The ministry told us that $1.178 million was spent on the aerial surveying of Northland, and $1.109 million on the aerial surveying of the West Coast. We were interested to hear whether oil, gas, and mineral companies were involved in the surveys in any way. The ministry told us that it always made sure that there were no conflicts of interest in survey contracts. Oil, gas, and minerals companies did not undertake seismic surveys, which were usually undertaken by specialists. Surveys involved aerial and seismic surveying, but did not include geophysical resistivity testing. The Crown owns the survey data, and plans to make it available online so that potential explorers can identify areas of interest.

We were told that in total the ministry contributed $9,574 to the New Zealand delegation to the Prospectors and Developers Conference in Toronto.

Discussions with Taranaki iwi and Te Whānau-a-Apanui

The ministry told us about a cooperation agreement between Taranaki iwi and a New Zealand company, setting out principles for regional development of oil and gas in the area. The agreement has opened up opportunities for employment, investment, education, and technological development.

We asked whether the ministry was in dialogue with Te Whānau-a-Apanui, as we believed iwi were concerned about environmental risk from mineral and petroleum development. It told us it had an event planned in two or three weeks, and intended to engage seriously with iwi. The ministry believed people did not have enough information about the processes involved in mineral and petroleum development. It recognised that in the past it had not provided enough information to enable people to reach fully informed views, and was attempting to improve its performance in this area.

Roll-out of ultra-fast broadband and telecommunications

We asked when large-scale deployment of ultra-fast broadband in residential areas would be undertaken. The ministry told us that connections would be made as schools were connected, but priority for the first six years, to the end of 2015, would be given to schools, health providers, businesses, hospitals, and new industrial and urban developments.

We asked what percentage of the fibre deployed to connect schools and hospitals over the five-year roll-out period to 2016 would be new fibre. The ministry said all schools would need to be connected with new fibre, as they did not currently have fibre connections. So far 30 schools had been connected to ultra-fast broadband. Schools are considered connected when the fibre has been connected from a school gate to a school’s IT facilities.

Rural broadband initiative

The ministry also updated us on the rural broadband initiative, which it said was on track. It had built five new cell towers out of the 154 to be built by the end of 2015, and had upgraded 44 cell towers out of 387. It had deployed fibre to 163 rural schools by the end of
January 2012, and said the number of schools connected to fibre and rural broadband would double over the next 12 months. We heard that 512 schools will have been connected to rural broadband by June 2012, and 191 more schools would be connected between July 2012 and July 2013.

Crown Fibre Holdings relationship
The ministry said it had put a lot of effort into making the relationship with Crown Fibre Holdings work, and was happy with the relationship, and did not agree with recent suggestions that Crown Fibre Holdings should be essentially wound up.

Telecommunications and broadcasting—internet-streamed video
We noted that the ministry mentioned in its Briefing to the Incoming Minister the evolving relationship between broadcasting and telecommunications. We suggested that the implementation of ultra-fast broadband could be considered a subsidy to companies dominating the market for internet-streamed video.

The ministry believed internet-streamed video would encourage the uptake of ultra-fast broadband, and said that if any competition issues arose it would address them. We asked whether the ministry saw any issues emerging from the relationship between Television New Zealand Limited and Sky Television. It pointed out that there is generic competition legislation through which the Commerce Commission can investigate and take action. We asked the ministry to supply a description of any work in progress on convergence and any potential dominance risks. It told us that it continues to monitor developments, including convergence, in the telecommunications and broadcasting sectors in New Zealand and overseas.

The ministry agreed that it had raised in its Briefing to the Incoming Minister that the evolving relationship between broadcasting and telecommunications sectors, and changes in the way content and services are delivered through the internet, are likely to impact telecommunications, regulatory, and competition settings. It told us that it had not provided any advice to the Minister on these issues.

The Telecommunications (TSO, Broadband, and Other Matters) Amendment Act 2011 scheduled a review in 2016. The ministry assured us that it was monitoring developments in the market, and following the Commerce Commission’s work in this area. It believes the current policy settings in this area are appropriate.

Rugby World Cup 2011 and tourism
We congratulated the ministry on its work in supporting the Rugby World Cup 2011. The ministry told us that 133,000 overseas visitors came for the tournament, and international tourists attending the Rugby World Cup each spent $1,000 more, on average, than typical international visitors. The ministry told us it had not completed its analysis of how much tournament-related tourism contributed to GDP yet, but cited an estimate from the Reserve Bank of New Zealand in March 2012 of $985 million.3

3 The Reserve Bank Monetary Policy Statement for March 2012 reports the number as $925 million.
We were concerned that overall numbers of tourists coming to New Zealand did not seem to increase greatly, in spite of the tournament. The ministry explained that other circumstances such as the Canterbury earthquakes meant a bad year for tourism, and suggested that it would have been a much worse year had the Rugby World Cup tournament not been held. The ministry told us that the Ministry of Tourism’s analysis was that the Rugby World Cup tournament increased visitor spending by 3 percent for the year, whereas without the tournament, spending would have fallen 3.9 percent.

Promotional benefits

We asked whether the New Zealand brand was successfully established in various markets. The ministry said the tournament created scope for more detail in international marketing, which had combined creativity, innovation, business, tourism, and rugby experiences into a single brand message. Coverage by international media showed New Zealand as a good place to do business. The ministry said it was very difficult to quantify the value to New Zealand derived from the promotional work before and during the tournament, but the New Zealand Tourism Board had estimated the value of the public relations campaign at $27 million.

Industry and community benefits

The 2010/11 non-departmental appropriations for Vote Economic Development funded business development and volunteer initiatives during the Rugby World Cup tournament. During the tournament each industry pursued its own marketing strategies, which were now being expanded to events elsewhere. The ministry believed that businesses working in innovation benefited particularly, although it was impossible to precisely measure such benefits.

Approximately 5,000 New Zealanders and 5,000 people from overseas were recruited into the Business Club, an organisation for small and medium-sized businesses, as the ministry expected large businesses to manage their own hospitality programmes. Over 400 business events were hosted during the Rugby World Cup.

It observed that 10,000 volunteers and workers represented the country in hosting 1,300 community events.

Hosting costs

We asked whether the ministry had estimated the cost of hosting the tournament when New Zealand sought the hosting rights. The ministry said it had not been involved in the tournament until after the rights had been secured. It told us that a report estimating the economic impact of the tournament was released in June 2006 by Haworth and Market Economics for the establishment board of Rugby New Zealand. Another report was published in late 2010 by the Ministry of Tourism, based on analysis by Covec, an independent consulting firm.

We asked approximately how much the Crown had invested in the tournament. The ministry told us that that this analysis was complicated, as it was difficult to know whether to include long-term infrastructure investments that were brought forward because of the tournament, but would have eventually been made regardless. It said that final accounts
have yet to be settled for the Rugby World Cup, but as at 30 June 2011 its 2009/10 and 2010/11 costs were $32.582 million against a budget of $30.335 million.

Some of us were surprised that the ministry did not plan to undertake a full cost-benefit analysis, but would make sure it learned any lessons about the benefits and costs of bidding for future major events, in order to advise Ministers in future. The ministry told us it had learnt the importance of clear lines of responsibility between the various parties involved in the event; having a project-focused culture supported by structural and governance arrangements, with strong links to other government agencies, regions, sectors, and businesses; and a seamless working relationship between government agencies to ensure a strong sense of shared ownership and effective collaboration. It said that lessons learnt from the Rugby World Cup tournament for the management of future major events would be captured in the Host Nation Report, which was being completed and would be finalised in approximately six weeks. It said that some benefits from hosting the tournament will only become apparent in many years, so it would not be possible to carry out a definitive study.

**Skycity convention centre and casino**

The ministry had provided briefings to Ministers on the potential for a large convention centre to be located in Auckland. New Zealand does not currently have a very large convention centre. As a result, potential customers are possibly going to Australia and elsewhere. The ministry pointed out that business tourists tend to spend more and stay longer than other tourists, and conference delegates typically spend 3.7 times more per night than international visitors generally.

We asked about the potential economic opportunities afforded by the new convention centre. The ministry told us it depended on the size of the centre, but projections before the current negotiations estimated that approximately 33,000 delegates could be attracted to the centre, with new tourist spending of $90 million per year, including $25 million spent outside Auckland. It saw potential for 1,000 new jobs during construction and 800 jobs in the completed centre.

We noted media reports of ongoing negotiations between the Government and Skycity around a potential deal whereby a change in the regulatory limit on the number of gaming machines might be exchanged for potential direct investment by Skycity in the convention centre.

We asked about the risk of regulatory compromise in funding a new conference centre. The ministry noted that Ministers have to make trade-offs when making decisions, but it would work to ensure that any trade-offs were informed.

We sought to know whether the Crown had estimated an appropriate level of capital investment in a convention centre in order to secure the benefits. The ministry provided us with a copy of the cost-benefit analysis and the expressions of interest.

We also asked whether the ministry had provided advice on the economic costs and benefits of expanding the gambling facilities at Skycity Casino. It told us that it was supporting Ministers in that process, alongside the Department of Internal Affairs. We calculated that the suggested addition of 500 new pokie machines could provide an extra
$35 million profit per annum. We asked whether this amount was likely to be more or less than the capital expenditure requirement estimated in the expression of interest, and asked what proportion of this increased revenue might come from New Zealand residents rather than international visitors. We were told that these issues were too closely tied to current negotiations and the ministry could not discuss them. Some of us noted that the number of new machines discussed could fund the capital costs of a new convention centre in about five years.

**Procurement reform**

The ministry had saved $14.9 million through its procurement reforms since June 2009, and forecast savings to rise to $21 million by the end of the 2011/12 financial year. It believed that the first set of initiatives, which included print, cars, stationery, and multifunction devices, would reach the forecast saving of $115 million over the term of the five-year contracts. It predicted that the second set of initiatives, encompassing legal services and air travel, would save $178 million over the course of the contracts.

The ministry explained that the whole of Government procurement programme provides services to the entire state sector. We heard that the savings from the Inland Revenue Department’s plans for its information technology would be approximately $812,000 per year.

We asked whether the ministry had non-financial performance measurements for the procurement reform programme. It emphasised the importance of securing value for money over the full life of a service or goods, rather than buying on price alone, giving the example of the recent legal services tender, which includes a lifetime value-for-money clause in the contracts. Legal firms are subject to a quality and value assessment at the end of each engagement, which is then published so that agencies buying from the contracts have a sense of quality and value relative to the price paid. This information is made available to agencies that have signed the disclosure agreement. We were concerned that this might result in information being withheld from general publication that was of public interest, and asked the ministry to provide its methodology for taking into account the various costs and benefits of providers. It told us it had no single methodology, as there were many variables with each procurement project. It offers a two-day training course in procurement.

**Spectrum licence payments—MediaWorks agreement**

We inquired whether the ministry provided advice to Ministers on the rescheduling of spectrum licence payments in relation to CanWest MediaWorks. It said its general advice with issues such as these was that arrangements should maintain present-value neutrality and have appropriate security. It believed the MediaWorks arrangement met these principles. An 11.2 percent interest rate was charged on the deferred payment rate for the spectrum licence payments, which was judged by the ministry and Treasury to be the appropriate return given the Crown’s cost of funding and the risk involved in the transactions.
Appendix A

Approach to financial review

We met on 8 March and 22 March 2012 to consider the financial review of the Ministry of Economic Development and the non-departmental appropriations for Vote Economic Development and for Vote Energy. Evidence was heard from the Ministry of Economic Development and advice received from the Office of the Auditor-General.

Committee members

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

Evidence and advice received


Ministry of Economic Development, Responses to written questions, received 6 March 2012.

Ministry of Economic Development, Responses to additional written questions, received 19 March 2012.


Organisation briefing paper, prepared by committee staff, dated 5 March 2012.
Corrected transcript of hearing of evidence 8 March 2012

Members
Todd McClay (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Catherine Delahunty
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell
Su’a William Sio
Jonathan Young

Witnesses
David Smol, Chief Executive
Bruce Parkes, Deputy Secretary, Energy and Communications
Liz MacPherson, Deputy Secretary, Tourism, Events and Consumer Affairs
David Binnie, General Manager, New Zealand Petroleum and Minerals
Chris Browne, Director, Procurement, Commercial Solutions Branch
Leon Grice, Director, NZ2011 Office
Neville Harris, Deputy Secretary, Business Services
Greg Patchell, Deputy Secretary, Commercial Solutions
Len Starling, Manager, Radio Spectrum, Policy & Planning
Brad Ward, Manager, Communications & IT Policy

McClay
Well, good morning Mr Smol. Welcome to the committee. Thank you for giving us your time today. We have 90 minutes ahead of us for this hearing on the Ministry of Economic Development, Vote Economic Development, and Vote Energy. Can I ask you maybe to make some introductory remarks, and then I’m sure my colleagues—you can see all of their names—will have some questions of you. But again thanks for coming along.

Smol
Well, thank you for the opportunity to appear before you. I’m David Smol the chief executive. On my left I have Liz MacPherson, who looks after our tourism, events, and consumer affairs branch. On my right, Bruce Parkes, who looks after our energy and communications branch. Behind me I have
one or two colleagues who hopefully can answer any particular questions that you may have.

Over the 2010-11 year the ministry supported nine ministerial portfolios and also delivered a range of services to business through the Companies Office, the Intellectual Property Office, New Zealand Petroleum and Minerals, Insolvency and Trustee Service, to name the main ones. We also work with a number of Crown entities: New Zealand Trade and Enterprise, Tourism New Zealand, the Commerce Commission, the Financial Markets Authority, the Electricity Authority, the Energy Efficiency and Conservation Authority being the main ones.

Over the year, as with the rest of the Public Service, we’ve continued to pursue better value for money for the taxpayer and for our fee-payers—for example, through utilising whole-of-Government procurement contracts, rationalising and tightening our contracting arrangements with our main vendors, particularly IT vendors, and looking to manage wage pressures. Our overall head count has gone up and down. It’s down a little bit within that. Some areas have grown, notably procurement and petroleum and minerals; other areas have reduced. The process of seeking value for money is ongoing, as you’ll appreciate, and we are continually looking at each and every aspect of our costs.

Turning to the work that we’ve delivered over the past year—Our underlying purpose is to support economic growth in the country as a means to prosperity for New Zealanders. Some of the main projects in which we’ve been involved include supporting the Government’s economic growth agenda. We’ve had a particular focus on the science, innovation, and trade dimension of that agenda. Continuing the work on ultra-fast and rural broadband, which will, once those projects are complete, significantly increase the speeds available to consumers in both urban and rural areas and they will be at competitive prices. As you know, it’s particularly important for a country like New Zealand that is relatively small and remote. We’ve progressed major law reforms—for example, in the securities, financial markets area and in consumer law. We completed the electricity market reforms, which as far we can see are bedding-in pretty satisfactorily.

In tourism we’ve been supporting Ministers around the convention centre, progressing the cycleways, working with other Government agencies to strengthen air transport linkages which also underpin trade. Supporting Tourism New Zealand in their attempt to maximise the value they achieve from their marketing spend.

We lead the Government’s whole-of-Government procurement reform programme and have run a number of whole-of-Government procurement contracts which have already achieved very significant savings for the taxpayer.
We supported the Ministry of Foreign Affairs and Trade in their leadership of free-trade negotiations. You'll be aware that the Trans-Pacific Partnership negotiation is still in progress. We've continued to progress the single economic market work with Australia and supported the whole-of-Government “NZ Inc.” strategies. The China strategy was launched publicly relatively recently.

We continue to improve our business services, our online services, an upgrade to the Companies Office website, and a major business transformation process at the Intellectual Property Office being examples.

We transitioned in the petroleum and minerals area from having the Crown Minerals business unit to New Zealand Petroleum and Minerals, which is better resourced, and we're building the capability in that area. Also working very actively with the Department of Labour, Ministry for the Environment, Environment Protection Agency, in particular, to make sure that the safety and environmental protection aspects of petroleum and minerals are addressed in a way that is completely satisfactory. We supported the Green Growth Taskforce, whose report was released publicly very recently. We are supporting the Māori Economic Taskforce. As I understand it, they will issue a discussion paper shortly.

Along with all other parts of Government we've played our part in supporting Christchurch—focusing initially on infrastructure and increasingly on economic recovery, including the tourism dimension of that.

Last but not least we had the privilege of leading Government's contribution to the Rugby World Cup—both the underpinnings to the tournament itself and the legacy and leverage. As you will know, there were 133,000 visitors who came for the tournament. Many business connections were made. It was an opportunity to showcase New Zealand to the world, and I think this country made the most of that opportunity. Most important of all, we won the tournament, but we claim no credit for that. Thank you very much.

McClay Thank you. Just a note at the end— You could’ve been called up as first V. I understand we were running out of them towards the end of the Rugby World Cup.

Smol I think I was relatively low on the list, but we did have that in mind.

Young Thank you, Mr Smol. Congratulations on the support you did for the Rugby World Cup. I guess one of the huge benefits of that was, as you mentioned, the showcasing. What sort of measurables do we have around that in terms of not just the number of people who came here but have you had any feedback since that period of time that would show that there’s been a significant benefit in the tournament being based here.

Smol I might ask Leon Grice to respond to that question.
I think there’s quite good data now on the spending and the length of stay of visitors. There was the direct spending. I think the Reserve Bank this morning was estimating the benefit that came from that direct spend and came out with their own analysis this morning. In terms of the numbers of involvement—10,000 people joined the Business Club that was created. In terms of measuring the impact of the showcasing, it was New Zealand’s largest exposition of creativity and innovation. So if you look at very small showcasing that went on, biotech did a showcase of the clinical trials capability in New Zealand. That has led to business that is now being advanced, and it’s a strategy that the biotech industry are adopting to expand out opportunities for that industry going forward. So that was started at Rugby World Cup. So each industry had its own marketing strategy, which seems now to actually have been continued on into other events and other programmes offshore. So that’s the industry showcasing.

In terms of the individual businesses, we recruited around 5,000 New Zealanders and 5,000 people from offshore into the Business Club who made those connections. There were over 400, I think, business events where people hosted business people during the Rugby World Cup. While we measured the success of the programme in terms of the number of connections, as opposed to the number of business deals, there is a wealth of anecdotal evidence about the number of business deals that came from it.

Then, finally, I think the other measure is New Zealanders’ enjoyment of the event. I think that there were about 10,000 people in terms of volunteers and workers that got in behind Rugby World Cup across the country and had an incredible time and just did a fantastic job actually representing our country as hosts. But also the festival, we had 1,300 events across the country where communities put forward celebrations of their community in the form of festival moments to entertain the visitors that were here. That, again, was probably by far the largest festival we’ll ever stage in this country.

Mitchell Yeah, again, congratulations. I mean, I think you really leveraged that Rugby World Cup well. Some of these numbers are pretty impressive. Out of the 400 business events and the contacts that happened, what markets emerged as being the markets that really stood out in terms of opportunity for us?

Grice I think it was the businesses, pretty much the innovation businesses, the ones that wanted to make connections that they didn’t have. We put quite a lot of support into a guy who was out here and was evaluating New Zealand as a place to relocate his flight training school from Hawaii down to New Zealand. They’re a classic sort of example. That Business Club was very much a service orientated at small and medium sized businesses. We expected the large businesses to look after themselves through their own hospitality programmes. It was all those thousands of little connections that were made between New Zealand innovators and the people that are interested in New Zealand innovation here.
2010/11 FINANCIAL REVIEW OF MINISTRY OF ECONOMIC DEVELOPMENT

Cunliffe Looking at visitor arrivals—They were pretty flat overall in 2011 relative to 2010, and, in fact, visitor arrivals from high-value source countries went down and some of the lower-value, in terms of onshore spend, source countries from Asia went up. The total was within a couple of percent—from memory, it might’ve been 3 percent of the previous year—and didn’t seem to align with the idea that the Rugby World Cup was going to create a tourism boom. Can you comment on that?

MacPherson Well, certainly, in terms of the year that we had it had been a pretty bad one. I think the issue is what would’ve happened if we hadn’t had the Rugby World Cup. What we did find with respect to the visitor arrivals we did get during the Rugby World Cup is that we had, as we’ve heard stated, 133,000, and when we measured the spend for that group it was around $1,000 more than your average international visitor. So I guess the issue is—

Cunliffe The counterfactual is it would have been a historically awful year for tourism if there hadn’t been a Rugby World Cup. Is that what you’re saying? Post earthquake.

MacPherson Yeah, it would’ve been.

Grice Yeah. Tourism’s analysis is that it increased visitor spending by 3 percent for the year. Without it, spending would’ve fallen 3.9.

Cunliffe Have you put a dollar figure on the turnover impact, to the GDP impact of the Cup, in light of that analysis?

Grice We haven’t completed that.

Cunliffe Ballpark?

Grice MasterCard came out with a figure before the Cup based at 85,000 visitors of around $750 million.

Cunliffe What’s your best guess range?

Grice That was contribution to the GDP, I should say.

Cunliffe Based on these visitor numbers and the spend per visitor?

Grice The Reserve Bank was saying it was $985 million, in terms of the spending that they’d calculated this morning. That’s probably the most recent analysis.

Cunliffe And the total Crown investment in the Rugby World Cup, including TAs, was roughly how much?

Smol Well, as you know, it depends how you define that—for example, how you treat long-term infrastructure investments that may have been done partly for timing reasons around the rugby but would’ve happened anyway. We
don’t have a definitive number for that against which to compare the revenue. As you know, the methodological difficulties in doing a definitive cost-benefit are considerable in a circumstance like this.

Cunliffe So, at the same time, the Government’s, at least at a political level, claiming the Rugby World Cup was a great money-spinner for New Zealand. It was obviously a great tournament, we all enjoyed it, and it was great for morale, there’s no disputing that, and I’m not anti-rugby, I still bear the scars. But from a purely economic point of view, surely the ministry has some albeit quasi-qualitative cost-benefit methodology in mind, given that there’s been hundreds of millions of public money put into this.

Smol We’re not at this stage trying to do a complete cost-benefit going all the way back to the date on which we won the tournament.

Cunliffe Is there any plan to do that in the coming year by way of a review on the expenditure?

Smol No, we’ll look through all the sources of information that shed insight into the benefits and the costs and look to make sure that we learn any lessons that we can to advise Ministers on the benefits and costs of bidding for future major events. It’s unlikely that there’ll ever be another Rugby World Cup as such.

Lotu-Iiga The question is there are future benefits, right, and the only analysis could be some sort of net present value analysis of future benefits. Are you saying that you aren’t doing that type of analysis?

Smol We’ll do what we can, but, for example, the business connections Leon was talking about all create future opportunities, but how many of those come to pass?

Lotu-Iiga That’s right. It’s hard to determine.

Smol How many can you say directly are because and only because of the connection made at the Rugby World Cup? It’s very hard to say. There’ve been all sorts of statements made through the years about both the cost and the benefits that probably haven’t been that well founded.

Cunliffe That’s why I’m trying to seek some assistance to sort through the rhetoric to get some fact-based analysis.

Smol Yeah, and we will do as objective a job as we can.

Cunliffe So you are, therefore, planning to do a review of some kind?

Smol We will do a objective review as we can of the costs and the benefits. It won’t be a full cost-benefit analysis.

Cunliffe I don’t want to take up too much time in the committee—
No, we’re going to Clare and then we’ll come back to you.

Exactly, so let me finish on that, Chair, by saying that we’d really appreciate a follow-up in writing to the committee, through you Mr Chair, of what your proposed methodology is for whatever cost-benefit work you are doing and the like to, if you can, triangulate on the tourism numbers. Thank you.

Well, just on that, I’d like to know what kind of time frame you would put around that, producing whatever you’re calling it, if it’s not a cost-benefit analysis. Presumably you had a budget that you were working to around this, because surely any analysis for the public interest should be around what’s the comparison between whatever was budgeted versus what was actually spent. Are you able to tell the committee about whether you have any views on that or any figures that you have been able to produce yet?

We have data on costs incurred in supporting the tournament. The way it works in practice was we won the tournament I think back in 2005. Then decisions have been made as we’ve moved through time about what expenditure or investments make sense, given the information we had at the time. For example, we didn’t anticipate the global financial crisis; we obviously didn’t anticipate the awful events in Christchurch. So we were continually dealing with an evolving set of circumstances and trying to advise Ministers on which choices make sense, given the information that we had available at the time. Then as we got closer and closer to the tournament, increasingly the focus was on, for example, setting up the festival, making the most of the industry showcasing, and events of that kind.

Sorry, that doesn’t answer my question, my several questions, which were around timing.

Well, we’re doing a country report for the IRB, which is due—

Well, in the next 6 weeks it should be finalised.

There are, as we touched on, others: the Reserve Bank; Auckland has put out some information. There’s quite a lag in some of the statistics that don’t come through till some time after the tournament for expenditure during the tournament. And then, as I say, some of the other benefits will only become apparent through the years. So it’ll never be possible to do a completely definitive study.

So according to a line item in last year’s Budget that was attached to the Rugby World Cup, do you have a measure on how you (inaudible) and are you planning to have a measure on how you went against that?

If you mean can we account for the money we spent, did the money deliver what it was intended to deliver, for example the Cloud on Queens Wharf or the festival events? Yes, we can.
Curran: OK, and when would that be produced?

Grice: That work’s under way with that host nation’s report.

Smol: I think we could wrap that into the advice Mr Cunliffe requested.

Young: These will all be ballpark figures. I know the methodology is very difficult. In terms of the promotional impact we had around the world, in terms of the people who were viewing the promotional work that was done prior to the World Cup and the value of that, have you got any idea in terms of a ballpark what that is worth to New Zealand in terms of promotion of the country?

Smol: It’s very, very hard to put a quantitative value on something like that. We know we’ve had exposure to however many hundreds of million or billions of TV viewers, but to put a monetary value—

Young: If we had to buy that or pay for that promotional space and time?

Grice: Tourism New Zealand, I think, have completed a study of the non-rugby stories that were generated in Rugby World Cup. So they pulled out the bits which are focusing on the festival or focusing on going to Auckland and enjoying it there as a visitor. I think they valued it at roughly, you can ask them, because it was their study, but I think the value of that PR was $27 million. I think that David’s point is, though, that when you look at the analysis, you know, they are attempting to quantify the very difficult.

Young: Yeah, I understand that.

Bakshi: One of the intentions during the World Cup was to establish New Zealand as a brand in different markets. Do you think we were able to achieve that?

Grice: I think one of the things that was unique about the brand New Zealand story was the combination of creativity, innovation, business, tourism experiences, and of course the rugby experiences into the one brand story and also the ability to tell the diversity of stories about the New Zealand experience. You know, the major events allow you to have a richer dialogue with the world than you normally get. So, you know, Tourism New Zealand’s messaging tends to be very simple, appropriately, in trying to get the message across to come to New Zealand. So Rugby World Cup was a unique opportunity to reposition New Zealand as a place that is a meaningful place to do business and connect with. I think that the feedback we got from media, the coverage we got from international media, is that we achieved that. I know as a legacy going forward that Kevin Bowler, Peter Chrissp, and Grant McPherson from Education New Zealand are working on a joint programme of carrying forward that benefit for the New Zealand brand.
Sio  I just wondered, when New Zealand won the rights to host the Cup, did your department then work out projections or estimates of what it would cost for the country to host it?

Harris  That work was done by the bid committee that was put together at the time, and I think that was under the aegis of the Minister for Sport and Recreation of the time, the Hon Trevor Mallard, and his sport officials working with Treasury officials and the Rugby Union. Some studies were done at that time, I think, on that particular issue and that went forward at the time that the Government considered whether or not to support the bid. But the ministry was not involved at that stage. Our involvement commenced in May 2006 after we had won the bid.

Sio  So in your involvement then there would’ve been some changes from the original estimations and to your own projections. Was that done?

Harris  No further projections were done, as far as I’m aware. The reliance was placed on those original projections.

Grice  There were two.

Smol  Once we won the right to host the tournament, I guess the challenge became to make the most of that opportunity and try to make good expenditure decisions as we moved through time dealing with the information that we had at the time.

Grice  The June 2006 report was the culmination of the work that Neville was describing and was done by Haworth and Market Economics for the establishment board for Martin Snedden’s company Rugby NZ2011 Limited. The economic impact was based on 66,000 visitors and 2,500 players and 2,500 media. It was projecting a half-a-billion-dollar impact on the New Zealand GDP. Then in late 2010 the Ministry of Tourism ran a process with tourism businesses to get their sense of where the market was heading as an analysis done by Covec for the Ministry of Tourism, and that predicted 85,000 visitors. So the prediction went up at that point and, of course, the number exceeded it way more than even then.

McClay  Good, thank you. Nothing more on the Rugby World Cup, so we’re coming to Catherine now with a new line of questioning.

Delahunty  Thank you very much, Mr Chair. I just want to direct you to page 17 of the annual report and ask you some questions about the Petroleum and Minerals business unit which was established. In terms of the surveys that you commissioned to identify mineral deposits across various parts of the country, how much was spent on that?

Smol  I can’t answer that question off the top of my head, and I don’t think anyone else can.

Delahunty  Could you provide that for the committee.
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<th>Smol</th>
<th>Yes.</th>
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<tr>
<td>Delahunty</td>
<td>That would be very helpful. In terms of those surveys, who did them?</td>
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<td>Smol</td>
<td>We contract for providers who have the necessary equipment and expertise. Again, we could give you a list of those that we have contracted to perform that service.</td>
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<td>Delahunty</td>
<td>But were they mining companies, for example, who had the technology?</td>
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<td>Smol</td>
<td>Well, no. Typically, it’s service providers who have the specialist gear to do seismic surveys—that kind of thing. So it involves a specialist ship with some specialist equipment and some expert staff, and they undertake, for example, a survey over a particular block of sea and record data to a specification that we’ve agreed in the contract.</td>
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<td>Binnie</td>
<td>To my knowledge there are no operators of oil and gas and minerals companies that do seismic in and of themselves; they would always contract out to a specialist contractor.</td>
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<td>Delahunty</td>
<td>So you weren’t doing things like geophysical resistivity testing on the ground for minerals as part of the survey?</td>
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<td>Smol</td>
<td>I don’t believe so, no. We’ve done some aero surveys and some seismic shooting at sea, as I understand it. Again, we can confirm that for you in writing.</td>
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<td>Delahunty</td>
<td>Yeah, I guess the communities I represent are interested to know whether the minerals industry was involved in the survey in any way, so if you can find that out for me—</td>
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<td>Smol</td>
<td>Well, the answer would be that we would always employ people through a procurement process and make sure there were no conflicts of interest, for example. We’d be needing the relevant expertise.</td>
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<td>Delahunty</td>
<td>And so the Crown owns that data?</td>
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<td>Smol</td>
<td>Yes, it does. And then the idea is to make it available on the websites so that potential explorers can evaluate whether this is an area of interest or not.</td>
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<td>Cunliffe</td>
<td>A quick supplementary in terms of preventing any perceived conflict of interest, would you have any concerns if a ministerial staff member went to work for an oil exploration company having done related policy work in the Beehive without a stand-down period?</td>
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<td>Smol</td>
<td>We would look at those sorts of circumstances on a case by case basis. It is potentially a concern, but it’s not always a concern.</td>
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Cunliffe I’m aware of a particular case. I wonder if you’ve taken any steps to ensure the perceived integrity of the policy process around that?

Smol I can’t really answer that question without knowing the details of the—

Cunliffe The company concerned is Anadarko?

McClay They’re not Government employees, though, are they? Would you say you have a robust process in place around this?

Smol Yes.

Cunliffe The Cabinet Manual, of course, has various requirements to avoid any possible perception issues arising in terms of ministerial conflicts of interest, but what’s unclear is if, for example, a ministerial staffer were to leave an office and then go immediately to work for a stakeholder, the provisions of the Cabinet Manual would cease to apply from the point that that person left. So that’s common ground. However, the perception risks may reside to the extent that the Minister’s continuing to interface with that individual. So there is a particular case in point with the company that I’ve mentioned, and I would be interested for any feedback to the committee.

Smol As I understand it, the person in question wasn’t a ministry employee, so—

Cunliffe No, no, I understand that to be the case too—

Smol We can come back to you on how Ministerial Services handled this. I assume there’s some sort of—

McClay I think we’re clear, and do you believe—

Cunliffe Mr, Chair, with respect, the MED angle on this is that your energy and resources branch will be interfacing with that former Beehive senior staffer as the representative of an exploration company. So I’m interested to know what processes the energy and resources branch will put in place to avoid any possible perceived conflicts of interest going forward.

Delahunty I’m getting back to the units. You probably can’t answer these questions, given what you’ve said to me, but if you could find the information for me, I’d like to know what was spent on the aerial surveying of Northland, in particular, and also what was MED’s financial contribution to the New Zealand delegation to the Prospectors and Developers Conference that’s in Toronto, including the lunch stopover in Vancouver with the miners. And I’d like to know—

Smol Do you mean the cost of it?

Delahunty Yes, the cost of it. I’d like to know what was the contribution of MED and also the prospectus that was developed, I understand, between MED and the mayor of the far north, which is opening up the markets side. I also
wanted to ask you whether you’ve had any involvement in the Crown Minerals review that was released yesterday.

Smol The review of the Act?

Delahunty Yes.

Smol Yes. We provided the policy advice to Ministers in preparation of that paper.

Delahunty So was it your recommendation that petroleum royalties should not be increased?

Parkes Yes, we have done some work looking at whether we think the current policy settings for petroleum royalties are appropriate, and we concluded that there wasn’t a case to open up that issue at this point in time.

Delahunty So you think it’s fine for a finite resource that belongs to New Zealand to have what is a relatively low royalty regime?

Parkes We did some benchmarking of royalty rates across comparable jurisdictions, but what you need to weigh up is the setting of a royalty rate that balances the need to drive an income stream for the Crown with endeavouring to attract the sort of investment that we need into the country. So we were satisfied that the policy settings are appropriate at this stage.

Cunliffe Could we request a copy of that advice—

Delahunty Yes, it would be very helpful. Did you make any recommendations on increasing bonds on mining activity to that review?

Parkes The royalty review?

Delahunty The overall Crown Minerals review, sorry, not the royalty review. I realise that’s a subset.

Parkes No, I'm not aware of that.

Young Actually, it’s a slightly different line, but just while Mr Binnie’s there— I read a quote just recently about a blueprint for cooperation between oil explorers and iwi in Taranaki, and, this being a first in many regards in the country, can you give us a little bit of background on that.

Binnie First, as far as I’m aware, it’s an agreement between a New Zealand company and Taranaki, who are, effectively, really looking after oil and gas in the Taranaki area, and it’s a cooperation agreement that sets out some principles of how that regional development will come into play between the company and the iwi. So it’s getting to the point where iwi are reviewing opportunities in their own area and their own region, and it’s quite a broad-
brush agreement. And the dialogue between the company and the local stakeholder, being iwi, is pretty significant. It's a big step forward.

Young So what sort of opportunities were they looking for?

Binnie Employment opportunities, investment opportunities, spin-off education and technology opportunities—the whole gambit of when a company like this company would go into that region, what do they require. So it's opened up the whole debate there.

Young So working to benefit the community in a substantial way.

Binnie Absolutely.

Young Just coming back to the New Zealand Petroleum and Minerals agency that's been set up, there was a capability review which pre-empted all of this, so can you give us some report or background on how the development of that has occurred.

Smol We did a review, which concluded that we were under-resourced for the level of activity that was taking place, and certainly under-resourced for the level of activity that might take place in the future, and that led to a Cabinet paper and a decision by Ministers to increase the resourcing for this part of our activity, and that led to the process where we transformed Crown Minerals into New Zealand Petroleum and Minerals and progressed the process of upgrading both the quantity and the quality of the resource within the unit.

Young So what's going to be the ultimate benefit that you believe is going to roll out for New Zealand?

Smol I think the decision the Ministers made was that this is an activity that can potentially create significant value for New Zealand. We'd need to resource it sufficiently to realise that value, and we hope in time that that value will be realised through, in particular, royalties and tax, but also economic activity as well.

Young Sorry, Mr Chair, I didn’t quite hear the answer—there was a lot of talking.

Smol I think that on the basis on which the Ministers made the decision was that this is a form of economic activity that could potentially generate significant value for New Zealand in the future through royalty and corporate tax in particular, and that it was necessary to increase the resource allocated to the area to generate that value through time, recognising there are lots of uncertainties around future water prices, gas prices, commodity prices, and the prospectivity of our basins oil.

Cunliffe So the quick supplementary on that is given the funding pressure across the Public Service, including on MED, and given that the report has said that in order to do justice to your mandate in this area you need to increase the
capacity, has any recommendation been made or any advice been given to Ministers about either increasing royalties on existing royalty payers or looking again at those companies in the minerals and petroleum sector who are not currently paying royalties on their extraction? In other words, why should the taxpayer be increasing its contribution for a for-profit industry where the capacity is being directly related to for-profit activities when you’ve got some people not paying any royalties?

Smol

Well, the royalty regimes apply to Crown-owned minerals. The Crown doesn’t own all minerals, as you know. In terms of the royalty regime, as my colleague Mr Parkes mentioned, the judgment is what is the level of royalty that will optimise revenue, which is a combination of activity times royalty rate plus the corporate tax rate. That is a judgment. But I think the conclusion was we were just under-resourced to run a professional permitting process to make New Zealand an environment within which people who came to do business knew that they would deal with a reasonably responsive arm of Government that had access to the information they needed to make their own decisions.

Cunliffe

So the fine point of that question was has any advice been provided by the ministry in respect of reviewing the existing royalty levels or coverage, given the need for further capability and further costs at a time when not only the MED budget is under pressure but the entire Public Service is under pressure?

Smol

I think the answer is no. The royalty at the moment—and it does vary a lot from year to year—is of the order of $400 million or $500 million, I believe. The cost of running the Crown Minerals operation is of the order of $15 million, so the potential benefit is very, very large, and we’re trying to make sure we have the capability to enable that benefit to be realised if events enable it to be realised. The thing about royalty is it is a question of what is the optimal regime independent of what we’re spending to maximise net revenue to the Crown.

Cunliffe

Sure, so given that you’ll have—and I’m sorry I don’t want to do a long line on this; this hopefully will be the last supplementary, but I’m just trying to get some substance here. How much will it cost to move this part of the ministry to what you would consider an optimal level of operation?

Smol

Well, the budget that we now have we think is definitely sufficient to run a professional—

Cunliffe

Sorry, I don’t have that part of the budget in front of me right now. How much is the delta between—

Binnie

It’s $15 million and it rises to $17 million over a 2-year period.

Cunliffe

OK, and that will come out of departmental expenses—
2010/11 Financial Review of Ministry of Economic Development

Smol: The total cost is partly fee-payer funded, but there’s a significant Crown contribution as well, and we can give you the detail of that.

Cunliffe: Yes, that would be helpful. Thank you.

Delahunty: Just going back to something Jonathan raised around iwi and minerals arrangements—Are you in dialogue with Te Whānau-a-Apanui?

Binnie: We are about to be in dialogue with them. We have an event planned—I think it’s 2 weeks ahead—where we’re going up to give them information, because I think it’s very clear to us that there is an information gap and a vacuum in data in terms of opportunities, in terms of the potential opportunities for iwi in regions, and also confidence in how we’re managing the rest of the operation, which is creating that dialogue. We will be going up there in the next 2 or 3 weeks.

Delahunty: So would you be providing them also with environmental information about the risks to the environment, because the Crown Minerals review claims to cover that as well, although I didn’t see anything in there about—The concerns of groups such as iwi such as Te Whānau-a-Apanui—These people are not uninformed, but their concern is that the environment is at risk, and they live near the Rena, so it’s not just information; it’s dialogue. I wonder if you’re going to engage with them seriously about the environmental issues or just about promoting exploration.

Binnie: We will engage seriously. The first thing that we need to tell them, I think, is there is a vacuum of information about what the actual process is that we go through of allocating resource to cessation of production. That has not been debated or dialogue. There is very little understanding of that in the country. So we need to tell people and give them confidence that there is a process, there are gates to go through, and there are risk management processes that are at least best practice in the world that we have in New Zealand. That’s the first thing we need to say and show them that and give them—

Delahunty: Can you just clarify what you mean. You mean you think people don’t know that the Crown Minerals Act issues permits and then they have to go to the RMA and prove effects? Do you think people don’t know that?

Smol: No, no, we’re not saying that; we’re just saying that we don’t think we have done a good enough job in the past in providing the information that would enable people to reach as informed views as potentially they could. As you will know, the level of understanding of different bits of legislation does vary, but there’s no question that we haven’t done as good a job as we could and have needed to in the past, and we are attempting to do our job much better in the future.

Curran: I’d like to turn first of all to procurement.

Smol: There’s Chris Browne and Greg Patchell.
I’m interested to hear of what you said in your opening remarks, Mr Smol, that there have been—I can’t remember what phrase you used—considerable savings made in procurement from the Government procurement reform. What are the actual savings of that reform, and what projected savings do you have?

The savings to date we’ve resolved as $14.9 million—to date.

Over what period of time?

That’s from the start of the initiative, so we’re now into year 3.

Two years after the contract was lodged.

By the end of this financial year the figure is forecast to be $21 million. We’re confident that over the course of the contracts, the year 1 initiatives, which were print, cars, stationery, multifunction devices, computers will get to the forecast $115 million over the course of the term of the contracts. There’ve been two contracts let just recently, before Christmas, for legal services and air travel, and our predicted savings for those are $178 million over the course of the contracts.

How much?

$178 million.

And that’s over what time period?

The first tranche is 5 years. The second tranche, the air is 7 and legal is 2 plus 2 plus 2—so, effectively, it’s a 6-year term.

And which contract is that?

The legal services.

Legal services.

Yes.

Just before I get into my next question—The whole-of-Government procurement, does that cover the IRD?

Yes, the procurement reform programme, which is delivering these contracts, provides services to the public services, State services, and the State sector broadly. Clearly, it’s more optional the further you go out, but the idea is covered if one of the public services is able to take up the contracts if they so choose.

Are they part of the all-of-Government procurement—

Yes, they are buying from the contracts.
And do you have a figure in terms of the projected savings that may be made in terms of what they’re planning to do in IT?

For the IRD specifically I can’t tell you off the top of my head, but we do track each agency’s—

Are you able to provide us with that information?

Yes.

So we’ve talked about savings. What other measurements do you use with regard to the procurement in terms of performance?

I suppose a good example would be the more recent legal services tender where we’ve instituted a lifetime value-for-money concept into the contracts, whereby the legal firms who are on the panel, of which there are 38 plus Crown Law, are subject to a quality and a value assessment at the end of each engagement, which is then published so that agencies buying from the contracts have a sense of the quality and value return they’re getting relative to the price they’re paying. In other words, it’s important, we believe, to instil a sense of value for money over life as opposed to just buying on price alone.

Is that material public?

Is it public? In terms of the rankings—they’re ranked on value for money in terms of the agencies—that’s not public. That’s available to agencies who’ve signed in on the disclosure agreement; they get access to that.

Well, in terms of public interest, knowing that while you are pursuing savings in terms of procurement, would it not be of use to provide other measures of how the benefits of that procurement are benefiting the actual services that are being provided rather than the money that’s being spent on it?

From a publicly consumable perspective? It’s balancing the commercial risk is the question (inaudible) fair point.

We’ll look at what information is made available. It does vary quite a lot between, say, a car, a printer, or a contract for legal services. So the information that might be of value would vary, and the lawyers, in particular, are very sensitive about the rates that they’ve offered the Crown. I think there might be some issues with public assessments of which law firms have done better than other law firms. I don’t know, but they’re quite a litigious bunch to work with.

Well, just using the analogy of the car, because it’s not relevant—it may be relevant. But say you bought a very cheap car because it’s cheap, but you actually get less service from it, less real service in real terms from it—it
breaks down a lot, quality isn’t that great—how can the public be reassured that that isn’t what’s happening?

Patchell For example, in the car sector what we are seeing is that the fleet size is moving down. They’re moving from large vehicles to smaller vehicles. That’s probably the key trend we’ve spotted at the moment.

Smol What we’ve done is procured a whole range of models of car and given agencies who are purchasing the parameters of the performance, fuel efficiency, reliability, and so forth. They then make their choice just depending on their needs—what kind of travel they’re proposing to do and so on. There are provisions. I don’t know exactly how it works, but if the car breaks down, then presumably that’s covered.

Curran Well, it would be useful for the committee to get some information on how you’re measuring performance. I would just like to turn to broadband now.

McClay Just before we do, has anybody got supps on procurement?

Cunliffe Just perhaps a fine supp on that, which is do you take into account, or perhaps you could provide to the committee your methodology for taking into account, the relative whole-of-life cost-benefit on a domestic versus external offshore provider, and what spill-overs and externalities you look at in that?

Smol Yep, we can do that.

Curran Looking at the briefing to the incoming Minister from December on the UFB initiative—you talked about it on page 10, point 21—the aim of the UFB initiative is to deploy fibre network to 75 percent of the population by 2019, with the focus on delivering the network to schools, health care providers, and businesses in the first 6 years. So we’re now into year 4. What I’m interested to know is, given all of the decisions that have been made and the announcements that are being made around the country on an almost daily basis, how much fibre, new actual fibre, has been deployed to date, and how much new fibre will be deployed to connect the schools and the hospitals? Or is it existing fibre?

Parkes You mean over the next 5—up to 2016?

Curran Yes. I think there was an announcement with something like another 693 schools to be connected. Can you tell me is that new fibre and, if it is, what percentage of the new fibre will that be?

McClay Just before we go on, can you clarify—you said year 4. I think we’re up to year 2. The announcement says this is year 2 of that roll-out, so maybe I can clarify that.

Cunliffe There was a delay between the cancellation of the former Broadband Investment Fund, and the commencement of the roll-outs was year 4—
Curran  Yes, but the policy was announced in 2008.

McClay  Yeah, sure, but it didn’t say that the moment after the policy was announced we’re going to start digging trenches. But anyway you’ll clarify that.

Curran  Yes, it did, and the legislation puts it in place by 2019, so we’re now up to year 4.

McClay  We’re only up to year 2, but carry on.

Smol  We can provide that information to you.

Curran  I think there’s a substantive question that— I mean, there is a question of detail in terms of what percentage. The question I’m asking, and I would hope that MED would be able to answer, given the involvement that you’ve had in it, is is the fibre that’s being used to connect schools, in particular, going to be new fibre, or is it going to be substantially existing fibre?

Parkes  Well, it will be a mix. It will depend on where existing fibre is, where schools are. Based on what I know about where existing fibre is before the UFB, which is largely CBD areas in major centres and provincial cities, most schools would need new fibre roll-out, but we can come back to you if you would like an estimate of which schools would be covered by pre-UFB fibre.

Curran  Are you able to tell the committee—and we don’t need to know exactly where—when will the first large-scale residential UFB deployment be undertaken?

Ward  Well, residential deployment is occurring in the UFB areas as schools are being connected. In terms of when the large-scale residential build is due to sort of kick in and when you get scaled residential fibre deployment, that is going to happen now but the scale is not going to occur until the later years of the UFB build, and that’s because the Government policy is the priority build for the first 6 years, up until the end of 2015, and is to schools, health providers, businesses, hospitals, and greenfields developments.

Curran  You said in the later years, so what are we talking—2017?

Ward  Well, as you build out— I mean, residential premises are being passed now with fibre, because as you go and build to a school in a UFB area, or a health provider or a business, you don’t just go directly to the school; you build fibre around the surrounding area. So you are getting residential build now. But, obviously, with the priority being on those priority users for the first 6 years until the end of 2015, once those priority users are built to, then you will build out further from those residential builds that have already been undertaken.
It’s a bit of a Rubik’s cube, I guess, trying to get an efficient roll-out over an extended period of time for certain priority areas, so the local fibre companies and Chorus are working closely with Crown Fibre to get an optimal deployment plan over an extended period, and I understand—Brad, is it correct—that we’ll be seeing some plans from Chorus in the not too distant future and their deployment—

I think Chorus today have announced their year 2 deployment plans?

Their what?

Their year 2 deployment plans have just come out today from Chorus.

Year 2?

Yes.

Sorry. That was a cheap shot. Carry on.

Given the large numbers of announcements that have been made in the last 4 or 5 months on this issue, in particular around schools in many communities around the country, are you able to tell the committee how many schools have actually been connected to the UFB?

We can certainly provide that information.

Well, I can say that through the UFB to date there have been 30 schools, and in the RBI as at the end of January this year we had 163 schools.

And is that the fibre that’s gone to the school gate, or is it fibre that’s actually inside the schools and starting to be utilised by the schools themselves?

For the UFB it will be a mix. I don’t know exactly, but we can find that.

Could the committee please be provided with that information. Thanks. You also talk in your briefing to the incoming Minister about Crown Fibre Holdings, and the role of Crown Fibre Holdings in monitoring performance of investments. I’m interested to know how the relationship is between MED and Crown Fibre Holdings and what your relationship is in terms of are you actually monitoring that performance, and what advice you’ve provided to the Minister on how that relationship should go forward.

Are you talking about the MED-CFH relationship?

Yes.

Well, I think from day 1 when the concept of a Crown fibre company was established it was clear to us that we needed to make that relationship work extremely well, but the ultra-fast broadband project was extremely complicated. It needed legislative processes to line up with complicated
commercial negotiations and a split-up of Telecom. So if I can use the Rubik’s cube again, it was very much that exercise of lining up a number of complicated processes. The fact that Crown Fibre Holdings is based in Auckland added to the mix that potentially that relationship was going to be quite a challenging one, so we put a lot of effort into making sure we have worked hand in glove with Crown Fibre Holdings. I consider the relationship to have worked particularly well. I think it’s got a very good board and a very experienced senior management team, and overall we’ve been very happy with how that relationship has worked to date during the process.

Curran So you wouldn’t agree with the advice and the letter that was written to the Minister around the future of Crown Fibre Holdings that it should be, essentially, wound up?

Parkes No.

Curran Can I turn—I know we have a number of questions—to the issue of convergence and the relationship between the telecommunications and broadcasting industries. You mentioned in your briefing to the incoming Minister on page 18 about the evolving relationship between broadcasting and the telecommunications sectors, and changes in the way that content and services are delivered through the internet are likely to impact the regulatory and competition settings and other areas like privacy and intellectual property law. You also then go on to talk about the fact that this involves reviewing current frameworks. Can you provide the committee with, I guess, a view from MED on where the main issues lie and where the MED thinks the issues for Government to address are within, I guess, the short term.

Parkes In the short term?

Curran Well, I guess within the next year or two.

Parkes It goes without saying that this is a fast-moving area. There are significant technology changes. We’ve committed to a review of the regulatory framework in the next couple of years as part of the telecommunications—

Ward 2016.

Curran Sorry, who has committed to that?

Ward It’s in the amendments to the Telecommunications Act last year. We’ve got a review scheduled in 2016.

Cunliffe Which is not within the next couple of years or the current electoral cycle.

Curran So in the current electoral cycle, what are the key issues to be addressed as of right now, I suppose, and between now and the next—
McClay

Just before you go on, the financial review is this year and previously, so work under way at the moment—I’m willing to allow a bit of scope, but we don’t want to be jumping a whole way ahead, because it’s about this financial year this year and looking previously.

Smol

The Commerce Commission has just held, as you know, a workshop on these issues. We’re closely monitoring an evolving market and maintaining contact with the Commerce Commission on the work that they’re doing. We would obviously give advice to our Minister if we felt there was an issue that required early attention in terms of market power or something similar.

Curran

Have you provided advice to the Minister on an issue that may require intervention?

Parkes

No, not in what I think you are talking about.

Curran

Have you provided advice to the Minister on the regulatory and legislative issues around convergence in the telecommunications and broadcasting industry?

Parkes

No, we haven’t.

Cunliffe

Why not?

Parkes

Well, we’ve just gone through a significant process of reviewing the legislation, and it’s our broad assessment that the policy settings are appropriate for today and going forward. There’s a review of the Act timetabled in the medium term, and that will guide our policy work programme.

Smol

And as you know, we have a generic competition law, as well, because it was a judgment about is there an emerging issue and, if so, does it require a sector-specific response.

Curran

Well, given that you raise it as an issue in your briefing to the incoming Minister and there has just been a substantial seminar held by the Commerce Commission on this issue at which was present every stakeholder across both the telecommunications and broadcasting industries, one would think that the ministry would have a view on if not what the decisions are that need to be made, at least what the issues are that need to be addressed.

Smol

As you say, then we did flag the fact that this is all around the world, an issue that’s being discussed. The Commerce Commission has convened a workshop, which as you say, had all the relevant stakeholders there. They will evaluate all the information and decide what they think issues may be. We’ll keep a close watch on that.

Curran

Looking at how the relationship between TVNZ and Sky is emerging as a considerable issue within both the telecommunications and the
broadcasting industries in terms of other players looking at how close that relationship is becoming and the impact on other providers, do you see any competition and issues emerging across those two sectors?

Smol We monitor what’s happening but we’re not the competition authority per se. The first port of call would be generic competition law for those issues. We try and keep our sector-specific regulatory frameworks as stable as possible rather than continually chopping and changing and we have done a certain amount of that. It obviously can deter investment. It may be at some future point that a sector-specific response does make sense, but it’s certainly not something we’re recommending.

Young Look, I’d like to get an update on the broadband initiative—

Cunliffe It’s not a supplementary, with respect, on the issue of the TSO; it’s a different question. So feel free; I’ll take the supplementary—

McClay We’ll come back to him before we carry on.

Cunliffe So for Mr Parkes, given that UFB is foreseeably in the ground to a significant proportion of the population, and that will allow large-scale video streaming over the internet through terrestrial broadband, there is now a substantial discontinuity from the previous competitive landscape—point one. Point two: if Sky and TVNZ or Sky and Telecom formed a commercial arrangement whereby one provider—let’s say for the sake of argument Sky—became dominant in the provision of content through that new fibre, can you foresee any potential competition or dominance issues arising in that context?

McClay Before you go on, if you have work under way at the moment, that’s hypothetical; it could happen in the future. Only to the degree you feel you must answer that—It’s a little broad in scope, actually, David.

Cunliffe I’m asking the deputy secretary whether he has a view on that within the current financial year.

McClay Good. That’s all right. That’s a good question.

Cunliffe And that could include a view foreseeing future activity, provided he’s thought about it in the current financial year.

McClay I didn’t rule it out; I just said on the basis of what you’re doing now. It’s a bit broad still, but see where you go.

Parkes So the Government’s made a commitment to a major investment in a new fibre network and—

Cunliffe Absolutely, which could be a subsidy to a new dominant incumbent.
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So that, one would hope, will be a game-changer. It’s intended to be one of the major platforms not for just the next 10 years but for decades, and if it is a game-changer—which I think was your phrase—I really do hope that’s true, and we have every confidence that we’ll look back in time and think that was a fantastic investment. Now, how technology plays out over a period of time it’s hard to apply any sort of crystal ball to, but what we can say is that we think video applications will be very important drivers of uptake, particularly for residential customers in the ultra-fast broadband network. How that changes the competitive dynamics today with broadcasters, with TVNZ and Sky, we’re taking a watching brief on that. We think the technology is going to open up different competition opportunities for new market players, disintermediation of existing value chains. I guess I don’t need to tell you about how the internet can change sectors, turn them inside out. I think it would be wise of us to speculate today that there’s going to be a major competition issue in 5 or 10 years’ time.

Do you have a work stream on that issue?

With respect, I just want to follow up on that question, then you can go for your supp. You know, there is a tendency when someone raises a hypothetical to respond to a somewhat more extreme hypothetical and then say that there’s no issue. My question was quite specific, which is is it foreseeable that if certain circumstances occur, there could be a potential competition issue, and your reply—the essence of it—is “We’re not sure those circumstances would occur.”, and that’s true; none of us knows what the future holds. However, if they occurred, which was the original question, what might some of the competition issues be? So I’m not asking for certainty and I’m not asking for a declaration of a future work plan; what we want is the confidence that our senior officials and our policy advisers are aware of the risks and are prepared to provide advice should those risks materialise. So it’s a hypothetical and it’s a conditional. I’m still looking for a response. If it emerged that there was dominance by a particular company which happened to be vertically integrated in the key market, which as you’ve agreed is video through internet, what then?

I think all I can interpret in your question is that if there is a future problem will we look to try and help solve it? And there’s only one answer to that: of course we will.

Given that there’s been a pretty wide—

I think that’s a reasonable answer.

This isn’t a new issue, Chair.

No, I know it’s not, but, listen, the reason I think it’s a reasonable answer is that you’re saying something might happen in the future, and it could, and if
it did what do you imagine it might be and what would your response be. So I want to bring us back to this financial year.

Smol We do have generic competition law. So if dominance appears anywhere, there is an existing legislative framework through which the Commerce Commission can investigate and, if necessary, take action.

Curran Can I just ask—

McClay We’re going to go across to Jonathan for a question and then we’ll come back to your side of the table.

Curran I just had a question—

McClay No, no; we’ve just had 25 minutes. We’re going to come to Jonathan and then I’ll come back to your side of the table.

Young Can I just have an update, thanks, on the Rural Broadband Initiative, where it’s at and particularly the estimation of time frames around that.

Ward OK. First of all with the RBI the deployment is on track. As of last week there were five new cell towers built. That’s out of a total of 154 that are to be built by the end of 2015. We have upgraded 44 cell towers, and that’s out of a total of 387 that have got to be upgraded before the end of 2015. We have had fibre deployed to 163 RBI schools—that’s fibre. And I think of that number—I can’t remember the exact number. I’m trying to find the exact number of how many are going to be done in the next 12 months, but you’ll see at least a doubling in the number of schools with rural broadband connections and fibre in the next 12 months, as well.

Parkes We had a Eureka moment—that was the name of the little settlement where the first site was launched, so serendipitous maybe.

McClay If you give us the numbers of the schools in the next 12 months that will be useful.

Ward Yes, we can provide that.

Cunliffe Just wrapping up the UFB conversation, Chair, Clare and I would like to request in writing please a description of any work in progress on the questions of convergence and any potential dominance risks, given the huge public subsidy and regulatory subsidy in the UFB.

McClay That’s reasonable. Good. Now David, we’ll come to your line of questioning.

Cunliffe Thanks very much. I’d just like to come up for air a bit and come to the issue of a strategic framework for the role of MED in accelerating growth in exports. So this is cross-sectoral rather than intra-sectoral, and it’s really at the level of what does MED see as its role. If I could take as a starting point
the briefing to the incoming Minister, reading from page 8: “The challenge for Government is improving the macroeconomic environment. A regulatory environment is necessary, taken as a given.” Then it goes on to say “but not sufficient”. It quotes from Professor Lerner, who says: “Virtually every hub of cutting-edge entrepreneurial activity in the world today had its origins in proactive Government activity.” So MED is saying yes, apparently, to proactive Government activity. On page 10 it then goes on to say: “Current actions will make a difference but will need to be reinforced with deeper and further action. The existing agenda will not be sufficient to meet New Zealand’s growth aspirations. Deeper and further action will be needed in the form of a refreshed and more ambitious strategy.”, which is a great set-up, but it reminds me of a story about the American senator whose speechwriter said in the intro that he was going to solve world hunger, and then you turn the page and it’s blank—“You’re on your own, you bugger”, because then it’s silent. There’s no catch in this, but I’m interested in the chief executive’s view on how he might elaborate (a) in terms of process and (b) in terms of some potential directions of the role of MED in what I guess we could take is a bipartisan goal, which is lifting economic growth and exports. What’s the sunlit upland we’re heading to?

Smol

Well, as you know, this is a challenge New Zealand’s faced over decades, and successive Governments have grappled with it. Our sense is that what we’ve learnt over the past 20-plus years is that getting the conventional OECD menu fully implemented doesn’t appear to be sufficient to achieve the levels of growth to which we aspire. As you know, we’ve fallen in relative terms to other OECD countries over the past 20 or so years, although the rate of fall has moderated substantially of recent time. At the heart of the challenge we think is the fact that New Zealand is a small and remote country with predominantly small firms. We have a small domestic market that affects the fixed costs involved in both innovation and internationalising, so, other things being equal, it will be harder for our firms to do either of those things as compared with their counterparts in larger markets or in smaller countries closer to larger markets. So we see the challenge broadly as needing to address every lever the Government can influence to maximum effect, including getting the regulatory settings as good as they possibly can be, infrastructure that is fit for purpose, recognising that infrastructure has a cost and it’s easy to make poor-quality decisions, that the combination of skills emerging from our education system and our training system is as well matched to the current and future needs of industry as they can be, that our capital markets are as complete and as deep as they can be to support firms as they go through the phases of growth, and that we support firms as they seek to internationalise as effectively as we can, including through utilising our offshore networks better and in a more integrated way across the various Government agencies than we have in the past.

The Government is a very large player in the economy, and we’re looking wherever we can at ensuring that the activities of Government both deliver better services to the public but also support stronger economic
performance to the extent that they can. That does involve a very careful consideration about the role of Government—what the Government should do and what the Government shouldn’t do. As you know, there are many things the Government is not very good at doing that’s much better left to the private sector. This is where we get into the area that, as you know, is contentious in terms of how far Government should go and how it should do it, and we think that’s really the area where the discussion needs to focus as we look forward. But there’s a huge lot of things to do to get all those other inputs to business success working as effectively as they possibly can.

Cunliffe I think there’s probably a fair amount of common ground around the committee, I would guess, on the fact that the firm is the unit of output and that we need to think about the interface of the actions of Government with the drivers of firms’ success. But I’m interested to tease out a little more what you think some of those potential future roles might be. For example, is the ministry thinking about a regional prism on that question? Does it make sense to think about regions as having particular resource endowments or core competencies, and does that have a role to play? Likewise, does it make sense, or does it feature in your thinking, to think about industry sectors or clusters as potential opportunities for enhancement in growth rates and export rates?

Smol We think multiple prisms warrant serious consideration. For example, a sector-based approach is clearly one element for tourism, for minerals and petroleum. Aquaculture is a good example where Government is funding some science around finfish, where there’s been some regulatory change aimed at making water more readily available while still making sure there are adequate environmental protections, and New Zealand Trade and Enterprise is supporting some of our aquaculture firms in their attempts to sell into offshore markets.

At the regional level there’s been a lot of work going on in Auckland, following the creation of the so-called super-city, and we’ve been working with the council and with ATEED to support their development of an economic development strategy for Auckland. One of our aspirations inputting to that work is to make sure that there’s sufficient coherence between the way Auckland is thinking about things and the way we are thinking about things from a national perspective. The other obvious regional dimension is Christchurch, where, obviously, in very tragic circumstances, there’s a huge challenge to support the re-emergence of the Christchurch and Canterbury economies, and obviously Canterbury plays a critical part in the South Island economy.

Cunliffe Yes, it’s a huge amount of investment.

Smol We talked about Green Growth earlier, which is taking an economy and environment perspective, and, to state the obvious, we do recognise the deep interdependence between our economy and our environment. Much
of our economic activity depends on and imposes on the environment, and if we undermine our environment we undermine our economy. We are supporting stronger outcomes for Māori through supporting the work of the Māori Economic Taskforce. The country strategies I referred to earlier are looking at how we can better support successful New Zealand businesses in China, Australia, and India.

Delahunty I just wanted to know if you’ve seen any contradiction between you saying on the one hand looking after the economy and being aware of the environment at the same time as you’re planning to expand the mining, the digging up of, the country?

Smol It can certainly be a contradiction. We believe that, done right, minerals and petroleum do have a part to play in our economic future so long as the environmental protections and the human safety protections are adequate. As you know, human activity is impacting on the environment all the time, so I guess it’s a judgment. Reasonable people can disagree about how far that perhaps should go. From our point of view it is critically important that any activity that does take place does so with appropriate protections for both environment and human safety.

Delahunty So you don’t think there’s a double message in promoting one industry on one side of your work stream and on the other side talking about protecting the environment when there are clearly contradictions?

Smol I think that, as I say, it certainly is possible for there to be contradictions. We live in a complex world. It’s not a binary choice. If we think there is a role for economic activity that does impact on the environment, then it’s essential that the environment is duly protected. That doesn’t mean to say it is not going to be affected but that it is duly protected in the course of that activity.

Cunliffe I’m hearing everything you’re saying, David, and I don’t disagree with it, but I guess what I’m missing is the draft strategic framework that you may be considering in terms of future action, because you’re basically saying standard OECD prescription, necessary but not sufficient, to quote your BIM, because of reasons which are specific to our country. Our economic geography is small, remote, bigger neighbours, cheaper neighbours, the implication of which is if you just liberalise and hope you’re not going to get back up the OECD league table, you’ve got to do more. And then I see a list of activities in progress. I don’t disagree with any of them, but what I can’t see is a framework that allows me to understand, or the public to understand, how you might be prioritising potential future work. Is there anything that you could add to that, or could you direct us to any work in progress that might guide us through that strategic frameworking?

Smol Unfortunately, we don’t have a simple solution to this challenge. We think the lines of inquiry revolve around trying to understand where businesses located in New Zealand have strength in sectors where we can realistically
hope for our firms to be competitive in international markets, and in international markets that are growing. For example, health services is one that clearly is going to be a huge area of growth in the future. We have some very capable people in our health system. We haven’t done as good a job of capturing and making the most of some of that innovation within the system to realise economic opportunity, including—

Cunliffe Yes, I’m aware of the cluster there. So you’re looking for high potential growth—

Smol Areas where we have competitive strengths, or we can realistically aspire to have competitive strengths, and where there is significant growth opportunity internationally, for example to make the most of natural resources with appropriate protections put around them. That includes the primary sector, minerals and petroleum. It includes high-value tourism. When we look at the education system it’s trying to have as informed a view as we can about what the future shape of the economy might be to inform judgments about the optimal decision-making within the education system, but clearly that falls well short of anything resembling workforce planning, because the world is so uncertain.

Cunliffe I apologise if this is pretty frameworkie, but it’s the first FR in the new portfolio, so it’s a get-to-know-you kind of exercise. You quote in your BIM Finland, Denmark, Singapore, Israel, the sort of standard beauty parade of small, smart countries with proactive economic development policies. But frankly they’re a whole lot more proactive than the agenda so far laid out here. You know, Finland 3 percent of GDP driven from the Crown into R and D; us 0.4 percent, and your BIM only talks about encouraging the private sector to put in more. I mean, there are light years of difference in the level of activism of the states in those benchmark countries versus our own framework. Is there work in progress that might look at any lessons from those countries, and could you describe to the committee what shape any of that thinking might take? I don’t know whether you are doing any, but you’ve mentioned them in the BIM, so I’m assuming that there might be some implication of that.

Smol Well, yeah, there’ve been, as you will be aware, studies over the years. There is an initiative under way at the moment called the small country initiative, which is actually being led by MFAT and the Ministry of Science and Innovation, looking to build a relationship with I think it’s those same four countries you’ve just listed, where we would work together to share lessons and insights, what are the best metrics for assessing, for example, how effective an innovation system might be. So it is a slightly more formal approach to seeking to share learnings with counterpart countries. As you know, there’s no recipe we can lift from other countries. If you look at, say, Singapore as an example, where there has been a very high level of direction from the Government, in part because of the circumstances of that country after it became independent in 1960—
A particular form of democracy.

There is a lot of debate about what the Government’s done that helped and what the Government’s done that didn’t help, and how much you can make that judgment with the benefit of hindsight, and so on.

That all sounds fine. I was reading the Treasury BIM in parallel with the MED BIM, and the flavour of that was rather different. You know, they talk about a stable macroeconomic environment—tick that box; everybody agrees with that. They talk about a smaller, more effective, and more responsive State sector—well, we’d disagree with some of that; that is a different debate. And then they talk about a more internationally competitive business environment, by which Treasury recommends deregulate, cut taxes, make regulatory approvals for the RMA easier to get, and that is about it. The market will take care of it. I read the MED BIM to say it is necessary but not sufficient. Is it fair to say that there may be some different philosophical undercurrents between the two BIMs?

It probably is fair to say there may be some philosophical undercurrents that vary a bit. I would say there is a very high level of agreement between ourselves and Treasury on the challenges our economy faces and the sorts of policy choices that the Government has. As you know, Treasuries around the world tend to take a very orthodox view. They have a very strong responsibility from a fiscal perspective. One of the reasons for having a Ministry of Economic Development and a Treasury is that we will come at things from a slightly different starting point, and that should hopefully cause a creative tension, as a result of which Ministers get the best possible advice to inform the judgments that ultimately Ministers have to make.

Absolutely—good contestable policy advice. The question then is, well it is probably unfair to ask you if you think that the MED perspective is being listened to, but let me rephrase it in a different way. Which entity within the Crown authored the 120-point action plan?

Well, as you know, that was part of the National Party’s manifesto going into the election, so no Government department had anything to do with it.

OK, so no Government. You haven’t provided advice on that?

Absolutely not.

OK. Going forward, how about the economic growth agenda with caps? Similarly, any advice provided into that?

Well, I think the Prime Minister has stated publicly that Mr English and Mr Joyce are his two most senior economic Ministers. Mr English has the finance and infrastructure portfolios, and Mr Joyce has economic development, science and innovation, tertiary education, skills, and employment. I anticipate that they will work closely together and with the
Prime Minister and with other economic Ministers to shape the next phase of the Government’s economic growth agenda. We and Treasury will be central to supporting them, but a range of other departments will have input as well.

Cunliffe I’m trying to get my head around— Again, this is early days and I’m just getting to know the portfolio but I’m trying to get my head around the role of my opposite number, Mr Joyce, in relation to the strategic thinking that you’re doing. Have you provided advice to that Minister on the way that you would see the role of Governments being elaborated in the next period, acknowledging this is a financial review?

Smol Well, through the briefing to incoming Ministers, we’ve had discussions with Mr Joyce as he developed his thinking about how he wants to approach the portfolio.

Cunliffe So there’s more work under way following from that?

Smol Yes. I mean, I don’t know how much of it you’d say is formal analysis of possible frameworks in the way that you’re talking about, but it is the product of underlying thinking about frameworks as we work through choices going into place.

Cunliffe And just reading this body language around the table, we’re constrained for time. Now, chief executive, would you be able to just provide some sort of further overview in writing about the broad work streams in progress so that we can get a sense of the direction of travel. A couple of specifics that I’m trying to fit, work that we’ve seen the public domain with the thinking work that may be under way—has the ministry provided advice on the economic costs and benefits of expanding the gambling facilities at Skycity Casino?

Smol I’ll ask my colleague to join me. We are supporting Ministers in that process, as is the Department of Internal Affairs, which is the department that has responsibility for advice relating to gambling. Clearly, there are a number of inputs Ministers need to pull together in order to make a judgment about whether any particular proposal does deliver maximum potential net benefit for the country.

Cunliffe Do you have a view that you could share with the committee, which may be a different question, on whether there are any risks around regulatory compromise as a means of funding an infrastructure investment such as a new conference centre? I won’t go back to broadband; that was last year’s story.

Smol Well, as you know, Ministers, in making decisions, have to make trade-offs, and our job is to make sure they are as informed as they can be in making those trade-offs.
Cunliffe: Did the ministry provide advice to Ministers in relation to the forgiveness—sorry, the rescheduling of spectrum licence payments in relation to CanWest MediaWorks; if so, what was the nature of that advice?

Smol: Our general approach to these things, and I might just ask Len to comment, is to maintain NPV neutrality. That is the main concern over and above the precise timing of cash flows.

Cunliffe: Maintaining PV, present value neutrality, yes.

Smol: With appropriate security as well.

Cunliffe: And do you feel that the arrangement reached did maintain PV neutrality? If so, was there a PV difference?

Starling: Yes, we believe it did. There was an 11.2 percent interest rate charged on that deferred payment rate.

McClay: What was that percentage?

Starling: 11.2 percent, which was judged by the ministry and Treasury to be the appropriate return given the Crown’s cost of funding and the risk involved in the transactions.

Cunliffe: So did the ministry initiate the work stream with CanWest, or was that initiated in some other way? Was this part of your proactive “How we can make the boat go faster?” work stream, or did this work occur from some other route?

Smol: We believe the company approached the Crown to discuss this possibility.

Cunliffe: Do you know which part of the Crown was first approached?

Smol: No, I don’t. We can check that.

Cunliffe: You can come back to us? That would be great.

Delahunty: David raised this sort of philosophical underpinnings issue around the free-trade agreements. You say that you continue to support them. What on MFAT and on the TPP is your role, and what advice are you giving?

Smol: Well, on the Trans-Pacific Partnership, as with any free-trade agreement we support MFAT in those chapters in the agreement for which we have policy responsibility—for example, rules of origin, tariffs, competition policy, procurement, all of those things. So we are providing advice on each of them to MFAT as the lead negotiator and to Ministers as they provide the mandate within which we operate. And, as you know, that’s a negotiation that’s under way at the moment, so I can’t really comment on the specifics.

Delahunty: So there’s nothing you can provide in terms of the public, who know nothing about this and would love to know more about it.
Well, I think there is quite a bit of information in the public domain. Who’s best placed to help me with this? Anyone? We can certainly provide you with the information that is in the public domain. As you will appreciate, this is a complex negotiation involving multiple countries. The public does have a keen interest, so we certainly support Ministers in making sure that the public is kept as informed as it can be but in a way that doesn’t compromise the ability of Ministers and their supporting officials to achieve good outcomes for New Zealand.

Lotu-Iiga Just coming back to the convention centre, I mean, you’ve talked earlier on about industries that have growth or potential for growth, and this idea of a convention centre is not new; it has been analysed. I’m sure your department has done work on it in the past with ATEED. In terms of the opportunity, though, Mr Cunliffe was more concerned about the process, but the economic opportunity is quite substantial. Are you able to give us some big numbers around what potential is there?

MacPherson I can go back to the numbers that were released at the time, when the decision to enter into negotiations with Sky was announced. At that time, we were talking about the potential for new spending by international tourists by the centre of around $90 million per year, including $25 million spent outside Auckland. We talked about new delegates attracted per year of around 33,000, and in terms of people employed by the centre, the figures that were given at the time—and I stress this was pre going into negotiations—were 800 jobs on completion and approximately 1,000 during construction. But obviously that comes down to the size and scale of the convention centre.

Cunliffe What was the original number of additional pokie machines requested that formed the basis of that 800 jobs?

MacPherson the numbers were in respect of the actual convention centre itself.

Smol This was before we went through a process that resulted in the current negotiations.

Cunliffe Right. So these estimates weren’t in relation to the Skycity proposal in particular?

Smol The process contained a specification against which people bid. I think that was what underpinned these estimates.

Cunliffe So given—

Lotu-Iiga Sorry, I haven’t finished my line of questioning. Just coming back to the employment—So 1,000 for construction, over what period?

MacPherson That’s just in terms of the period of construction. I am not entirely sure over what period of time that would be.
Lotu-Iiga OK, but then you’ve got sort of 800 people employed basically—

MacPherson That was an estimate in terms of the size of the convention centre that was being—

Lotu-Iiga OK. And they are additional jobs, over and above those that are currently existing, right?

MacPherson That’s right.

Lotu-Iiga So new jobs?

MacPherson Yes.

Lotu-Iiga OK. And in terms of the market for these types of— I mean, we don’t have a convention centre in this space that can cater for these sorts of large events.

MacPherson No. The idea behind this was to have a convention centre that was capable of hosting 3,500 people. We simply don’t have that ability at this point in time. We know that because we don’t have that size of centre, we just simply aren’t able to bid into that sort of market at the moment. But we are also aware of the fact business tourists tend to spend more than your average tourist and tend to stay here for a longer period of time, as well. So we’re obviously after that higher-value visitor.

Lotu-Iiga What are they spending per night approximately?

MacPherson It tends to be around about $117 for your average tourist, and it is up around the $400. I can come back with those figures.

Lotu-Iiga That would be good.

MacPherson And then in terms of nights it’s about 8.2, I think.

Lotu-Iiga And what proportion of the overall extra visitors that you’re getting—what proportion of those would be these high-value spenders that would typically attend these types of conventions?

MacPherson I can’t give you the absolute proportions there, but what we’re saying is that business events themselves and the majority of the events that will be hosted in a convention centre of this kind would be business events, and do tend to attract a higher proportion.

Lotu-Iiga And where are they going now? Are they going to Sydney? Brisbane? Who are we competing with in that space?

MacPherson We are competing with Australia and other big convention centres.

McClay David, 3 minutes left.
I am happy to forgo some tourism time. I want to be clear that we’re not personalising these questions around a particular company or bidder, but prior to any proposals being received from different companies, and obviously there is one in negotiation, did the Crown, based on its estimates, derive any sense of what would be an appropriate level of capital investment to make a convention centre happen, sufficient to secure the benefits?

There was work done that was then put out into the market around the costs and benefits of the convention centre and the sort of size that was being pitched at. That was effectively put out at the time that the EOI was sought, so that those bidding in were able to essentially use that information as part of their bid.

Can you recall what the rough capex requirements were, the costs side of that cost-benefit?

Not off the top of my head, I’m afraid.

Could you provide that to the committee, along with a copy of the EOI. It’s historic now, I think in public. Do you know roughly what the—turning to the casino implications of this—throughput per machine is?

I can’t give you that off the top of my head.

By back of an envelope, if I looked at the latest Skycity annual report and the number of machines they currently operate, I get a number around about $70,000. You might be able to come back to us. That is per machine, per annum. That is gross profit. If I look at what has publicly been spoken about by Ministers of 500 new machines, that is a $35 million a year gross profit addition, if it were a linear relationship between number of machines and takings per machine, which it might not be. But would $35 million a year in perpetuity be likely to be more or less than the capex requirement that was estimated in your EOI?

I think that we are now getting into territory that is very close to the negotiations that are under way, so my answer to that is these are commercial negotiations and I don’t feel that it is appropriate to put that information forward at this time.

Let me put it a slightly different way and probably less commercially sensitive. Have you made any estimates in terms of the proportion of that additional $35 million a year that would come from New Zealand residents versus international visitors? From a social point of view, this is not a social good. This is coming out of the pockets of people who can ill afford it. I think the average is about a $70 loss per visit. And you can imagine how many people and how many visits— And the Problem Gambling Foundation is, of course, very concerned about this. Have you done any estimates on the proportion between domestic and foreign punters?
MacPherson  Again, coming back to the point I made earlier, any work that we are doing in this area is part of the work we are doing that goes into the negotiations between SkyCity and the Crown, and I do feel it is not appropriate for me to comment at this time.

McClay  That is fine. That is probably a good place to draw the line. Can I thank you. We’ve taken an extra 10 minutes of your time, but I know the committee has enjoyed it, because you have a very wide area of competence. And just to say that although our questions at times can be direct, I think we appreciate the work that you and all of the people who work with you do, and we need to recognise that. Can I thank you for your hard work on behalf of all New Zealanders.

Smol  Thank you very much.

conclusion of evidence
2010/11 financial review of the Ministry of Education and of non-departmental appropriations for Vote Education

Report of the Education and Science Committee

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Ministry of Education, and non-departmental appropriations for Vote Education

Recommendation

The Education and Science Committee has conducted the financial review of the 2010/11 performance and current operations of the Ministry of Education, and has reviewed the report on the 2010/11 non-departmental appropriations for Vote 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 the year under review saw an increase in participation in early childhood education, more students achieving NCEA Level 2, and more entering tertiary education and completing higher-level qualifications. A particular challenge for the ministry is to make sure that Māori and Pasifika children, those with special education needs, and those from poorer backgrounds do as well as they can in the education system. A notable challenge in the year under review was responding to the effects of the Canterbury earthquakes, particularly damage to infrastructure and continuing relocation of population.

The Secretary for Education during the year under review, Karen Sewell, has since vacated the position; she was succeeded by Lesley Longstone, who joined the ministry on 10 November 2011.

Role of the ministry

In our hearing with the Ministry of Education, we were interested in comments the secretary made about the ministry moving more from administering the education system to leading it. The secretary’s view is that there is no point having a Ministry of Education if its purpose is not to raise educational outcomes; but that, since Tomorrow’s Schools introduced a devolved decision-making model, there has been uncertainty about where the ministry invests resources. She sees some of the ministry’s main tasks as actively transferring examples of best practice from schools that are performing well to others, intervening as early as possible when schools are not doing well, and actively supporting schools in achieving progress.

In its statement of intent for 2010–15 the ministry sets out six priority outcomes for the year under review. We asked why these priority outcomes did not include improving the quality of teachers. The ministry acknowledged that doing so was important for achieving its goals. It therefore intends to prioritise teaching, and assures us that it will focus on the quality of teachers in the next financial year. We look forward to seeing this focus reflected in the ministry’s financial reviews over the next few years.
School property

The ministry has an ongoing programme of work related to earthquake resilience. As a result of the Canterbury earthquakes, this programme has been enhanced to address the impact on Canterbury schools, and implications for the whole school property portfolio. The estimated cost of repairs for schools in the Canterbury region is estimated at between $100 and $150 million, not including costs related to population change or possible changes to the schooling network in Canterbury. Estimates for action to ensure earthquake resilience will depend on factors such as the outcome of the Canterbury Earthquake Royal Commission’s inquiry. The ministry also noted that earthquakes are not the only hazards that schools are subject to, and that the ministry will review its hazard management systems once the Ministry of Civil Defence and Emergency Management reports on whole-of-government hazard management.

Student achievement

We noted that, while the secretary made special mention of the need to raise the achievement of Māori and Pasifika children, those with special education needs, and those from poorer backgrounds, Māori are the only group specifically mentioned as a separate priority in the statement of intent. The ministry explained that the other priorities relate to achievement among all learners, and that to achieve those outcomes it is necessary to improve the performance of all of these groups. We will monitor the progress made by the ministry on improving performance among Māori and Pacific learners.

We heard that while the average achievement of students in the New Zealand education system regularly places it in the top ten in international surveys, the system does not rate as highly as it might because of the relatively large variation in outcomes. The average attainment of Pākehā children is up with the very best. But the averages for Māori, Pasifika, and special-needs children are closer to those for lower-performing countries in the OECD.

The ministry believes that it is making progress towards closing this gap, but hopes to accelerate this progress, as Ka Hikitia (its policy for lifting Māori achievement), and its Pacific education plan are to be renewed this year. The new secretary has made some organisational changes in the ministry, partly so that the whole ministry rather than just small teams of people will focus on Māori and Pacific attainment. The ministry acknowledged that the consequences of poverty can affect learning, but to a lesser extent in schools with higher-quality teaching and leadership; it said the Ministry of Social Development is funding a programme to place social workers in schools, and that good leadership in the education sector involves working with other agencies in a complementary way.

We heard that smaller class sizes make more difference in certain subjects at certain levels, while in other cases teacher time can be used better for professional development or supporting other teachers than to make small reductions in the average class size.

We noted that the targets for NCEA achievement by priority learners which the ministry requires schools to include in their charters were also very challenging. For example, schools are obliged to target 80 percent achievement by Māori students at NCEA level 2,
although statistics indicate actual performance at that level is much lower. In order to support schools in pursuing these targets, the ministry has redesigned its professional and learning development, to focus on ensuring the ministry can provide the necessary support to ensure schools meet these targets.

Some of us are concerned that target-setting of this kind must be supported by evidence-based interventions that can improve outcomes for Māori and Pacific learners.

**Early childhood education**

We were interested in any monitoring of the effects of the changes to participation and quality in early childhood education funding related to the percentage of qualified staff. The ministry monitors participation rates, and has tracked the affordability of early childhood education over a number of years by comparing the cost of early childhood education with wages. Major changes in the affordability of early childhood education were effected by the introduction of 20 hours of free early childhood education in 2007, when it became over 30 percent more affordable, and changes to funding based on ratios of qualified staff in 2011, when affordability fell by 5 percent. Early childhood education is currently 36 percent more affordable overall than it was at the index point of March 2005. Some of us questioned the relevance of using a 2005 indicator. The ministry explained that whatever point you measure from between 2005 and 2007, it has become more affordable and is still more affordable at this point.

We asked whether the withdrawal of funding for more than 80 percent qualified staff and of the Provisionally Registered Teacher Grants from centres where qualified and registered teachers are more than 80 percent of staff had affected the quality of services. We were informed that there is monitoring of participation and affordability. While the ministry considers it is difficult to monitor quality due to information systems, there is work going on to promote high quality via an external advisory group. Some of us are concerned there is no process for monitoring the effect of funding changes on quality.

The target of 95 percent of Māori having access to early childhood education by 2012/13 is a challenging one for the ministry; current participation stood at 90.1 percent in the year under review. The ministry is changing the way it goes about pursuing the target, so, while it considered it was generally on track, it could not say definitely whether or not it was likely to achieve it.

**National standards**

Some of us were concerned that some teachers’ representatives have expressed significant opposition to the introduction of national standards, and asked how this opposition has affected the implementation of the standards. The ministry believes that the introduction of national standards will prove to be the optimal solution to raising the quality of teaching and learning through more robust reporting and availability of information assessing students’ education progression. However, some of us note that some tools are in their infancy and need to be developed further to achieve this objective. In a system where schools have a high degree of autonomy (as they do in New Zealand since Tomorrow’s Schools), strong accountability is needed. The secretary believes that a system of national testing such as that used in the United Kingdom would have been easier to implement, but
that the national standards, while they will take time to bed in, are a better system for New Zealand and will achieve the objective of improving teaching and learning through the availability of better information. She considers that issues about moderation and the consistency of assessment will improve over time, as they did with NCEA.

The ministry characterised the national standards as not being an expectation that all students will reach the same standard at the same time, but as being a way of measuring each child’s progress relative to this expectation. The ministry was questioned on previous statements that national standards were backwardly mapped from NCEA Level 2 and undertook to provide this information if it was in a form that they were able to provide. However some of us note that there is a critical gap at Years Nine and Ten to ensure a comprehensive picture of student achievement and progress.

We asked about the ministry’s engagement with teachers and boards of trustees regarding the national standards. We learned that representatives from the ministry continue to meet with sector groups at national and regional levels to discuss the implementation of the national standards, and that this work is complemented and informed by reviews undertaken by the Education Review Office. Also, many sector groups are represented on a National Standards Sector Advisory Group established by the Minister.

**Vocational pathways**

We asked about progress on developing vocational pathways within the National Certificate of Education Achievement. The ministry considers that while the flexibility of NCEA is one of its strengths, the range of vocational options has been too complicated for both schools and employers. The ministry has been working with employers to define bundles of NCEA qualifications designed to give entry to broad industry areas. This information is being used to help students and school leaders plan pathways through the curriculum toward specific goals.

**Te reo and tikanga Māori**

We asked about barriers in the curriculum to the implementation of te reo and tikanga Māori studies. The national curriculum consists of Te Marautanga o Aotearoa and the New Zealand Curriculum, which together set the direction for teaching and learning in kura, Māori-medium settings and English-medium schools. The main barrier to implementation is the availability of teachers in mainstream schools who are proficient speakers of te reo Māori. The ministry has a number of existing initiatives to recruit teachers with these specialist skills, such as TeachNZ Te Reo Māori scholarships, and is taking measures to lift recruitment in the next financial year. We hope to see these initiatives increase the availability of teachers who can provide effective te reo and tikanga Māori instruction.

**Tertiary education**

In the year under review the Government clarified the ministry’s position as its principal policy advisor on tertiary education (a role previously shared with the Tertiary Education Commission). We heard that the new arrangement was going well; the chief executives of the ministry and the commission meet with the Minister, and both organisations are members of the Education Sector Leadership Board. We trust that this positive
relationship will continue and provide clear direction for policy in the tertiary education area.

**Vetting of school employees**

We raised concerns about the ministry’s systems for vetting school employees. The ministry said that it has no reason to believe that there are systemic problems in this area, but that it was confident that any problems will be found by the ministerial review which had been initiated. We expect the ministry to have appropriate controls to vet school employees and identify applicants with such convictions, and look forward to the release of the ministerial review and the ministry’s response to its findings.

**Response to traumatic incidents**

We asked about the ministry’s ability to respond to incidents that could have a traumatic effect on students, such as the death of a child, a natural disaster, or the discovery that an unsuitable person had been working at a school. A key finding of research into such situations is that children respond best if support comes from people that they already know. Therefore, while the ministry has a traumatic incident team, it provides support and advice to help schools manage the situation themselves. The team will work with the board on governance and communication issues, with the principal on management of employment issues, and with counsellors already available to the school, or any who have to be brought in.
Appendix

Approach to financial review
We met on 29 February and 28 March 2012 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
Nikki Kaye (Chairperson)
Catherine Delahunty
Chris Hipkins (until 28 March 2012)
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O’Connor
Scott Simpson
Hon Chris Tremain
Dr Megan Woods (from 28 March 2012)

Evidence and advice received
Ministry of Education, response to written questions, received 27 February 2012.
Ministry of Education, response to written questions, received 5 March 2012.
Ministry of Education, response to written questions, received 9 March 2012.
Ministry of Education, response to written questions, received 16 March 2012.
Office of the Auditor-General, Briefing on the Ministry of Education, dated 29 February 2012.
Organisation briefing paper, prepared by committee staff, dated 14 February 2012.
2010/11 financial review of the Education Review Office

Report of the Education and Science Committee

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Appendix 5
The Education and Science Committee has conducted the financial review of the 2010/11 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 2010/11 the office conducted 1,265 education reviews of early childhood services and 807 education reviews of schools, and completed 14 national evaluation reports. It also conducted more than 70 workshops, attended by about 3,000 school trustees and senior staff members, on self-evaluation in schools. The office noted that a recent OECD report on its Programme for International Student Assessment had endorsed New Zealand’s progress towards a collaborative school evaluation model and the office’s flexible approach to its review processes. The office has also concentrated on improving students’ achievement, and is implementing a longitudinal review approach whereby it works with schools in difficulty to develop their capacity.

We were interested to learn that the office has established six factors in the effectiveness of schools: the quality of governance, leadership and management, teaching, support for student achievement, the culture of the school, and the community the school is a part of. We will be interested to see how the office applies this knowledge to determining how less-effective schools can improve their performance.

Role of Education Review Office

The office emphasised that it is a review agency; it does not develop policy or advice, and does not implement or enforce recommendations. It focuses on reviewing the quality of education in each school, and seeks reasons for the standards it discovers in each case. It can make recommendations to a school, but can only follow them up the next time the school is reviewed. Schools are usually reviewed every three years; however, if the office or the Ministry of Education are made aware of any concerns about the quality of education in a particular school, then the office may respond with a review outside of the three-year cycle.

The office said that it does not automatically change the frequency of the reviews in response to policy changes or other external factors that might affect the quality of education. The office focuses on the trends in service quality and examines the reasons for any decline, rather than assuming that any one factor alone will affect quality. For example, we discussed the Government’s 80 percent registration target for early childhood education teachers, and the office said it would not institute a programme of reviews of early childhood centres that have reduced their level of qualified staff, or diverted funds to retain qualified staff, in response to the change. It would, however, note any effect of the funding...
changes in each centre as it came up for review in its established cycle. If a pattern were to emerge, this might prompt the office to conduct earlier reviews of other centres, or to prepare a national report on the issue.

**Review methodology**

We were interested in the office’s progress in implementing its differentiated review cycles. The office is still developing its methodology for reviewing high-trust schools, the 15 to 20 percent of schools which are granted a four-to-five-year return time, the longest of the differentiated cycles. It has already established its process for schools on the three-year cycle; it estimates that 65 to 70 percent of the schools will be set down to be next reviewed after three years. For the 15 to 20 percent of schools with issues serious enough to warrant a longitudinal review with a return time of one or two years, the process is tailored to the needs of each school, and modified according to progress.

We asked if the schools being granted the longest return times were being used as benchmarks or examples for poorer-performing schools. The office and the ministry are encouraging increased networking between schools. We suggested that while school clusters have mostly grouped schools with similar socio-demographics, there could be advantages in creating clusters bringing together high- and low-performing schools. We also suggested that technology could be used to connect clusters of geographically-separated schools. The office sees a progression from the external reviews it carries out, through a school’s self-review capacity, to some kind of peer review between schools. We will be interested to see if more networking allows schools to draw on the knowledge and learn from the successes of high-trust schools.

**Governance and leadership**

The office emphasised that governance is a key factor in the success of a school. If a school has issues serious enough to become the subject of a longitudinal review, the school’s board of trustees will be integral to the process used to address the issues. If the office finds a problem with the governance of a school, it will refer it to the ministry, which will provide support to the board or intervene as appropriate.

The office also highlighted the importance of a school’s executive leadership. It suggested that differences between the educational outcomes in schools of a similar socioeconomic situation were most often due to the quality of leadership, and its effect on the quality of teaching.

**Student achievement**

**National standards**

We understand that while conducting education reviews, the office has looked at the implementation of the national standards within schools. We asked whether the office had discerned any trends in compliance, and whether such information would have been communicated to the ministry. The office said that in March 2007 it produced a national report which found significant gaps in schools’ assessment practices, and the introduction of the national standards has meant that most schools now have their achievement information readily accessible to discuss with review officers. The 2007 report set out concerns about assessment practices in about 40 percent of primary schools; the office’s
education reports are now showing clearly that about 80 percent of schools are implementing the national standards with various degrees of success and rigour. The office emphasised that it reviews the quality of education delivered by a school, as measured by the curriculum it provides and how this is delivered. It sees reviewing student achievement and assessment processes as an important part of the whole review, not as a separate item.

We heard that the trend has been for schools to use the national standards increasingly effectively. The office has produced a series of reports, initially on how well schools understood the national standards and how capably they used them, and more recently on the specific assessment processes that schools are using and how the data is being moderated. Fewer schools are not making good use of the national standards; the office expressed its opinion that difficulty using the standards was often a symptom of wider problems with a school’s capability, such as governance or leadership issues. The office told us that it had reported in March 2011 that about 10 percent of schools reviewed were opposed to the national standards, but that only a very small group were not implementing them for this reason.

The office emphasised that it is an independent government department, not a part of the Ministry of Education, and that it determines its own work areas and priorities. However, as the ministry is the policy agency for the sector, it will make every effort to respond to requests to look at topics of particular interest to the ministry. The office has not as yet looked at the moderation of the national standards; moderation between schools would be a topic for a national report rather than the education reviews of individual schools.

We will be interested in watching how the implementation of national standards is reflected in the office’s review work.

Māori and Pasifika students

We were interested in the office’s work on academic outcomes for Māori and Pasifika students. It specifically looks at what a school has done towards the goals of Ka Hikitia, the Ministry of Education’s policy on Māori achievement. This involves considering the school’s engagement in He Kākano (a professional development programme to improve culturally-responsive leadership and teacher practices) or Te Kotahitanga (which supports teachers in creating a culturally responsive learning environment to improve Māori students’ learning). We were interested to learn that the office does not grant a four-to-five-year return to schools unless their Māori students are performing very well. The office was questioned on its review of the implementation of Te Aho Arataki Marau mā te Ako i Te Reo Māori—Kura Auraki.
Appendix

Approach to financial review
We met on 7 March and 28 March 2012 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
Nikki Kaye (Chairperson)
Catherine Delahunty
Chris Hipkins (until 28 March 2012)
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O’Connor
Scott Simpson
Hon Chris Tremain
Dr Megan Woods (from 28 March 2012)

Evidence and advice received

Education Review Office, response to written questions, received 27 February 2012.

Education Review Office, response to written questions, received 16 March 2012.


Organisation briefing paper, prepared by committee staff, dated 5 March 2012.
2010/11 financial review of the Ministry for the Environment

Report of the Local Government and Environment Committee

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Ministry for the Environment

**Recommendation**

The Local Government and Environment Committee has conducted the financial review of the 2010/11 performance and current operations of the Ministry for the 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 provides national direction to central and local government agencies with responsibility for environmental management.

**Financial and service performance management**

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, financial systems and controls, and service performance information and associated systems and controls. The ratings for management control environment, and service performance information and associated systems and controls improved on last year’s ratings of “needs improvement”.

**Unappropriated expenditure**

Revenue for 2010/11 was $51.74 million and total expenditure was $51.687 million, resulting in a net surplus of $53,000. We note that during the 2010/11 financial year the ministry also incurred unappropriated expenditure of $2.484 million for the impairment of debt relating to the New Zealand Emissions Trading Scheme, $3.084 million for the Waikato River Clean-up Fund, and $1.219 million for the Waikato River Co-management Fund.

The breaches were technical in nature, and it was proposed that the unappropriated expenditure be validated by Parliament in the Appropriation (2010/11 Financial Review) Bill, which was introduced to the House on 27 February 2012.

**New Zealand Emissions Trading Scheme**

The New Zealand Emissions Trading Scheme (ETS) is the mechanism by which New Zealand aims to fulfil its Kyoto Protocol obligations. The ministry’s best estimates are that for the period 2008–2012, the first Kyoto Protocol commitment period, the ETS will have reduced greenhouse gas emissions by 19 million tonnes—largely by preventing deforestation.
Looking ahead to 2020, the Government’s target date for reducing emissions by 10 to 20 percent below 1990 levels, the ministry expects a reduction of 17–20 million tonnes; but there is much uncertainty about the uptake rate by forestry interests. We note that the recession is affecting the rate at which emissions are being reduced, by around half a million tonnes in total, primarily because emissions from road transport and industrial processes have been lower than expected.

**Staffing**

The ministry told us that it is in a good position and has no concerns about staff turnover, although the incidence of staff resigning without indicating where they were going has risen substantially. It noted particularly the reorganisation of its policy staff in which the ratio of senior policy analysts to policy analysts has been inverted and there are now more policy analysts than senior policy analysts. The ministry believes this has helped increase productivity and is producing better quality advice while reducing inputs.

**Water**

Budget 2011 provided $15 million over two years for a fund to help councils and communities clean up nationally significant fresh water bodies polluted by poor historic management. Applications for the fund opened in mid-2011, and we were pleased to learn that a number had been received. Shortly after our hearing of evidence it was announced that $7.78 million from the fund has been allocated to projects to clean up the Manawatu River, Wairarapa Moana (Lakes Wairarapa and Onoke), and the Wainono and Waituna Lagoons.

The National Policy Statement for Freshwater Management, which took effect on 1 July 2011, is intended to facilitate national consistency in local resource management planning and decision-making. Local authorities are required to implement the policy statement by 2030. Regional councils are developing their long term plans for 2012–22, and we were pleased to hear that councils are engaging with the ministry on how to give effect to the national policy statement.

**Resource Management Act**

While the economic recession has reduced the number of resource consents lodged, the ministry believes that the Resource Management (Simplifying and Streamlining) Amendment Act 2009, which took effect from 1 October 2009, has appreciably shortened consenting timeframes, which are expected to continue to improve when the economy picks up.

Following the February 2011 Christchurch earthquake the ministry established a Canterbury Earthquake response team with expertise in resource management practice, urban planning and design, and governance, and the ministry helped develop legislation and Orders in Council streamlining the process for resource management consents. We note that it has also provided advice to the Canterbury Earthquake Recovery Authority and the Christchurch City Council on recovery strategy and plans.
Waste management

In 2010/11 funding from the first round of the Waste Minimisation Fund was distributed. In 2010/11 the non-departmental appropriation for this purpose was $6.814 million and expenditure was $3.854 million. The apparent under-spend of $2.96 million reflects the need to manage funding over several years and delays to spending while the levy on waste disposed at landfills was collected.

We note that the first statutory review of the effectiveness of the waste disposal levy, part of which funds the Waste Minimisation Fund, was completed, with no outstanding levy payments.

We were pleased to hear that the ministry has a close working relationship with the Auckland Council, as Auckland accounts for a high proportion of waste statistics, and the council is in the difficult position of having inherited a number of contractual obligations regarding waste management from multiple disestablished authorities.

Rena grounding

On 5 October 2011 the container ship MV Rena ran aground on the Astrolabe Reef off the coast of Tauranga. The ministry was closely involved in managing the aftermath of the grounding and resulting oil spill, but has had no involvement in decisions regarding a possible inquiry.
Appendix

Approach to financial review

We met on 1 and 22 March 2012 to consider the financial review of the Ministry for the 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
Hon Chester Borrows
Jacqui Dean
Paul Goldsmith
Gareth Hughes
Dr Paul Hutchison
Hon Annette King
Moana Mackey
Eugenie Sage
Andrew Williams
Dr Megan Woods

Dr Paul Hutchison was replaced by Nikki Kaye for this item of business.

Evidence and advice received


Ministry for the Environment, Responses to questions, received 29 February 2012.

Ministry for the Environment, Responses to additional questions, received 20 March 2012.


Organisation briefing paper, prepared by committee staff, dated 28 February 2012.
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Ministry of Fisheries

Recommendation
The Primary Production Committee has conducted the financial review of the 2010/11 performance and current operations of the Ministry of Fisheries and recommends that the House take note of its report.

Introduction
The Ministry of Fisheries was the Government’s principal adviser on New Zealand’s fisheries management and matters relating to the aquatic environment, including those affecting the viability of fisheries or other marine resources. In 2010/11, its total revenue was $89.799 million and total expenditure was $89.794 million, resulting in a surplus of $5,000. The director-general was Wayne McNee. On 1 July 2011, the ministry was merged into the Ministry of Agriculture and Forestry.

Fishery management
New Zealand organisations fish in the fourth largest economic zone in the world, but this has not resulted in New Zealand becoming a world-leading fisher. We heard that the current volume of fish caught can be sustained but the prospects for growth in this area are minimal. The cold water environment around New Zealand does not promote fish reproduction. Therefore, the ministry is focusing on attaining growth in returns from the same volumes, derived from getting product to the market in the best possible condition. We are interested in any means by which the ministry can add value to its product.

The ministry values good scientific information as a basis for its quota management system. It currently focuses on species offering a large quantity of catch suitable for commercial sale, such as hoki. We heard that the ministry can derive commercial gain from only one sixth of the fishery; the rest is marginal. The ministry cooperates with industry and stakeholders to secure the best possible information on fish stocks. For example, the ministry has assembled information allowing it to respond to depletion in particular sections of the orange roughy fishery. The ministry recently began a 10-year research plan with the National Institute of Water and Atmospheric Research (NIWA), under a five-year contract with the option of renewal, to improve the quality of research in fisheries. We were pleased to hear that the quota management system is considered one of the best of its kind in the world.

We heard that Forest and Bird creates a “best fish” guide, which ranks the ecological sustainability of seafood from New Zealand’s commercial fisheries, for which it consults the ministry for information; but it does not reveal the details before its publication. While adverse information could be damaging to New Zealand’s brand as a sustainable fisher, the ministry told us that the guide is generally consistent with its own assessment of the fisheries, and it often raises valid points for debate, such as concerns about bottom trawling and by-catch issues.
We asked about the observer coverage programme, which is contracted by the ministry to collect information about fishing operations. We heard that the ministry has increased its observer coverage, while also increasing cost efficiency. It cut costs by making operational and communication changes, making funds available to hire more observers.

We also asked about the environmental certification of fisheries. The industry selects particular fisheries to be certified by an independent body, and pays most of the costs. This certification is not recognised by some interested organisations. We were particularly interested in the certification of squid fisheries, but found that this was not among those chosen by the industry to be certified.

Research projects

The ministry has not reduced the number of operational staff or core funding for research; however it noted that delivering the research programme will be a challenge, as always. We were concerned at continual delays to research projects, which we heard were largely due to the unavailability of vessels and scientists to complete commissioned research. We intend to monitor the delivery of the ministry’s research programme over the coming financial year.

We were concerned that a stock’s biomass is the main consideration when deciding whether it can be fished, with little consideration of the inter-relationship of species. The ministry confirmed that biomass was its main focus in these decisions; but it noted that the wider ecological impact of fishing is also considered. We asked whether it was appropriate to fish orange roughy until research on it has been completed. The ministry said it now has a detailed understanding of this fishery, and allowable catches of this species have been reduced substantially. The ministry will close a fishery if it needs to, but some orange roughy stocks have improved to the point where they are being fished again.

Gazetting marine coastal areas

The ministry uses a process called gazetting to put aside space in a coastal marine area in case it is needed for future treaty settlements. We were concerned that an area had been gazetted which was already covered by a spatial plan that prohibited marine farming in part of the area in question, and asked why the ministry took this action. It explained that the ministry had been working with iwi regarding this area when it received an Environmental Protection Agency application from the New Zealand King Salmon Company Pty Limited. This application potentially triggers the Crown’s obligation for 20 per cent of all new commercial aquaculture space created after 1 January 2005 to be claimed by Māori. The ministry believed that in the interest of maintaining good faith in negotiations with local iwi, it should gazette part of the contested area. However, this does not mean this area has been allocated for settlement; it is set aside for potential use in the future. The result of New Zealand King Salmon’s application is still undecided, as are treaty negotiations with local iwi. We intend to follow this situation closely.

Māui’s and Hector’s dolphins

In two recent instances a Māui’s or Hector’s dolphin has been caught in a set net; one close to an area where set nets are banned, and another in an illegally set net. The Māui’s dolphin is classed as critically endangered, and we were not confident that the ministry’s response was sufficiently urgent. The ministry explained that it is actively working on a Māui’s
dolphin recovery plan with the Department of Conservation as well as responding to issues as they occur. It is collecting information for the Minister to consider in his decision-making, and for the purposes of the plan. The ministry expects the plan to be released in October or November of 2012. We were pleased to hear the ministry stress the urgency of the issue, and look forward to seeing the details of this plan.
Appendix

Approach to financial review

We met on 1 March and 21 March 2012 to consider the financial review of the Ministry of Fisheries. Evidence was heard from the Ministry of Fisheries 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


Ministry of Fisheries, Responses to additional questions, received 19 March 2012.

Ministry of Fisheries, Responses to further additional questions, received 21 March 2012.

Ministry of Fisheries, Responses to questions, received 27 February 2012.

Office of the Auditor-General, Briefing on the Ministry of Fisheries, dated 1 March 2012.

Organisation briefing paper, prepared by committee staff, dated 27 February 2012.
2010/11 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 2010/11 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 note its report.

Introduction

The report is divided into two parts: A, the 2010/11 performance of the Ministry of Foreign Affairs and Trade in Part A, and B, the performance of the non-departmental appropriations for Vote Official Development Assistance for the same period.

Part A: Ministry of Foreign Affairs and Trade

The Ministry of Foreign Affairs and Trade provides advice on international relations, manages and protects New Zealand's security and trade interests abroad, manages the New Zealand Aid Programme, and provides consular support for New Zealanders overseas. It is also the channel for the Government’s official communications with other Governments and international organisations.

In 2010/11 the ministry’s total income was $381.15 million, and its total expenditure was $373.750 million, resulting in a surplus of $7.4 million. The surplus is primarily a result of savings in travel costs, staff vacancies, lack of movement in the remuneration market, and corporate cost savings. The ministry has 1,363 staff; 684 are in New Zealand, 254 are New Zealand staff seconded overseas, and 425 are locally employed staff overseas.

Financial management and service performance

The ministry received an unmodified audit opinion from the Office of the Auditor-General. The management control environment and its financial information systems and controls were assessed as good, as they were last year. The service performance information and associated systems and controls were assessed as good also, an improvement on last year’s rating.

Organisational change

The main focus of the committee’s review was the ministry’s organisational change process, “Ministry 20/20”, which involves modernising its management systems and reviewing its business model. In February 2012 the ministry released consultation documents proposing a new business model and remuneration system for the ministry, following months of work by senior management, led by Chief Executive John Allen. Staff have until 21 March 2012 to provide feedback. The committee was told that the consultation documents were reflective of a genuine wish to involve staff in the process.
The ministry acknowledges the need for thoughtful attention to all the feedback before making any final decisions about the future form of the ministry.

The consultation document is predicated on securing annual savings of $24 million. The committee was told that the figure of $40 million savings reflected the need to secure the ministry’s financial future in an environment of flat-line budget and expected inflation of wage and operating costs of five percent annually. In response to questions about how the extra $15–$20 million dollars could be secured, the ministry indicated they would come from measures such as downsizing staff numbers by 305, including 63 foreign policy positions, telecommunications improvements, and centralising the ministry’s Wellington offices.

The chief executive said there was significant staff involvement with the preparation of the consultation document, but information on remuneration was largely external to the organisation.

**Business model**

The key changes proposed in the business model are flexible arrangements for overseas posts; an end to rotational management; a flatter Wellington structure; outsourcing parts of the back office-work and centralising in Wellington some work that is currently done in overseas posts; and creating a new strategy and governance group.

The chief executive said the proposed changes were designed to introduce flexibility. In addition to full-service embassies or high commissions in key areas, a number of mini-posts would be established, each with a head of mission supported by locally engaged staff. This “Hub and Spoke” model has already been introduced in Europe, where back office support was moved from Madrid, Stockholm, and Warsaw to London, resulting in savings of $2.7 million per annum. The ministry saw further opportunities for creating hubs in Berlin and Brussels, reflecting their key places in the European Union.

The committee asked whether competent staff could be attracted if employees were employed on fixed-term contracts with no guarantee of a job upon their return to New Zealand. The committee was told that employees who did not succeed in securing another role on return from posting would join a “surge pool” and be deployed in areas of pressure until they secured a Wellington position. Employees unable to secure a position would be made redundant. Members cited a survey by the Foreign Service Association which found that 73 percent of employees based overseas wanted to change jobs and 66 percent of those currently at home would not now apply for jobs overseas if the proposals were implemented unmodified. The chief executive acknowledged that the specifics of the FSA survey were worrying, but reiterated that it should be seen as merely a “snapshot” taken immediately after the draft papers were released; sentiment was likely to change.

In response to questions the committee was told restructuring could lead to the employment of more contractors by the ministry. The chief executive assured the committee that the ministry’s senior management did not consider that further outsourcing and contracting of core ministry business was likely.
Remuneration system

One of the key proposed changes to the ministry’s remuneration system is a rebalancing of the mix of salaries, benefits and allowances which the chief executive advised would align salaries more closely with the market. The ministry proposes that people make a nominal contribution to housing, reflecting costs that would otherwise be incurred in New Zealand. Currently the ministry pays a 15 percent location allowance to staff posted overseas. In addition, a 20 percent allowance for partners and a 7.5 percent allowance for each child is paid. The ministry business model proposes a reduction in allowances paid for partners and dependants of staff.

The committee expressed concern that under the proposed changes competent staff could be lost. The ministry would continue to pay for core services for overseas personnel, such as utilities and education, maintaining a degree of flexibility in these areas. They would give special consideration to those in more challenging posts such as Port Moresby, and will continue to provide support for such people to travel elsewhere for respite.

The committee is concerned about the detrimental effect of the proposed changes on staff engagement and morale. It considers it vital that the ministry continue to attract and retain the best staff, and hope that there is a will to protect the human base which is the ministry’s greatest asset. The committee also concerned that the new arrangements may discourage people with young families from entering the foreign service. The chief executive assured them that the proposal will protect the ministry’s talent base, and suggested that it may even make it more attractive to potential employees because it encourages quicker promotion and career advancement.

Property management

The ministry said reports that it was planning to spend $900,000 to upgrade the swimming pool in the Tokyo residence were incorrect. The document in question surveyed the condition of the ministry’s assets. There is no intention to commit funds to upgrading them in the near future as we are concerned about how this would appear at a time of proposed job losses.

Transparency of reporting

The committee asked about the ministry’s failure to respond to Official Information Act 1982 requests within the legally required 20 working days. The ministry said that it always tries hard to comply with statutory requirements, but many of the requests they deal with are wide-ranging and require detailed analysis to determine whether it is in New Zealand’s interest to respond. The committee also expressed concern as to why the briefing to the incoming minister, a public document, had over 16 pages deleted from it and where those decisions were made. The committee questions why officials have not provided this information.

Trade

The committee considers trade to be fundamental to the success of New Zealand’s economy, and asked how the proposed restructuring of the ministry would serve the trade interests of New Zealand. The ministry pointed out the flexibility of the restructuring proposals, citing the new post in Abu Dhabi as an instance. New Zealand businesses
needed diplomatic representation in the Gulf area to help open doors to them, and the Ministry was very quickly able to appoint an ambassador in Abu Dhabi specifically to support New Zealand business. This might not have happened under the more traditional approach to diplomatic representation overseas.

The Trans-Pacific Partnership

The Trans-Pacific Partnership involves nine Asia-Pacific countries: Australia, Brunei Darussalam, Chile, Peru, Singapore, and the United States, which are seeking to negotiate a multilateral trade agreement. The ministry said a great deal of energy had been devoted to these negotiations. The ministry said the strategic benefits of membership outweigh any potential free trade agreement with individual member countries; and as the agreement is set up to include additional members, its potential contribution to economic development is significant. The committee looks forward to New Zealand achieving a high-quality trade arrangement under the Trans-Pacific Partnership.

New Zealand’s Security Council bid

In response to questions about New Zealand’s prospects of election to the United Nations Security Council for 2015/16 the committee told that Turkey and Spain’s bids were posing serious challenges.

The committee asked whether the proposed closing of European embassies might affect New Zealand’s bid. The ministry considered that European countries would understand a more focused diplomatic approach from a small country with limited resources.

Domestic policy

Rugby World Cup

The committee is pleased with the success of the Rugby World Cup and asked how the ministry viewed this event. The ministry saw the tournament as an important occasion for commercial and political leaders to travel to New Zealand.

Christchurch earthquakes

The committee asked about the role of the ministry following the Christchurch earthquakes. It was told that it undertook two main functions, responding to international support, and working with and supporting the families of foreign nationals who died in Christchurch. The ministry also has an ongoing role of signalling that New Zealand, and Christchurch, are still open for business. The committee commends, in particular, the work of ministry officials who were responsible for managing elements of the international response to the earthquake.

Te Puni Kōkiri

The committee discussed the relationship between the ministry and Te Puni Kōkiri. The ministry said they have regular meetings regarding visits, trade delegations, and occasionally specific policy issues such as the environment and intellectual property. The committee asked whether a more formalised link might be useful, and look forward to seeing progress on this matter. The ministry is reviewing the way it engages with Māori and considers Māori issues.
Part B: Vote Official Development Assistance

Vote Official Development Assistance’s non-departmental appropriations support sustainable development in developing countries, in order to reduce poverty and to contribute to a more secure, equitable, and prosperous world. The Ministry of Foreign Affairs and Trade manages the New Zealand Aid Programme.

Vote Official Development Assistance consists of the following non-departmental appropriations (actual expenditure for 2010/11):

- International agency funding ($123.767 million)
- New Zealand voluntary agency grants ($28.658 million)
- Global development assistance ($84.712 million)
- Pacific development assistance ($257.879 million)

There are also additional departmental appropriations:

- Management of Official Development Assistance Programme ($50.863 million)
- Strategic advice and evaluation ($11.085 million)

The total actual expenditure for Vote Official Development Assistance is $556.964 million.

Measuring performance

It is difficult to measure the service performance achieved by Vote Official Development Assistance because much of its work involves contributing funds to other agencies. The ministry acknowledged that it has little control over the work of the agencies it contributes to; but these agencies conduct their own audits, which evaluate the performance of the projects and programmes the ministry contributes to. The ministry told the committee that it is continually urging its partner agencies to uphold high performance standards.

The committee understands that New Zealand can have more impact by working with larger third-party agencies rather than alone, and it is important for the ministry to contribute funding and support to ensure that its voice is heard in such agencies. The ministry said it was continually urging partner agencies to uphold high performing standards.

Sustainable economic development

In April 2009 the Government directed that Vote Official Development Assistance’s core focus should be on sustainable economic development. Eliminating poverty is still the overarching ambition of the aid programme. The promotion of sustainable economic development is the chosen means of achieving it.

The ministry said this has resulted in a focus on larger-scale transformative projects, with particular attention to raising incomes and providing jobs. It is also pursuing partnerships with business interests in the fisheries, tourism, and energy sectors of recipient countries.

The committee questioned why the ministry’s strategic focus on the Pacific region was removed from the public version of its briefing to the incoming minister.
Pacific development

Slightly more than half of the funding from Vote Official Development Assistance goes to the Pacific region, reflecting the ministry’s strategic priority and the importance of the Pacific region for New Zealand.

The ministry is working with the South Pacific Commission and the Pacific Islands Forum, and looking for opportunities to improve the operations of both. New Zealand is the chair of the Pacific Islands Forum this year and wants to see the forum’s resources well spent. The South Pacific Commission is also under review, and the ministry told the committee that it has put forward suggestions for improving efficiency and ensuring the commission is fit for purpose.

The ministry said it is working with China to improve the coordination of aid delivery in the Pacific and believes it is making good progress in this area.

The committee was told that four Pacific countries—Papua New Guinea, the Solomon Islands, Nauru, and Kiribati—are not on track to achieve any of the United Nations Millennium Development Goals by the target date of 2015. The ministry told the committee that progress towards these goals by New Zealand’s Pacific partner countries was generally quite poor compared with the rest of the world.

Kiribati

The ministry said that, in response to real need, it had increased its activities in Kiribati, where there are massive urban development and over-population challenges. The ministry has invested in water sanitation and solid waste removal, and is promoting a reproductive health and education programme. The committee wishes to hear the outcomes of the programmes.

University of South Pacific

The committee was told that the political situation in Fiji presents a number of challenges for the University of the South Pacific. The ministry provides the university with $4 million per year in funding and also holds a position on the governing board. The ministry said it is working with its Australian counterparts to determine areas where they can provide support to the university.
Appendix

Approach to financial review
We met on 1, 8, 22 and 29 March to consider the financial reviews of the Ministry of Foreign Affairs and Trade and 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
Kennedy Graham
Hon Tau Henare
Dr Paul Hutchison
Su’a William Sio
Lindsay Tisch

Evidence and advice received

Ministry of Foreign Affairs and Trade, Statement of Intent 2010.

Ministry of Foreign Affairs and Trade, Responses to written questions, received 27 February 2012.

Office of the Auditor-General, Additional information for section 32A examination, dated 6 March 2012.

Office of the Auditor-General, Briefing on Ministry of Foreign Affairs and Trade, dated 1 March 2012.

Organisation briefing paper, prepared by committee staff, dated 1 March 2012.


Vote briefing paper, prepared by committee staff, dated 29 February 2012.
2010/11 financial review of the Foundation for Research, Science and Technology, of the Ministry of Research, Science and Technology, of the Ministry of Science and Innovation, and of non-departmental appropriations for Vote Research, Science and Technology

Report of the Education and Science Committee

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Recommendation

The Education and Science Committee has conducted the financial reviews of the 2010/11 performance and current operations of the Foundation for Research, Science and Technology, the Ministry of Research, Science and Technology, and the Ministry of Science and Innovation, and has reviewed the report on the 2010/11 non-departmental appropriations for Vote Research, Science and Technology and recommends that the House take note of its report.

Introduction

The year under review was dominated by the formation of the Ministry of Science and Innovation from the merger of the Ministry of Research, Science and Technology and the Foundation for Research, Science and Technology. The ministry was formally established on 1 November 2010 and became operational on 1 February 2011. The year under review covers the final seven months of the predecessor organisations, and the first five months of the new ministry.

We note that the Office of the Auditor-General has assessed the ministry’s management control environment, its financial information systems and controls, and its service performance information and associated systems and controls as all “needing improvement”. While we are concerned by this assessment, we also note that the Ministry of Research, Science and Technology’s service performance information and associated systems and controls were assessed as “poor” for each of the previous two years. The ministry assures us that it has now addressed the issues about the management control environment and the financial information systems and controls. It is also developing a new performance framework and measures for its service performance reporting, which are likely to change further as the new organisation beds in. We trust that the audit assessment reflects an organisation in development mode, and hope to see improvement in future audits.

Staffing

We took an interest in the staffing of the ministry, noting significant recruitment costs incurred in the course of the merger. The predecessor organisations had a combined total of about 170 staff, while the new ministry has 140 staff, of whom 55 percent were previously employees in a predecessor organisation. However, 45 percent of staff have been recruited, and the roles of many existing employees changed significantly. We were
pleased to hear that the ministry believes that it now has a good balance between institutional knowledge and fresh perspectives in its staff.

We heard that the expenditure reduction goals of the merger had been achieved, and asked about the ministry’s expectations for further savings. The ministry’s approach is to promote its goals in the science and innovation ecosystem, rather than carrying out every work programme itself. To this end it has devoted some funding to 14 regional business partners (mostly economic development agencies, and some chambers of commerce); the ministry is also working with agencies including Auckland UniServices Limited, the Kiwi Innovation Network, the New Zealand Venture Investment Fund Limited, and Incubators New Zealand. It considers that using such groups as a delivery mechanism is an efficient and effective use of its resources.

**Organisational goal**

The ministry has set itself the “greatest imaginable challenge” of doubling the value for New Zealand derived from science and innovation over five years. The ministry explained that it is seeking to increase the economic growth and social well-being generated from the science and innovation ecosystem. Work on developing performance measures began in late 2011 with a stocktake of measures used domestically and internationally to track the health and value of a national science and innovation ecosystem. The ministry identified a subset of particular interest for New Zealand, and is preparing a report that assesses whether the information and trends shown by these measures provide useful feedback on the ecosystem’s performance. Indicators relevant to the goal would relate to numbers of science and engineering graduates, patents registered by universities, spinout companies from research and development incubators and their performance, and instances of technology transfer. The report will be assessed internally in April 2012 and a first set of measures agreed.

The ministry has been working with experts from countries where science and innovation have contributed substantially to economic growth, such as Denmark and Israel. Finland and Singapore were also noted as possible role models for New Zealand’s science and innovation system. The ministry is investigating forming a “small country” network with these four countries and Australia.

**Non-departmental appropriations**

We reviewed the Report in relation to selected non-departmental appropriations for the year ended 30 June 2011 for Vote Research, Science and Technology. We note the total expenditure reported had increased from $73.76 million (over four appropriations) for 2009/10 to $252.95 million (over 15 appropriations) for 2010/11. This increase reflected a shift in the reporting requirements for these appropriations, as more non-departmental appropriations are now subject to section 32A of the Public Finance Act 1989.

We note that the report did not provide a comprehensive account of performance for the year. We sought an assurance that performance reporting for non-departmental appropriations would improve, particularly given the substantial increase in the funding now required to be reported in this way. The ministry explained that its establishment part-way through the year under review had complicated the reporting of the appropriations.
The development of the ministry’s new performance framework is expected to help improve reporting on such appropriations in future years.

We were concerned that two of the non-departmental appropriations\(^1\) were reported on only for the five months covered by the Ministry of Science and Innovation. The ministry has since provided us with the relevant expenditure for the correct reporting period, and assured us that the issue will not recur.

**Funding initiatives**

**Capability grants**

We were interested in the use of capability grants by the ministry to protect the employment of research and development staff in companies with short-term financial problems. After the Canterbury earthquakes, the ministry used capability grants totalling approximately $2 million to support the cash flow of 45 companies it had been working with in the region, so that they could make long-term decisions about their research and development work. We were interested in whether the ministry could apply this approach in economically disadvantaged regions. The ministry explained that there is no formal obligation on it to do so, but it tries to tailor its way of working to the circumstances of the particular sector or region it is working with.

**Technology transfer voucher scheme**

Budget 2010 introduced the technology transfer voucher scheme, for businesses, particularly in the high-value manufacturing and services sector, to work with research organisations on research and development projects. The recipient businesses are required to provide dollar-for-dollar co-funding. The ministry has evaluated the first year’s operation of the voucher programme, and found that low expectations of being granted a voucher and the transaction costs of the scheme were issues. It said the pilot had two objectives: to increase the willingness of companies to engage with research organisations; and to encourage research organisations to make it easier for business to engage with them. It believes that problems would inevitably be brought to light by the pilot programme.

The minimum funding available under the scheme was reduced from $100,000 to $30,000, so that smaller companies could afford the required co-funding. The scheme differs from the previous TechNZ system, which funded companies to do their own research; under the new scheme companies buy research from other organisations using vouchers and co-funding contributions. We were pleased to hear that the issues with the voucher scheme are understood, and hope to see the effectiveness of the initiative improve.

**Collaboration**

**Education**

To ensure success in science and innovation, it is essential that the education system produce enough people with expertise in the area. The ministry is continuing a programme of its predecessor ministry to encourage interest in science and engineering in schools. It is about to review the effectiveness of this programme, and is also seeking ways to place

\(^1\) Marsden Fund and Engaging New Zealanders with Science and Technology
young scientists in schools as role models. It is also completing a review of the number and subject areas of doctoral students, and of how graduates can get work in industry.

The ministry is aware of concerns that some graduates may not be equipped to work in engineering and high-tech companies; it is working with the Tertiary Education Commission and the Ministry of Education on these issues. We are interested in the outcome of this review and we encourage this being made a priority area for the ministry.

We heard about a new advanced technology institute to be established following a recommendation of the Powering Innovation report on the high-value manufacturing and services sector. It will be clearly about the transfer of technology and knowledge to industry, allowing the universities to concentrate on generating knowledge.

International

If the ministry’s goal of doubling the value derived from science and innovation is to be reached, it will be essential to involve the private sector. The ministry’s principal involvement in attracting capital investment is its work with KEA New Zealand (Kiwi Expat Association, which supports a network of expatriate New Zealanders and friends of New Zealand). KEA New Zealand has proposed wealthy expatriate New Zealanders for the ministry to work with. The ministry will also consider working with potential overseas investors who have homes in, or some other close relationship with, New Zealand.

We were interested to learn that the ministry takes the chief executives of about a dozen early-stage start-up companies to the Massachusetts Institute of Technology for a week each year to introduce them to New Zealanders who are students or alumni of MIT. We would like to see the ministry make use of these contacts to encourage expatriate scientists to return to New Zealand.
Appendix

Approach to financial review
We met on 15 February and 21 March 2012 to consider the financial reviews of the Foundation for Research, Science and Technology, the Ministry of Research, Science and Technology, and the Ministry of Science and Innovation, and the report on the 2010/11 non-departmental appropriations for Vote Research, Science and Technology. Evidence was heard from the Ministry of Science and Innovation and advice received from the Office of the Auditor-General.

Committee members
Nikki Kaye (Chairperson)
Catherine Delahunty
Chris Hipkins
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O'Connor
Scott Simpson
Hon Chris Tremain

Evidence and advice received
Ministry of Science and Innovation, Annual Report 2010/11.

Office of the Auditor-General, Briefing on the Ministry of Science and Innovation, dated 15 February 2012.

Organisation briefing paper, prepared by committee staff, dated 14 February 2012.

Ministry of Science and Innovation, presentation, dated 15 February 2012.

Ministry of Science and Innovation, response to written questions, received 27 February 2012.

Ministry of Science and Innovation, response to written questions, received 2 March 2012.
The Intelligence and Security Committee has conducted the financial review of the 2010/11 performance and current operations of the Government Communications Security Bureau, and has no matters to bring to the attention of the House.

Rt Hon John Key
Prime Minister
Chairperson
2010/11 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 2010/11 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 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 improves 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.

Recently the ministry has undergone significant reorganisation and re-focusing, with its new structure and core functions outlined in its December 2011 briefing to the Minister of Health.¹

Financial performance

The ministry administers Vote Health, which accounts for over 38 percent of total Government expenses in 2011/12. Almost three quarters of the vote goes to funding health services provided by DHBs. During 2010/11 the ministry’s total departmental revenue was $208.958 million, and total expenditure was $205.232 million, resulting in a net surplus of $3.726 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

Non-departmental appropriations administered by the ministry under Vote Health, apart from appropriations for DHBs, amount to about $2.7 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. The quality of these explanations has improved considerably in recent years.

¹ The New Zealand Health and Disability System: Organisations and responsibilities, December 2011.
However, we were concerned that some of the terms used in reports produced by the ministry for non-financial reporting on the non-departmental appropriations, such as “within agreed timeframes,” are not meaningful to readers who do not know what the agreed timeframes are. When asked about this in the hearing, the ministry replied that this issue had been brought to its attention by the Office of the Auditor-General, and it was working to resolve it. We wish to be informed of that resolution.

**Service performance reporting**

The Office of the Auditor-General gave the ministry a rating of “needs improvement” for its services performance information and associated systems and controls, an improvement on the “poor” rating received the previous year. The Office of the Auditor-General noted that the ministry has made improvements in this area, but said further improvements were needed to its supporting systems and controls, and it needed regular internal performance reporting on new measures.

The State Services Commission is currently carrying out a Performance Improvement Framework review of the ministry. The ministry has engaged positively with this review, seeing it as an opportunity to increase its effectiveness and productivity.

**DHB reporting standards**

We asked about the comprehensiveness and consistency of the reporting of DHBs on their performance to the ministry. The ministry said it has worked with DHBs to ensure the information they provide is consistent and meets the ministry’s accounting requirements. The ministry has noticed an improvement in the consistency of DHB reporting, but acknowledged room for improvement in the comprehensiveness of the information provided. The ministry did not, however, want to divert DHBs’ resources into meeting onerous reporting requirements. Notwithstanding this we wish to see greater consistency in DHB reporting.

**Whānau Ora**

We asked how the ministry planned to monitor its expenditure on cross-agency initiatives, such as Whānau Ora, and whether it planned to evaluate the contribution of money from the health budget to the implementation and health outcomes of the programme. Te Puni Kōkiri is the lead government organisation for the Whānau Ora programme, with the ministry playing a supporting role. The programme is still in the early stages, but we believe that evaluation of its health outcomes is important. The ministry told us that research is being carried out to this end, and the formation of a commissioning agency for Whānau Ora is also being considered. The ministry confirmed that the same standards of accountability apply to services contracted out through the Whānau Ora programme as to other services the ministry provides. We would be keen to pursue greater transparency in the application of Whānau Ora appropriations in the future.

**Healthcare workforce**

In 2009 Health Workforce NZ was created to provide national leadership on the development of the country’s health and disability workforce. We asked how this organisation was performing, and what it was doing to support the recruitment and retention of clinical staff across New Zealand.
Initiatives

A number of initiatives have been developed to increase the training and retention of New Zealand clinical staff. They include the Advanced Training Fellowship scheme, which lets medical trainees train or study overseas in a shortage speciality area, and a voluntary bonding scheme, which is an incentive payment scheme to reward medical, midwifery, and nursing graduates who agree to work in hard-to-staff areas. The Royal New Zealand College of General Practitioners and the Medical Counsel of New Zealand are also working on a new model of general practice training, the relevance of training, and the best setting for general practitioners to gain experience. These initiatives reflect international best practice, and should help recruit and train the New Zealand health workforce.

We were interested in initiatives to increase the time that nurses could spend with patients. A lot of work has been done in this area, assessing productivity, and redesigning the way care is delivered in wards and operating theatres. The ministry has recently introduced the “Time to Care” initiative, which focuses on improving ward processes and environments to allow nurses and therapists to spend more time attending to patients. A Safe Staffing pilot developed ways to predict the demand for care, and to schedule staff efficiently to provide it. These initiatives will be rolled out in all DHBs in the 2012/13 financial year.

We asked about initiatives to help international health workers to work in New Zealand. We were interested in the Physicians Assistants pilot carried out recently, using physicians trained in the United States in a supporting role with junior doctors. If it is to be rolled out further, we asked whether this role would be regulated with a defined scope of practice. The ministry was still examining this possibility, and noted that the pilot highlighted issues regarding the regulation of the workforce, and about what skills are needed in New Zealand.

We also asked about the NZREX preparation programme, a 12-week programme funded by Health Workforce NZ to help international medical graduates pass the Medical Council of New Zealand Registration Examination. This programme is currently providing its third course since it started in January 2011, and the Ministry believes that it has been very successful to date, with a near 100 percent pass rate.

Future workforce needs

The organisation has been looking at the future needs of the workforce to cope with changing patterns of disease and treatment. We asked if there were any plans to provide training to allow non-medically trained staff to perform endoscopies. This would have implications for the training and number of nurses required, as well as the number of doctors. The Ministry has been considering the reliance of the New Zealand health workforce on international medical graduates, which has been increasing in recent years. It is also paying close attention to changes in the Australian medical employment situation. We would wish future workforce needs to be met in a way that is consistent with regulated scopes of practice as outlined in the Health Practitioners Competency Act 2003.
Infectious diseases

We were interested in a paper published by Dr Baker on an increase in hospital admissions for infectious diseases and asked the ministry what it was doing about these findings. The ministry replied that it was studying the paper closely, and deciding how best to deal with the issue. As the paper dealt with a wide range of infections, both common and rare, the ministry felt it was unlikely there would be a single cause for the recorded increase in admissions. It was noted that there is also a grey area between infectious and non-infectious diseases, especially in the elderly; for example those with underlying lung problems are more likely to require hospitalisation for what starts out as a cold or similar infection.

The ministry is examining the relationship between health and poverty, which is cited in the research paper as a contributing factor to the high hospital admission rates. Investment has been made in areas including home insulation, rheumatic fever programmes, smoking cessation programmes, and immunisation programmes to protect the health of those with low incomes.

Home-based support services

We asked what provisions the ministry had made for providing more and better home support services in the current tight economic climate. Home-based support services have been the subject of a report from the Office of the Controller and Auditor-General which has recently been referred to the Social Services Committee. National standards for home-based care are about to be completed, and the ministry told us it wants to invest more effort in lifting the standards of home-based support, and ensuring they are uniform across the country.

Breast cancer

We asked about breast cancer screening rates in New Zealand, which the Ministry told us compare well internationally. The ministry was pleased that large improvements have been seen in the screening rates for Maori and Pacific women. We asked about the outcomes expected for those diagnosed with breast cancer and were told that the ministry was going to release outcome data after our hearing, which showed breast cancer survival rates increasing.

We were interested in the current waiting times for those needing chemotherapy, and were told that DHBs are making progress in this area. The ministry is planning to create a “cancer journey” approach to cancer treatment, tracking a patient’s access from diagnosis to their first treatment of whatever kind, to ensure it is timely. The focus will be on working across the system to maintain appropriate rates of treatments. We were informed that there has been good clinical engagement in this process.

Integration of services

We were interested in the fact that ambulatory-sensitive hospital admissions are rising for Māori and Pacific people, but not for the rest of the population. The ministry said this

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2 Michael G Baker, Increasing incidence of serious infectious diseases and inequalities in New Zealand: a national epidemiological study, 20 February 2012.

highlighted the need to strengthen community health services, primary care services, and integration of community and hospital clinical services, so that people do not present at hospitals when they could be treated elsewhere. The ministry is seeking to change its complex funding flows and relationships, in order to incentivise and simplify the integration of primary and secondary health services. The ministry is looking closely at Christchurch, which has spent years developing a more integrated model, and has made progress in implementing it.

We asked about initiatives to increase productivity in healthcare provision. The ministry replied that productivity is very hard to measure in the healthcare area, but that initiatives such as “Time to Care”, benchmarking and comparing the performance of different units, day-case rates, nursing hours per bed-day, average length of stay, and day surgery admissions should help it to increase productivity. The ministry also emphasised that it wants to link productivity with quality of care and staff satisfaction.

**Capital funding**

We were interested in the way DHBs obtain investment from the private sector under the current funding model, using the capital investment committee. DHBs receive funding for depreciation and operating costs from Government, but are required to investigate private-sector funding for capital costs above the amount they can fund themselves. The ministry is trying to encourage DHBs to work together regionally, and prioritise capital funding in a regional way, so as to maximise the benefits of all projects undertaken.

We asked how many DHBs had explored the option of private-sector funding now that the requirement has been operating for a year. We were told that to date only Canterbury DHB has engaged with the capital investment committee, and considered accessing private-sector funding. The ministry added that other DHBs have been making capital investments, but have been using their own balance sheets to fund them, rather than private capital.
Appendix

Approach to financial review

We met on 19 February and 21 March 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 Adern
Dr Jackie Blue
Dr Cam Calder
Kevin Hague
Raymond Huo
Iain Lees-Galloway
Barbara Stewart
Hon Maryan Street
Dr Jian Yang

Evidence and advice received

2010/11 non-departmental appropriations for Vote Health.


Ministry of Health, responses to committee questions, received 27 February 2012.

Ministry of Health, responses to additional committee questions, received 16 March 2012.


Office of the Auditor-General, Briefing on Ministry of Health, dated 29 February 2012

Organisation briefing paper on Ministry of Health, prepared by committee staff, dated 7 February 2012.

Organisation briefing paper on non-departmental appropriations for Vote Health, prepared by committee staff, dated 24 January 2012.
2010/11 financial review of the Inland Revenue Department

Report of the Finance and Expenditure Committee

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Recommendation

The Finance and Expenditure Committee has conducted the financial review of the 2010/11 performance and current operations of the Inland Revenue Department, and recommends that the House take note of its report.

Introduction

As well as managing New Zealand’s tax system, the Inland Revenue Department has been given additional roles in recent decades as the administrator of various Government programmes. Its responsibilities include

- advising the Government on tax policy and certain social policy measures
- collecting tax payments, child support, and student loans
- distributing payments such as tax refunds and rebates, Working for Families tax credits, child support, and paid parental leave
- administering KiwiSaver.

We agree with the conclusion of a recent performance review that Inland Revenue is, on balance, a very well-managed department. It will, however, face challenges over the next few years in ensuring that its IT systems can accommodate changing needs. This is a serious issue which will require careful management.

Financial management and service performance

In 2010/11 the department dealt with over 7 million taxpayers and nearly 1.8 million KiwiSaver members. It collected $46.8 billion in tax, an increase of 1.8 percent over 2009/10. The department’s output expenses in 2010/11 totalled $639.994 million—6.5 percent more than the previous year, but less than the total of two years ago.

The department did not achieve 10 of its 61 performance targets in 2010/11. Most of the failures to meet targets resulted from the disruption of the Canterbury earthquakes. This is understandable, as is the department’s expectation that service performance will continue to be affected in 2011/12. We comment further below about the effects of the earthquakes on the department.

Four unmet performance measures relate to the department’s management of tax debt and outstanding returns. The broader issue of the substantial amount of debt owed to the Crown is an ongoing problem which we discuss in detail below.

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1 Performance Improvement Framework Review for Inland Revenue, May 2011, State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet, p. 5.
The Auditor-General has recommended improvements in the department’s procurement and contract management, its business continuity practices, and its service performance information and associated systems and controls. We expect the department to act on the recommendations.

Managing debt

Collecting overdue debt remains a challenge. Previous committees and the Auditor-General have recommended more effort to do so, and the department has been trying new approaches. We record that despite additional funding in Budget 2010 to increase debt recovery efforts, total overdue tax and student loan debt increased by 7.2 percent (over $370 million) in 2010/11, to $5.5 billion.\(^2\)

The department attributes the increase to two main factors: the inevitable effects of a recession, and the department’s focus over the past year on early intervention to help people avoid debt or pay it off quickly, while penalties and interest continued to accrue on older debt. We note that this strategy was recommended by the Auditor-General and supported by the previous committee, and that the department plans to address older debt in the coming year.

As well as hiring about 200 new debt collection staff with the Budget 2010 funding, the department has trained staff in resolving complex debt cases, has concentrated on the most egregious debtors, and has assessed debtors’ ability to pay before attempting recovery.

In terms of value for money, we heard that the additional funding allocated for debt recovery in 2010/11 netted $115 million, a nearly tenfold return. We asked about the value gained from the 2009 policy decision to grant a 10 percent bonus for voluntary early repayments of student loan debt, but were told that it was still too early to judge the policy’s effect on compliance.

The department says it does not attempt to forecast future levels of tax debt, but the trend tends to follow economic activity generally. We will continue to monitor efforts to reduce debt in future reviews.

Student loan debt

Overdue student loan repayments account for the largest increase in debt in 2010/11. Arrears increased by 27 percent to $412 million as many borrowers reached the end of their three-year repayment holiday. Most of those who went into default are living overseas; repayments from borrowers in New Zealand improved over the year. The department has been working with the Australian Government to find debtors, and plans similar work with the UK. We note that the Student Loan Scheme Amendment Bill, currently before the House, proposes requiring borrowers to nominate a contact person, which should help the department to manage debtors overseas.

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\(^2\) Budget 2010 allocated funding over four years for Inland Revenue’s compliance work in debt collection, with $10.2 million provided in 2010/11, rising to $17 million in later years.
PAYE debt

Overdue PAYE payments increased by 17 percent in 2010/11, to $623 million. This debt is of particular concern, as employers deduct tax from wages and effectively hold it in trust for the Crown. The department said an increase in PAYE debt often follows recessionary periods as employers come under strain. It places a high priority on collecting such arrears.

Child support debt

Child support debt increased by 16.8 percent in 2010/11, to $2.27 billion. We heard that this did not represent many new defaulters, but rather the accretion of penalties and interest on overdue support payments, as the department has little ability to write off such debt.

Enforcement

Many of the prosecutions undertaken by the department are debt cases. The department tends to focus on the most egregious behaviour, and on cases that will send a useful signal to others. Its success rate in prosecutions is over 80 percent.

Tax policy and international comparisons

We were interested to note from the department’s briefing to the incoming Minister of Revenue that New Zealand’s tax revenue as a percentage of GDP has fallen significantly since 2007—from 35 to 31 percent of GDP—and is now slightly below the OECD average.3 We were told that 2.5 percentage points of the decline is attributable to the cumulative effect of tax policy measures undertaken by successive Governments since 2008. The global financial crisis accounts for the remaining 1.5 percentage points. The department confirmed that the tax measures introduced in Budget 2010 were described as “broadly fiscally neutral taking into account macroeconomic effects.”4 It explained that the description applies to the long-run impact of the Budget 2010 tax package. In the short term, particularly 2010–11, the package is revenue-negative because some of the revenue-positive aspects of the package take time to transition in.

New Zealand’s tax framework aims for broad alignment between corporate and personal tax rates, and between New Zealand rates and those overseas. The department’s briefing paper notes, however, that New Zealand’s company tax rate is currently above the international average, which could attract pressure to reduce it. On the other hand, the department argues that because of New Zealand’s isolation, reductions in company tax rates can be less effective than elsewhere in encouraging foreign direct investment and thus taxable activity.5

In the light of these factors, we asked what effect the Budget 2010 tax changes were having on economic activity. The department said it was too early to assess, as the changes to corporate taxes did not take effect until the 2011/12 financial year. Their effect was for the Treasury to assess; its assumptions were set out in the 2010 Fiscal Strategy Report, and a full assessment of the impact was likely to be published in the Government’s financial

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3 Inland Revenue Department, Briefing for the Incoming Minister of Revenue—2011, p. 11.
4 Budget 2010, B2 & B3, p. 70.
5 Inland Revenue Department, Briefing for the Incoming Minister of Revenue—2011, p. 36.
statements for the year to June 2012. The department noted that the effect of tax policy changes on economic activity would depend not just on tax rates but also on broader factors like economic conditions, which had proved more volatile than expected over the past two years.

**Cost of collecting tax**

We noted that the cost of collecting $100 of tax revenue has increased slightly over the past five years. The department explained that this was because of reduced tax rates and the economic downturn, as less revenue was collected for the same amount of work. However, the department said studies have shown it compares well internationally on such measures.

**Organisational transformation**

The department has been working to improve its efficiency by making more use of electronic communication, cooperating with other agencies, and making it easier for customers to manage their obligations themselves.

The major issue over the next few years will be upgrading its aging IT system, known as FIRST. While the project is not urgent—the system remains reliable and will have technical support for another 10 years—the software cannot easily be adapted to allow the department to provide new services. The FIRST system was purpose-built; the department is working with an international consultant to find off-the-shelf software that will meet its needs and provide more flexibility. The department said it does not yet know the cost of the upgrade; its briefing to the incoming Minister gave “an early ball-park estimate” of $1–1.5 billion over the next 10 years, based on similar projects in Australia and Canada.

We are aware that a previous effort to integrate the FIRST system with other software to manage student loans had to be abandoned, at a cost of about $8 million. Because of the size and importance of the new project, we emphasised that careful oversight and governance will be vital.

**Staffing issues**

The department has reduced its overall staff by about 800 since 2008. We asked about the effect of the planned IT improvements, with one member noting a report suggesting that as many as 1,000 jobs might be cut. The department said it did not have any figures, but is aware that it needs to improve its services—telephone enquiries are a particular bottleneck at present—and technology is a means of doing so. Changes in staffing levels would depend in part on the public's use of online and self-service options.

In order to achieve economies of scale, the department plans to progressively concentrate its staff in Christchurch, Wellington, Hamilton, and Auckland. Some of us questioned this approach, as we consider provincial areas fully capable of servicing the department’s needs, but were told that the decision reflected extensive research, and was not taken lightly.

**Canterbury earthquakes**

We commend the department on the way it has coped with the disruption caused by the earthquakes and especially the flexibility it has shown to taxpayers, easing its requirements to reduce the chances of businesses failing. We are also grateful for the direct contribution the department and its staff have made to the recovery effort.
The department says Christchurch will remain one of its main centres of operation. Before the earthquakes it had 800 staff in a new building in the city centre; since February 2011 it has had to operate from more than 30 locations pending a decision on when it can return. Recently, it restored its call centre operations from leased premises, which it shares with the Ministry of Social Development. It believes that some of the service-delivery methods used out of necessity after the earthquake will provide useful lessons for its business plan.
Appendix

Approach to financial review

We met on 8 and 29 February 2012 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

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

Evidence and advice received

Inland Revenue Department, Annual Report 2011.


Inland Revenue Department, responses to additional financial review questions, received 24 and 28 February 2012.

Office of the Auditor-General, Briefing on Inland Revenue, dated 8 February 2012.

Organisation briefing paper, prepared by committee staff, dated 8 February 2012.
2010/11 financial review of the Department of Internal Affairs

Report of the Government Administration Committee

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The Department of Internal Affairs

Recommendation

The Government Administration Committee has conducted the financial review of the 2010/11 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 is a diverse organisation providing many different services throughout New Zealand. It is responsible for administering eight Votes; the Minister of Internal Affairs is the Minister responsible for the department. In 2010/11 total departmental revenue was $289.274 million and total expenditure was $278.385 million, resulting in a surplus of $8.716 million.

Canterbury earthquake response

Following the Canterbury earthquakes, the department, particularly the Ministry of Civil Defence and Emergency Management which sits inside the department, was responsible for controlling and coordinating the response during a ten-week state of national emergency. It provided various services, including facilitation, procurement, and reimbursement, in the initial response and aftermath. The department is proud of its efforts, especially those of the Ministry of Civil Defence and Emergency Management.

We commend the department for its response to the earthquakes, and particularly for the communication provided to local members of Parliament, councillors, and community boards. This communication was critical to the recovery.

Lessons learned

We and the department share the view that although the response to the earthquakes was excellent, future responses to national emergencies should be different. The department said it had learnt a lot from the earthquakes, the second of which resulted in a national state of emergency being declared for the first time. The department said that although the Ministry of Civil Defence and Emergency Management’s national emergency policies responded well to the earthquake they were not designed for such a big event. Therefore it struggled to respond on the scale needed, and it was difficult to create a capable structure to coordinate local and central government responses to the earthquake.

We were concerned to hear that building safety engineers were inadequately trained and prepared to carry out building safety assessments, and that building safety placards did not articulate the status of buildings clearly to their owners.

The department told us that its engagement with community volunteers was sub-standard, and that it needed to improve its ability to facilitate community involvement in disaster response, and to provide information to and receive information from the community. We share this view, particularly in regard to the department’s unsatisfactory response to offers
of help from the community. We understand that this response led to resentment in the community. We believe that legislative change is needed to address problems with departmental interaction with communities, and we encourage the department to advocate for such legislation.

A cross-Government exercise will evaluate the lessons from the Government response to the earthquakes. We encourage the department to engage fully with this process and we look forward to seeing the results of the analysis.

**Total cost of the earthquakes**

We are concerned about and frustrated by the continued uncertainty about how much the earthquakes are likely to cost and who will be liable for these costs. We are concerned that information on departmental and Crown responsibilities is not clear. The department said this lack of clarity was partly due to its responsibility for two separate areas of expense. The first area is payments for immediate response and recovery expenses, including local authority expenses. The department has received $159 million worth of claims relating to earthquake response and recovery services, and has paid out $107 million. The department is working with some councils to validate their claims.

The second area of responsibility is claims for repairs to regional water infrastructure. The department has not been able to quantify the likely cost of these claims satisfactorily for audit purposes, because of uncertainty about the cost of replacement infrastructure and the extent of underground damage to water infrastructure, and also because it is working with local councils and the Canterbury Earthquake Recovery Authority (CERA) on a replacement plan for regional water infrastructure. The department expects CERA to take the lead role in this work, but it has not embarked upon it so far.

We encourage the department to continue to work with local authorities and CERA to ascertain the likely total cost of the Canterbury earthquakes.

**Financial consideration arising from the Canterbury earthquakes**

Under the Civil Defence Emergency Management plan, the department was liable to reimburse local authorities for 100 percent of welfare-related costs and up to 60 percent for other response and recovery costs. The Government decided to waive the threshold for local authorities’ other response and recovery costs and made the Crown liable for 100 percent of the costs, including the Christchurch City Council’s repairs to essential infrastructure. We note that this was a one-off change to the plan and was designed to ensure the well-being of those affected by the earthquakes.

**Reimbursement of costs to the department**

We asked whether the department had a process for recouping some of the demolition costs incurred by the Ministry of Civil Defence and Emergency Management following the earthquakes. The department said that the ministry had applied for reimbursement for expenditure on some demolition work, but that the responsibility for seeking reimbursement for this work has shifted to CERA, which now runs the demolition programme. We were puzzled as to how it was legally possible for CERA to be reimbursed for the work of the ministry. The department said that CERA was best suited to recover
costs because the relevant files are all in Christchurch and CERA has financial systems for recovering demolition costs.

Integration of Government agencies with the department

We were interested in the recent structural changes to the department following the integration into the department of Archives New Zealand, the National Library, the Office of the Government Chief Information Officer, and the Office for the Community and Voluntary Sector on 1 February 2011. The department told us that integration had resulted in units ordered by function rather than by subject focus; for example the policy arms of the several subject areas have been grouped together. The new structure allows better departmental coordination and has reduced costs, while delivering the same level of service.

Cost

We are concerned that the initial estimate of the operating expenditure required to integrate Archives New Zealand and the National Library was $2.5 million, but the actual cost was $4.126 million, and a further $1.751 million was spent on capital assets for integrating the IT systems of the departments. We heard that the initial estimate figure did not include capital expenditure, but this accounts for only a portion of the discrepancy, the rest of which was the additional operating expenditure. We urge the department to include capital costs in the initial estimates of any future integration.

Office for the Community and Voluntary Sector

We were concerned that the role and status of the Office for the Community and Voluntary Sector has been diminished since its integration with the department. The department assured us that staff had been re-grouped rather than reduced, and that the level of service delivery had not changed. However, we requested additional information to confirm that the same level of service delivery has continued after integration. The additional information provided by the department indicated that the current functions of staff involved in community and voluntary sector policy work compare well with the policy work of the old Office for the Community and Voluntary Sector. We will continue to monitor this area, and we urge the department to increase the visibility of the business units that deal with community and voluntary sector work.

Charities Commission

We were concerned that the integration of the Charities Commission with the department might reduce its transparency and independence and make it less accessible to the public. We urge the department to ensure that the integration of the Charities Commission preserves the independence of the commission’s registration process, and we will continue to monitor this area.
Appendix

Approach to financial review
We met on 29 February 2012 and 21 March 2012 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, Annual Report 2010/11.

Department of Internal Affairs, Statement of Intent 2011–14.

Department of Internal Affairs, Responses to written questions, received 27 February 2012.

Department of Internal Affairs, Responses to additional questions, received 15 March 2012.

Office of the Auditor-General, Briefing on Department of Internal Affairs, dated 29 February 2012.

Organisation briefing paper, prepared by committee staff, dated 21 February 2012.
# 2010/11 Financial Review of the Ministry of Justice

## Report of the Justice and Electoral Committee

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Ministry of Justice

Recommendation
The Justice and Electoral Committee has conducted the financial review of the 2010/11 performance and current operations of the Ministry of Justice and recommends that the House take note of its report.

Introduction
The Ministry of Justice is the lead ministry for the justice sector. The ministry administers three votes: Justice, Courts, and Treaty Negotiations. In August 2011, Andrew Bridgman was appointed Chief Executive and Secretary for Justice, following the resignation of Belinda Clark who had held the position for 10 years.

Financial and service performance management
In 2010/11, the total revenue for the ministry was $498.933 million and total expenditure was $487.606 million, resulting in a net surplus of $2.327 million (the 2009/10 net surplus was $12.695 million). Total expenditure was under budget by $16.613 million. This was due to lower operating costs resulting from transferring the Chief Electoral Office’s operations to the Electoral Commission on 1 September 2010. The 2010–2011 Christchurch earthquakes were a major challenge for the ministry, and the associated costs of $14.155 million offset the savings that were gained from merging the Chief Electoral Office and the Electoral Commission.

The Office of the Controller and Auditor-General issued an unmodified audit opinion on the ministry’s financial statements, rating as “good” its management control environment and its financial systems and controls. The ministry achieved a “good” rating for service performance information and associated systems and controls, an improvement on the “needs improvement” rating it achieved last year. We commend the ministry for this effort, but also note that the Auditor-General found room for improvement in all three categories. The ministry assured us that it has developed a work programme to address the Auditor-General’s recommendations, managed by the ministry’s Audit and Risk Committee.

Response to the Canterbury earthquakes
We acknowledge the ministry’s adaptation of its procedures, under extremely difficult working conditions, to restore court services in Christchurch.

We heard that following the February 2011 earthquake, the ministry moved to a centralised court scheduling and calling system, through the Auckland Service Delivery Project. The ministry used a wide range of alternative court venues, such as Ngā Hau e Whā Marae, the Riccarton Racecourse, the Wigram Air Force Museum, the Department of Building and Housing (the Tenancy Tribunal), the Christchurch Central Police Station (an arrest court), and the Christchurch Men’s Prison (hearings in custody). The ministry also established a temporary mortuary facility at Burnham Military Camp within 24 hours, and a later facility at the Hornby Police Station.
We heard that these initiatives were made possible by effective collaboration with other agencies and organisations, particularly the Community Probation Service, the New Zealand Police, the Department of Corrections, the Legal Services Agency, and the New Zealand Law Society.

**Opportunities**

The ministry told us that the Canterbury earthquakes have shown there are new and better ways of operating. We are pleased that the ministry has taken a number of new initiatives, which could be applied across the justice sector. We heard that the ministry would like to create a national programme to apply these measures systematically to other courts around the country. We look forward to seeing progress on this matter.

In particular, we think certain community justice initiatives deserve further investigation. We heard that Ngā Hau e Whā Marae has been a particularly effective court venue, providing better links with the community than traditional courts, and eliciting a better standard of behaviour and compliance.

We were advised that one of the reasons the marae model has been so successful is the presence of multiple service providers at hearings, providing on-site support and greatly reducing typical delays. We feel that the ministry could take the lead in applying a co-located services model across the justice system. We are interested in the potential of such a model for delivering efficiencies and financial savings, in addition to improving services for victims of crime, youth offenders, and other vulnerable parties in the court system. We note that the Neighbourhood Justice Centre in Victoria, Australia, provides a good model for delivering multiple court support services on site.

The ministry told us that it is learning to make more efficient use of its own under-used facilities (the Māori Land Court in Christchurch, for example, is now housing other jurisdictions) and of existing community facilities.

**Modernising court processes**

We note that, according to the ministry’s annual report, one of the Minister of Justice’s priorities is for the ministry to improve the functioning and efficiency of court processes, through initiatives like the Criminal Procedure (Reform and Modernisation) Bill, the Auckland Service Delivery Programme, and technological upgrades.

The Auckland Service Delivery Programme has been operating since January 2012. It treats the six district courts in Auckland as a single centralised system. We heard that although some court users now have to travel further, travel delays are offset by the more effective service and greatly reduced waiting times, estimated to represent at least a 10 percent efficiency gain.

The ministry said that it has continued to seek efficiencies by using audio-visual technology in court rooms, and connecting further court rooms to the National Transcription Service.
Opportunities for further efficiencies

Our main concern is that efficiencies should be measurable. We heard that the ministry collects a large amount of data, and is focusing on ways of using it effectively to measure the ways that courts deal with the matters before them.

We note that the number of higher court trials and appeals is down in the year under review, but their costs are up. We feel that effective data collection would provide a clearer understanding of the distribution of costs in the court system and help assess the effectiveness of the Criminal Procedure (Reform and Modernisation) Bill and other initiatives to improve efficiency.

We were interested to hear that the Chief District Court Judge has asked the ministry to provide judges with data relating to the amount of time that courts are sitting, and the types of matters before the courts. We encourage the ministry to review the information it collects routinely to ensure it is useful for judges and other users.

Auckland Drug Court pilot

Following a recommendation arising from the Law Commission’s review of the Misuse of Drugs Act, in September 2011 the Government established a pilot Drug Court in Auckland to deal with offenders with severe alcohol and other drug dependencies. The Drug Court is projected to run for five years from mid-2012, and received funding of $2 million out of the $10 million that Cabinet approved to fund alcohol and other drug measures. The Auckland Drug Court pilot is part of the Government’s Addressing the Drivers of Crime programme.

The ministry is leading the pilot project. It is working with Community Probation Services, the New Zealand Police, the Ministry of Health, and the judiciary to design processes and establish eligibility criteria. There is a steering committee made up of representatives from these organisations. The ministry now expects the court to be operating by the end of November 2012. We heard that eligibility will relate to offences that would otherwise attract a prison sentence of up to two years. We will monitor the pilot programme closely.

Fine collection

Collecting outstanding fines was an important part of the ministry’s work programme in 2010/11. Collecting fines effectively is important, because fines generate Crown revenue and ensure the integrity of the sanctions being imposed. The ministry told us that the cost-effectiveness of its collections services has improved over the last 10 years. Each dollar collected cost the ministry 26 cents in 2010/11.

The ministry has transformed its collections operations over the last few years by

- introducing a single system for collecting fines around the country
- concentrating bailiffs in Auckland, where their services are most in demand
- automating and improving data matching between the Inland Revenue Department and the Ministry of Social Development
- introducing a system for reporting overdue fines to a credit agency, to prevent those owing fines making purchases on credit.
We were pleased to hear that the ministry applies a standard of information matching for credit reporting that is higher than the requirements set out in the Privacy Code, and that there is no evidence the system has resulted in credit being withheld erroneously. The ministry is also working with the Office of the Privacy Commissioner to develop an audit of the ministry’s credit-reporting scheme. We look forward to seeing progress on this matter.

**Legal aid reforms**

Throughout 2010/11, the ministry has been reforming the legal aid system. The Legal Services Agency ceased to exist on 30 June 2011, and its functions were integrated into the ministry’s Legal Aid Services department. We heard that reducing the costs of the legal aid system while maintaining the quality of representation and ensuring access to justice is challenging and, in some instances, is incompatible.

The ministry said it believes the changes will not reduce the number of lawyers providing legal aid. At the end of December 2011, 940 lawyers had applied to provide legal aid services, while 954 lawyers were “actively” providing legal aid in October 2011. We were told that the approval process has not created any problems in terms of geographic coverage or coverage of areas of law (criminal, civil, and family).

We were concerned about the implications for the ministry’s financial planning of the Criminal Bar Association’s High Court injunction application to stop the introduction of fixed fees for criminal legal aid. The ministry told us that, if successful, the injunction would reduce the financial savings of the reforms by about $5 million per year, and has implications for the success of introducing fixed fees regimes for other types of legal aid.

**Addressing the Drivers of Crime programme**

Addressing the Drivers of Crime is a whole-of-government approach to reduce offending and victimisation. The programme focuses on crime prevention, early intervention and treatment, and finding new ways to reduce offending. The last progress report on the programme was in June 2011 and a report due at the end of 2011 was deferred because of the general election. We are keen to see an up-to-date report, and hope that it will reflect an evidence-based approach to policy and legislation, and that the programme is integrated with other Government initiatives, such as the programme to protect vulnerable children.
Appendix

Approach to financial review
We met on 1 and 22 March 2012 to consider the financial review of the Ministry of 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
Simon Bridges
Dr Cam Calder
Charles Chauvel
Hon Lianne Dalziel
Julie Anne Genter
Alfred Ngaro
Denis O’Rourke

Evidence and advice received

Ministry of Justice, Responses to questions, received 28 February 2012.

Ministry of Justice, Responses to questions, received 9 March 2012.

Office of the Auditor-General, Briefing on the Ministry of Justice, dated 1 March 2012.

Organisation briefing paper, prepared by committee staff, 18 November 2011.
2010/11 financial review of the Department of Labour and of non-departmental appropriations for Vote Labour

Report of the Transport and Industrial Relations Committee

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Department of Labour and non-departmental appropriations for Vote Labour

Recommendation

The Transport and Industrial Relations Committee has conducted the financial review of the 2010/11 performance and current operations of the Department of Labour and has reviewed the report on the 2010/11 non-departmental appropriations for Vote Labour, and recommends that the House take note of its report.

Introduction

The Department of Labour administers four votes (Labour, Immigration, Employment, and ACC) and supports the Ministers who are responsible for each of these votes. The Minister of Labour is the responsible Minister for the department. In the year under review, the department concluded three years of organisational change, which involved a consolidation of its corporate services, the creation of an integrated policy and research group covering all of the department’s portfolios, improvements in the delivery of Immigration New Zealand services, and investigating a fresh approach to reducing workplace harm and fatalities. Responding to the Canterbury earthquakes has involved most parts of the department and continues to do so. The accident at the Pike River coal mine was the largest workplace fatality since 1992, when the Health and Safety in Employment Act was passed; the department’s investigation of the accident is the largest it has ever undertaken.

Organisational matters

We note with interest a significant increase (nearly double) in the number of international events attended by representatives of the department. The department explained that its workload associated with the growing free-trade agreement agenda was increasing. Attending senior officials’ meetings was necessary for servicing the labour components of free-trade agreements as they come into force. The department acknowledged that this work might prove increasingly difficult to fund in the current economic environment.

Immigration

Grant of visa in special case

We were interested in the department’s processes regarding the “grant of visa in special case” provisions in section 61 of the Immigration Act 2009, which gives a discretion to grant a visa to a person who is in New Zealand unlawfully. The department’s internal circular concerning decision-making under section 61 has been redrafted—a largely internal process with some legal input. Concern has been raised that the circular does not require the recording of reasons for decisions under this section. The department is discussing these issues with the ombudsman.
The department agreed that the lack of provision for reasons to be given for such decisions has raised some concern, but told us that it needed to align its processes with the way Parliament had chosen to frame the law. The Immigration Act provides a clear demarcation between the way the department must deal with people who are legally entitled to enter or remain in New Zealand and those who are not, and in the latter case does not require officers to even consider such applications. Where a decision is made, the legislation protects the department from endless challenges to its decision-making by not requiring reasons to be given, and by excluding requests for access to these decisions from the Official Information Act 1982. We will continue to monitor this issue.

**Business migration**

We were interested in the use of immigration visas to attract migrants who could assist with economic growth. The department has focused on attracting business migrants and people with investment and entrepreneurial skills, and estimates that about $800 million of potential capital investment has been generated through immigration in the last two years, of which about $200 million has actually been brought into the country.

**Fee-paying visa applications**

Much of the deficit incurred by the department in the year under review was due to revenue from fee-paying visa applications falling short of forecast. The volume of visa applications reflected the downturn in the global economy, and the impact of the Christchurch earthquakes on the number of overseas students enrolling to study in New Zealand. The department has adjusted its forecasting model to draw on a wider range of data sources; it believes that the model is now more robust.

**Labour market**

**Australia**

We are aware of the Government’s goal of reducing the pay gap between New Zealand and Australia, and were interested to learn that the department has not undertaken any policy work examining ways of reducing the gap. The department published a report shortly before the year under review that sought to compare the labour market skills and capabilities of New Zealand-born people in Australia with those of the Australian workforce and the New Zealand-born workforce in New Zealand. The report considered variables including the type of work carried out, education qualifications, and income levels, and found that, while pay levels are a factor motivating people to move, there are also other factors such as job opportunities and family connections.

**New Zealand Productivity Commission**

On 1 April 2011 the New Zealand Productivity Commission, an independent Crown entity, began operating. The department made a financial contribution to the establishment of the commission, and has contributed to many of its early areas of work, including housing supply and affordability, and international freight services. The draft report on international freight services included a number of proposals around labour relations and the role of unions. The department said that it was not involved with the development of the

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commission's views on these matters, which were expressed in the draft report, but that it has since provided the commission with its views on these matters. We are interested to see what the commission’s recommendations on these issues are when the final report is released.

**Work stoppages**

We note that there has been a decline in the number of work stoppages (and days of work lost as a result) over the past few years, with 17 work stoppages in the year to December 2010, a decrease by 14 stoppages from 2009 and the lowest number of stoppages since 1986. The department has a significant role in assisting in the resolution of disputes, and noted that the department’s mediation service has a resolution rate of around 75 percent, which compares well with services in other countries. The department also provides legal research and other support facilities to the independent Employment Relations Authority, which plays a significant role in resolving issues.

The department has recently appointed a chief mediator, part of whose role is to take oversight of particularly big collective agreement issues, such as at the Ports of Auckland. The department’s involvement with the situation at the Ports of Auckland is largely limited to that of the mediation team; two different mediators as well as the chief mediator have been involved in the situation, and the department has not been asked to bring any of its other resources to bear in the situation. We also learned that the department has worked in the past with the two parties to improve workplace performance, improve their relationship, and move towards a more collaborative way of working. The department noted that New Zealand has about two million employees over half a million worksites, and that deciding where best to deploy the department’s resources is an ongoing challenge.

**Employment Relations Authority**

We were interested to hear the department acknowledge that the Employment Relations Authority has had a high turnover of members. In response, some existing members have been reappointed for a short period, and new members are being recruited. The department has discussed with the Minister and the new chair of the authority the need for a balance between refreshing the membership of the authority and providing continuity. There has been no change in the appointment criteria. The Minister has expressed a preference for appointees with a formal legal qualification, but this is not an absolute requirement.

**Health and safety**

The Minister of Labour announced on 17 August 2011 that the department would form a High Hazards Unit, and that $1.5 million of new funding would be available for its support. The unit was in part a response to the events at the Pike River mine, and will expand and improve the department’s capability and capacity to operate effectively in the high hazards sector (the petroleum and geothermal industry and the mining industry). Each industry is assigned three inspectors and a chief inspector; the unit also has three research and administrative staff. This means that the mining sector now has four inspectors (including the chief inspector for mining) where it previously had two. Because the chief inspector will be placed more highly in the organisation than the inspectors previously were, the inspectors will have more time and more authority to engage with all aspects of each workplace.
The permanent appointment of a Chief Inspector of Petroleum was announced on the day of our hearing. The position of Chief Inspector of Mines is being filled for three months by Queensland’s Chief Inspector of Mines; efforts to fill this position on a permanent basis are continuing. The department expressed its gratitude to the Government of Queensland for supplying experts to the unit. Another Australian expert has been helping to develop the unit’s operational strategy.

The department indicated that it would like to apply some of the elements of high hazards management to other areas of its health and safety work. We would like to congratulate the department on its work in establishing the unit, and hope that it will be successful in improving health and safety in these hazardous industries.

**Accident compensation**

We are aware of proposals to increase competition for the provision of accident compensation, and asked whether the department is receiving any independent advice on the issue. We learned that the department has a contract with KPMG to consider how a clearing house function could be established if competition were introduced into the market for accident insurance, but it assured us that this did not constitute advice on options to put before the Government.
Appendix A

Approach to financial review

We met on 16 February and 21 March 2012 to consider the financial review of the Department of Labour and non-departmental appropriations for Vote Labour. Evidence was heard from the Department of Labour and advice received from the Office of the Auditor-General.

Committee members

David Bennett (Chairperson)
Chris Auchinvole
Darien Fenton
Andrew Little
Simon O'Connor
Denise Roche
Jami-Lee Ross
Scott Simpson
Phil Twyford

Evidence and advice received

Department of Labour, Annual Report 2010/11.

Department of Labour, Responses to questions, received 27 February 2012.

Department of Labour, Responses to questions, received 12 March 2012.

Office of the Auditor-General, Briefing on the Department of Labour, dated 16 February 2012.

Organisation briefing paper, prepared by committee staff, dated 14 February 2012.
Appendix B

Corrected transcript of hearing of evidence 16 February 2012

Members
David Bennett (Chairperson)
Chris Auchinvole
Darien Fenton
Andrew Little
Simon O'Connor
Denise Roche
Jami-Lee Ross
Scott Simpson
Phil Twyford

Witnesses
Nigel Bickle, Acting Chief Executive
Lesley Haines, Deputy Chief Executive, Labour Group
Jeremy Corban, Deputy Chief Executive, Policy and Research Group
George Mason, General Counsel, Legal Group
Brett Murray, General Manager, Labour Group

Welcome along, Nigel, and to your team. This is the Transport and Industrial Relations Committee. We have about 50 minutes. So what normally will happen is there’ll be an introduction from yourself, then I’ll open up for questioning—Labour and the Green Party first and then the National Party after that. So we’re in your hands—and welcome. We look forward to your introduction.

Well, good morning, Mr Chair and members of the committee. I am Nigel Bickle. I’m the acting chief executive and Secretary of Labour. My substantive role with the Department of Labour is the head of Immigration New Zealand, but I’ve been acting as the chief executive since Chris Blake, who was the Secretary of Labour for 4½ years, resigned in December to take up a new role as the chief executive of the New Zealand Symphony Orchestra. [Introductions]

Could I just make some very brief opening comments about the year in review. I would summarise it as a year where the department has basically concluded 3 years of some fairly significant organisational change around rebuilding the Department of Labour around a very clear focus of what we’re here to do and the results that we’re trying to achieve for New Zealand, where we’ve seen major consolidation of our corporate services, where we’ve created an integrated policy and research group for the department across all of the portfolios, where we’ve seen some...
demonstrable improvement in the delivery of Immigration New Zealand services, and where we’ve strengthened the leadership of our health and safety and employment relations services and started a process of looking at basically a new way of working in that area to start to tackle what is still probably an unacceptably high level of fatality and workplace harm that’s occurring. And this has occurred within the context of some pretty strong fiscal constraints, and where we haven’t been immune in terms of other economic impacts on the organisation from what’s been playing out in the global economy.

And obviously, in the year in review, there’ve been two fairly significant national tragedies, which I’d like to touch on quickly—firstly, the Christchurch earthquake. Obviously, along with other organisations in Christchurch, we were pretty severely impacted. We have over 100 staff operating in our front-line service delivery in Christchurch. Both of the buildings that we operated out of have subsequently been condemned. We had to establish new premises fairly quickly in Christchurch. And I’d just like to say, you know, I am particularly proud of the efforts of our staff and the important role that they played in the initial rescue and recovery phase, particularly the sort of facilitation of large numbers of teams in from overseas to basically assist with the rescue efforts, as well as a strong facilitation role in terms of people who were looking to leave the country following the earthquakes. Since then, there’s a very big focus on actually working across the Department of Labour now with the rebuild of Christchurch. That goes to our policy functions in terms of helping Christchurch forecast what their labour and skills requirements are going to be, through to Immigration helping to bring in—certainly at the moment—some of the very high-skilled end assistance that we need, and in the Labour space actually around making sure that certainly the demolition phase is being done in a way that’s safe.

I’d like to finish with Pike River. Clearly, that was an absolute tragedy—the largest workplace fatality for the Department of Labour under the HSE. It was a big focus of our work in 2010/11 and continues to be a big focus of our work. Obviously, it’s been the largest single investigation that we’ve ever done. We have audited the safety of other underground mines that are operating in New Zealand. We’ve been very focused around establishing a High Hazards Unit and working completely openly and cooperatively with the royal commission of inquiry, who, as you are aware, have a mandate to look at what happened at Pike, what caused the explosion, but importantly are also examining our role as a regulator and the regulatory framework for this particular industry.

I have people here from the Department of Labour today that can talk about Pike River. The points that, I suppose, I’d want to make—I’m not trying to be unhelpful—but to point out that, obviously, the committee will be aware that in terms of our investigation, we have laid 25 charges against three parties that are before the courts. The police are still conducting an ongoing criminal investigation, and there may be some areas that we aren’t
able to talk about, so as not to prejudice either those processes or the defendants or potential defendants in those processes. So on that note I’ll finish and say I am very happy to be here and welcome the questions that you have.

Bennett

Thank you very much for that introduction, and I just want, on behalf of the committee—and I am sure all members want to pass on our support to your staff for the trials that they’ve been through this year and the work that they’ve done. It hasn’t been easy for you or your organisation, and so if you want to pass back to your people that you’ve done a great job and we appreciate that and we look forward to being able to help where we can. OK.

Bickle

Thank you—appreciate that.

Auchinvole

Just a point, if I may. I think we need to be conscious that the royal commission is still conducting hearings in Greymouth, and that ______ is significant.

Bennett

Yeah, I think that was sort of in the context of what Nigel was saying.

Fenton

Good morning—and again I just repeat the chair’s comments about the work of your staff on Pike River and the Christchurch earthquake. I’ve got some questions around employment relations and then immigration. One of the goals of the Government in 2008 was decreasing the pay gap between Australia and New Zealand. Has there been any work done on that in the last financial year, or have you just given up on that goal?

Corban

From the Department of Labour’s perspective, we haven’t done any active policy work looking at decreasing the pay gap between Australia and New Zealand. I know that some other agencies have around town, but not the Department of Labour.

Fenton

I seem to recall that you were doing research on it a couple of years ago. Did that conclude?

Corban

We did some research on migration across the Tasman. That report’s in the public domain. I think it’s called Working Across the Ditch or something like that. That examined people’s motivations for moving and their experiences when they got to Australia and research into the cross-section of people who were going, and dug little into the idea that is this low-skilled people who are moving or is it a brain drain? The findings of that research were that it was a general cross-section of the population that was moving. It was clear that job opportunities are a major factor for people to move. There is a bit of family pull happening as well, given that, you know, people’s family are over there, so they go over as well.

Fenton

And pay and conditions?
Corban Pay is, of course, a factor, and you know as well as I that for many of the occupations the pay in Australia is 20 percent or 30 percent higher than what people could get in New Zealand.

Fenton OK, now I’m interested in the interceptions between the Department of Labour and the Productivity Commissioner, if there is one—and perhaps you can answer that first. How do you work together, or do you work together?

Bickle Yes, we do work together. I mean, I’ll make a couple of opening remarks, and Jeremy you feel free to add. Obviously, the Productivity Commission—we’ve made a financial contribution to the establishment of the Productivity Commission, and in terms of some of the first areas of work for the Productivity Commission around housing and the supply of housing and its affordability, as well as the work that they’ve looked at in the border area around freight. We obviously have interests in both of those areas and have contributed and been involved in the work that they’ve done to date.

Fenton OK. Just getting into that a little bit—Were you asked for your views on a couple of the things that they were suggesting around labour relations and poor productivity? There are a couple of very radical suggestions in that commission’s report. So were you asked to provide views on that?

Corban We have talked to the Productivity Commissioner in the past couple of days about their draft report. So, yes, after the fact, we have provided our views on that.

Fenton Because I think we have to watch that. We’ll be watching that very keenly, because, as I said, they were very radical suggestions, particularly around section 44 of the Commerce Act, amending that and looking at the roles of unions as monopolists, you know, and also the governance framework applying to unions too. So I’ll be coming back to you and asking for more information on that. But it’s good to hear that you’re involved at least, as I wasn’t sure that you’d been at consultation.

Fenton I noticed that the number of international events and meetings that you attended in the financial year has almost doubled. Why’s that?

Mason Just to be clear about the question that you’re asking—you say international events?

Fenton International events and meetings attended. It’s in the annual report.

Mason This is in the schedule?

Fenton Yes.

Mason Are you thinking sort of business meetings or are you thinking about international engagements?
It describes international events and meetings and obviously ILO and trade meetings, and it's gone from, I think, 12 to 23.

Part of that's been the increasing agenda around the free-trade agreements, so the efforts involved in negotiating the ___ and the TPP work. But also what also is _____ the trade agreements that we do have with the labour components and they then have senior officials meetings as part of the cooperative arrangements that they service and come into force progressively as the trade agreements, I guess, _____.

What pressure does that put on costs, given that you're in an austerity environment?

There was some additional money provided to support the free-trade implementation and activity. Money was provided within the department ___ has been more ad hoc funded, but the point you made that it is an area where there's increasing demand for services within the department in a fixed fiscal environment is pretty well made. It looks like an area for the department to be placing around priorities—

OK. Just moving on to immigration, and I'm glad you're here, Nigel, because I know you've been involved in this particular issue, which is around the Immigration Act's section 61 decision making and then the internal administration circular. Why did you redraft that? Why was that redrafted?

Basically, to align with the law—

Align with the law.

—in terms of the Immigration Act 2009.

The law came in in 2009 and you redrafted it last year.

Yep.

Yeah, OK. And what was the decision-making process in regard to the drafting?

In relation to the circular?

Yep.

Basically, through our internal processes.

And why did you decide to exclude the requirement to put up the core reasons for decisions under section 61?

There's a legal framework that sits behind section 61. I'm aware of the wording of the circular. It's something that has raised some issues through the Law Society's immigration group. It's a matter that the department is
actually currently discussing with the ombudsman. I think that the circular fairly reflects what the legal position is. The law is quite clear that there’s no requirement for immigration officers to give reasons in relation to that decision making. In fact, there’s no requirement for an immigration officer to consider a case where a request is made for a reference to section 61, but I think the reports that have been raised and the concerns that have subsequently come out are being worked through in a couple of forums.

Fenton So you are talking to the ombudsman about it?

Mason Yes.

Fenton You didn’t talk to him before you drafted the circular?

Mason Well, the ombudsman is not someone that we would ordinarily consult around the department’s circulars. Sometimes ____ question.

Fenton Who do you consult? It’s just an internal process—is that what you’re saying?

Mason No, but the circulars are generated out of the immigration part of the business. Obviously, there’s a legal input into it. I’m not aware of how broadly the immigration part of the business consult on the circulars, but it varies depending upon their content. Some are quite sensitive; some are pretty broad and back our processes and—

Fenton You’re aware, of course, of the OIA request from a certain individual that some emails were released through staff members of a drafting of this circular, where it seems very clear that they felt that including rationale just “opened them up to the risk of prejudicial review and ombudsman complaints.” That’s a direct quote from one email. And another saying they wouldn’t want you to make it mandatory to put something in an ADS which is likely to generate more work and complaint for branches? Isn’t that a pretty shocking attitude from your staff—people who get involved in this decision making saying they don’t want to give reasons, but they don’t want to have reasons recorded in case someone challenges them?

Mason Can I just talk a little bit further about that. I guess the important point about the context of the provision of section 61—ordinarily, when immigration decision-making people who are ____ in New Zealand have an ability to make an application that’s treated in accordance with lawful processes that would ordinarily be expected, reasons are given, and the opportunity to comment on a potentially prejudicial information. The Immigration Act, though, is very clear on how it demarcates those that are effectively inside the immigration system and those whose visas have lapsed or expired that are outside the immigration system and are seeking to come back in. The legislative scheme itself doesn’t fully enfranchise those people in the way that those who can formally lodge an application with us. So it’s perfectly consonant with the legislative scheme that Parliament’s enacted that reasons need not be given—in fact, cases need not be considered—and
part of that is around protecting the system from endless challenges to those kinds of decision making. It's a very positive decision of Parliament, and the circular actually just reflects the legislative scheme and some of that sentiment also reflects the legislative scheme.

Fenton What you’re telling me now is there’s been a lot of discussion and disagreement about that circular—about the advice in that circular—and you’re now having to revisit it?

Mason Look, it’s fair to say that section 61 is a contentious provision. There’s not universal agreement about it. It’s a harsh provision, basically. Some of those legislative mechanisms are unprecedented—the idea in the Official Information Act around giving reasons is explicitly excluded is actually unique in legislation. So it’s actually a contentious provision, but that’s not necessarily through Immigration New Zealand’s doing; that’s in the way that Parliament has itself chosen to draft and frame that provision.

Bickle And all I would add, Darien, is that obviously a really big focus over the last 2 or 3 years in immigration more broadly as well has been making sure that our practices and processes are actually fully aligned with the law, where there was a range of criticism through a number of external inquiries that were raising issues around our processes and practices not being in accordance with the law.

Fenton Yeah, I understand that. I’ll be really interested to see how you get on with this, because I know there was huge concern about this, and I’ve just noted on the Office of the Ombudsmen website one of the things that they can investigate is section 61 requests. I understand the absolute discretion—I understand all that—but it seems highly risky for a Government department to be not recording reasons, for their own internal protection, but also what it does is exclude the opportunity for people to appeal to the ombudsman.

Bennett I think we’re sort of running out on that one.

Little I’ve just got a question on the Employment Relations Authority, Pike River, and ACC. Talking on the Employment Relations Authority, I’ve just observed that there’s a reasonably high turnover of authority members. Has there been a change in appointment criteria for authority members and does the department take into account the need for some continuity to ensure that there’s consistency of decision making in that jurisdiction?

Haines Yeah, I can answer that one. Just in terms of the first part of your question—no, there has been no change in criteria. The Minister has indicated that she prefers appointees with a formal legal qualification. It’s not an absolute requirement, however. With regard to, yes, you’re right there has been quite a number of changes that—well, there were some members who were reappointed for a short period, and there’s a number of appointments which we are currently advertising right now, and we will go through a process of interviewing candidates, including internal current
position holders who seek to reapply for a further term, and we will provide recommendations to the Minister, who will then obviously seek ratification of her Cabinet colleagues around that.

I was with the Minister and the new chair of the Employment Relations Authority, Alastair Dumbleton, just last week, and there was a discussion around the balance—needing to make sure that you have some fresh blood coming into the authority, and at the same time wanting to maintain continuity because that helps make sure that we’re productive. Because it does take new members a while to get up to speed. But I think the Minister is quite clear that this is not kind of a full-time employment situation; these are appointed positions and so, you know, they’re not to be treated as if they are full-time permanent positions.

Little Of the appointments made in the last financial year, how many didn’t have a legal background or legal qualification?

Haines In the event, given that this is a review, in the last calendar year I think three appointments were made, and if I’m not correct I will go back and check that and supply information to the committee. One of those was to the chair—the new chair of the authority—and Alastair, and there were two new appointments made: one in Wellington and one in Christchurch. Both of those people did have a legal background. They were interviewed, along with a number of other candidates. George and I were on the panel for that, and they came through as very strong candidates—one with a background in Government employment relations, and another one with a very strong UK background and some New Zealand employment law background as well. And so they were the two new appointees as members.

Little As a lawyer can I just say that lawyers tend to be more disruptive in employment relations than helpful.

Fenton Absolutely agree.

Bennett Can we quote that? Please don’t speak in the House.

Little You’ve raised Pike River—and I understand the sensitivities that the royal commission is still hearing, and I know the department has given evidence before it, and whether or not it’s a response to the events of Pike River but you’ve now established this—or are in the process of establishing—the High Hazards Unit. So I just want to ask about that. One of the issues that has become apparent is inspectors not being able to get to incidents at mines, because they, for example, couldn’t get the travel approved. What assurances can you give us that we are past this culture of parsimony and stinginess, and focusing on real health and safety, and that inspectors are going to get to incidents when they happen, as they are required?

Haines I can talk to that, and Brett, who’s responsible for the High Hazards Unit, might have some additional comments to make. I guess the key point in there is that with the establishment of the High Hazards Unit the
Government provided an extra $1.5 million a year for activity in that space. That’s in addition to the money that we were able to put to it internally, which kind of reflected our existing activity. So the budget in that space is probably close to three times what it was before, which obviously makes a huge difference to our ability to be in the mines on a more regular basis. We’re a small country. We’ve got now inspectors all based in the South Island across different parts of the South Island—clearly, not all the mines are in the South Island—and they’re scattered around. So we do make sure that we’ve got a good provision for travel.

I guess the other thing to note is where we did have two inspectors we now have four inspectors, including the position of chief inspector. So we do have a lot more resource, and we’ve recruited people with—we were able to look—we were talking about Australia, and pay in Australia before. Clearly, the mining sector is booming in Australia, so actually attracting candidates with suitable industry experience and with suitable mana in industry circles is really important for us to be able to do our jobs properly. That’s enabled us to do that, so I think, all in all, that plus the fact that we are able to also fund an expert panel to support us when we need extra expertise, say, for example, on electrical safety underground, will actually bolster our inspectors’ ability to do their jobs more effectively. Brett, I don’t know whether you want to say anything else.

Murray

Well, just around the expertise—also, the Queensland Government made a very generous offer to supply their experts. Obviously, they’re a bigger group and have a critical mass to employ specialists, which we don’t have, and they were quite forthcoming in view of this. As mining as an Australasian issue, good safety, they were quite happy to provide that assistance and also assistance with training and also our chief inspector having a seat at the inspectors’ table in the Australian forum, which was where the recruitment was.

Little

It’s also an industry both here and in Australia that is highly unionised, and so what efforts are made to incorporate the voice of the miners themselves into these high-level strategic positions about mine safety? Do you operate a tripartite approach?

Haines

Well, a couple of things around that. I think, first of all, we’ve strengthened our expectation with our inspectors that when they do workplace assessments or other visits to a site that we require them to actively engage with the health and safety reps on those sites. Now, I think it’s fair to say that, in the past, our inspectors probably didn’t necessarily always have the time and resources to do that. So that’s right at the coalface. I think at the other end of the spectrum we’ve also got now resource to enable us to work much more closely with all industry parties around codes of practice and standards, etc., and we certainly expect that employee representatives are an important part of those engagements. I think that’s an issue that the royal commission has certainly deliberated on.
Little It’s also the international best practice and it’s reflected in—I don’t know whether we’re a signatory to ILO Convention 167, but that’s the expectation there. Just one final point and question on that is one thing that became apparent from the evidence to the commission is that whatever structure was in place at the time of Pike River, there was a mines safety committee.

Haines Steering group.

Little Steering group. When you read the minutes of that group—meeting after meeting—really it could be summarised with the question: “What did you know?”. So what’s the structure? Where does the High Hazards Unit sit in the structure? And what level of authority do they have to actually do the job and lift our mine safety performance?

Haines Just first of all that obviously we’ve done a lot of work supporting the royal commission. One of the first things we did was commission a couple of Australians called Neil Gunningham and somebody Neal to have a look at our work.

Little That would, of course, come under ____ the commission.

Haines Yes, it has, and just to note on that report that that was a piece of work done early. They didn’t have access to the kinds of witnesses that have been available in the royal commission, and I’m sure some of their conclusions they would themselves change in the light of some of the further evidence.

What they did do, however, was they pointed out that the way we managed our inspectors—they were in different parts of the group at quite low levels—was not helping out inspectors do a good job. And so we moved immediately to bringing our reporting lines all together and to create the High Hazards Unit and to bring it up a level in the structure so that the chief inspector for mining—and also we’ve got a parallel unit for petroleum—reports directly to Brett, who reports directly to me. So we’ve taken the lessons and we thought it was important to act soon rather than to wait until the royal commission reported on that particular issue.

Simpson Just a supplementary on that, I just notice that as recently as this morning the Minister has announced that the unit’s now at full manning level—if I can put it that way—that all the appointments have been made. In particular, Gavin Taylor, I’m interested to know what his experience is, his background, and what’s happened since his appointment as chief inspector?

Haines I might let Brett talk on the detail about that, but Gavin is the Chief Inspector of Mines in Queensland. We have been very lucky to have the support, as Brett mentioned, from the Queensland Government to really help us get established. So we are extremely fortunate to have a man of his calibre here on a temporary basis for 3 months to help us get started. Now, apart from individual work with individual inspectors, we have also had another Australian expert here, a guy called Peter Wilkinson, working across
both our high hazard spaces, both petroleum and mining, to help us
develop our operational strategy and to strengthen our approach.

I just think it is worth noting that in the high hazard space you do have to
take some different approaches. So, for example, in an ordinary workplace
something like slips or trips or falls will be kind of a good indicator of the
health and safety performance of the company. In a high hazard space, in
fact, slips, trips, and falls are probably not the best indicator of the potential
of a real disaster like we saw at Pike River. So we need our inspectors to be
observing all sorts of other things, in order to do their job effectively.

Gavin is here temporarily, so I’ll just note that in terms of—we are fully
staffed at the moment. I just want to make it quite clear to the committee
that we are still searching for a permanent Chief Inspector of Mines.

Simpson  Because is 3 months going to be enough?

Haines  Yeah, and we already advertised before Christmas. We’re delighted we
found through our process a Chief Inspector of Petroleum, Wayne Vernon,
who is the appointment being announced today. We decided we didn’t get
anyone with the kind of experience and skills we were looking for, for the
Chief Inspector of Mines, so we have gone back to market. In fact, Brett
has been in Australia just over the last couple of days, talking to a
recruitment company about what our strategy will be to get the kind of
person we want. We’re not going to make an appointment until we get the
right person. Brett—I’ve talked a lot, but is there anything else you want to
add to that?

Simpson  I’m interested particularly in plans going forward, now that the unit’s fully
up and running. You know, what’s the pathway forward?

Murray  As Lesley said, the pathway—are you talking about in terms of operation
focus? The unit going forward; the operation focus of the unit will be on
process. In the petroleum space we’re part of an International Regulators
Forum, with the key countries UK, Norway, Australia, etc., who have good
operating models that a lot of, internationally, regulators are looking to be a
lot closer aligned in their offshore industries particularly, following
_________. And there’s also been a realisation by both industry and
regulators that process safety, in terms of managing catastrophic risk, is
where we need to be heading, and that’s a lot more focused on—

Simpson  It’s OK.

Murray  —on deeply auditing of safety critical areas, and that’s going to be the unit’s
focus, and obviously building up that capability and skills. So some of the
work that Gavin’s been doing with myself is building _____ into that space.
It’s also the sort of work we’ll be doing with Wayne Vernon when he
arrives, although the petroleum industry, to be fair, is a lot more advanced
than the mining industry, purely because they’ve had the safety case regime
in place for a number of years for offshore facilities. So I guess it’s about
bringing the mining industry—and this is not just our focus; Gavin’s quite clear that’s a focus for him as well—along so it is more aligned with other high-hazard industries, and working particularly in those process safety areas.

Roche  Actually, my question was around that High Hazard Unit. That’s been answered. Thank you very much.

Little  Just on ACC, obviously there’s some policy change in the direction, that has the potential to have quite a radical impact. Is the department taking independent advice on those new arrangements; if so, where is that coming from?

Corban  The Government put out a discussion document towards the end of last year—I can’t quite remember the date but I think it was about September or October; I might have that wrong—that laid out a number of paths forward, a couple of options there. One would be looking at introducing a more competitive, contestable regime for ACC. One would be looking at ways of expanding the accredited employer arrangements, if you like, and greater risk sharing. That public consultation process and the submissions received has been the main avenue for garnering views. A lot of submissions were received through that process. The Government is still in the process of considering those, and deciding the way forward from here.

Little  I’ll just clarify that. So the only advice the Government is receiving at the moment is stemming from the department? The department has not engaged any external advice in relation to that?

Bickle  We’ve obviously taken on—

Little  I understand about the submission process—the public consultation process, but it’s not uncommon, also, for a department, when it’s considering advice on options to Government, to secure external advice from consultants from the, you know, CA firms and that sort of stuff. Is the department securing that sort of advice?

Bickle  No. No.

Ross  There’s a lot of debate in New Zealand at the moment about investment in the country. I just think there’s a lot of good-news stories around business investment and what it does for economic growth. Can you tell us how it’s looking with your long-term business visas, business migration, and what the department is doing to ensure that your immigration policies are supporting the Government’s overall economic growth objectives?

Bickle  So, clearly one of the objectives for the current Government in the overall suite of immigration products has been to attract people with capital investment and entrepreneurial skills into New Zealand, and I think over the, sort of, last couple of years across the Investor Plus and Investor category we’ve seen in the order of about $800 million in potential capital,
and a couple of hundred million dollars in capital actually transferred into New Zealand.

I mean, at this point I will raise Kim Dotcom, which is out there in the public arena, and what I’d like to, sort of, say about Kim Dotcom is that what the Immigration staff—we have a business migration branch which makes these decisions. What I’ve every confidence in, though, is that they have followed the law, and they’ve followed the processes that we expect them to. What they’ve done, in accordance with the law, is to try to balance obviously some character issues that Kim Dotcom did disclose to Immigration New Zealand around three convictions that he had, dating back to 1994, albeit the police certificates that he furnished were clean from the countries, because they were spent convictions, with the economic benefits of the capital that he was basically investing into New Zealand, which was certified as basically lawfully earned—tax paid on it out of Hong Kong, that was transferred to New Zealand—and the benefits from establishing his business in New Zealand, in terms of jobs that it would create. So it was a weigh and balance decision. I am not sure whether there are OIAs in from your parties, but certainly—

Ross  But overall—

Bickle  Overall, to answer your question, the thrust is that there has been a big focus on the attraction of business migrants and people with investment and entrepreneurial skills. We’ve seen, as I say, about $800 million in potential capital investment over the space of the last 2 years.

Ross  And are we seeing quite an upward trend, or downward trend? What’s the—

Bickle  We’re certainly seeing good interest from offshore markets in terms of that product.

Ross  How’s the Seasonal Employers Scheme working at the moment?

Bickle  RSE is now an established part of the, sort of, landscape. I think we’ve talked about RSE quite a lot at this committee, over the years—

Ross  Sorry, I’ve—

Bickle  From the very early introductions in—was it 2006—through to now, we think it’s a very well-established sort of scheme, where we do have, basically some pretty good outcomes for—

Auchinvole  It’s a great scheme.

Bickle  —all parties involved, from the Pacific Islanders that are coming here, for the 122 employers that use RSE, in terms of the productivity gains, and where it does appear to be able to flex, in terms of the numbers coming in to meet what the labour market conditions are in New Zealand, given that
the fundamental underpinning is “New Zealanders first” for those employment opportunities.

Bennett: How did the Silver Fern Visa go, because that would be, probably, a year now, wouldn’t it? Have many of those people stayed on long term, and are you going to have another go?

Bickle: Yeah, I’d have to come back on the—certainly in terms of the 300 places that are available under the Silver Fern product, they go within about 25 minutes of being loaded up on to the, sort of, website. So there is a lot of interest in it. What I don’t have to hand, but can come back to the committee on, is basically what’s happened then in terms of those 300 going on, in terms of staying on in New Zealand, given that it’s targeted at highly skilled young people.

Ross: My last question I want to ask you about is work stoppages. I notice in your report that we seem to be seeing a decline in the number of work stoppages and the estimated lost wages and salaries from sort of the mid-2000s to where we are now. What would you put that down to? What would the department put that down to?

Haines: I think there are a number of factors involved there, many of which are beyond the Government’s control. I would just note that the department does have a really important role in the employment relations system in terms of the different levels of ways of resolving issues. So we encourage workplaces where they can to resolve issues internally, and we do work with some employers around improving their ability to do that. We provide a mediation service, which is open to all-comers, which has a pretty high resolution rate—about I think at least about 75 percent of mediations are resolved, and that’s very good internationally. Then the Employment Relations Authority, which we were talking about earlier, is obviously an independent body from the department but the department plays a really important role in servicing that authority, providing legal research and other support facilities for it, and then of course there’s obviously the Employment Court, as well.

Ross: So you’re seeing the numbers going through the mediation service on the rise or on the decline?

Haines: Pretty stable, actually.

Fenton: I had supplementary question on a written question but I’ve kind of lost that. But I have a supplementary on the last one. What involvement is the department having in the Ports of Auckland dispute, and is there any potential for the department to use its resources to help find resolution to what’s an escalating situation?

Haines: One thing I omitted to mention to the committee is that we have recently appointed a chief mediator whose role is really to be a bit of a conduit with the outside world, with representative parties etc., and to be—
Who’s that?

Judith Scott, in Auckland. She has that role.

OK.

And one of the things she does is she takes close oversight of particularly big collective agreement issues, which are obviously important for the department and the important work that our mediators do. So in the case of the Ports of Auckland we’ve had mediators working on that site for a number of months. We’ve had two different mediators and the chief mediator herself is having a really close liaison with both parties. So we’re doing everything we can at our level to assist with that.

Can I just acknowledge what the chair said at the start around the work of your department and so forth, and obviously around some trying circumstances. My question is around the whole of immigration, particularly in forecasting, and the confidence you have in future-forecasting, particularly around the economic climate we find ourselves in. You certainly acknowledge in your current report there’s quite a difference in what you projected and what came out of that. I’m not expecting, of course, you’d be in the area of earthquake predictions, but the confidence in forecasting the future, and limit that gap, and whether it’s linked or not but the immigration global management system, whether that’s going to help you as well. Is that going to make some difference?

So comments in relation to that—probably up until a year post the global financial crisis we were able to rely with quite a high degree of certainty on our historical sort of time series information as the basis for our forecast volumes going forward. What we’ve had to do, and because we’re such a volume variable business and because in the immigration context it’s cost-recovery model through fees it’s a really critical part of immigration, being able to work going forward. So we’ve had to make some adjustments to our forecasting model, which we’ve done, and to draw on a much wider sort of range of data. So we’re feeling as comfortable as you can be, given it’s a forecast, but we’ve got a greater level of robustness now to our forecast volumes going forward.

Just a quick supplementary on that as well. In terms of fees, and excuse my ignorance, are there waivers of fees for people coming into the country as well? Are there many options around that?

Yes, there’s a range of fee waivers that have largely been sort of constructed through diplomatic arrangements, as a result of free-trade agreements and other bilateral arrangements. So if you’re interested we can certainly provide that sort of information.

Mr Chair, can we just clarify—we need to come back to Mr Little’s question around the ACC.
Corban I want to make sure I’m not misleading you. We do have a contract with KPMG for some work which is related to the ACC question but it’s not asking them for advice, and that is we asked them that if there was to be a competitive market place in insurance, then the clearing house function, if you like, where people do the transactions and how they get cleared, how could that be established? So I need to make sure that I’m not misleading you.

Twyford Supplementary of Darien’s question about the Ports of Auckland. I wondered whether or not the resources of the department have been brought to bear on, not in terms of trying to facilitate the negotiations around the current dispute but at the underlying issues of productivity, labour utilisation, and casualisation. I wondered whether the considerable sort of technical resources that you have, have been brought to bear at that level in terms of trying to hit the parties—you know, get the Holy Grail, which is how to improve labour utilisation and productivity without trading off casualisation and job security. Have you been asked by any of the parties or the Government to bring those resources to bear?

Haines I can’t answer that definitively but what I can tell you is, not to my knowledge. I’ll go back and check, but if that’s not correct I’ll let you know. I would observe that I think that employment relations in that company have been struggling for a number of years, and it’s the sort of situation where we typically are looking to, can our mediators work with the parties before they get to the point of formal negotiations to assist in that process, and what resources can we bring to bear. What I don’t know is whether we in fact have done any of that work with Ports of Auckland, but I’ll come back to the committee on that one.

Twyford Can you confirm that I’m correct in saying that you do have significant resources in that area that would be able to be brought to bear?

Haines We do. I guess the challenge in my group and in similar groups is that there are two million employees in New Zealand and 500,000 workplaces, and so our challenge is to work out how we best use our resources, have the maximum impact in New Zealand to make workplaces safer and fairer, and that’s always making some very difficult choices.

Auchinvole I’d just like to take the opportunity if I may to congratulate the department on its work in establishing in establishing a High Hazard Unit and on the care, attention, and speed with which you have moved on that. I’m very conscious of it, coming from where I come from, and I’ve been at most of the commission hearings. I understand it hasn’t been easy, and it probably won’t continue to be, but the ultimate objective is people’s safety. So it’s gratifying to hear the expressions you’ve given this morning.

Haines Thank you, Chris, and I haven’t had a chance to talk to the committee about this, but as Nigel indicated we are looking, as a regulator, at how can we be more effective, and some of the work that we’re putting in place in
the high hazards space we’ll be wanting to replicate in other parts of our health and safety system as we go forward.

Bennett  Well, thank you very much Nigel, Lesley, and Jeremy. We appreciate the openness in answering our questions, and thank you members for your questions.

**conclusion of evidence**
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Land Information New Zealand

**Recommendation**

The Primary Production Committee has conducted the financial review of the 2010/11 performance and current operations of Land Information New Zealand and recommends that the House take note of its report.

**Introduction**

Land Information New Zealand’s (LINZ) main functions 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. Its chief executive is Colin MacDonald.

**Financial performance**

In 2010/11, LINZ was funded through Vote Lands. It had a total revenue of $93.755 million and a total expenditure of $103.534 million, resulting in a deficit of $9.779 million. This is largely due to a low volume of property transaction volumes; revenue was under budget by $13.96 million.

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance report of Land Information New Zealand, rating 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 “needing improvement”. All ratings achieved were the same as in 2009/10.

**Overseas Investment Office**

Under the Overseas Investment Act 2005, LINZ’s role is to administer the Act by assessing applications, monitoring and enforcing conditions, and investigating potential breaches. The Treasury provides overseas investment policy advice to the Government. We asked about LINZ’s procedure for assessing overseas investment applications.

LINZ told us it examines applications case by case and takes advice from pertinent agencies. In early 2011, the Government added two new criteria to the benefit test used to assess investments in sensitive land: an economic interests factor, indicating whether New Zealand’s economic interests are safeguarded adequately and promoted; and a mitigating factor, indicating whether an overseas investment provides management, oversight, or involvement opportunities for New Zealanders. For example, the office judged that an application from Milk New Zealand Holding Limited to buy 16 farms met all the criteria. After a High Court decision requiring Ministers to re-examine this application, the office now assesses economic benefit by analysing how the asset in question would perform economically with and without overseas investment. In doing so, it needs to consider whether a New Zealand proposal could derive greater benefit from the asset. Previously, it
used to assess it by analysing the asset’s potential performance before and after overseas investment, without considering potential local proposals. Some of us believe that the office does not take New Zealand’s wider economic interests into account when assessing applications, and believe its application assessment function needs to be clarified in the legislation.

**Land Tenure Review**

Of the 273 Crown pastoral leases, approximately 190 are either currently undergoing the tenure review process, or have completed it. There is no obligation for lessees to submit their leases for review, which is voluntary. We heard that some lessees begin the process and then realise that freeholding the property is not economically viable, and opt out. LINZ suspects that some high country lessees will want to opt out of tenure review.

We consider that the tenure review process has not always delivered the desired outcomes for conservation or production purposes. In deciding which areas need to be protected, LINZ explained that it takes value and biodiversity advice from the Department of Conservation, which the Commissioner of Crown Lands often reviews.

**Canterbury earthquakes**

We asked what will happen to the land that cannot be built upon after the Canterbury earthquakes. LINZ said that it could not yet answer definitively. However, it expects that the process will work in a similar way to land subdivision in reverse. First, the land would be classified, and any usable land would be re-designated and re-titled, and boundaries would be re-drawn. The remaining land would probably be converted into public reserve, with a similar post-classification process. In all other respects, LINZ would complete this work in the way that it usually does. LINZ acknowledges that it will face some complex, possibly unforeseen challenges as the recovery continues, but it believes it has the expertise to deal with them. We appreciate LINZ’s work in Christchurch following the September 2010 and February 2011 earthquakes.
Appendix

Approach to financial review

We met on 8 March and 29 March 2012 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 McKelvie
Hon Damien O'Connor
Eric Roy

Evidence and advice received


Land Information New Zealand, Responses to additional questions, received 22 March 2012.

Land Information New Zealand, Responses to questions, received 2 March 2012.

Office of the Auditor-General, Briefing on Land Information New Zealand, dated 8 March 2012.

Organisation briefing paper, prepared by committee staff, dated 27 February 2012.
# 2010/11 financial review of the Ministry of Māori Development, of non-departmental appropriations for Vote Māori Affairs, and of non-departmental appropriations for Vote Māori Affairs (Whānau Ora)

Report of the Māori Affairs Committee

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Ministry of Maori Development, non-departmental appropriations for Vote Māori Affairs and non-departmental appropriations for Vote Māori Affairs (Whānau Ora)

Recommendation

The Māori Affairs Committee has conducted the financial reviews of the 2010/11 performance and current operations of the Ministry of Maori Development, of non-departmental appropriations for Vote Māori Affairs, and of non-departmental appropriations for Vote Māori Affairs (Whānau Ora), 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 (TPK) focuses on education, training and employment, health, and economic resource development. The ministry aims to promote Māori development in these key social and economic areas, and monitors and liaises with departments providing services to Māori.

TPK is funded mainly through Vote Māori Affairs. In 2010/11 its total revenue was $61.093 million and total expenditure was $58.944 million, resulting in a net surplus of $2.149 million. The cost of TPK’s 2010/11 non-departmental outputs was $130.468 million.

Organisational change

TPK is forecasting a $7 million deficit by 2015 if it does not undertake any cost-saving activities. We asked what lay behind this forecast, and were told that there were two factors: planned efficiency savings from 1 July 2012, and remuneration increases and inflation forecast by the Treasury.

Over the next two years TPK is planning cost-saving initiatives to prevent the deficit from growing. They include prioritising its work programme, delivering operating efficiencies, and reconfiguring the organisation. We asked whether redundancies or restructuring were planned. TPK said that in 2010/11 natural attrition was largely sufficient to manage staff numbers but a review of support services resulted in seven positions being disestablished. The ministry is due to start consultation on a restructuring proposal in the second half of this year. We were concerned that organisational change may adversely affect service delivery, but TPK assured us that it will continue to fulfil its statutory role of promoting Māori development.
Regional services

We were concerned that planned initiatives to cut costs and increase efficiencies may result in the closure of some of TPK’s regional offices, but TPK said there is a very strong case for continuing with its regional presence. TPK also told us that its ability to work across State agencies is one of its strengths and that Māori involvement in agencies makes a real difference to outcomes for Māori. The ministry continues to work in communities, especially through its regional offices, to help Māori understand the information and services that are available from TPK and other Government agencies. It said that any closures would have to be well-considered decisions.

Māori capacity in Government departments

We asked if TPK was concerned that potential future job cuts in other Government departments could have a negative impact on Māori capacity across the public sector. TPK said it had no immediate concerns about Māori capacity in the public sector. TPK pointed out that it wanted to make sure consideration of Māori issues and capability is systemic across organisations—that it is not just located in one small hub. While we accept that a systemic approach could mitigate risk, we remain concerned that Māori capacity could be diminished by planned efficiency savings.

Performance measurement framework

In response to audit recommendations from previous financial years, TPK has developed new systems for managing and reporting performance. We recognise its progress in non-financial performance reporting, but note that many of the performance measures are quantitative rather than qualitative, and focused on measuring outputs rather than outcomes. For example, we asked about the services and support provided by the Māori Business Facilitation Service. We understand that TPK aims to work with 700–750 businesses each year, but it could not tell us about the quality of the services delivered or the outcomes achieved. TPK said it has carried out an qualitative evaluation of the service, and we look forward to hearing the results. As TPK improves its service performance measures, we encourage it to include measures of quality, and to focus on outcomes rather than simply quantifying outputs.

Export opportunities for Māori

TPK has visited China twice in 2010/11, once with a delegation of business leaders led by the Minister of Māori Affairs to the 2010 Trade Expo in Shanghai. TPK told us it has plans for future visits, and we asked about their potential benefits for Māori. TPK told us that China can offer many export opportunities for Māori businesses, particularly in the areas of food and beverages, agribusiness, and service provision.

Non-departmental appropriations for Vote Māori Affairs

Māori Potential Fund

Three non-departmental appropriations—Rawa (resources), Whakamana (leadership) and Matauranga (knowledge)—make up the Māori Potential Fund. In 2010/11 TPK funded over 800 projects from this fund, to a total of approximately $20 million.
We note that TPK has made over 30 emergency grants from this funding for relief activities related to the Canterbury earthquakes. We heard that the ministry has concluded funding agreements with Te Rūnanga o Ngāi Tahu and He Oranga Pounamu to assist them with relief and recovery measures. We commend the ministry for supporting marae and community organisations in Canterbury.

Māori Economic Taskforce

We asked TPK about work initiated by the Māori Economic Taskforce, particularly projects related to the marketing of lobster for export. We asked how TPK’s Koura Inc project could add value to the current export industry. TPK explained that it hopes to unite marketing by iwi crayfish producers to offer a higher-value product to Chinese lobster markets. TPK said that the project has yet to export any product. We asked why TPK would engage with such a project rather than with an organisation with relevant industry knowledge, such as the Seafood Industry Council. TPK said that its lack of specific expertise in the industry is not the issue: its role was to act as a broker by helping Māori access consultancy and support.

Non-departmental appropriations for Vote Māori Affairs (Whānau Ora)

Whānau Ora service development

Whānau Ora is a Government initiative intended to provide holistic support to whānau to enable them to become self-managing and to take responsibility for their social, cultural, and economic development. It requires Government agencies to work together to offer support to whānau as a whole, rather than working separately with individuals.

TPK leads Whānau Ora, working with the Ministry of Health and Ministry of Social Development. For the 2010/11 financial year TPK was appropriated $23.7 million in non-departmental funding for the Whānau Ora initiative, but actual output expenditure was $12.053 million.

Funding programmes of action

During 2010/11, the first year of Whānau Ora-based service development, 23 of the 25 selected provider collectives developed final programmes of action. We heard that delays in service providers developing and submitting their programmes had resulted in a large underspend. Unexpectedly high interest from providers also contributed to the delays in implementation and spending. TPK assured us that this issue will be resolved during the next financial year, and up to $12.5 million is being carried forward to cover the remaining programmes.

We asked if Whānau Ora funding includes any money previously allocated to other service contracts. We heard that Whānau Ora is funded from its own unique appropriation, and TPK was not aware of any providers losing funding. TPK said there is no intention that Whānau Ora should interfere with or replace existing service delivery.

Whānau Integration, Innovation, and Engagement Fund

The Whānau Integration, Innovation, and Engagement Fund aims to build whānau capability, strengthen whānau connections, support leadership and enhance outcomes. Around 1,200 whānau comprising some 14,000 individuals were provided with funds for
planning activities over the year under review. We asked how whānau were selected to undertake these planning activities. TPK explained that providers often already have contact with whānau that might benefit from the programme, and some whānau are referred to providers by other agencies, including Work and Income, the Department of Corrections, police, and the probation service. We heard that TPK is evaluating the fund to assess the funding process, and is in the early stages of measuring the outcomes for whānau that have received funds.

**Evaluation of effectiveness and value for money**

We were unsure how the effectiveness, value for money, and outcomes of Whānau Ora programmes and plans are being measured. We heard that TPK had undertaken work with provider collectives to develop indicators and an outcomes framework against which the programmes of action can be measured. We also asked whether there were time limits on the implementation of funded plans. TPK explained that the goal is to increase whānau self-management, so implementation timeframes have not been specified in service contracts.

TPK told us it is working with providers to ensure their information systems can collect, measure, and compare data effectively. We expect to see the results of research by TPK to evaluate the effectiveness of the initiative.

**Accountability**

We asked what accountability measures were applied to Whānau Ora funding. TPK does not fund Whānau Ora providers through grants, but purchases services through contracts. It works with well-established providers and marae organisations, which are accountable under the Public Finance Act 1989. Regional offices are also responsible for scrutiny of the service process. We heard that an independent auditor, KPMG, was engaged to review the accountability process and found that Whānau Ora was operating appropriately.

We understand a working party is looking at establishing a Whānau Ora commissioning body separate from TPK, and will report its findings at the end of March 2012. We look forward to hearing the results.

**Public awareness of the Whānau Ora approach**

We asked if TPK was concerned that the wider public still appears to have a limited knowledge of what Whānau Ora does. TPK acknowledged the concern, but said it has to balance the use of its resources; higher spending on public relations and communications could have negative effects. TPK makes as much information as possible available through its website, and has also held a number of community hui about Whānau Ora.

We were also interested in TPK’s involvement in a documentary project about Whānau Ora. TPK explained that it was acting as a facilitator, putting the producer in contact with individual providers. It was then up to the providers to decide if and how they wished to be involved; and providers in turn might facilitate contact with whānau. TPK emphasised that the documentary was not a promotional tool for the agency.
Appendix

Approach to financial review

We met on 15 February, 7, 21, and 28 March 2012 to consider the financial reviews of the Ministry of Maori Development and the non-departmental appropriations for Vote Māori Affairs and Vote Māori Affairs (Whānau Ora). 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
Jami-Lee Ross
Katrina Shanks
Rino Tirikātene
Metiria Turei
Louise Upston
Nicky Wagner
Louisa Wall

Evidence and advice received

Te Puni Kōkiri, Annual Report 2011

Te Puni Kōkiri, Presentation on Ministry of Maori Development, dated 7 March 2012

Te Puni Kōkiri, Presentation on Vote Māori Affairs (Whānau Ora), dated 15 February 2012

Te Puni Kōkiri, Responses to post-hearing questions on Vote Māori Affairs (Whānau Ora), dated 29 February 2012

Te Puni Kōkiri, Responses to pre-hearing questions on Ministry of Maori Development, dated 7 March 2012

Te Puni Kōkiri, Responses to post-hearing questions on Ministry of Maori Development, dated 16 March 2012

Te Puni Kōkiri, Statement of Intent 2011–2014

Office of the Auditor-General, Briefing on Ministry of Maori Development, dated 7 March 2012
Office of the Auditor-General, Briefing on the non-departmental appropriations for Vote Māori Affairs, dated 5 March 2012

Office of the Auditor-General, Briefing on the non-departmental appropriations for Vote Māori Affairs (Whānau Ora), dated 13 February 2012

Organisation briefing paper on Ministry of Maori Development, prepared by committee staff, dated 13 February 2012

Organisation briefing paper on the non-departmental appropriations for Vote Māori Affairs, prepared by committee staff, dated 13 February 2012

Organisation briefing paper on the non-departmental appropriations for Vote Māori Affairs (Whānau Ora), prepared by committee staff, dated 10 February 2012
Te arotake pūtea o Te Puni Kōkiri, o ngā wāwāhanga moni ō-waho tari mō te Pōti Take Māori, o ngā wāwāhanga moni ō-waho tari mō te Pōti Take Māori hoki (e pā ana ki a Whānau Ora)

Te pūrongo o te Komiti Whiriwhiri Take Māori

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Tūtohutanga

Kua oti i te Komiti Whiriwhiri Take Māori ngā arotake pūtea o te tau 2010/11 mō ngā whakaturukinga mahi o te wā nei o Te Puni Kōkiri, o ngā wāwāhanga moni ō-waho tari mō te Pōti Take Māori, me ngā wāwāhanga moni ō-waho tari mō te Pōti Take Māori (e pā ana ki a Whānau Ora), ā, ka tūtohu kia aronga e te Whare tāna pūrongo.

Kupu Whakataki

Te Puni Kōkiri te kaitohutohu matua ki te Karauna mō ngā hononga i waenganui i a ngā i Māori me te Kāwanatanga. Ka hāngai te arotahi o Te Puni Kōkiri ki te mātauranga, te whakangungu me te whiwhi mahi, te hauora me te whakapakari ōhanga. Ka whai hoki a ia ki te whakatairanga i te whanaketanga Māori ki ēnei wāhi nui o te pāpōri me te ōhanga, ā, ka aroturuki, ka mahi takawaenga hoki i te taha tari kāwanatanga e whakarato ana i ēnei ratonga i a ngāi Māori.

Nō te Pōti Take Māori te nuinga o ngā pūtea āwhina a Te Puni Kōkiri. I te tau 2010/11, e $61.093 miriona te katoa o tana whiwhi nga, e $58.944 miriona te katoa o te whakapaunga, ā, e $2.149 miriona te mutunga mai o te hemihemi more. E $130.468 miriona te utu o ngā putanga ō-waho tari a Te Puni Kōkiri i te tau 2010/11.

Te whakahou i te rōpū whakahaere

E matapae ana a Te Puni Kōkiri, ka puta he tarepa e $7 miriona mā te tau 2015 ki te kore a ia e whakahaere i ētahi ngōhe penapena utu. Ka pātai mātou mō te tikanga o tēnei matapae, me tā rātou ki mai, e rua ngā take: ko ngā pūtea penapena kua maheretia mai i te 1 o Hōngongoi 2012, ā, ko ngā whakapikinga taiutu me ngā pikinga utu kua matapaetia e te Tari Tātari Pūtea.

I te huri o ngā tāna āhuri hei raua e tū mai nei, ka whakamahere Te Puni Kōkiri i ētahi kaupapa penapena-utu hei kaupare i te tipu o te tarepa. Kei roto i tēnei, ko ngā mahi tuatahi mō tāna hōtaka mahi, whakarato maiātanga e pā ana ki ngā mahi, me te whakahau hoki i te rōpū whakahaere. Ka pātai mātou mehemea i maheretia ngā whakamutunga mahi me te mahi whakahounga. Ka mea Te Puni Kōkiri, nā te wehe noa o ngā kaimahi i rawaka ai te whakahaere i te noho o ngā kaimahi i te tau 2010/11, heoi anō rā, nā tētahi arotakenga ratonga tautoko, e whitū ngā tūranga mahi i whakakore. Ā kō ake nei te manatū ōtāna ai ki te rapu tohutohu a te wāhanga tōmuri o tēnei tau mō ngā mahi whakahounga. I te māharahara mātou, ka hapa raua te puta o ngā mahi ratonga, heoi anō rā, e ai ki Te Puni Kōkiri, ka haere tonu ōna mahi whakahei i tōna kawenga ā-ture ki te whakatairanga i te whanaketanga Māori.
Ngā ratonga ā-rohe

I te māharahara mātou, ka kati ētahi o ngā tari ā-rohe a Te Puni Kōkiri nā ngā kōkiringa hou i maheretia, kia poroa ngā utu me te whakapikenga o te maiātanga, oti rā, ko te kōrero a Te Puni Kōkiri, tērā ētahi kēhi tino kaha nei e mea ana, ka haere tonu tōna kitea i ngā rohe. I kōrero mai anō Te Puni Kōkiri, ko tōna kaha ki te mahi puta noa i ngā pokapū Kāwanatanga tētahi o ēna tino kahanga, ā, ko tētahi tino rerekētanga i puta ai ngā otinga Māori, ko te whai wāhitinga o ngāi Māori i ngā pokapū. Ka haere tonu ngā mahi āwhina a te manatū i a ngāi Māori i te hapori, oti rā, mā roto i ēna tari ā-rohe, kia mārama ai rātou ki ngā pārongo me ngā ratonga e wātea mai ana i Te Puni Kōkiri me ētahi atu pokapū Kāwanatanga. E ai ki a rātou, me āta whakaroarohia paingia ngā whakatau mō te kati tari.

Te kahapupuri i a ngāi Māori ki roto tari Kāwanatanga

I pātai mātou mehemea i te āwangawanga Te Puni Kōkiri ki te papātanga kino o te poro i ngā mahi mō ā popō i ētahi atu tari Kāwanatanga, ki te kahapupuri i a ngāi Māori puta noa i te rāngai tūmatanui. Ka mea a Te Puni Kōkiri, kāore ēna māharahara i te wā tonu nei mō te kahapupuri i a ngāi Māori i te rāngai tūmatanui. Ka tohu mai hoki, e hiāhia kē ana i a ia ki te āta titiro kei te ērīte te whakaroarohanga o ngā take Māori, me ngā take kahapupuri puta noa i ngā rōpū whakahare – kihai i ētahi wāhi paku noa nei. Ahakoa tō mātou whakahae mā ētahi ahunga ērīte pea te mōrea e whakaeke, ka noho māharahara tonu mātou tērā pea, ka heke haere tonu te kahapupuri i a ngāi Māori nā ngā penapena maiātanga ka maheretia.

Pou tarāwaho ine whakatutukinga mahi

Hei whakautu i ngā tūtōhutanga tātari kaute i puta ake i ngā tau pūtea o muri, kua whanakehia e Te Puni Kōkiri he pūnaha hou mō te whakahaere me te whakapūrongo whakatutukinga mahi. Kei te mihi atu mātou ki te kauneke o tōna whakapūrongo whakatutukinga mahi kore-pūtea engari, kua kite mātou ko te maha o ngā ērīte whakatutukinga, ka ine kē i te rahiinga, kāpā i te kounga me te ēngai kē o te arotahi ki te ine o ngā putanga, ka mahara te ine hua. Hei tauira, ka pātai mātou he aha ngā ratonga me ngā tautoko nā Ratonga Āwhina Pakihi Māori i hoatu. Ki tō mātou mōhio, ka whai a Te Puni Kōkiri ia tau, ia tau ki te mahi i te taha o ngā pakihī e 700–750 engari, kihai i kaha ki te mea mai, he aha te kounga o ngā ratonga i hōmai, he aha ēna ngā hua i oti. I kē maia a Te Puni Kōkiri, kua whakahaerea e ia he whakamātatau e pā ana ki te kounga o te ratonga, ā, kei te ētahi atu ki te wā e rongo ai i ngā hua i puta. I a Te Puni Kōkiri e whakapai ake ana i ngā ērīte mea mō tāna whakatutukinga mahi, ka whakatenata mātou i a ia kia whakaurua he ine meiha kounga, ā, kia arotahi i ngā hua, kāpā, te whakarahi noa i ngā putanga.

Ngā mea angitu mā ngāi Māori kia whai wā ai ki te hoko ki tāi

Takirua ngā wā i te tau 2010/11, i haere Te Puni Kōkiri ki te toro i a Haina, takitahi te wā i haere i te taha apatono kaiarataki pakihī ki te Trade Expo 2010 i Shanghái. Nā te Minita mō ngā Take Māori rātou i ārāhi. Ka mea mai a Te Puni Kōkiri ki a mātou, he whakaoaro ēna ki te toro anō i a Haina i ngā rā kei te tū mai, ā, nā runga i tērā, ka pātai mātou he aha ngā tūpono painga mā ngāi Māori. Ka mea mai a Te Puni Kōkiri, he maha ngā mea angitu mā ngā pakihī Māori ka taea e Haina te hōmai, oti rā, i ngā wāhi e pā ana ki ngā kai me ngā inuihu, ki te pakihiahuwhenua me te tuku ratonga.

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Ngā wāwāhanganga moni ō-woho tari mō te Pōti Take Māori

Te Tahua Pūmanawa Nohopuku Māori


Kua kite mātou, e 30 neke atu ngā tahuha mate whawhatai tata i whakawhiwhia e Te Puni Kōkiri mai i te pūtea āwhina nei mō ngā ōgohe whakamāmā e pā ana ki ngā rū whenua o Waitaha. I rongo mātou, kua oti i te manatū he whakaaetanga pūtea āwhihia mā Te Rūnanga o Ngāi Tahu, mā He Oranga Pouanamu hoki he āwhihia i a rātou mō ngā āhuatanga whakaoranga, whakamāmā hoki. Ka whakamihī mātou i te manatū, mō te tautoko marae, rōpū whakahaire ā-hapori hoki i Waitaha.

Oho Īhangā Māori

I uiui mātou i Te Puni Kōkiri mō ngā mahi i tūmatahia e te Oho Īhanga Māori, otiū, ngā pūtere e āhangā ana ki te hokohoko kōura ki tāi. Ka pātai hoki mātou, ka pēhea te tāpīrī atu a te pūtere Koura Inc a Te Puni Kōkiri i te uara o te āhuamahi ki tāi o te wā nei. Ka whakamārama Te Puni Kōkiri, ko tōna tūmanako ia, he whakakotahi i te hokohoko a ngā kaiwhakanao kōura a te iwi, kia teitei atu ai te uara-whakanaonga mō ngā mākete hoko kōura i Haina. I ki mai Te Puni Kōkiri kī tēnei wā, kāore anō te pūtere rā kia hoko whakanaonga ki tāi, ahakoa aha. I pātai mātou, he āha Te Puni Kōkiri i taute pūtere pērā ai, ka mahara te mahi i te taha o tētahi rōpū whakahaire e whai ana i ngā mātauranga āhuamahi āhanga, pērā i te Kaunihera o Seafood Industry. E ai ki Te Puni Kōkiri, eharā kei tōna kore tohungatanga āhanga te tino raru: ko tōna tūranga, he tū kē he kaitakawaenga ki te āwhihia i a ngā Māori kia whiwhi tohutohu ai, tautoko ai hoki.

Ngā wāwāhanganga moni ō-woho tari mō te Pōti Take Māori (e pā ana ki a Whānau Ora)

Whanaketanga ratonga Whānau Ora

He kōkirihainga hou Kāwanatanga a Whānau Ora, ā, ko tona toronga he whakaratau tautoko kōtahitanga ki ngā whānau kia kaha ai rātou ki te whakahaere i a rātou anō, me te whanake i ō rātou taha pāpori, āhurea, āhanga hoki. Ko te hiahia a te kōkirihainga hou nei, kia mahi ngātahi ngā pokapū Kāwanatanga ki te hoatu tautoko ki te whānau katoa, kāpā, ki te mahi wehe i te taha tāngata takitahi.

Ko Te Puni Kōkiri kei te arataki i a Whānau Ora i te taha o te Manatū Hauora, me te Manatū Whakahiato Tangata. I te tau pūtea 2010/11, e $23.7 miriona tata atu pea, ngā wāwāhanganga moni āwhina ō-woho tari i whakawhiwhia ki te kōkirihainga hou nei a Whānau Ora engari, e $12.053 miriona kē te whakapaunga moni tūturu.

Pūtea āwhihia hōtaka hohenga

I te tau 2010/11, te tau tuatahi o te whanaketanga ratonga taketake mai-i-a-Whānau Ora, ka whanakehia he hōtaka hohenga whakamutunga e ngā ohu kaituku ratonga e 23 o ngā ohu kaituku e 25 i kōwhiria. I rongo mātou, nā te roa rawa o ngā kaituku ratonga ki te whanake me te tuku mai i ō rātou ake hōtaka, ka nui rawa te kore whakapau moni. Ko tetahi take
anō, kāore te kaha teitei o te hiahia mai o ngā kaitiuku i mōhiotia i mua atu, ā, nā te aha hoki, ka takaroa rawa atu te whakatinatanga me te whakapaunga. I whakapūmāu mai a Te Puni Kōkiri, ka whakatauhia te take nei he i te tau pūtea e tū mai nei, ā, e $12.5 miriona, piki atu, ka kawea atu ki te tau tū mai hei whakakapi hōtaka ka te toe mai o te tau nei.

Ka pātai mātou, mehemeia i whakaurua he moni ki te pūtea āwhina a Whānau Ora i tohaina kēngia i mua ki ētahi atu kirirana ratonga. I rongo mātou, nā tōna ake wāwāhangā moni ahurei te pūtea āwhina a Whānau Ora, ā, kāore Te Puni Kōkiri i te mōhio mehemeia kei te pau kuri noa ngā pūtea āwhina a ētahi atu kaituku. Ki Te Puni Kōkiri, kāore he puku whakaaro i a ia, kia whakararuhia e Whānau Ora te āhua tuku o te ratonga, te noho rānei i te wāhi o tētahi atu kaituku ratonga o te wā nei.

Tahua Whakauru, Auaha, Taute Whānau

Ka whai te Tahua Whakauru, Auaha, Taute Whānau kia tū mārō te kahapupuri i te whānau, kia kaha kē atu ai ngā hononga whānau, kia tautokohia te whakamana, ā, kia whakainkohia hoki ngā hua. E 12,000, tata atu pea ngā whānau me ētahi tāngata takitahi e 14,000 o roto, i whakawhiwhi he tahua ki a rātou mō te whakamahere ngohe i te huringa o te tau arotakenga. Ka pātai mātou i pēhea te whiriwhiri whānau hei kawe i ngā ngohe whakamahere nei. Ko te whakamārama mai a Te Puni Kōkiri, i te nuinga o te wā, kua pā kē atu ngā kaitiuku ki ngā whānau ka whai painga pea mai i te hōtaka, ā, ka tōnoa hoki ētahi whānau ki ngā kaitiuku e ētahi atu pokapū, tae atu ki Te Hiranga Tangata, ki a ra poutama aotearoa, ki ngā pūruruhia o aotearoa me te ratonga poropoeihana hoki. I rongo mātou, kei te whakamātutau a Te Puni Kōkiri i te tahua, kia pai ai te aromatawhai i te hātepe pūtea āwhina, ā, i te wā nei, kei te kōhungahunga tonu te ine o ngā hua mō te whānau kua whīwhi tahua.

Whakamātutau i te tōtika me te wāriu e pā ana ki te moni

Kāore mātou i te tino mōhio, he pēhea te tōtika, te wāriu e pā ana ki te moni me ngā hua o ngā hōtaka, mahere hoki a Whānau Ora kei te inea. I rongo mātou, i kawea he mahi e Te Puni Kōkiri i te taha ohu kaituku, ki te whakahia tūtouhe me tētahi pou tarāwaho mō ngā hua, kia taea ai ngā hōtaka hohenga te ine. I pātai anō hoki mātou, mehemeia he wā kati i utaina ki runga i te whakatinatanga o ngā mahere whai tahua. Ka whakamārama ake Te Puni Kōkiri, ko te whakapiki i te whakahaere a te whānau i a ia anō te wāhia, ā, nā reira, kāore te whakatinatanga o te wā pou tarāwaho i āta whakahuatia ake i roto i ngā kirirana ratonga.

I mea mai a Te Puni Kōkiri ki a mātou, kei te mahi ngātahi a ia me ngā kaitiuku ki te ātata titiro mēnā ka taea tōtika e ērā tōna punaha pārongo te whakatiro, te ine me te whakataurite raraunga. Ko te tūmanako, ka kite mātou i ngā hua o te rāngahau nā Te Puni Kōkiri i whakahaere ki te whakamātutau i te tōtika o te kōkiringa hou.

Whakamārama mahi

Ka pātai mātou, he aha ngā ine whakamarama mahi ki whakahāngaitia ki te pūtea āwhina a Whānau Ora. Ko te whakautu, kāore Te Puni Kōkiri e hoatu pūtea noa ki ngā kaitiuku o Whānau Ora mā ngā tahua engari, ka hoko ratonga kē mā roto i ngā kirirana. Ka mahi a ia i te taha kaituku, rōpū whakahaere marae kua roa kē e tū ana, ā, ka herea ngā whakamārama mahi i raro i te mana o te Ture Pūtea Tūmatanui. Kei ngā tari ā-rohe te
AROTAKE PŪTEA O TE PUNI KÖKIRI O TE TAU 2010/11

mahī e pā ana ki te titiro ngaio i te hātepe ratonga. I rongo mātou, i tautheia a KPMG, tētahi kaitātari kaute motuhake ki te arotake i te hātepe whakamārama mahi, ā, nā runga i tērā, ka kīte a te tika o ngā mahi a Whānau Ora.

Ki tō mātou mōhio, he ohumahi tērā e whakaaro ana ki te whakatū ōngatōpū mō Whānau Ora wehe kē mai i a Te Puni Kōkiri, ā, hei te mutunga o Poutū-te-rangi āna whakukanenga ka whakapūrongoihia. Kei te titiro atu mātou ki te wā e rongo ai i ngā hua.

Āro ake o te area ki te ahunga Whānau Ora

Ka pātai mātou mehemea i te māharahara Te Puni Kōkiri, nā te mea nei, he āhua whāiti noa nei pea te mōhio o te area whānui ki ngā mahi a Whānau Ora. Ka whakaae mai Te Puni Kōkiri ki te māharahara engari, ka mea mai ko tāna kē he whakatautika i te whakapaunga o āna rawa; he tukinga kino ka puta ki te kītea mai te teitei kē atu o te whakapaunga mō ngā mahi whakawhanaunga area whānui me ngā mahi whakawhitiwhiti kōrero, whakaputa whakaaro hoki. He tino māhia tonu ngā mōhiotanga ka whakawātea e Te Puni Kōkiri mā tōna paetukutuku, mēnā rā ka taea e ia, ā, he rahi tonu hoki ngā hui mō Whānau Ora ka whakatūtūhia i te haporan.

I te hiahia hoki mātou ki te mōhio ki te whai wāhitanga o Te Puni Kōkiri i tētahi pūtere pakipūmeka e pā ana ki a Whānau Ora. Ka whakamārama mai a Te Puni Kōkiri, ko tāna noa he mahi hei kaiwhakangāri huarahi, he hari kaiwhakataki kia tūtaki ai i te kaituku takitahi. Ā muri i tēnā, mā ngā kaituku e whakatua mehemea ka hiahia rātou ki te whai wāhi, me pēhea rātou; ā, mā tēnā me tēnā kaiwhakataki e whakangāwari te huarahi kia tūtaki whānau ai. I hāngai tonu te kī a Te Puni Kōkiri, eharā te pakipūmeka i tētahi utauta whakatairangatanga mā te pokapū.
Tāpiritanga

Ahunga ki te arotake pūtea

I hui mātou i te 15 o Hui-tanguru, ā, i te 7, te 21 me te 28 hoki o Poutū-te-rangi 2012, ki te whakaaroaro i ngā arotake pūtea o Te Puni Kōkiri, o ngā wāwāhanga moni ā-waho tari mō te Pōti Take Māori, me te Pōti Take Māori (e pā ana ki a Whānau Ora). 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 Henare (Heamana)
Te Ururoa Flavell
Hone Harawira
Brendon Horan
Hōnore Parekura Horomia (Heamana Tuarua)
Jami-Lee Ross
Katrina Shanks
Rino Tirikatene
Mētiria Tūrei
Louise Upston
Nicky Wagner
Louisa Wall

Taunakitanga me te whakamaherehere i whiwhi

Te Pūrongo ā-Tau 2009, a Te Puni Kōkiri

He whakatakotoranga mō te Ministry of Maori Development, i te 7 o Poutū-te-rangi 2012, a Te Puni Kōkiri

He whakatakotoranga mō te Pōti Take Māori (e pā ana ki a Whānau Ora), i te 15 o Hui-tanguru 2012, a Te Puni Kōkiri

Ngā urupare ki ngā pātai whakawātanga-whai muri, mō te Pōti Take Māori (e pā ana ki a Whānau Ora), i te 29 o Hui-tanguru 2012, a Te Puni Kōkiri

Ngā urupare ki ngā pātai whakawātanga-mua atu, mō te Ministry of Maori Development, i te 7 o Poutū-te-rangi 2012, a Te Puni Kōkiri

Ngā urupare ki ngā pātai whakawātanga-whai muri, mō te Ministry of Maori Development, i te 16 o Poutū-te-rangi 2012, a Te Puni Kōkiri

Tānāki Whakamaunga Atu 2011-2014, a Te Puni Kōkiri

He whakatakoto tohutouh, mō te Ministry of Maori Development, i te 7 o Poutū-te-rangi 2012, a Te Tari o Te Tumuaki o Te Mana Arotake
AROTAKE PŪTEA O TE PUNI KŌKIRI O TE TAU 2010/11

He whakatakoto tohutohu, mō ngā wāwāhanga moni ō-waho tari, mō te Pōti Take Māori, i te 5 o Poutū-te-rangi 2012, a Te Tari o Te Tumuaki o Te Mana Arotake

He whakatakoto tohutohu, e pā ana ki ngā wāwāhanga moni ō-waho tari, mō te Pōti Take Māori (e pā ana ki a Whānau Ora) i te 13 o Hui-tanguru 2012, a Te Tari o Te Tumuaki o Te Mana Arotake

He pepa whakatakoto tohutohu, e pā ana ki te rōpū whakahaere, mō te Ministry of Maori Development, nā ngā kaimahi o te komiti i takatū, i te 13 o Hui-tanguru 2012

He pepa whakatakoto tohutohu, e pā ana ki te rōpū whakahaere, mō te Pōti Take Māori, nā ngā kaimahi o te komiti i takatū, i te 13 o Hui-tanguru 2012

He pepa whakatakoto tohutohu, e pā ana ki te rōpū whakahaere, mō ngā wāwāhanga moni ō-waho tari, mō te Pōti Take Māori (e pā ana ki a Whānau Ora), nā ngā kaimahi o te komiti i takatū, i te 10 o Hui-tanguru 2012
The Government Administration Committee has conducted the financial review of the 2010/11 performance and current operations of the National Library of New Zealand Te Puna Mātauranga o Aotearoa, 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
2010/11 financial review of the New Zealand Customs Service

Report of the Foreign Affairs, Defence and Trade Committee

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New Zealand Customs Service

Recommendation
The Foreign Affairs, Defence and Trade Committee has conducted the financial review of the 2010/11 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—$10.6 billion in 2010/11—on behalf of the Crown, investigates illegal activity, and prosecutes where necessary.

In 2010/11 the service’s total revenue was $136.093 million, and its total expenditure was $134.515 million, resulting in a surplus of $1.578 million.

Financial management and service performance
The service received an unmodified audit opinion on its financial statements and non-financial performance reporting. It received a rating of “very good” for its management control environment, “good” for its financial information systems and controls, and “good” for its service performance information and associated systems and controls.

Illicit drugs
The number of methamphetamine precursor seizures fell from approximately 1,000 in the 2009/10 financial year to approximately 600 in 2010/11. The significance of this result is difficult to assess and the service acknowledges that it does not know exactly what proportion of the drug trade it is intercepting; but we were pleased to hear that there are indications of disruption to the market.

The way drugs enter the country changes very quickly and the service told us that it has to be increasingly electronically and forensically savvy to keep up with the tactics of those dealing in drugs and their precursors. The service said it is investing in technology to identify drugs in their variant forms, and that tracing mail containing illicit drugs to its destination is resulting in a number of arrests.

Most intercptions are of the precursors to methamphetamine. We were pleased to hear that precursor substances have been reclassified from Class C illegal substances to Class B, in order to increase the level of deterrence they attract.

We are pleased that the service is working with other agencies to screen shipping containers, with officers opening and physically inspecting some containers. Detection dogs and x-rays are also used. The service also works with the New Zealand Police, and described the relationship as extremely effective.
China

We were told that most methamphetamine precursors found in New Zealand have been sourced from China, where pseudoephedrine is legally available as a cold remedy. The service is working with its counterparts in China and Hong Kong to demonstrate the harm that this legal trade can cause, determine the sources of supply, and help the local authorities to conduct operations. We are pleased that the service thinks it is making good progress.

Cruise ships

We were told that cruise ships have emerged as a means of transporting illicit drugs in recent months. Information-sharing with the United States has helped alert the service to suspicious activity. Where illegal activity is suspected, customs officers can be placed on the ships, and the service can be ready to perform further investigations when the ship docks in New Zealand.

Joint Border Management System

The Joint Border Management System programme is building an information system to meet New Zealand’s future border management needs. The service and the Ministry of Agriculture and Forestry are developing a single computerised clearance system. IBM has been contracted to develop the system components.

We were interested in changes being made under the programme, particularly the development of the Trade Single Window, which provides importers and exporters with a single electronic point of access to border agencies. This should enable businesses to manage their imports and exports more effectively without needing to use a customs broker or forwarding agent.

We are aware that the Customs and Excise (Joint Border Management Information Sharing and Other Matters) Amendment Bill is currently awaiting its third reading. Once it is enacted it should allow the relevant Government agencies to share information essential to the programme.

A business case will be developed this year to secure funding for the second tranche of the programme. We will monitor the progress of the programme with interest.

Revenue gathering

The service collected $10.6 billion in Crown revenue in 2010/11. We were interested in the service’s processes for revenue collection, and were pleased to hear that regular audits are undertaken and that a review of processes found a high degree of integrity.
Appendix

Approach to financial review
We met on 1 and 22 March 2012 to consider the financial review of the New Zealand Customs Service. Evidence was heard from the New Zealand Customs Service and advice received from the Office of the Auditor-General.

Committee members
John Hayes (Chairperson)
Hon Phil Goff
Hon Tau Henare
Dr Paul Hutchison
Dr Kennedy Graham
Su’a William Sio
Lindsay Tisch

Evidence and advice received


New Zealand Customs Service, responses to committee questions, received 28 February 2012.

Office of the Auditor-General, Briefing on the New Zealand Customs Service, dated 1 March 2012.

Organisation briefing paper, prepared by committee staff, dated 28 February 2012.
2010/11 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 2010/11 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 enhancing the safety of the community. It aims to achieve confident, safe, secure communities; reduce crime and road trauma and the number of victims; and maintain a world class police service. Revenue for the 2010/11 year was $1.481 billion and expenditure was $1.469 billion, resulting in a net surplus of $12.676 million.

Peter Marshall became Police Commissioner in April 2011, succeeding Howard Broad. The Commissioner is supported by two Deputy Commissioners: Viv Rickard (Resource Management) and Mike Bush (Operations).

Financial and service performance management

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements of the New Zealand Police. They assessed the Police’s management control environment as very good, and its financial information systems and controls as good. These assessments are the same as those for last year.

They assessed the Police’s service performance information and associated systems and controls as needing improvement. This assessment remains the same as last year, although some of the deficiencies identified by the Office of the Auditor-General in 2009/10 have been resolved.

Cost pressures

In the 2010/11 financial year, the Police were required to find savings to reduce budgetary pressures. We noted that cost savings of $60 million dollars were made in the financial year of 2010/11. It was of concern to some of us that apparently inaccurate information was provided by the Police about this figure. We asked where these savings had been made and whether front-line services had been compromised in securing them. The Police told us that savings were targeted at administrative and non-operational costs, and were spread throughout the entire organisation. They were reviewing support services, the Police property portfolio, and all expenditure lines, including the employment of consultants to find cost recovery options. Above all, we heard there would be an emphasis upon moving constabulary staff to the front line. The Police confirmed they would not consider private contractors taking over front-line core business such as that of sworn officers as an option to reduce costs.
Staffing

We note that one of the most significant sources of fiscal pressure on the Police is the increasing wage costs of their 11,865 full-time-equivalent staff. The Police also pay competency service increments annually to staff on the basis of their meeting certification requirements. The increment represents about 1.8 percent of base salary, and its impact compounds annually. It will cost the Police around $170 million over the next four years.

The last negotiated wage round for the Police was in 2010, when a 1.3 percent increase was agreed. The two largest of the Police’s collective employment agreements, covering almost 11,000 employees, will expire on 30 June 2012. Negotiations for these agreements commence in April 2012. Some of us believe that any wage increase would cause significant financial pressure upon the Police which would require cost savings in other areas, in the absence of budgetary accommodation of rises in staff costs. We are concerned about the financial pressure they will have to absorb when they are seeking cost savings.

The Police told us that depending upon the general wage index, and taking into account the effect of the competency increments, they will determine how much in total the police annual budget will have to absorb after the completion of negotiations. They stressed that until the negotiations are settled they are not in a position to comment on their financial ramifications. We will continue to monitor this situation, as we consider it vital that front-line services are not compromised.

Recruitment and attrition rates

We heard that the Police College had to make a 15 percent saving in operational costs this year. It was explained that efficiencies had already resulted in savings, and the organisation is looking at changing the way it uses contractors. We were assured that the Police did not consider deferring recruitment during the 2010/11 financial year. However, efficiencies have included changing the length of recruit training courses, and timing intakes to avoid statutory holidays.

We are pleased that staff attrition is now 2.9 percent, down from 3.4 percent last year. However, the Police told us these figures may rise in the next few years, as they are embarking on major change, and attrition tends to rise in such circumstances.

The Police told us that in their search for cost savings, they would take a close look at whether they would actually fill particular vacancies, but importantly they are 100 over strength in terms of sworn staff, so they may not fill some vacancies. Some of us are concerned that this might result in a reduction in sworn staff numbers. The Police said that no related decisions would be made until wage negotiations are completed in June. We will continue to monitor this matter with interest.

Police station closures

Some of us are concerned that any cost-cutting might require police stations to be closed. The Police acknowledged that this was a possibility, but said it was not a major strategy. We were told that there are hundreds of police stations. Some of them were built in the 1960s and 1970s and new police stations have sprung up around them. Demographics change. New suburbs come in too. So as part of the Police’s ongoing business they would
look at particular stations. Police will consult local communities before making any
decisions to close stations.

Public satisfaction
We note that the results of a Citizen Satisfaction Survey indicate that public satisfaction
with police service delivery is rising. Some of us are concerned that there might be an
adverse change in public perception as a result of the planned changes.

“Policing Excellence”
Over the last year, the Police have restructured at the senior level. The leadership is driving
a series of change initiatives under the banner “Policing Excellence”. These initiatives are
designed to let police spend more time within their communities, and for district
commanders and their operational teams to shift the emphasis of police work towards
crime prevention.

Prevention First
The Police have introduced a new operating model, Prevention First, which highlights
intelligence-led policing and shifts the emphasis toward prevention. Four percent of
current Police resources are to be deployed for prevention purposes by 2014/15; other
targets are a 13 percent reduction in recorded crime and a 19 percent reduction in non-traffic
prosecutions by 2014/15. We asked when we would expect to see results. The Police
believe they are on track to meet their targets by 30 June 2011, since there have been a 5.9
percent reduction in total crime and an 18.7 percent reduction in prosecutions since
2008/9.

Neighbourhood policing
The Neighbourhood Policing Teams initiative was piloted in Counties-Manukau in
2010/11 to implement the Prevention First strategy. The teams are groups of “problem-
solving” front-line officers, who will spend up to five years in priority neighbourhoods to
reduce particular local crime problems. The teams target criminals known to be active in a
particular neighbourhood, and support repeat victims to prevent further harm, moving on
from the neighbourhood once the target problems have been solved.

We wondered about the basis on which the Police evaluate the success of the Counties-
Manukau pilot project. They acknowledged the need to look at the entire five-year cycle
before judging the project. Part of the process is building trust and confidence in the
community and working with diverse agencies in the neighbourhood before real results
begin to emerge. The pilot programme is being expanded to 32 teams around the country,
and the Police expect to see significant results within three to five years.

Mobile policing
We were given a demonstration of two new pieces of technology being used by front-line
staff: a tablet computer for access to email and intelligence systems, and reporting offences
remotely; and a “smart” device designed to let road-policing staff perform administrative
duties without returning to the office.
We were interested to hear that, on the basis of overseas experience and basic time-and-motion work, the Police estimate front-line time savings of between 10 and 20 percent per shift as a result of the introduction of the devices. This is consistent with their emphasis upon constabulary staff being moved to the front line and spending more time there.

We wondered about the reliability of electronic communication devices in rural areas where cellular coverage is poor. The Police are aware of some restrictions, but assured us that the basic option of transferring information via the police radio network, which covers almost all geographic areas, remained if the mobile devices could not be used in particular locations. The move to mobile policing may result in the change in the utilisation of police stations. The Police told us this is not an aim of the project.

**Response times**

The Police once again exceeded their target for answering 111 calls within 10 seconds, and the percentage of non-emergency calls answered within 30 seconds also rose. Although the communication centres’ response times were within target, the Police fell well short of their targets for responding to incidents and emergencies. We are concerned that public safety should not be compromised. The Police pointed out that the figures were averages. We are assured that most of the response times, especially to urgent calls, are much shorter.

**Relationship with the Serious Fraud Office**

We understand that the Police have a memorandum of understanding with the Serious Fraud Office allowing them to work together. Four Police investigators are currently seconded to the SFO. The Police see the advantages of this close working relationship as building capability on both sides, and allowing taskforces to collaborate on high-level investigations. Initially seconded staff were paid a police salary, but the arrangement has now altered so that they are paid out of the Serious Fraud Office budget.
Appendix A

Approach to financial review
We met on 7 and 28 March 2012 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
Lindsay Tisch
Jonathan Young

Evidence and advice received
New Zealand Police Annual Report 2010/11.
New Zealand Police, Responses to written questions, received 5 March 2012.
Office of the Auditor-General, Briefing on the New Zealand Police dated 7 March 2012.
Organisation briefing paper, prepared by committee staff, dated 13 February.
Corrected transcript of hearing of evidence 7 March 2012

Members
Jacqui Dean (Chairperson)
David Clendon
Kris Faafoi
Hon Phil Goff
Ian McKelvie
Mark Mitchell
Denis O’Rourke
Lindsay Tisch
Jonathan Young

Witnesses
Peter Marshall, Commissioner
Mike Bush, Deputy Commissioner
Viv Rickard, Deputy Commissioner
Lee Hodgson, Manager, Executive and Ministerial Support
Inspector Simon Feltham
Sergeant Brian Yanko

Dean
Peter, welcome to the Law and Order Committee for this examination. We’ve set down an hour for this, but I’d like to invite you to spend a minute or two perhaps introducing your team, and then if you wouldn’t mind giving us 3-5 minutes’ introduction and then we’ll open it up for questions. Now, this is a new committee, so I’ll ask the committee members to introduce themselves to you as we go round the table. [Introductions]

Marshall
Thank you for this opportunity, and thank you committee members. I’d like to introduce on my right Deputy Commissioner Viv Rickard, Resource Management. He has responsibility, amongst other areas, for finance, for our I and T, and for our human resources and training. And on my left, Deputy Commissioner Mike Bush, Operations, responsible for the districts and the operational nature of policing in that sense. Peter Marshall—I’ve had the commissioner’s position since April of last year, and with your indulgence, Madam Chair, I’ll make some opening comments.

Since taking up my post I have restructured the police executive to create a more streamlined senior management team, with more efficient connections to the 12 police districts. Instead of reporting direct to the executive, district commanders report to assistant commissioners who oversee areas that we
Police is, generally speaking, in good health. We have seen significant falls in reported crime. In the 2010-11 fiscal year recorded offences per head of population fell 7 percent, or more than 25,000 offences. Resolution of crime is one of the highest in the Western World at 47 percent. Public confidence in Police is increasing—up from 75 percent to 77 percent in the latest trust and confidence survey—and 82 percent were satisfied or very satisfied with the overall quality of service delivery in 2011. The New Zealand Management magazine survey saw Police voted New Zealand’s most reputable Government department for the second consecutive year. Last year police won public sector excellence awards from the Institute of Public Administration New Zealand for its ethnic strategy and for a groundbreaking 111 text service for deaf and hearing-impaired people.

In 2011 the road toll stood at 284, the lowest since 1952, thanks in no small part to the determination of Police and our partner agencies to save lives on our roads. Over the past 3 years we have reprioritised our budget and have been able to save $60 million. We have undertaken very demanding operations, including the Christchurch earthquakes, Pike River, and the Rugby World Cup, without affecting our business as usual, and we have faced a number of serious other matters, such as the Carterton balloon crash. We have addressed the issue of firearms, avoiding general arming of police through our very appropriate compromise: making firearms more accessible when needed. Early indications from our staff engagement survey are that engagement has improved over the past year, and we wait with interest the PricewaterhouseCoopers report arising from the Commission of Inquiry into Police Conduct. Again, preliminary indications are that there are markedly more positive comments than the last one.

The current executive has the confidence and the will to make changes, and to that end welcomes the performance improvement framework, which commenced this week at Police National Headquarters. Seven of our 12 district commanders have changed in the last 12 months. We have capable, forward-looking leadership, which is well connected to its staff. The leadership is driving a series of change initiatives under the heading “Policing Excellence”. There is a new operating model called Prevention First. Policing Excellence initiatives will let police spend more time out in their communities and less time in police stations. They include the use of warnings as an appropriate alternative to arrest and charge, the use of mobile technology, and improvements in crime reporting, case
management, and rostering. They will help us use resources more efficiently and allow an extra focus on crime prevention.

Prevention First is, as the name suggests, focused on prevention activities. It includes an emphasis on deploying our front-line staff to beat demand, and understanding and responding to the drivers of crime. Neighbourhood policing teams and their preventive approach are central to this. We now have 32 teams in position in some of our most vulnerable neighbourhoods. With a focus on prevention and victims of crime, we believe we can reduce criminal offending by at least 13 percent and the number of people entering the justice sector by 19 percent, excluding traffic-related offending. This will occur by 2014-15. We are committed to increasing resources deployed to prevention by 4 percent.

Like other organisations, New Zealand Police faces serious financial constraints. We must live within budget. There will, however, be an emphasis, in line with Prevention First and Policing Excellence, on having constabulary staff moved towards the front line and spend more time there. Soon we will enter negotiations on our collective employment agreement. It’s important that this agreement positions New Zealand Police to deliver Policing Excellence and is in keeping with modern employment practices. We are in the process of reviewing our support services, as every Government department has been asked to do. We will reconsider the police property portfolio. We will review all expenditure lines, including the number of consultants engaged, and we will look at cost recovery options.

In summary, I am confident that the New Zealand Police has the leadership with the courage and vision to make tough decisions needed to steer us through these difficult times, while maintaining our high standards and the high level of public trust and confidence that we currently enjoy. Thank you very much, Madam Chair.

Dean Thank you. Nice and concise—to time. We’re off to a good start. Questions, please, for the commissioner.

O’Rourke Concerning the Christchurch earthquake, can you tell me if you’re satisfied with the police performance concerning, first of all, rescue assistance, secondly, central city looting, and, thirdly, burglaries in damaged residential neighbourhoods?

Marshall Yes, I am very confident that the police response at those times and continuing has been very appropriate, very professional, and very timely. I think the New Zealand Police, working with other emergency services, did a splendid job, and I am very confident in that regard. There has been a huge emphasis upon reassurance policing in that location, a huge emphasis upon visibility. We were supported, as we know, by Australian colleagues; hundreds of Australian police officers came to Christchurch. I think the result overall for the people of Christchurch and, indeed, for the people of New Zealand, in the context of policing, has been second to none.
O’Rourke: Do you have any specific information about the satisfaction of Christchurch people during that period in respect of those various functions that I listed?

Marshall: Well, I’ll ask my deputy commissioner, operations to respond in particular detail, but suffice it to say I commenced the commissioner’s role in April, some months after the Christchurch earthquake. I have been down there a number of times, I have spoken to a number of people and dignitaries in different stages of life in Christchurch, and in various roles in Christchurch, and it has been absolutely positive in relation to the work of Police. I was down there for the recent memorial service, and those sentiments were expressed time and time again. But perhaps Deputy Commissioner Bush might have a bit more specific—

Bush: I speak in general terms, initially. The feedback we’ve got from the community—whether it’s people on the street, whether it’s the mayor, whether it’s senior councillors, the feedback about police performance is absolutely positive; 100 percent positive. In more specific terms crime has declined, as you would expect in that environment, over the last 12 months quite significantly. There are far less victims of crime in the last 12-month period since the earthquake, and trust and confidence, as far as we can tell at this stage, has increased.

O’Rourke: Can you tell me whether there were any identified deficiencies in police resources during, especially, the periods immediately after the major earthquake events?

Marshall: I’m not aware of any deficiencies in that regard at all. We went to very special lengths to ensure that our staff down there were supported for many, many weeks following the 22 February events. We had staff from all around the districts go in to complement our Christchurch/Canterbury personnel. They remained there for many months, and I’m not aware of any inadequacies. We’ve had a debrief from an operational police point of view, and we were heartened by our ability to respond and do the best by the people of Canterbury at that time.

Faafoi: Good morning, commissioner. Can I acknowledge the work you’ve done in Canterbury and the Rugby World Cup, as well as Pike River. But you spent most of the last 24 hours responding to reports about some potential cuts to police budgets. I want to get to the bottom of the origin of that. Is it a proposal that has come from your office, or come across your desk, for savings in the area of around $360 million over the last 3 years?

Marshall: No. As I’ve mentioned in the media in the last 24 hours, there is no target figure. It’s basically a clean slate at the moment. We go into the negotiations and depending upon how the GWI, the general wage index, or the CSI — that’s the competency service increment—works out, then we’ll determine how much we have to absorb into the police annual budget. At this stage we have no idea, because we haven’t had those discussions. So there is no relevance in relation to that particular figure.
Can I just restate the question: is it a proposal from your office—has it either gone to the Minister or from the Minister back to your office—to look for savings in the vicinity of $360 million?

No, not at all.

So you’re suggesting that this figure’s just come out of thin air, are you?

I don’t know where that figure has specifically come from at this time. But I can say that as I go forward, steering the New Zealand Police towards these budget discussions, I have no target figure at all. If I did, I’d tell you. There is no target figure.

There has been a suggestion that this figure was leaked before the negotiations started to send a message to police around the country that it’s either take a pay cut or you’re going to lose front-line staff. If that’s true, would you be concerned about that?

I would be if I thought that was true. I have no knowledge of that occurring, and essentially it’s taken a day out of my life that I’ll never get back—yesterday, in relation to the media commentary—and it certainly didn’t come from my office and I have no knowledge where that came from. It hasn’t been particularly helpful to me.

Commissioner, if I can just first, through you and the deputy commissioners, pass on our thanks for the work that your people do on the ground, which we are very grateful for—very professionally done. In your briefing to the incoming Minister, you say that police have absorbed cost pressures over the last 3 years equivalent to $60 million a year. You have absorbed that. What can you afford to absorb within your current budget constrictions over each of the next 3 years?

I’ll pass to Deputy Commissioner Viv Rickard, who is across these particular points.

I think the first point is that the $60 million is over the previous 3 years.

That’s each year.

No, $60 million over the previous 3.

Equivalent to $60 million per annum. Let me read out, deputy commissioner, what it says: “The trends have also continued. The Police have absorbed cost pressures over the last 3 years equivalent to $60 million per annum.” That’s $60 million a year.

Mr Goff, it should read “$60 million over the 3-year period”.

That’s a fault in the briefing paper, is it?
Rickard: Yes. So that’s the first point. In terms of the actual—what we can absorb over the next 3 to 4 years, it’s really around how we operate under the current budget that we’ve got. The commissioner’s referred to in some of his media commentary that the police budget has not been cut, and that’s the fact. Our budget has not been cut, but where the country’s heading into tough times and we’re a part of that, we will look at our organisation. The commissioner’s driven a plan, which actually talks about how we will operate in the years coming. Now aligned to that, and this is in answer to the previous question as well, Mr Goff, is that whilst we don’t know the outcome of any wage negotiations, what we do know is that under the competency service increment that we have, that will cost us over the next 4 years—we know the figure for that; it is 1.77 percent; that compounds—around $170 million.

Goff: That’s about $40 million a year that you have to find compensatory savings for already, before a wage increase.

Rickard: It depends on how it compounds and what the figure is in terms of what we go for, but as it stands at the moment that is basically $40 million a year, yes.

Goff: OK. How do you—the semantics around having to absorb increased costs such as wages and other inflation-related costs is actually a cut or not. The fact is you’re already spending, before the wage round, more than $40 million a year than you currently have, which means you have to go into compensatory savings for that, plus the cost of any wage increase. So that figure of $120 million a year that was speculated on yesterday, is it possible that a wage round, plus those costs, plus all inflationary costs could require you to find $120 million a year in compensatory savings?

Rickard: No.

Goff: What would you say is the highest figure you might have to find if, say, there’s a 3 percent wage round, plus the $45 million a year you’ve got to find, plus any other inflationary pressures?

Rickard: OK, to answer your question—and this is doing mathematics on the trot for you—I’ve indicated over 4 years there’ll be $177 million in CSI at 1.77 percent. You’ve asked about a 3 percent wage settlement. That might bring something into play of around $300 million over the 4 years, which would make that figure around $477 million or $470 million.

Goff: It’s not $120 million here, but it’s bloody close to it. Wouldn’t that justify the figure yesterday of $360 million? If I just do my maths very quickly, you know, you’re talking a skerrick less than $120 million a year that you have to find, which is $360 million over 3 years. That’s a big amount of money. How are you going to save? Where are you going to take those savings from in order to find that money?
Dean  OK, thank you, but we’re straying away from the financial review into asking the police representatives to speculate on future budgets. I don’t think it’s possible for them to do that fairly. However, I think it’s a reasonable question to ask under the estimates examination. But I don’t think we are going to get good quality answers by asking the New Zealand Police to cast their minds to what might happen in future budget rounds. It’s simply not within their ability to give you a sensible answer.

Goff  OK. Let me reword it.

Dean  I’m happy for you to reword it, but if you would keep it within the bounds of the financial review, that would be good.

Goff  Is it correct that districts have had to find 5 percent savings and the Police College a 15 percent saving?

Rickard  Yes.

Goff  OK. Where is the 15 percent saving coming from in the Police College?

Rickard  Well, we’ve gone through a whole range of things in terms of their contractors, in terms of the way that they carry out their business. We’ve just got more efficient out there. We’ve looked at the type of way that they give support around the college. It’s just about running an efficient business. Everybody does this, and we’re doing this at the Royal New Zealand Police College.

Goff  Is one of the ways that you’ve examined to find those savings a deferral of police recruit wings?

Rickard  No.

Goff  You’ve never looked at that?

Rickard  As to savings at the college?

Goff  Yes.

Rickard  No.

Goff  Why did you defer the January wing?

Rickard  Look, on the whole issue around recruiting, because we have a business of 12,000 people—we’ve around 9,000 constabulary members—our attrition goes up and down. So what we do from the start of a financial year, we plan out over the 12-month period what we think our attrition’s going to be. Our attrition does go up and down. We’ve been doing this successfully for the last 20 years. So what we will do, we will set the early wings, and we will indicate what we think the wings—when we want to bring them on, and how we want them. In November last year our attrition was around 3.4 per
cent. It’s actually dropped now back down to 2.9 percent. So it was starting to head back down. We do this all the time, looking at how we run our business and how many staff we need to bring on. We’re just nimble and agile in terms of the way we run our recruits, and we have successfully done that over the last 20 years.

Dean So what you are telling us is that this is what the New Zealand Police do all the time in terms of recruitment. What do you put the lower level of attrition down to?

Rickard Well, I’m not an economist, but the reality is our attrition has generally been around 4.5 percent over a long, long period. But from 2008 onwards it dropped. It dropped as low as 1.8 percent, the lowest in 50 years. And, as I say, it’s down to 3.4 last year, and it’s dropped now to 2.9. This is what happens with the attrition in terms of people deciding to leave the New Zealand Police. More people will stay on, depending on what they see as opportunities elsewhere or their time to retire and other things.

Goff Attrition’s related to general recessionary conditions in the economy, isn’t it, basically? If you’ve got high unemployment, you’ll have less attrition?

Rickard Well, individuals will make choices about the opportunities they may see and if they want to leave New Zealand Police. With us over the last 4 or 5 years some more people have decided to stay.

Mitchell Firstly, commissioner and deputy commissioners, I just want to congratulate you on the great job that you are doing within the police service. I know that certainly within my electorate in Rodney morale is up, without a doubt, and the people of Rodney are feeling very well served and protected by our local police. I just want to ask, in relation to that, do you feel that the attrition rate could also be tied to morale within the police, so if morale is high, if staff are generally happy at work, then that’s going to also have an impact on the attrition rate?

Rickard Yes, 100 percent. What we’ve seen is our engagement has continued to climb. Now the performance index shows us at about the State sector benchmark, so our trend is heading upwards. We are currently going through our engagement process right now, this week. Over the next 3 weeks our people are filling out their engagement return, and we’ll see what the response is on that. Our expectation is, without being mind-readers, that we will see an increase again. But I’d like to signal aligned to that is the fact that there is research that says when organisations are going through major change—and we will be going through major change over the next 2 years under the current commissioner’s stewardship—there may be an impact on that engagement. But we’re heading in a real, positive place at the moment.

Faafoi A parochial question, because the Police College is in my electorate: when you’re looking at 15 percent savings there, can I just get a better idea of what you’re actually changing, and whether that means job losses as well?
Yes. We’ve got to focus on the front line and operational response that Deputy Commissioner Bush leads, in terms of how we provide service to New Zealanders. Whilst the Royal New Zealand Police College were asked to make 15 percent savings, the areas we call service centres, including PNHQ and other places, were required to make savings. And we made it fair. We asked districts to make savings in terms of the 5 percent, and that was around the backroom areas in their place. I think that’s just good management these days.

So in terms of the answer to your question around the college, as I said before, we had to actually look at how we changed the model in terms of how we run the business: how long the wings are. At the moment the wings have been 19 weeks; they’re now 18 weeks. We also look at when we bring wings on. The reality is if you bring a wing on in the wrong period, like in December, they’re right into the statutory days. You end up paying all their leave, so it’s just smart to bring them on in January. It’d be daft to do it the other way. So we’ve gone through a whole lot of efficiency things, which is just about running a good business. Anybody running a business would run it this way. I don’t think this is abnormal. It’s actually something that I’d hope people would be encouraging us to do.

We’re all in favour of efficiencies, of course, and you’ve worked very hard to find them. But if you have to find $119 million a year over each of the next 3 years, don’t those efficiencies become harder and harder to find, and aren’t you going to have to look at cutting deeper and deeper?

I can’t speculate on what we might be trying to find over the next 4 years—

Just as a general principle.

Well, I can tell you now that all I know is that we have a CSI of $177 million over the next 4 years. That’s what I know now. Anything else above that is speculation.

I’m sorry, if I can just clarify that—the general principle is everybody can find efficiency in the organisation for a period of time, and you’ve been finding them for the last 3 years. Doesn’t it become harder to find those efficiencies without cutting deeper—for example, by contemplating closing police stations?

Look, the first thing is this is a challenging environment for any chief executive in government. We accept that and we’ve taken the challenge. Any plan we have, the commissioner has said he owns it and we will drive it forward. So that’s the first point. The second point, just to clarify—I know there’s been a lot of commentary about closing police stations. In our mind it’s a bit of a red herring, because it’s not a major strategy of ours. It’s not the way that we want to take some things. We have a large property portfolio; part of that includes stations. If our staff and public say to us “Look, there’s a different way to do some business in order to save some...
things,” we will at least listen. But I wouldn’t want us to go down a path of thinking that the police strategy is about getting rid of police people and closing police stations. That couldn’t be further from the point.

Dean No, I’m sorry.

Goff I’ll come back to it.

Mitchell Just on this, while we’re talking about, I agree that with any business, when you go through the tough times there’s always a bit of cost cutting going on, without a doubt. And also, we’ve got a world-class facility in our New Zealand Police training college at Porirua, and also our police dog training centre at Trentham. Do you see any opportunities in terms—I know that you’ve run overseas course and we’ve had people come from overseas. Do you see an opportunity to grow that side of the business at all?

Rickard Yes—100 percent. I think that if we look at the land and the buildings we have at the Royal New Zealand Police College and the land we have in Trentham, they are really great opportunities for us to actually help out with training for other places that need similar skills to us. There are other Government departments that actually already use our facilities at the Royal New Zealand Police College. In some ways part of the training we give to our police staff, the first few weeks of that is quite generic for a whole range of people in other Government departments. So there’s an opportunity there. There’s an opportunity in terms of how we use the college in terms of the weekends, and already at our dog school out in Trentham we provide a lot of support to other Government agencies—and they do their training with us—and through the Pacific. I think that should continue. We’re trying to look outside the New Zealand Police in terms of how we can actually provide support to others, because we hold some expertise in some areas.

We want to do the things that we think we do well—the core stuff. If someone else can do it better, we don’t want to do that, if it’s not our core. So, yes, there are great opportunities.

Young Congratulations, too, on the achievements that you are giving to the New Zealand public. I note that over the last 4 years public satisfaction’s gone from 69 to 72, to 75, to 77 percent. Obviously the public out there are very appreciative of the work you’re doing in particular areas—around Policing Excellence, Prevention First. Just on what are you talking about here in terms of the front line, one other aspect of the front-line work you’re doing is First Response, being one of the first responders to situations. What are you doing to improve that so that you are getting a very good, timely response to those emergency situations that are called in?

Marshall Thank you. Well, we’re very conscious about improving that service and we monitor it very closely, but I’ll pass to Deputy Commissioner, Operations Mike Bush, who has the detail.
Bush Obviously, it’s a real focus for us; response is a big part of our business. Prevention is the first part, but, of course, response is the second part in the pipeline. As the commissioner said, we monitor closely our response times. Where we need to put extra resource into the front line, which is the whole focus, really, of the police model—it’s investing more staff, more resource into front line so we can better respond to calls for service, but even more so, prevent those calls from happening in the first place. The No. 1 drive is to actually prevent those calls coming in, by preventing people from being victims—a real, major focus. That’s why we put prevention in the pipeline before response. We invest more in prevention, but we also continue to invest more in response: in the manner in which we respond, the amount of resource we put into it, and the way we monitor it. So it’s all resulted in an increase.

Young You are, in terms of your responders, the men and women out there—how are you improving the capacity to be more available, mobile, more focused on areas where there are genuine or significant issues?

Bush That’s an excellent question, because the new model of policing is really developed around that. It’s called intelligent deployment of our resource. We’re developing a whole new model of deployment for our front-line resource in that we use far better, more intelligent systems to understand what our demands for the service will be, so we can actually deploy our resource into that area, or into that time immediately prior to us knowing that there will be a peak in the demand. So we can actually not only meet it but beat it, and drive that demand for service down. We’re not just about meeting and using our resource to meet demand; it’s far more scientific. Our whole focus is driving down the demand, which drives down the number of victims.

Mitchell Can I have a supplementary please, Madam Chair—

Dean Yes, Mark.

Mitchell —on that, which I think is brilliant, actually getting the guys out on the front line a lot more. But is there some technology that’s actually coming through that allows them to maybe even deal with some of the administration stuff that historically they would have had to have done back at the station, thereby sort of freeing up more man hours?

Marshall Yes, there certainly is, and, Madam Chair, with your approval we have a couple of constables who have this technology—or samples of the technology—which the committee may or may not be interested in looking at. The whole idea is to keep police officers on the road, out of police stations, dealing with the paperwork around the streets—high visibility, personable police officers who interact. The technology, combined with the 52 neighbourhood policing teams, for argument’s sake gives us that visibility. So Madam Chair, they’re available for a quick demonstration, if that is acceptable.
Dean: I think that would be useful, thank you.

Marshall: Committee members, can I introduce Sergeant Brian Yanko from the Royal New Zealand Police College and Inspector Simon Feltham, who have been working very closely with Deputy Commissioner Bush and Deputy Commissioner Rickard in terms of this technology, in answer to your question.

Bush: Our two officers will talk to the equipment, Madam Chair, but if you like I would just like to reiterate—what we are going to do is show a number of devices or solutions. The whole vision for mobility is to enable our people on the front line to do their entire business without being reliant on a police station. They do their entire business while they are in the field, with the community, where they need to be. What we are in the process of doing, and this is still in the trial phase so we get the best solution, is we’re trialling a number of solutions, which Simon and Brian will demonstrate.

Feltham: In terms of the mobility device we’re trialling, we’re looking at three different form factors, or device types, trialling them with front-line operational staff to try and make sure that we get the best and most appropriate device for the different officers and the type of work they do. We’ve got two different Smartphones. These are basically consumer items we’re loading web-based applications on. The importance of that is that it means that as the device is changed—and it’s a rapidly changing market—the same applications can be used on the upgraded device. There’re two Smartphones, two different tablets: the Apple tablet, and a Windows-based tablet which integrates with our current technology—and they’re obviously with no keyboard—and a laptop that serves as a laptop and also as a tablet. They’re currently trialled in four places in New Zealand, and once a decision is made, the most appropriate one will be rolled out with more modifications as they’re developed.

Young: What sort of tasks do you do on those tablets?

Feltham: Straight corporate functions like emails, contacts, calendar-type stuff that’s out there at the moment, access to our intelligence systems, so checking people’s identity and whether they’re wanted, driver’s licences and that sort of thing, interactions with our communications centres so balancing our calls for service, and then offence reporting. Once that reporting is completed it starts on the workflow process.

Clendon: This device is clearly dependent on a signal. I live in Auckland, in Sandringham, pretty much central suburbs, and have a lousy signal at my house. Clearly in the rural areas these tools will become much less useful, I would have thought?

Feltham: It’s a balancing act. Obviously the information flow has to be constant for it to be of use, so that—especially with calls for service, we need to know what’s happening straight away, not what’s happened in the past. But there
is a function to be able to catch information coming in and then relay that information out once you get back into coverage area.

Tisch
In terms of what you’re proposing to do, the current position is that the front-line person needs to go back to the station to get the data, do they? This is going to save time, dollars, and be immediately available. What do you estimate to be the benefits of this technology?

Feltham
Based on overseas jurisdictions and basic time-and-motion work we’ve done already, we’re looking at front-line savings of between 10 and 20 percent of time saved per shift.

Faafoi
I think it’s good that you’re using technology, but I’d just like to pick up on one point there, where you said there’s going to be less reliance on police stations. What’s the natural end to that? Is that your station based in the community?

Bush
That’s not the focus of the work. It’s actually, you know, we’ll always require bases for our staff to come and go from at the beginning and the end of the shift. The basis for this programme of work is so that during that 8 or 10-hour shift that the police officers are employed, they don’t need to go back to base, so we don’t need them travelling back, we don’t need them duplicating or entering all of their information in their case management manually, and they don’t have to clog up our radio system by conducting the queries that they do at the moment over the radio system.

Dean
That will be fantastic in my electorate.

Bush
Whilst it will be of benefit, it’s not the aim of this project to free up police stations.

Young
So essentially—

Bush
But we will be able to make them smaller, because we won’t need our staff, in the future, to spend so much time in there. We’ll be able to decrease our footprint in relation to size and cubic metres per staff member, etc., so there’s some real benefits going forward when we build new police stations.

Young
Can I just draw the summation that the efficiencies that you can create mean that you’ve got greater capacity to deploy constables in areas where there could be a high level of incident, so you can actually manage the workflow of front-line staff to better respond to those situations?

Bush
Absolutely. With the intelligent deployment model I talked about before, that’s about finding out where our areas of greatest need are and making sure our staff are there even before they’re required. That’s that deployment model. This will enable our staff to spend that time there, actually interacting and preventing crime, and if there is a victim, actually dealing with the victim in a very empathetic and professional way, as opposed to having to travel back to the police station, spend time on other bureaucratic...
tasks. That gives us far more time to invest in preventing crime and then dealing with victims—preventing, responding, and investigating. Simon spoke about a 10 percent improvement in productivity, so that’s 10 percent less wasted time right across the front-line resource. In most people’s terms, that’s like a 10 percent increase in the resource, in front-line staff.

Dean And tell me—you’re trialling it in four sites, and I think David Clendon raises a very good question. It’s wonderful where you’ve got cellphone coverage, but in parts of my electorate you don’t. I assume that you will continue with the same methods that you always have. But having said that, you never know when you are going to pick up a signal in a rural area, so I guess it would still be useful anyway. Can you just talk me through that a bit?

Feltham One of the trial sites is on the West Coast, and I have worked there as a police officer so I’m aware of some of the restrictions that cellphone coverage has got. We’ve still got the basic method of transferring information, which is via the radio network, which covers almost the complete geographic area. So while the efficiencies won’t be as great in Haast, for example, whenever they are in a cellphone coverage area, which is still where a lot of the work is even in those rural areas, they can use these devices.

Dean Thank you.

Bush We do have another device that we currently have 1,500 out with staff already, and Brian’s able to show you that. Mostly our road-policing staff—but this device has been in play for some time and really assists our road-policing staff in their role.

Yanko My involvement with what they call the Smart device has been over the last 12 months, and I spent a good part of last year training about 1,600 staff in the use of an application that we’ve put on to this device here. This is the Motorola MC75. It has a large amount of capability. It’s one of the first products that Motorola have done that incorporate a whole lot of functionality: things like barcode scanning, camera systems, a Windows operating platform, it’s an operating cellphone—a whole lot of functionality in one. The application was designed for road policing, and there were really three simple functions that we wanted them to be able to do, and that was roadside buy-in to the cellular network to be able to check a vehicle, to be able to check a person, and, where the need arises, to issue an infringement notice electronically and to be able to print the notice out.

That is what has been in place until now. What also happens, as far as the officer’s admin duties go, is that he will complete the notice on the device and electronically send it off to the Police Infringement Bureau. So effectively there was no paperwork to return to the office. The application has been designed so that it will pick up on, and it has actually picked up on, a huge amount of, say, natural errors that would occur with handwritten
notices. It won’t let him send a notice off with missing information, so at the business end we’re receiving a lot less errors. It’s electronic data; it’s not a handwritten notice, which some data-entry operators will tell you some of it seems to be written in what looks like Arabic with some officers. So they’ve improved the quality in terms of the information that they’re sending through, as well.

There are about 1,500 devices that we’re currently operating right across a lot of the traffic routes. In my time, certainly as a trainer and within the job, we have some very senior staff say that this is probably one of the most innovative tools that they’ve ever been given the use of, and even for a lot of senior staff who sometimes would struggle with the uptake, the application has been written very simply and it’s very easy for them to use.

McKelvie

Just a very quick question and you’ve partly answered it. Obviously that saves time?

Yanko

Oh, most definitely. Certainly with officers wanting to receive information, again for them to make a decision they have to receive that information over the airwave, and it tends to be a bit of a bottleneck in terms of the demand on, say, the comms centres. So for them it certainly works in complement to the airwaves, but it gives them another avenue of getting that information quickly. A case study that sort of springs to mind was an operation where we stopped a number of motorcyclists. There were 56 vehicles that were stopped at one checkpoint. All the drivers and the vehicles were checked, and within a matter of 26 minutes they were back on the road. That would be a long time spent doing it manually.

Dean

Thank you very much to both constables for—I hope I’m using the right title; sergeants. That was interesting.

Tisch

A new subject, and congratulations on the results. The memorandum of understanding with the Serious Fraud Office—you have police seconded to the SFO. Is this a new arrangement? How does it work, and what are you hoping to achieve by having police in the SFO?

Marshall

I’ll pass to Deputy Commissioner Bush in a moment, but the answer is yes, we have a very close association with the Serious Fraud Office. We have at this stage, I believe, four investigators seconded to that particular office in Auckland. I have a lot of interaction with Adam Feeley from the Serious Fraud Office in terms of our justice sector work, and there is a very close relationship, and we intend to have ongoing close relationships, with the SFO. It’s very important. There’s a lot of connectivity between organised crime and the work that they’re doing, and Mike Bush—

Bush

Just to add to that. There’s two real advantages to this close working relationship, and especially with some of our staff being deployed into the Serious Fraud Office. That first one is, really, we’re building capability on both sides. Serious fraud, financial crimes, cyber-crime, it’s a significant
concern, so we’re building capability by putting our staff there. The staff within the Serious Fraud Office are learning new investigation skills from our staff. So that’s the first one. The second one is that it enables us to form some task forces so we can actually work collaboratively and together on high-level investigations which overlap both organisations, which we both have a role to play in investigating and bringing to justice.

Tisch When these four are with the Serious Fraud Office, are they on their payroll or on your payroll? Are they deemed to be contractors? How does that actually work?

Bush They’re seconded. Initially they were paid for out of the police budget, but the arrangement is for them to be paid for out of the Serious Fraud Office budget whilst deployed there.

Mitchell I guess the reasoning behind that is—I can see that there’s actually some really strong crossover, like you said. I mean, the stuff that the Serious Fraud Office is dealing with, obviously there’s some strong crossover into organised crime. So the exchange of intelligence between the police and the Serious Fraud Office would actually be pretty critical to really going over that.

Bush It is. I mean, there are a number of enforcement agencies in New Zealand and we work closely, in partnership and in collaboration, with all of them, because there’s so much crossover and so much combined benefit in working together, obviously.

Goff If I can come back to the commissioner. Commissioner, when you said yesterday that in some cases jobs won’t be filled when staff leave their job through retirement, resignation, and ill-health, does that mean to say that you are contemplating that there may be a reduction in sworn staff numbers?

Marshall Well, we have to look at what comes out of the negotiations in times to come with the Police Association, and at that stage we will know how much we have to absorb into our particular budget. It has not been ruled out. There will be a close look at whether we actually fill particular vacancies, but importantly, we’re actually 100 over strength in terms of the sworn members now. So we have that flexibility, if you like, in that regard, and currently we actually have 99 vacancies in relation to our non-sworn personnel.

Goff Can I just clarify that. That means to say that if there is a wage round and police officers do get a salary increase to compensate for inflation, you’ll have to contemplate reducing the number of sworn police staff?

Marshall I wouldn’t see the number of sworn staff being reduced at this stage, but I would certainly see sworn staff who are in our support roles moving into a front-line role. We’ve got to actually increase the number of personnel on the front line, and that is a big emphasis. So we’ll be having a look at each
situation—whether in fact there is a particular sworn vacancy in a particular location. For instance, I use the analogy of a police officer who might be in a police station looking after prisoners in the cells. That person has had a lot of training and gets paid comparably well to look after prisoners. I would like to see that position put into the front line and that position potentially—potentially—filled by what we call an authorised officer.

Goff

OK, so I mean what sort of salary increase can you contemplate without a reduction in sworn police staff or a closure of stations? What’s your room for movement there? You’re not talking about a pay freeze, are you, in this wage round, or are you?

Marshall

Well, we don’t know what’s going to come out of the negotiations, but Deputy Commissioner Rickard has done some research in relation to the possibilities.

Goff

Would you like to comment on that? Probably not.

Dean

Again, as much as you are able. I’m not expecting you to draw on information that you don’t have. So general replies will be—as much as you can.

Marshall

Look, we’re not trying to be obstructive, I’ve just got to be careful of that. What I’ve signalled is, the CSI does cost what I’ve indicated before—$170 million. But I think we will go into any negotiations later in the year in good faith, and we have to actually take cognisance of what the GWI is in terms of what will bring our staff in terms of parity with everything else. At this stage we’re not sure what that looks like. There’s still some settlements at the moment that we’re keeping a close eye on, that are out there at the moment. But the reality is, whatever they are they will be, and we’ll negotiate on those.

Clendon

I take your point entirely. You want your sworn officers out interacting with the community. That’s resource intensive in terms of people, and if you can free up somebody from guarding a cell, that’s a good thing. You mentioned authorised officers. Do you envisage all of those to be employees of the New Zealand Police, or are you talking about private contractors to fill those roles?

Marshall

No, we’re talking about employees of New Zealand Police, and if you go to the Counties-Manukau hub you will see authorised officers undertaking those roles, and in Rotorua it’s exactly the same, in Christchurch, and in other locations. It makes good sense. They’re employed by the New Zealand Police to do a very particular role. They free up sworn officers who actually go out to the front line.

Clendon

You don’t see a role for private providers, private contractors, in those sorts of replacements, if you like?

Marshall

No, I don’t. I see them being employed by the New Zealand Police.
Goff Just going back to what I was asking before, commissioner, if it does come to closure of police stations, what sort of criteria will you follow and what sort of numbers do you have in mind?

Marshall We don’t have any criteria or any numbers in mind at this stage. We would look at each situation. There’s nothing particularly special about us looking at police stations. We have hundreds of police stations. Some of them were built in the 1960s and the 1970s, and new police stations have sprung up around them. Demographics change. New suburbs come in, too. So as part of our ongoing business, we would look at the particular stations. But I’m not aware of any particular police station which has been singled out, and if it was, we would go into discussions with the local community there.

Goff You’ve got no numbers in mind that you’re thinking of?

Marshall I don’t have any numbers in mind, as far as I’m concerned.

Goff So it’s open-ended.

Marshall It is open-ended, and that’s part of good business as the way of looking at our property portfolio. But as Deputy Commissioner Rickard said, the police stations are not high on our Richter scale at the moment.

Young Coming to the area of the neighbourhood policing teams, of which I think, commissioner, you mentioned 32 are now in place—I presume by the end of last year, which is what your goal was. The pilot at Counties-Manukau obviously has been a great success. Can you just talk a little bit about how it works and your measures of its success, and what you expect to see as these 32 other policing teams are rolled out in the country?

Marshall Certainly, and thank you for that. Deputy Commissioner Bush was the district commander in Counties-Manukau and was in on the ground floor, shall we say, when the proposals were developed and implemented, and he has, together with Deputy Commissioner Rickard, visited a lot of these locations. I’ll get Mike just to talk about it in more detail.

Bush The short answer to your question is that—just to paint a picture—we put neighbourhood policing teams into our areas of highest demand, so where there are higher levels of crime than in other areas and where you need a different programme to actually impact on that neighbourhood. To go to the short answer, the goal there is to significantly impact on the levels of crime in those neighbourhoods: to drive them down more significantly than in any other places, because that’s the highest level of demand.

The other part is how you do that, and that’s a different method of policing. We actually put permanent teams into those neighbourhoods of high demand. It’s quite a long programme; we give them, say, 3 to 5 years. The first part of the programme is to actually go into that community and consult with them, to understand what the issues are and what are the drivers of the crime or safety issues in that neighbourhood.
So you’ve got a lot of community support and interaction with ______

Absolutely. We’ve got community partnerships, formal and informal, at a range of levels. It’s all about partnering with the community. It’s all about facilitation. We provide a leadership role in there. There’s enforcement, of course, but most of it is a problem-solving approach to understand what is actually significantly impacting on that area, and then make a significant impact on that over that 5 years, so that crime dramatically decreases in that particular neighbourhood.

If you look at it, we go into some of these neighbourhoods and we find that a very small percentage of the people that live there are holding the other, say, 90 percent of that neighbourhood to ransom. It’s about identifying who those people are, working with the community and a wide range of agencies to change the behaviour of those people, and give those neighbourhoods and those communities ownership of their neighbourhood back, to empower them to live safely in their neighbourhood. So it’s long term, but it’s a significant goal that we’re aiming at achieving. It’s not tinkering at the edges; it’s not just about trust and confidence. You need that to enable you to work there, but the end goal is a significant difference: to bring a safe environment to that community.

In the next 3 to 5 years, with 32 teams around the country, you will be looking to see some very significant shifts and changes in communities. That’s going to impact in all sorts of different ways. The costing of all of this compared to the traditional mode of policing—is it comparatively the same?

It’s not resource-intensive. We move our people into those neighbourhoods; they don’t require a great level of resource. We make sure they’ve got a vehicle and some computers. We’re going to make sure they’re mobile, so they can be in the community. The resourcing level is not high, but we actually work with a range of agencies to actually bring some resource from other areas to the people who most need it. So there’s a lot of facilitation, a lot of leadership, a lot of encouragement, a lot of team work within those neighbourhoods.

Do you work with other Government agencies?

Oh, absolutely.

Can I just get an update on the status of the teapot tape investigation?

I can’t give you the final answer, only to say that it’s very near completion and there’s some recommendations with our legal people, so it should be within days, as opposed to weeks.

Any estimate of what the cost was of doing that investigation?

We had, I think, three staff on that investigation.
Goff What would that be in dollar terms, do you think?

Bush I don’t have a dollar term at the moment.

Goff Not even a ballpark figure?

Bush Not at the moment, no.

Dean Doesn’t sound like it.

Goff Not one that you’d like to give.

Mitchell Can I just ask—when you say there might be three staff working on any one case, have they got other cases they’re work on as well?

Bush Yes.

Mitchell So it’s not that they’re focused on just one.

Bush That’s right.

Faafoi Just given the small criminal consequence of that possible incident, do you think it’s actually worth following through with a prosecution?

Bush That might lead somewhere it doesn’t need to lead, but the short answer to that is we prioritise all our investigations as to the amount of resource we put into them.

O’Rourke I would like to ask a question about response times to incidents and emergencies in urban areas. The target, I read, was to reach 90 percent of events within 10 minutes and a result of 61 percent, and the alternative target was stated as to reach a target of 25 minutes for 90 percent of events, and it took an average of, in fact, 27 minutes and 26 seconds to reach 90 percent of events. It seems quite a long time for incidents and emergencies. I wondered what the main reasons for falling short of the target were and what you plan to do to address that.

Bush I’m happy to answer that. The answer to that is around the response model. We set targets for ourselves, and most of our response times are a lot, lot quicker than what you’re getting there. What you’re getting there is an average over time, so if you’re taking some serious, high-priority—even though they’re all priority one—jobs, the urgent jobs are responded to almost immediately, but there are some jobs that take a lot longer. Sometimes the average comes out, but there’s a real focus on actually meeting those targets.

O’Rourke Well, I just wanted to ask again, what specific measures do you plan to take to achieve the objective?

Bush We’ve been working on increasing our response times for some time. It’s about where we put our resource again, so it’s getting a better
understanding of our demand and where we need to put our people. That’s improving all the time.

O’Rourke You don’t have enough resources on the front line; is that what you’re saying?

Bush Absolutely we do. All the urgent jobs are attended almost immediately. It’s just some other jobs that aren’t as urgent actually take that average out a lot further.

Goff I want to come back to Viv. It’s like an exercise in mathematics, too. What is the level of inflation since the police last got a salary increase, and what effect do you think a pay freeze would have on the level of attrition that you were talking about before, in light of that inflation?

Rickard Given that we settled last time, in 2010, on a 1.3 percent and also had a cash payment of $1,200, the reality is, moving forward and given the economy, our officers, on a comparative basis based on that wage settlement, are reasonably well placed.

Goff So 1.3 percent in 2010, and last year we had a 5 percent rate of inflation.

Rickard That was per year, but remembering that whilst we look at settlements, that’s based about where they’re positioned in terms of where their salary is, for their salary against the benchmark, so at the moment our staff are reasonably well paid. We ask them to do incredible things, and they’re paid for that.

Goff I’m trying to get clarification of that. They got a 1.3 percent pay increase in 2010—

Rickard Plus cash.

Goff —plus the cash, which equalled what percent?

Rickard The $1,200; that was a cash payment. [Interrupt]

Goff Sorry, I’m trying to listen to the deputy commissioner.

Rickard The $1,200 cash payment—that doesn’t compound, because it’s a cash payment, so in terms of going with that as a percentage, that’s probably going to be about another percent.

Goff So maybe 2.3 percent, and there was inflation last year—

Rickard And that’s per annum.

Goff —and inflation last year of about 5 percent. That would cover about half of it—

Rickard And they got that in 2011.
Yeah, but it’s still below the rate of inflation, so that would have a negative effect in terms of increasing attrition, you would think?

Well, if you take into account they’re also getting 1.77 percent CSI on top as well, over both those years.

Still negative.

No, it’s positive.

You think?

Yes.

I think they might argue differently.

Thank you very much, Peter and your deputy commissioners, for a very useful hour. Thank you for coming.

**conclusion of evidence**
The Intelligence and Security Committee has conducted the financial review of the 2010/11 performance and current operations of the New Zealand Security Intelligence Service, and has no matters to bring to the attention of the House.

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 2010/11 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. In 2010/11 its total income was $8.751 million, and total expenditure was $8.711 million, resulting in a net operating surplus of $40,000.

Effect of budget pressures on workload
The office told us that it has been under considerable financial pressure for the last three years. Its budget was established for a workload of 800 to 1,000 cases at any one time, but now the norm is between 1,600 and 1,800 cases. The office said that there was very little leeway for it to turn away complaints. There are currently 1,854 live cases on hand, and the office is struggling to cope with the workload. We are concerned to hear that the office considers that it is in crisis.

The office is very concerned about the status of temporary Government funding it receives to deal with a backlog of enquiries. If this funding were removed, it feels it would be unable to cope. It would therefore like equivalent funding to be written into its baseline.

We asked the office why it failed to meet some deadlines for case completion last year, and heard that this was due to a lack of resources, and the same targets were unlikely to be met this year. Cases are becoming increasingly complex, requiring longer investigation, and this along with a shortage of investigators impedes its ability to meet targets. The office said, however, that many complainants would rather the office were right than swift in its recommendations.

The office told us that if investigators’ caseloads exceed a certain limit resolution becomes too difficult to achieve; therefore it has a waiting list of non-urgent cases. We were concerned to hear that at present the office has more than 300 cases it is unable to assign to an investigator because they are all at their maximum tolerable workload.

We note that while the office operates under a very tight budget it continues to conduct its investigations with integrity and to produce reports of a very high standard. We thank it for the good work it does with professionalism despite limited resources.
Complaints process

We asked how complaints were prioritised and allocated. We were told that complaints were initially assessed as to whether they fell within the Ombudsmen’s jurisdiction and whether there were other courses for the complainant to take. Then, according to the office’s complaint priority settings, complaints were assigned to investigators or placed on a waiting list. We heard that the office’s case management system has been developed extensively in recent years, making it more sophisticated and efficient.

Advertising and public relations

The office tries to make the public aware of the services it offers, and has translated its brochures into other languages, but feels that it is not as widely active with ethnic minorities as it should be. Because of a lack of resources the office cannot at present publish its case notes or the Ombudsmen Quarterly Review. Money has been put aside for a review of its communications, because some of its material is dated and is not considered to be effective. We are concerned that the office is failing to engage adequately with the community, and we look forward to seeing the results of its communications review.

Staff wellbeing

We are concerned to hear that the office was understaffed by about four investigators—two for its regular work and two for earthquake-related work—and that this was a factor in its inability to meet some service performance targets.

We were also concerned to hear that there had been no movement in staff salaries since 2007. The committee was advised that the current staff turnover was high for the office, which is losing staff to agencies that offer better salaries. The office said it was worried about staff sickness, particularly high rates of serious illness, and the stress placed on staff by the nature of the work and the growing volume and complexity of cases. It would like to reward its staff better and to recruit additional investigators, but does not have the funding to do so. It is critical to recruit competent investigators to the office; the demanding recruitment process results in only a small number of suitable candidates.

We are concerned about the effect that insufficient funding coupled with an increasing workload will have on the office’s professionalism, and we will continue to monitor this area.

Future workload

Public sector reforms

We heard that the office is concerned that public sector reform may increase its workload, particularly if back-office support services and complaint processes for individual agencies are amalgamated or resources reduced. The office believes that reductions in agency complaint service staffing will reduce agencies’ ability to handle complaints, and may adversely affect quality assurance in practice and process, leading to errors or misjudgements, maladministration and, potentially, corruption. The office argues that watchdog agencies need to be strengthened rather than starved in this environment. We will continue to monitor this area.
Canterbury earthquakes

We heard that inquiries and complaints resulting from alleged process failures relating to the management of earthquake damage claims had reached over 270—to the equivalent workload of two full-time investigators. The office told us that it still expects a further influx of earthquake complaints. It is to meet with the Earthquake Commission and the Canterbury Earthquake Recovery Authority to discuss ways to address the confusion and mixed messages that complainants allege. The office is aware of informal advice that individual complaints to the Ombudsmen are likely to take years to resolve.

We are concerned about the office’s capacity to cope with the expected volume of earthquake-related complaints. We urge the Government to provide the office with adequate resources to address its increasing workload.

Engagement with agencies

We heard that the office trains State-sector agencies on their responsibilities under the Acts the office administers. The office is not specifically required to do so nor does it receive funding for it, but feels that this work is critical to helping reduce costs to agencies. The office cited a lack of knowledge and experience among state-sector management of their responsibilities under certain Acts, particularly the Official Information Act and the Ombudsmen Act, and of appropriate complaints processes. The office views this proactive work as valuable, as it should gradually reduce the number of complaints it receives and raise the ability of agencies to deal with requests and complaints effectively. We commend the office for its work in this area.

The office said that in the past it had not been able to analyse rigorously the effectiveness of the training, as it is difficult to isolate the cause of changes in the volume of complaints. However, new processes will help to analyse the effectiveness of training. The office found 29 instances in the last six months of its engagement with agencies resulting in improvements in their practice and process.

United Nations Convention on the Rights of Persons with Disabilities

We asked for an update on the Ombudsmen’s work with other agencies on the United Nations Convention on the Rights of Persons with Disabilities. The office said that that it had only recently finished scoping exercises in this new area, so has limited itself to ensuring that public service agencies comply with the convention. The office said that it met regularly with the Human Rights Commission and the Coalition for Disabled Persons.

Referral of complaints

The office said that it refers complaints that fall outside the Ombudsmen’s jurisdiction to the appropriate agency. If no such agency exists it gives the best advice it can and alerts Parliament or the appropriate authority. The office noted that there are now fewer gaps in coverage than there were.
Appendix

Approach to financial review

We met on 15 February 2012 and 21 March 2012 to consider the financial review of the Office of the Ombudsmen. Evidence was heard from the Office of the Ombudsmen 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


Office of the Ombudsmen, Responses to written questions, received 14 February 2012.

Office of the Ombudsmen, Responses to additional questions, received 5 March 2012.

Office of the Auditor-General, Briefing on Office of the Ombudsmen, dated 15 February 2012.

Organisation briefing paper, prepared by committee staff, dated 10 January 2012.
2010/11 financial review of the Ministry of Pacific Island Affairs

Report of the Government Administration Committee

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Appendix 5
Ministry of Pacific Island Affairs

Recommendation

The Government Administration Committee has conducted the financial review of the 2010/11 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 policies and interventions to promote the social, economic, and cultural development of Pacific people in New Zealand. In 2010/11 the ministry received total revenue of $6.632 million, and total expenditure was $6.502 million, resulting in a $130,000 surplus.

Strategic priorities

The State Services Commission conducted a Performance Improvement Framework assessment of the Ministry of Pacific Island Affairs in 2011. One area that the assessment focused on was the ministry’s strategic priorities. The assessment determined that the ministry’s leadership needed to be clearer about the Government’s goals for this sector, how the ministry planned to contribute to achieving the Government’s goals, and how the ministry’s performance would be monitored and measured. The ministry told us that it had taken this review seriously and had established an action plan to address its recommendations. The ministry has considered how it could be more effective and efficient in the delivery of its functions, and decided that its key priorities would be education, youth skills and employment, languages, and community enterprise.

We note that the ministry is small. Part of its mandate is to influence the policy of larger Government departments and monitor outcomes, but it also attempts to provide services to Pacific communities in New Zealand. Its dual policy and service delivery functions make prioritising work problematic. The ministry’s small resources limit the extent to which it can act on issues and the breadth of the issues it can act on. It highlighted gender work as an area where it would like to do more, but lacks the resources to do so. The State Services Commission is concerned that the Ministry is focusing its attention on community programmes and pilot schemes at the expense of its policy and monitoring work. But the ministry noted that events such as natural disasters that affect Pacific communities require it to respond.

Relationships with other agencies

The ministry’s advocacy on behalf of Pacific communities includes lobbying Government agencies to address the health and housing needs of Pacific people. We heard that it was up to the mandated Government agencies to act on the issues the ministry brings to them, and some departments were easier to influence than others. The ministry would like to do more to encourage departments to act, but its size and resources means it has to have a realistic view of what it can accomplish.

Morale

We were concerned by the high staff turnover in the ministry. The ministry said that it was managing to live within a reduced baseline and maintain outputs, but it signalled that in the long term this was not sustainable. We asked whether this was affecting morale. The ministry said it took the issue of staff morale seriously. It recently undertook two days of team building exercises, and intends to conduct a Gallup engagement survey this month on staff morale. We look forward to seeing the results of this survey.

Immigration

Although immigration is not a priority issue for the ministry, when immigration issues affecting Pacific people arise, the ministry dedicates resources to helping colleagues in Immigration New Zealand deal with them. We asked whether the ministry had any input into Cabinet decisions on the eligibility criteria for sibling and parent residency. The ministry indicated that it was involved in the inter-agency consultation process.

Pacific languages

The ministry is well aware of the need to protect and revitalise Pacific languages. It works with Government and Pacific communities on building language capability. The ministry has community action plans for providing language support to Pacific communities, and responds to requests for such support as it is able.

We asked about the ministry’s response to the initiatives of Pacific Island groups to grant minority language status to Pacific languages. We heard that the ministry was well aware of these initiatives and worked with these groups, but it had to be careful in assisting them, as some were engaged in political activities. The ministry is providing policy advice to the Minister of Pacific Island Affairs on this issue. We have asked to see this advice; we would like to learn more about the nature of it. We will continue to monitor this issue.

Youth employment and skills programmes

Pacific youth are over-represented in unemployment statistics. In Budget 2010 the ministry received additional funding to help support economic development for Pacific people in Auckland. The ministry contracts four providers to deliver a Pacific Employment Support Services programme, which aims to help Pacific youth into employment. We are pleased to hear that the scheme is performing well. However, we note that the scheme is small and the funding allocation runs out in 2014. The ministry said it would like to do more to reduce unemployment, but its funding allowed it to assist only a small number of people. It believes the key to achieving more is to convince the Tertiary Education Commission and the Ministry of Social Development that this approach is worthwhile, and hope for support.
for additional funding. We encourage the ministry to work with other Government departments to ensure the long-term sustainability of this scheme.

**Nominations service**

We asked how effective the ministry’s nominations service was. The service works in two areas—to encourage Pacific communities to nominate members of their communities for awards, and to provide nominees for state-sector boards. We were concerned to hear that although the first area was successful, the second was not very productive—it is labour-intensive, membership decisions are made outside of the ministry’s control, and the yield of successful nominees has been low. The ministry is discussing nomination services with the Ministry of Women’s Affairs, Te Puni Kōkiri, and the Treasury, and is reviewing the viability of its own. We encourage the ministry to discuss with other departments how it might improve the effectiveness of its nomination service, and we look forward to hearing that the results have improved.

**Response to Canterbury earthquakes**

In the wake of the Canterbury earthquakes the ministry provided assistance to Pacific people in the region, many of whom were living in the hard-hit eastern suburbs of Christchurch. The ministry’s response was well received by the Pacific community and showed the value of departments retaining strong links with communities. We commend the ministry on its successful response.

**Auckland Pacific Strategy**

Sixty seven percent of Pacific people in New Zealand live in Auckland, and Pacific people make up 14 percent of the region’s population. The ministry has developed an Auckland Pacific Strategy, which includes coordinating Pacific communities’ input into the Auckland Council’s Auckland Plan, and encouraging more Pacific people to vote in local elections. We were pleased to hear that parts of the Auckland Plan closely matched the ministry’s goals, such as its emphasis on participation in early childhood education, and that the ministry has a very good relationship with the council. We encourage the ministry to continue with its Auckland Pacific Strategy and to work closely with the council where necessary to realise its goals.

**Prime Minister’s Pacific Youth Awards**

The ministry is involved in promoting the Prime Minister’s Pacific Youth Awards, which range from internships with successful New Zealand companies to tertiary education assistance and educational travel to Pacific countries. We asked what feedback the ministry had received on the awards. We were pleased to hear that there was excellent feedback from award winners and from industry, and that the initiative is working well.
Appendix

**Approach to financial review**

We met on 7 and 28 March 2012 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
Eric Roy
Holly Walker

**Evidence and advice received**


Ministry of Pacific Island Affairs, Responses to written questions, received 7 March 2012.

Ministry of Pacific Island Affairs, Response to additional questions, received 19 March 2012.

Office of the Auditor-General, Briefing on the Ministry of Pacific Island Affairs, dated 7 March 2012.

Organisation briefing paper, prepared by committee staff, dated 13 February 2012.

2010/11 financial review of the Parliamentary Commissioner for the Environment

Report of the Local Government and Environment Committee

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Parliamentary Commissioner for the Environment

Recommendation
The Local Government and Environment Committee has conducted the financial review of the 2010/11 performance and current operations of the Parliamentary Commissioner for the Environment and recommends that the House take note of its report.

Introduction
The Parliamentary Commissioner for the Environment is an Officer of Parliament appointed under section 4 of the Environment Act 1986. The role of the commissioner is to provide independent advice, based on investigation, to Parliament on matters of environmental concern. This advice may take the form of formal reports to Parliament, or assistance to select committees on environmental issues under their consideration.

In 2010/11 the commissioner’s total revenue was $2.605 million and total expenditure was $2.595 million, resulting in a net surplus of $10,000.

Financial and service performance management
The Office of the Auditor-General issued an unmodified audit opinion on the commissioner’s financial statements, giving “very good” ratings to its management control environment, and to its financial systems and controls. Service performance information and associated systems and controls received a “needs improvement” rating.

Environmental reporting
In August 2011 the Government released the discussion document *Measuring Up: Environmental reporting*, and sought public feedback on a proposed environmental reporting Act which would make the Parliamentary Commissioner for the Environment responsible for reporting independently on the state of the environment every five years. The commissioner told us that she would need extra funding to undertake the proposed functions, as she thought it would be inappropriate to stop all other work to accommodate them. She did not favour temporary funding increases specifically for the purpose of generating a report every five years, as she thought it important to maintain continuity.

The commissioner has undertaken some scoping work in preparation for a bill being introduced to the House, and thinks it would be best to integrate environmental reporting into the office’s work rather than establish a dedicated unit within the office for this purpose. Because of her statutory independence as an Officer of Parliament she would not work with the Ministry for the Environment, which has published two state of the environment reports, on environmental reporting, but hopes the proposed bill would provide clarity as to responsibility for such reporting.

An environmental reporting bill is likely to be introduced to the House in 2012, and we look forward to the matter being given further consideration.
New Zealand Emissions Trading Scheme
The Government has announced that it intends to push back from 2013 to 2015 the date at which the energy, industrial, and transport sectors become subject to full New Zealand Emissions Trading Scheme obligations. The commissioner told us that she does not favour this approach, and noted that she had previously made a submission against the level of subsidy enjoyed by emitters.

Hydraulic fracturing
We asked the commissioner if she would be undertaking an investigation into hydraulic fracturing. She told us that scoping work was under way, and that when it was complete she would make a decision whether to go forward with an investigation.

Water quality
The commissioner is due to release a report on the science of water quality. One of her statutory functions is to undertake and encourage the collection and dissemination of information relating to the environment, and the report has been compiled under this function. It is therefore not a standard report in that it contains no recommendations; the commissioner hopes it will be a resource for the long term.

The report Water quality in New Zealand: Understanding the science was tabled in the House on 20 March 2012 and was referred to us. We look forward to giving the report further consideration.
Appendix

Approach to financial review

We met on 8 and 22 March 2012 to consider the financial review of the Parliamentary Commissioner for the Environment. Evidence was heard from the Parliamentary Commissioner for the Environment and advice received from the Office of the Auditor-General.

Committee members

Nicky Wagner (Chairperson)
Maggie Barry
Hon Chester Borrows
Jacqui Dean
Paul Goldsmith
Gareth Hughes
Dr Paul Hutchison
Hon Annette King
Moana Mackey
Eugenie Sage
Andrew Williams
Dr Megan Woods

Dr Paul Hutchison was replaced by Nikki Kaye for this item of business.

Evidence and advice received


Parliamentary Commissioner for the Environment, Responses to questions, received 6 March 2012.

Parliamentary Commissioner for the Environment, Responses to additional questions, received 20 March 2012.


Organisation briefing paper, prepared by committee staff, dated 28 February 2012.
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Parliamentary Counsel Office

Recommendation
The Justice and Electoral Committee has conducted the financial review of the 2010/11 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 (except revenue bills), regulations, and amendments for Ministers and select committees; and ensures that New Zealand legislation is readily accessible.

Bill Moore is acting Chief Parliamentary Counsel while the Chief Parliamentary Counsel, Dr David Noble, is on a two-year secondment to the United Kingdom. We note that such a long secondment is unusual for a public service chief executive, but the PCO assured us that it has sufficient processes in place during this period.

Financial and service performance management
The total revenue of the PCO for 2010/11 was $20.798 million and its total expenditure was $19.241 million, producing a net surplus of $1.557 million.

The Office of the Auditor-General issued an unmodified audit opinion on the PCO’s financial statements. The PCO received “very good” ratings for management control environment and financial information systems and controls, and a “good” rating for service performance and associated systems and controls.

We are pleased with these ratings and believe that they reflect the excellent service the PCO provides to Parliament.

Governing statutes
The PCO told us that the Legislation Bill awaiting its second reading is intended to become the PCO’s governing statute, replacing the Statutes Drafting and Compilation Act 1920 and the Acts and Regulations Publication Act 1989. The bill proposes to give the PCO some new functions, including a three-yearly programme to revise statute law, and to allow electronic copies of legislation to have official status. We understand that the PCO expects that the Regulatory Standards Bill is likely to be merged with the Legislation Bill to allow similar legislation to be located in a single Act.

Pacific development
We were pleased to hear about the success of the PCO’s new Pacific desk, set up with funding from the State Sector Development Fund administered by the Ministry of Foreign Affairs and Trade. The PCO’s Pacific desk drafts legislation for Pacific islands, initially the
Cook Islands, Niue, and Tokelau. We also commend the PCO for its work with the New Zealand Aid Programme, the Commonwealth Secretariat, the Australian Agency for International Development, the Pacific Islands Secretariat, and the Australian Office of the Auditor-General to coordinate legislative drafting assistance to the Pacific, reducing duplicate legislation input from various aid agencies.

We recognise the value of the work the PCO is doing in the Pacific. We support the PCO’s choice to prioritise assistance to the Cook Islands, Niue, and Tokelau, reflecting their special relationships with New Zealand, and hope that the PCO can extend its services to other Pacific island nations in the future.

Online legislation

We were pleased to hear that the PCO’s New Zealand Legislation website is being updated and simplified. We understand that it is one of the most commonly used government websites. We were told that the website will soon include links to deemed regulations and digitised copies of historical statutes, in a move to make all New Zealand legislation accessible from one website. We were interested to hear that, under the Acts and Regulations Publication Act 1989, only printed copies of legislation with the stamp of the Government printer on them can be recognised by the courts as official legislation. Under the Legislation Bill, legislation on New Zealand Legislation will receive the same official status.
Appendix

Approach to financial review
We met on 8 and 29 March 2012 to consider the financial review of the Parliamentary Counsel Office. Evidence was heard from the PCO and advice received from the Office of the Auditor-General.

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

Evidence and advice received

Parliamentary Counsel Office, Overview of the PCO’s work, dated 8 March 2012.

Parliamentary Counsel Office, Responses to questions, dated 14 March 2012.

Office of the Auditor-General, Briefing on the Parliamentary Counsel Office, dated 8 March 2012.

Organisation briefing paper, prepared by committee staff, dated 9 January 2012.
2010/11 financial review of the Department of the Prime Minister and Cabinet

Report of the Finance and Expenditure Committee

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Department of the Prime Minister and Cabinet

Recommendation

The Finance and Expenditure Committee has conducted the financial review of the 2010/11 performance and current operations of the Department of the Prime Minister and Cabinet and recommends that the House take note of its report.

Introduction

The Department of the Prime Minister and Cabinet (DPMC) is one of three central agencies responsible for coordinating and managing public sector performance. Its core business is to provide impartial advice and support to the Executive (the Prime Minister, the Governor-General, and the Cabinet). It also plays a key role in coordinating New Zealand’s intelligence system, national security priorities, and crisis management.

Canterbury earthquakes

The Canterbury earthquakes dominated DPMC’s work in 2010/11, with the department working intensively to coordinate the Government’s emergency response, alongside the Ministry of Civil Defence and Emergency Management. Some personnel remain on secondment to the Canterbury Earthquake Recovery Authority (CERA).

From the department’s point of view, the key lessons from the crisis were the critical importance of recognising and preparing for risks; the value of collaboration—between central and local Government, and between the Government and contacts in the private sector and overseas; and the need for clear lines of accountability for decision-making. Asked to comment on reported tension in central and local government relationships, DPMC acknowledged some are inevitable—partly because CERA is the first ever Government department outside Wellington—but said a lot of work is going into managing them, including the creation of a Cabinet committee on Canterbury earthquake recovery which has met at least once a week.

Disaster preparedness

DPMC’s role is one of planning and coordination. In any emergency it works beside the relevant lead agency—for example the Ministry of Health for a pandemic, the Ministry of Agriculture and Forestry for a bio-security breach, and the New Zealand Police for terrorist incidents—while coordinating with other departments so Ministers receive integrated, timely advice. The department did not wish to comment on the role of the New Zealand Police as lead agency after the Pike River mining disaster, noting that this issue is being addressed by the Royal Commission of Inquiry.

In coordinating New Zealand’s crisis and risk-management structures, DPMC’s role entails determining the risks, ensuring that agencies are assigned to and prepared to deal with them, and running nationwide exercises to test their responses. The department considers that preparatory exercises carried out in 2006 and 2008 proved hugely valuable after the Canterbury earthquakes, the speed of the response attracting international praise.
We commend this forward planning, and agree with the department that much credit is also due to prompt support from the Australian Government, which had personnel in Christchurch within 24 hours of the quakes. We heard that comparable assistance was received from the Queensland and New South Wales state governments after the Pike River mining disaster, with speedy offers of equipment and technical expertise.

**Intelligence coordination**

Following a review of New Zealand’s security arrangements, DPMC was charged with overseeing and coordinating the three national security agencies—the Government Communications Security Bureau, the New Zealand Security Intelligence Service, and the National Assessments Bureau. The department reorganised its internal structure and created a new unit—the Intelligence Coordination Group—to cover intelligence issues, assigning non-intelligence security matters like pandemics and earthquakes to its Security and Risk Group; formerly, both functions were undertaken by a single unit. The department told us the new arrangement works well and allows a sharper focus.

We asked whether merging the National Assessments Bureau, a separate part of DPMC, into one of the other units had been considered. The department said it considered it vital to keep security assessments separate and independent from policy advice.

**Improving public sector performance**

DPMC worked closely with the State Services Commission and the Treasury during the year on initiatives designed to lift public-sector performance, including a system of Performance Improvement Framework reviews. The use of this analytical tool, trialled in 2009, was extended in 2010/11 and reviews of 15 departments have now been published on the commission’s website. We commend the transparency provided by these reviews, and believe the “traffic light” system for signalling areas for improvement provides departments and the public with a valuable way of gauging performance.

With other central agencies, DPMC has also been reviewing the way public-sector agencies carry out their administrative and support functions such as recruitment, human resources, and IT, with the aim of sharing best practice. It has also worked with other departments on the whole-of-Government procurement programme, which has recently focused on procurement of legal services and office property. From May 2011 DPMC’s chief executive chaired work by the Better Public Services Advisory Group to develop specific initiatives to improve public-sector performance, and recommendations are now being considered by the Government. We note that the group found that New Zealand’s public services are particularly fragmented, and we will take a continuing interest in work on integration to achieve savings and improve services.

**Central agency support services**

During the year the three central agencies launched a project to save costs by sharing their back-office support services. A new unit, which starts work in March 2012, will be located within the Treasury and governed jointly by the three chief executives; the three agencies will, however, remain separate departments, separately accountable to their Ministers for their individual statements of intent. We agree with DPMC that it makes sense for a small agency to share resources in this way; we hope to see evidence of resultant savings in future reviews.
Financial management and service performance

The Office of the Auditor-General issued an unqualified audit opinion on the department’s financial statements, rating its management control environment as “very good”, and its financial information systems and controls, and service performance information and associated systems and controls as “good”. These are the same as the previous year’s ratings.

DMPC’s output expenses increased by 10 percent in 2010/11, to $17.197 million. The largest increases were for the establishment of the Intelligence Coordination Group (for which new funding of $436,000 was provided), for associated rental and personnel expenses, and for costs associated with the conservation of Government House (involving a capital transfer of $600,000).

Asked about the size of the increase when most departments are being asked to make savings of 6 percent, the department said that its budget has not risen much since 2004. As a smaller department, DPMC confirmed that it is expected to achieve budget savings of 3 percent in the 2011/12 financial year.
Appendix

Approach to financial review
We met on 15 February and 21 March 2012 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
Simon Bridges (Chairperson)
Maggie Barry
David Bennett
Dr David Clark
Hon Clayton Cosgrove
Paul Goldsmith
John Hayes
Todd McClay
Dr Russel Norman
Hon David Parker
Rt Hon Winston Peters

Evidence and advice received
Department of the Prime Minister and Cabinet, Annual Report for the year ended 30 June 2011.

Department of the Prime Minister and Cabinet, Statement of Intent 2010–2014.

Department of the Prime Minister and Cabinet, Statement of Intent 2011–2015.

Department of the Prime Minister and Cabinet, responses to additional financial review questions, received 15 March 2012.

Office of the Auditor-General, Briefing on Department of the Prime Minister and Cabinet, dated 15 February 2012.

Organisation briefing paper, prepared by committee staff, dated 15 February 2012.
2010/11 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 2010/11 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 through 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 2010/11 year was $11.023 million, and expenditure was $10.703 million, resulting in a surplus of $320,000. The SFO is headed by its chief executive and director, Adam Feeley.

Financial and service performance management

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance reporting of the Serious Fraud Office. Its management control environment and its financial information systems and controls were rated as “very good”. The rating for the SFO’s management control environment improved from “good” in 2009/10. The rating of the SFO’s service performance information and associated systems and controls also improved to “good”; it had been assessed as needing improvement in 2009/10.

Conviction rates

In the past year the SFO laid 1,000 charges against 28 people. This resulted in 13 guilty pleas and a further seven convictions at trial. We asked if the office considered 20 convictions from 28 charges an appropriate success rate. The SFO explained that it no longer uses a minimum conviction rate as a quality measure, but monitors trends in both conviction rates and sentencing to assess its success in prosecuting and preventing financial crime. It also has an external council to help it decide whether to prosecute. Prosecutions are generally pursued in cases where there is a high level of public interest, but the SFO acknowledges that it needs to be conscious of putting people’s reputations at risk.

The SFO told us it determines which cases to investigate using a two-fold test of a high financial threshold (above $2 million), and of the number of people involved and resultant public interest. The SFO received 440 complaints this year, and investigated 34 complaints itself. The remaining cases were either closed or referred to another agency such as the Police or the Inland Revenue Department.
**Cross-agency relationships**

The SFO sees knowledge sharing as vital in dealing with financial crime. The small size of the agency predisposes it to want close working relationships with other investigation agencies. The office signed a memorandum of understanding with the New Zealand Police in September 2011, under which up to six police officers can be seconded to the SFO at any given time. The secondment of SFO forensic accountants to the Police is being finalised at present. We are pleased that there appears to be a strong spirit of cooperation with the Police. The SFO is optimistic that this model will continue and said that having a common minister has helped. It would like to broaden the model and pointed to the Inland Revenue Department as an agency with which shared knowledge would be effective in the area of fighting tax crime.

**Resourcing**

We asked whether the SFO was appropriately resourced. It told us that the nature of serious fraud means that the workload is extremely variable, and it does not make sense to resource for the “peaks”. We heard that the SFO maintains an attitude of complete flexibility. In addition to secondments from Police it employs short-term contracted staff to manage workload peaks. We were assured that SFO is comfortable with both its workload and its resources at the moment.

**Overseas jurisdictions**

We heard that the SFO has good working relationships with overseas jurisdictions. It has extradited one person this year from Australia, and worked with Hong Kong authorities on another case. We were told that there is a genuine will for international jurisdictions to work together but the process can be slow.

**Policy**

We are concerned that as a result of the recent collapse of several finance companies, the SFO has found itself dealing with many of the same people it did in 1990 in the aftermath of the stock market crash. We asked what it thought the best response might be to this recidivism, and if it had any input into policy on the issue. The SFO indicated that overseas studies indicate that recidivism rates for “white-collar” crime are higher than for other kinds of crime, and it is examining policy and legislative solutions to this problem from different jurisdictions. The SFO is also working on a major project of its own, the *Fraud Landscape Project*, to establish the drivers and enablers of financial crime, and to devise preventative efforts. We look forward to reviewing the results of the project.
Appendix

Approach to financial review

We met on 7 and 28 March 2012 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 McKelvie
Mark Mitchell
Richard Prosser
Lindsay Tisch
Jonathan Young

Evidence and advice received


Serious Fraud Office, Response to Written Questions, received 1 March 2012.

Office of the Auditor-General, Briefing on the Serious Fraud Office dated 7 March 2012.

Organisation briefing paper, prepared by committee staff, dated 7 February 2012.
2010/11 financial review of the Ministry of Social Development and 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 2010/11 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 helps the Government to set priorities and to coordinate the actions of other agencies and organisations, and communities and iwi.

In 2010/11 the ministry’s total revenue was $1.204 billion and its total expenditure was $1.198 billion, resulting in a surplus of $5.943 million. It received a “very good” rating from the Office of the Auditor-General for its management control environment, and “good” ratings for its financial and service performance information and associated systems.

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 eight non-departmental appropriations: Counselling and Rehabilitation Services, Education and Prevention Services, Family Wellbeing Services, Strong Families, Vocational Services for People with Disabilities, Canterbury Earthquake Support, Employment Assistance, and Out of School Care Programmes.

Canterbury

We commend the ministry for the work being done in Christchurch and Canterbury in the aftermath of the earthquakes, setting up welfare centres, providing 800 extra staff from around the country for Canterbury, and assisting over 50,000 Cantabrians. An enormous effort was made by staff from all areas of the ministry, front-line and back-office. We agree with the ministry that this was a very good indication of the capability of the organisation, its adaptability and willingness to cope with a crisis, and its ability to respond to change, which will be important as welfare reform is implemented.

Sharing of information, technology, and service delivery

The ministry noted some lessons it has learnt in the aftermath of the Canterbury earthquakes, especially regarding agencies working together—literally in some cases, as
departments were forced to co-locate. We heard that the ministry is responding to the need for “wraparound” services, with almost 100 Community Link centres operating in New Zealand.

The ministry is trialling various technologies in an effort to improve its productivity, as part of its Value for Money programme. For example Child, Youth and Family social workers are trialling iPads, the GPS feature of which improves staff security, in addition to the device’s communications and data processing benefits. We commend the ministry for seeking capability improvements through the use of appropriate technology.

We asked whether there are gaps in service delivery by non-government organisations, particularly for members of ethnic minorities who have been sexually abused. The ministry said that it wanted non-government organisations to work collaboratively with the ministry and with each other more, and acknowledged that the Taskforce for Action on Sexual Violence’s 2009 report identified region-specific gaps and difficulty of access to services in some rural areas. The ministry said that some programmes are targeted specifically at Māori, but there are limited services specifically for Pacific and Asian people. The ministry also said an Advisory Panel on Sexual Violence Services was established in 2011, to advise on the delivery of sexual abuse support services. We expect to revisit this again at the next financial review.

**Reporting non-departmental appropriations**

Some of us are concerned at the standard of reporting on the non-departmental appropriations for Vote Social Development. This issue was also noted by the Social Services Committee of the 49th Parliament and was mentioned in the 2009/10 financial review. The Office of the Auditor-General noted that although improvements had been made to reporting in 2010/11, with more information and an additional section on service performance, the quality of performance reporting remains unsatisfactory. The department had been advised by Treasury that, given the significant expenditure involved in section 32A (of the Public Finance Act 1989) reporting, the reports are expected to meet the same standard as annual reports, but have fallen short. There is a lack of information about performance variations, quality measures, and timeliness measures.

We note that the Ministry of Social Development has introduced 13 new quality measures for 2011/2012 non-departmental appropriations for Vote Social Development in an effort to improve reporting. We commend these efforts, but some of us share the additional concerns raised by the Auditor-General.

The reporting on the non-departmental appropriations for Vote Youth Development is more comprehensive. However, some targets for Services for Young People were not met, and there was no clear indication as to what would be done to address this. In some cases, incomplete information from providers appears to be one reason for the deficiency, and the ministry has instituted a quarterly check on datasets to address this issue. We expect to see further improvements in the reporting of these non-departmental appropriations at the next financial review.
Unemployment

Statistics provided by the ministry indicate that the total number of beneficiaries fell from 345,000 to below 328,500—a decrease of 16,500 or 4.8 per cent—in the first year after the implementation of Future Focus (September 2010 to September 2011). This initiative focuses on getting people into work and on work tests or medical assessments to ascertain the ability to work, among other measures. However, there was some concern over whether there was enough focus on barriers to work and that the total number of people receiving the domestic purposes benefit had risen from 112,765 when Future Focus was introduced to 114,230 as at December 2011, and that the number of recipients of Future Focus who had also declared earnings had been negligible. The issue was raised that being in a violent relationship is not an eligibility criterion for a benefit, but some of us were concerned about the low reporting rates of domestic violence, which may indicate a barrier to accessing the exemption to work-testing for victims of domestic violence.

Youth unemployment is a priority for the Government, and we heard that numbers are down by nearly 4,000 since its peak in 2010. The ministry said there was a focus on getting young people who have left school into training, further education, and, ultimately, employment, using more intensive engagement and assessment methods. Ministry statistics indicate that 5,822 young people (16 to 24 years of age) are involved with Job Ops, which is part of the Youth Opportunities package. Regarding the ministry’s Youth Transitions Service, which focuses on 15 to 17-year-olds, some of us were concerned that youth over 17 will not be covered by Youth Transition contracts. The ministry responded that young people older than 17 will not be unfairly disadvantaged as there are other measures addressing employment issues for this age bracket.

We noted the increase in demand for budget advice and for hardship grants, and the fact that there are more people in full-time work who are also seeking additional assistance. The ministry suggested that the Canterbury earthquakes and the recession had exacerbated the needs of its clients. It highlighted the forthcoming work of the Ministerial Committee on Poverty, suggesting it will provide political drive and encouragement to ensure poverty and the needs of those seeking financial assistance are kept at the forefront of policy decisions. The ministry accepts that an integrated approach is needed to areas of interrelated need, such as health, housing, and social welfare, and cited the work being done in the Community Link centres to provide whole-of-Government support services.

Welfare dependency

The ministry does not collect benefit information on families or intergenerational beneficiaries, but it does record the number of clients receiving a benefit who have children. The total number of working-age clients with children at the end of December 2011 who received a main benefit was 129,993, and 232,814 children were covered by their benefits.

The ministry also said that in 2011 it created a new research dataset linking children’s contact with the main benefit system with their receipt of benefits in their own right subsequently.
Home for Life

The Home for Life programme is a permanency programme for children and young people in care, which was initiated in 2009/10. From 1 October 2010 (the programme’s start date) to 30 June 2011, 430 children and young people had been placed in a “Home for Life”. Of those placed, just over a half were aged under five years.

Social workers

Social Workers in Schools is a programme that places social workers in low-decile schools. The service is provided by the ministry free of charge to schools, and is based on voluntary participation by students and their families. Starting in June this year, 149 additional social workers are being placed in about 670 schools. Previously, schools have had to apply to join the programme, which was constrained by the amount of funding available. The expansion of the programme to all decile 1 to 3 primary and intermediate schools has now removed the necessity for this application process. One full-time-equivalent social worker is being assigned to each school cluster, typically covering from 400 to 700 students.

The ministry told us it also has social workers working in hospitals, and that the feedback from health professionals on the initiative is extremely positive. The arrangement makes social workers available to help health professionals assess the wellbeing and ongoing needs of their patients. In the last six months of 2011, 60 percent of families in hospital who were put in contact with a social worker were not previously known to Child, Youth and Family. We appreciate the value of making social workers available to health professionals, and commend the initiative.

The ministry is also working on what it considers to be its already very good relationship with educational institutions that offer social worker qualifications, for example, having clinical experts seconded to training institutions to provide high-level expertise. However, some of us would like to see Child, Youth and Family maintain a clear picture of its future needs of trained social workers, the entry level competence it requires, and whether their training pipeline will meet its needs. We would like further updates on this at the next financial review.
Appendix

Approach to financial review
We met on 29 February and 21 March 2012 to consider the financial review of the Ministry of Social Development and non-departmental appropriations for Vote Social Development, and for Vote Youth 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 Jo Goodhew
Melissa Lee
Jan Logie
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Le’aufa’amulia Asenati Lole-Taylor
Mike Sabin

Richard Prosser was a member of the committee and was present for the hearing of evidence.
Louise Wall and Mark Mitchell were temporary replacement members on the day of the hearing of evidence.

Evidence and advice received
Minister for Social Development and of Youth Affairs, Response to written questions, dated 15 March 2012.


Ministry of Social Development, Response to written questions, received 27 February 2012.

Ministry of Social Development, Response to additional written questions, received 15 March 2012.

Non-departmental appropriations briefing paper, Vote Social Development, prepared by committee staff, dated 18 January 2012.

Non-departmental appropriations briefing paper, Vote Youth Development, prepared by committee staff, dated 7 February 2012.

Office of the Auditor-General, Briefing on the Ministry of Social Development, dated 29 February 2012.
Organisation briefing paper, prepared by committee staff, dated 1 February 2012.
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2010/11 Financial Review of the State Services Commission

State Services Commission

Recommendation

The Government Administration Committee has conducted the financial review of the 2010/11 performance and current operations of the State Services Commission, and recommends that the House take note of its report.

Introduction

The State Services Commission acts as the Government’s principal adviser on New Zealand’s public management system, and works with Government agencies to support the delivery of public services to New Zealanders. In 2010/11 its total departmental income was $30.924 million, and its total expenditure was $27.961 million, resulting in a net surplus of $2.963 million.

State-sector reorganisation

The Government intends the state sector to increase its efficiency and reduce its costs, while continuing to deliver high-quality public services. We consider that in weighing up these factors, too much emphasis on reducing costs may create a risk to the quality of public services. The commission told us that in periods of state-sector change it works with agencies to develop rigorous risk management systems. Nevertheless, we urge the Government and departments to be mindful of the need to balance all the relevant considerations, and reduce the risks entailed in doing more with less.

We asked about the possibility of further structural changes to the state sector, which is an area of concern to us. We heard that the commission is looking for efficiencies and better results from state-sector agencies, but that extensive structural change, including mergers of agencies, was unlikely in the short term. However, we note that some Government agencies, such as Housing New Zealand and the Department of Conservation, have recently been substantially restructured, and that substantial restructuring has been proposed for other departments, such as the Ministry of Foreign Affairs and Trade. Restructuring has led to many job losses and raises questions about effects on service delivery. The commission said that restructuring did not necessarily result in job losses. We will continue to monitor this area with interest.

We asked how the commission measures the effects on service delivery of new agency structures. The commission said that it was increasing the frequency of the Kiwis Count Survey, which measures public satisfaction with departmental service delivery. At present it is conducted biannually, but the commission now intends to repeat the survey every six months. The commission believes that more frequent feedback will help Government agencies to analyse and if necessary improve their service delivery. We applaud the commission’s decision to increase the frequency of this survey.
Central agency collaboration

The Central Agency Shared Services is a new business unit, which integrates the corporate functions of the State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet. It began operating on 7 March 2012. Under this arrangement the central agencies share a single finance system and human resources functions, and their information and technology networks have been integrated. We asked whether the three central agencies planned to work together at the strategic level to plan, budget, and prioritise their work and objectives. We understand that at present the agencies are focused on bedding-in the shared service arrangements, which are working well so far. We heard that further corporate functions may be added to this arrangement. We look forward to receiving future updates on this arrangement.

Front-line and back-office services

The commission has sought to avoid adopting rigid definitions of “back-office” and “front-line” services, as what is considered to be a back-office service in one department may be a front-line service in another. Some of us are concerned that some restructuring of Government entities has resulted in job losses at the front line. We note that some front-line Housing New Zealand staff were replaced by call centres, and that call centres were cited as a potential replacement for a number of consular staff at New Zealand embassies. We note that call centres are an appropriate channel of service delivery for some front-line functions, but are not well suited to others. The use of call centres to replace face-to-face service delivery needs to be carefully considered to avoid a loss of public confidence.

Use of contractors

By OECD standards the New Zealand public service makes heavy use of contracting service delivery to non-government groups. We heard that more variety is likely to emerge in the provision of services by non-governmental organisations and iwi. The commission is working to facilitate the contracting of non-Governmental organisations to deliver services. We note that there is less accountability for the activities of contractors than for those of Government departments. However, Ministers are responsible for the spending of public money and the resultant services, regardless of their immediate providers.

Legislative change

We were told that the commission was likely to recommend changes to the State Sector Act 1988. The commission believes that the Act needs to be updated to address current and potential issues facing the state sector. It cited a need to facilitate cross-departmental service delivery, and to address sectoral and whole-of-government outcomes, while retaining accountability. We are interested in these proposed changes and we would welcome the commission providing us with updates on current proposals for legislative change in this area.

Departmental surveys

The commission undertakes a number of surveys to gather feedback from and about government agencies. In addition to the Kiwis Count Survey, the commission also undertakes annual stakeholder and staff engagement surveys. The previous Government Administration Committee recorded concern with the results of the 2010 staff survey, which indicated issues with morale and engagement, and the results of the 2009/10
2010/11 Financial Review of the State Services Commission

stakeholder survey, which indicated confusion about the commission’s functions, and low satisfaction.

We are concerned that the commission did not undertake its annual staff engagement survey in 2011 or its 2010/11 stakeholder survey. The commission said that changes to its business strategy prevented it from doing so in 2011, and that it intends to undertake all the surveys in 2012. We urge the commission to undertake these surveys annually. We will continue to monitor this area.

State sector retirement schemes

The numbers of public servants enrolled in the State Sector Retirement Savings Scheme has dropped recently because of enrolment in the scheme being closed in 2008 and some public servants migrating to KiwiSaver. At the end of 2011/12 employer contributions for both schemes will move from the commission to individual Government departments. We were told by the commission that this is unlikely to lead to erosion in the services that individual departments deliver, as departments will be able to offset their retirement scheme contributions against their overall efficiency targets. We will monitor closely the effect of this change.
Appendix

Approach to financial review
We met on 7 and 28 March 2012 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
Trevor Mallard
Eric Roy
Holly Walker

Evidence and advice received
State Services Commission, Responses to written questions, received 7 March 2012.
State Services Commission, Responses to additional questions, received 19 March 2012.
Office of the Auditor-General, Briefing on the State Services Commission, dated 7 March 2012.
 Organisation briefing paper, prepared by committee staff, dated 5 March 2012.
2010/11 financial review of the Treasury and of the financial statements of the Government of New Zealand for the year ended 30 June 2011

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 2011

Recommendation
The Finance and Expenditure Committee has conducted the financial review of the 2010/11 performance and current operations of the Treasury and of the financial statements of the Government of New Zealand for the year ended 30 June 2011, and recommends that the House take note of its report.

Introduction
The Treasury is the Government’s main adviser on economic, financial, and regulatory matters. As well as providing policy advice, it is one of three central agencies that provide leadership, coordination, and monitoring for the entire State sector. It also delivers directly some services, such as managing the Crown’s debt and its ownership interest in State enterprises.

Procedure for our review
We have combined our report on the Government’s annual financial statements with the financial review of the Treasury, as our consideration of these items of business covered many common issues.

Normally, the Minister of Finance would appear before the committee to discuss the financial statements of the Government for the preceding year. This year, however, the Minister chose to allow Treasury officials to represent him for this item of business. The Minister noted that because of the break between Parliaments for the general election, the financial statements for the year ended 30 June 2011 were no longer the most up to date substantial fiscal information available, and that he would be appearing before us on 21 March for our hearing on the more recent Budget Policy Statement.

Fiscal position for year ended 30 June 2011
The Government’s financial statements for the year ended 30 June 2011 were published in October 2011. The operating deficit before gains and losses increased by $12.1 billion in 2010/11, to $18.4 billion for the year ended 30 June 2011. Some offsetting gains from the Crown’s investments brought the overall deficit to $13.4 billion—still a marked deterioration from the deficit of $4.5 billion a year earlier. The Crown’s net worth stood at $80.9 billion at 30 June 2011, compared with $95.0 billion a year earlier. Core Crown net debt was $40.1 billion, representing 20 percent of GDP.

The fiscal position was significantly affected by the Canterbury earthquakes, which increased Crown expenses by $9.1 billion over the year. There were also some large one-off expenses such as the provision of $567 million for the Government’s financial assistance
package for the repair of leaky homes. While issuing an unmodified audit opinion on the financial statements, the Auditor-General has drawn attention to the considerable uncertainty involved in estimating costs arising from the earthquakes.

**Canterbury earthquakes**

The most significant costs associated with the Canterbury earthquakes were the Earthquake Commission’s insurance expenses ($11.7 billion, of which $4.2 billion will be met by reinsurers, leaving a net cost of $7.5 billion), the purchase of residential properties in Canterbury’s red zone ($0.7 billion), and the support package which the Government agreed to provide for AMI Insurance to provide certainty for policyholders ($0.3 billion). Most of EQC’s net insurance costs will be met from the Natural Disaster Fund, which held about $6 billion before the quakes; the amount of any shortfall to be met by the Government will depend on exactly when liabilities fall due.

Importantly, note 30 to the financial statements emphasises that the earthquakes will entail further costs to the Government in addition to the $9.1 billion total in 2010/11, but in some cases the uncertainties are so great that the amounts cannot yet be quantified. In particular, no estimate has been included of the Government’s 60 percent share of local authorities’ costs for carrying out permanent repairs to essential infrastructure. An “extremely uncertain” estimate by local authorities puts the Government’s share in a range of $348–610 million. There are also inherent uncertainties about future EQC claims and reinsurance recoveries, and about the effects of policy decisions yet to be taken, such as what will be done about homes in Canterbury’s orange and white zones. The total also does not include the Government’s contribution to road repairs, which will be recorded when claims are made to the National Land Transport Fund.

We intend to explore expectations in these areas when we consider the financial reviews of the Earthquake Commission and the Canterbury Earthquake Recovery Authority shortly.

**Economic and fiscal outlook**

We heard from the Treasury that 2010/11 brought both fiscal and economic challenges, with sharp increases in Government expenses—mainly earthquake-related—and continuing instability in the global economy, particularly from the European sovereign debt crisis.

Growth in the economies of our two main trading partners, Australia and China, should help to sustain New Zealand’s growth prospects, as should the improving level of household savings. However, we heard that household debt remains high, and it will be a challenge for the Government to rebuild its fiscal buffers after the earthquakes, although it remains committed to returning to fiscal surplus by 2014/15.

We intend to discuss the economic and fiscal outlook in more detail with the Minister of Finance on 21 March when we review the Budget Policy Statement.

**The Treasury**

Departmental expenditure for the Treasury totalled $65.788 million in 2010/11, an increase of 1.2 percent from 2009/10. The department took on additional responsibilities during the year. As well as working intensively to assess the impact of the earthquakes and support the
recovery arrangements, it acquired a larger commercial role in response to the financial crisis with the receivership of South Canterbury Finance and the support package for AMI Insurance. The Treasury has also worked increasingly with other central agencies to support public sector reforms; it told us it sees its role as akin to that of a corporate head office, supporting and challenging Government agencies to improve their performance.

We are pleased that the Treasury has been working to improve its own performance. It commissioned an external review of its policy advice and a survey of stakeholders, and has been working to provide clearer information in its statement of intent about the department’s role and purpose. We note that its financial information systems and controls continue to receive a grading of “very good” from the Auditor-General, and that its grading for service performance information and associated systems and controls has improved to “good”. Given the Treasury’s central leadership role in the State sector, we expect continued effort on its part to achieve exemplary performance. In particular, we expect it to take note of recommendations from the performance improvement framework review carried out in May 2011 in order to make the most of the professional strength of its staff.

**Partial sales of State assets**

During the year under review, the Treasury began preliminary work on the mixed ownership model—involving the sale of minority shareholdings in several State enterprises—which the Government had signalled it would adopt if re-elected. The Treasury is now advancing the project, with an appropriation of $5.9 million provided for this work in 2011/12. We took the opportunity of this financial review to examine some aspects of the mixed ownership plans.

**Accounting treatment**

We questioned the Treasury closely about the way it has presented the estimated impact of the proposed asset sales in its forecasts. The Treasury explained that the forecast financial statements reflect the Government’s decision that new capital spending will be funded from within the Crown’s balance sheet, without increasing overall spending. This approach was described in both the Budget 2011 documents and the pre-election economic and fiscal update (PREFU) as “balance sheet funding of new capital spending”; new capital spending of $900 million is envisaged in each Budget from 2011, spread across five years.

Some of us expressed concern that the accounting treatment used by the Treasury in the PREFU made no allowance for the reduction in dividend payments to the Crown that would result from sales of its shares, but included the capital spending likely to be financed from asset sales. We viewed this as an unbalanced treatment, and consider this approach to be less than desirable. We asked why the Treasury could forecast the foregone dividend stream—estimated at $500 million over the four years from 2013 to 2016—in the Budget Policy Statement published on 16 February 2012, but not in the earlier PREFU.

The Treasury said that it had developed its forecasts in an appropriate way, and that the treatment followed good accounting practice. As the Government had not taken a decision to proceed with mixed ownership before receiving an election mandate, it had not included the impact of any sales on dividend flows. The forecasts reflected the fact that new capital spending could be financed by various net-neutral means, of which asset sales were only
one. Better management of the assets on the Crown’s balance sheet—such as the $16 billion worth of receivables—would also release funds for other spending.

**Asset valuations and sale proceeds**

The Budget Policy Statement released on 16 February 2012 outlines the forecast fiscal impacts of the mixed ownership model, and assumes total sale proceeds of $6 billion, the midpoint of an estimated range of $5–7 billion.¹ We asked how the Treasury had arrived at a valuation of $5–7 billion for the shares to be sold. We noted that it is in the public interest for the Crown to receive the best possible price for its shares, and that some estimates would place the value considerably higher.

The Treasury explained that the forecast was not intended to reflect what the Government might consider an appropriate price for the assets. Rather, it deliberately used a broad band derived both from book values and from commercial valuations undertaken by a group of investment banks in a scoping study for the mixed ownership model.² The Treasury said the Government has not decided what proportion of shares it would sell, nor at what price, and does not wish to prejudice its future negotiating position by specifying any price expectation; while the scoping studies were thorough, there is still much work to be done. It would not discuss any specific valuations from the scoping study, stressing the commercial sensitivity of such information.

Some of us remain concerned that such figures may undervalue the Crown’s shareholdings, and that taxpayers would be deprived of a proper return on the assets they own if State Owned Enterprises were sold at such valuations. The Treasury undertook to provide us with further information to help reconcile the valuation band of $5–7 billion with other published estimates.

We asked whether it is appropriate to sell shares in a company at a time when its profitability is seriously reduced, as for example Air New Zealand’s is at present. The Treasury said that market conditions are clearly one factor to be taken into account, along with others. Assessing the best time to sell entails a balance between maximising profits, recognising risks, and the Crown’s overall balance sheet position.

**Potential limits on shareholders**

Given the likelihood that new private shareholders would expect companies in mixed ownership to operate on a purely commercial basis, we asked whether this could mean that a power company would be required to sell off physical assets, such as a dam, if an attractive offer were made by an overseas investor. While the Crown would remain the majority shareholder under the mixed ownership model, publicly-listed companies are governed by the Companies Act 1993, which requires directors to act in the best interests of all shareholders.

The Treasury replied that SOEs are already expected to operate on a commercial basis—section 4 of the State-Owned Enterprises Act 1986 requires them to be as profitable and efficient as companies not owned by the Crown—but it acknowledged that the Act sets out

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² Deutsche Bank, First NZ Capital, Goldman Sachs, Macquarie Bank, and UBS.
other expectations on SOEs, such as that of being a good employer. It noted that the Government intends to introduce new legislation to govern entities in mixed ownership, which would set the framework under which they would be expected to operate. We asked what advice the Treasury was providing regarding potential legislative constraints on companies in mixed ownership for reasons of national interest; the department said it was offering free and frank advice, but would not elaborate.

**Crown retail deposit guarantee scheme**

In September 2011 the Auditor-General published a report on the Treasury’s performance in managing the scheme introduced by the Government in 2008 to guarantee depositors’ funds during the global financial crisis. We sought the Treasury’s comment on the report’s findings, noting that they were critical of aspects of the Treasury’s performance. The Treasury said it did not agree with the Auditor-General’s contention that it should have intervened to prevent the growth in risky lending and that this ultimately increased the cost of the scheme to the Crown. It accepted that it could have managed some arrangements better at the start, but was satisfied overall with how it had performed, particularly in handling the collapse of South Canterbury Finance in August 2010. It stressed that the important thing was the Auditor-General’s conclusion that overall the scheme had achieved its objectives of preventing financial contagion and stabilising the economy. Some of us think this could be achieved without the hundreds of millions of dollars of growth in the lending books of some finance companies following the grant of the Government guarantee.

We intend to examine the Treasury’s management of the guarantee scheme further when we consider the Auditor-General’s report as a separate item of business. However, we agree that the scheme was the type of essential measure that many countries undertook during the crisis, and New Zealand emerged relatively well as a result. We heard that the net cost of the guarantee scheme to the Government was just over $500 million. The Crown paid out $2 billion to depositors, but recovered about $1 billion from receiverships and about $500 million from the fees paid by scheme participants.

**Indicators of living standards**

For several years the Treasury has articulated its vision as raising the living standards of New Zealanders through the advice and services it provides. In 2010/11 it developed a framework to clarify what this means, recognising that it has long been debated whether GDP is an adequate indicator of a nation’s well-being. It published the results of its analysis in May 2011, setting out a “Living Standards Framework” that recognises material and non-material determinants of living standards, including social and environmental indicators.

We noted the development of the framework as a broader intellectual basis for the Treasury’s work, which takes into account the variety of factors in a society’s well-being. We asked what use the Treasury intends to make of the new framework, noting that the

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outgoing Secretary to the Treasury said it would mean a shift in the way Treasury formulates its advice.5

The new Secretary to the Treasury, Gabriel Makhlouf, told us that the framework would increasingly influence the nature of its advice, and would feature in future reports it publishes. In response to our question, he said the Treasury could explore the idea of providing a “dashboard” of economic indicators as a ready reference.

**Treasury’s growth forecasts**

We sought comment from the Treasury on why New Zealand’s economic performance does not match the projections it publishes from its long-term fiscal and economic modelling; at present, its forecasts could appear over-optimistic, whereas in the past they have been described as overly pessimistic. The Secretary to the Treasury said he was satisfied with the accuracy of his department’s forecasting, but it was always seeking ways it could improve. He noted that the Treasury is one of the country’s two most highly rated forecasters.

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5 Speech delivered by John Whitehead, Secretary to the Treasury, on 25 May 2011.
Appendix

Approach to financial review

We met on 29 February and 7 March 2012 to consider the financial review of the Treasury and of the financial statements of the Government of New Zealand. We heard evidence from the Treasury and received advice from the Office of the Auditor-General.

Committee members

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

Evidence and advice received


Organisation briefing paper, prepared by committee staff, dated 29 February 2012.

The Treasury, Annual Report 2010/11.


2010/11 financial review of the Ministry of Transport

Report of the Transport and Industrial Relations Committee

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Ministry of Transport

Recommendation

The Transport and Industrial Relations Committee has conducted the financial review of the 2010/11 performance and current operations of the Ministry of Transport and recommends that the House take note of its report.

Introduction

The Ministry of Transport advises the Government on transport policy, and works with the transport agencies to implement government policy. It does not have an operational delivery function, but sees itself as operating in a similar way to a consultancy firm. The ministry has a direct relationship with a number of Crown entities: the New Zealand Transport Agency (NZTA), the Civil Aviation Authority, and Maritime New Zealand. The ministry also works closely with the Transport Accident Investigation Commission (an independent standing commission of inquiry), local government, the New Zealand Police, and transport operators such as KiwiRail.

Cost-benefit ratios

We noted that in the briefing to the incoming Minister there was a discussion of cost-benefit ratios, and we were keen to get the ministry’s perspective on this. We heard that the costs of roading projects are mostly incurred at the beginning, while benefits accrue over time. This means that benefits are harder to quantify and tend to be heavily discounted for larger, long-term projects, while smaller projects tend to appear to be better investments because they can have appreciable immediate benefits. The ministry told us it is working with the NZTA to take more factors into account, such as wider economic benefits and the strategic fit of a project.

Auckland projects

We note that the Auckland Council recently released a discussion document outlining a number of proposed transport projects and options for funding them. We were told that the ministry has not examined the funding options raised in the paper. The ministry noted that many of the projects outlined were very large, and believes that the benefits of investments on the scale of another harbour crossing or the city rail link need to be debated before funding options are considered.

Accounting error

We noted that, in the year under review, an accounting error was made in relation to the National Land Transport Fund bank account. At 30 June 2010, an amount of $182.6 million was owed to NZTA by the Crown; it was paid to NZTA in early 2010/11. The payment was not recorded in the ministry’s spreadsheet, leading to a belief that there was $182.6 million more cash in the fund than was really available. The error resulted in NZTA needing to obtain approval to extend its $90 million short-term borrowing facility to meet the resulting shortfall. An independent review was completed, and measures are being
taken to ensure the error is not repeated in the future. The ministry and NZTA now have a process for double-checking their financial records against each other. The ministry emphasised that there was no misapplication of funds; no money was spent that should not have been. We will be following this with interest.

**KiwiRail**

In May 2010, the Government announced the KiwiRail Turnaround Plan, a 10-year plan for investment in the business’s assets, which was intended to develop KiwiRail into a commercially viable freight business. Initial projections were that $4.6 billion would be needed over ten years to fund the project. It was envisaged that the Crown would contribute $1.1 billion; $750 million over three years has been committed so far. The plan was agreed on the basis that KiwiRail would be able to contribute the remaining $3.5 billion over the ten years; the ministry has no reason to believe that this will not be possible. We are informed that in the first two years of the plan KiwiRail has invested approximately $765.7 million in core assets (excluding Metro network renewals and major projects), which it has funded through Crown equity of $500 million and approximately $190 million from internally generated cash flow.

The plan was designed so that most of the Crown’s contribution would be made in the early stages, and would fund increases in productivity (from new rolling stock and network improvements) that would improve KiwiRail’s ability to generate revenue to invest in the plan in later years. We heard that signs of increased confidence in KiwiRail can already be seen in the infrastructure investments of some of its freight partners.

**Gold Card**

We are aware that the current baseline funding for the SuperGold Card does not cover the cost in regard to public transport subsidies under the scheme. The initial separate appropriation was for $18 million; patronage has increased such that the cost of the scheme is now around $22 million. Temporary funding to cover the shortfall was provided two years ago, and the ministry is deciding how the Gold Card public transport subsidy will be funded in the long term.

We heard that a survey of stakeholders in 2010 indicated that some stakeholders are concerned that as the Gold Card does not include a photo ID, it is difficult to be sure that all users are legitimate.

**Road safety**

A major focus for the ministry is road safety and, in particular, the Safer Journeys strategy and programme. The ministry’s policy work is implemented in partnership with the delivery agencies: the NZTA, ACC, and the New Zealand Police. Under the partnership arrangement, the chief executive of the ministry chairs the National Road Safety Committee, which also includes the Commissioner of Police, the chief executives of the NZTA and ACC, and representatives of other interested agencies such as the Ministry of Justice, the Ministry of Education, the Ministry of Health, and the Department of Labour. We were interested to learn that the ministry has a crash analysis system based on detailed assessments compiled by police of every road crash. The ministry uses the system to assess the probable impact of proposed policy or changes in road rules.
At the time of our hearing, we were aware that a significant change to the road rules was about to come into force, changing the give way rules for left-turning and right-turning vehicles. We consider that it is important that road users have an opportunity to provide feedback on the roading system that they use; we were assured that any significant policy shift, including new or altered road rules, will be accompanied by a public consultation process.

**Business cases and forecasting**

We note in the ministry’s briefing to the incoming Minister reviews show that its policy advice is sometimes but not consistently of a high quality. The ministry indicated that it is investing a lot of effort in the quality and consistency of its advice; it engages the Institute of Economic Research to review the quality of its policy advice each year. The ministry is in the process of recruiting graduates, and will ensure that they are well trained in the key disciplines required to provide effective policy advice. We emphasise that it is essential that the ministry’s policy advice always be of a high quality.

We also asked whether the ministry will be re-evaluating previous advice as it develops business cases or forecasts. The ministry explained that it would not be practical to revisit a business case once a project is under way, but that information contributing to a business case should be as current as possible, and the ministry regularly refreshes the key statistical analyses that underpin its policy advice. The ministry also explained that it is considering reviewing a study of freight demand which it performed and released in 2008 in the light of the intervening global financial crisis.

**Parking**

We noted that the cost of vehicle storage contributes to the cost of rail and bus services, and were interested in the extent to which the ministry took into account the effect of local Government parking policies on the state highway network. The ministry and the NZTA acknowledge the potential for parking policies and practices to affect congestion and road safety in cities. However, they emphasised that responsibility for this area does not rest strictly with the ministry; local councils have responsibility for parking policies and management practices, although they are coordinated with the NZTA in the case of urban state highways. The ministry noted that the NZTA also incorporates transport demand from future parking policies and practices in its transport modelling.

**Response to Rena grounding**

We were interested in the ministry’s involvement in the response to the grounding of the MV *Rena* off the coast of Tauranga. The ministry’s principal role regarding the *Rena* is in its oversight of Maritime New Zealand. Funding for Maritime New Zealand’s *Rena* response is appropriated and monitored through Vote Transport, and the ministry coordinates with Maritime New Zealand and other agencies on the response. Initial response funding of $2 million was available from the Oil Pollution Fund, and an additional $25 million was agreed by Cabinet in 2011; this funding is now fully committed. Further funding of $10 million has been agreed to ensure Maritime New Zealand can meet all the costs of the response. The full extent of the costs of the cleanup is not yet known.

During the year under review, the ministry worked with Maritime New Zealand on a proposal to change the formula for collecting the Oil Pollution Levy from a gross tonnage
basis to one based on the level of threat posed. The *Rena* grounding does not affect the proposed change, which is due to be consulted on shortly. The threat formula takes into account factors such as the amount of oil carried by a ship, the type of oil, the distance and time travelled near the New Zealand coast, and the proximity to sensitive areas. Once all the implications of the *Rena* grounding have been explored, it may be appropriate to re-evaluate the weightings of the different factors in the calculation of threat under the proposed formula. We will watch with interest how any change is implemented.

We note that in 2008 a previous Transport and Industrial Relations Committee considered several international treaties that related to liability for maritime claims and bunker oil pollution. Amendments to the Maritime Transport Act 1994 arising out of these treaties were part of the legislative programme of the last Parliament, but the ministry said they had a lower priority than other transport legislation. The ministry expects these amendments to be a priority in this Parliament.

**Organisational matters**

The ministry told us that while staff turnover had been falling in recent years, it expected it to rise for the current year. The ministry has been looking at its cost structure, particularly in policy areas, and brought more junior staff into some areas to reduce costs, which has led to further staff movements. However we heard that morale in the ministry is good, with staff becoming more engaged, and that there is a positive and constructive atmosphere.
Approach to financial review

We met on 1 March and 29 March 2012 to consider the financial review of the Ministry of Transport. Evidence was heard from the Ministry of Transport and advice received from the Office of the Auditor-General.

Committee members

David Bennett (Chairperson)
Chris Auchinvole
Darien Fenton
Andrew Little
Simon O’Connor
Denise Roche
Jami-Lee Ross
Scott Simpson
Phil Twyford

Evidence and advice received


Ministry of Transport, planning and funding regime diagram, received 1 March 2012.

Ministry of Transport, response to written questions, received 23 February 2012.

Ministry of Transport, response to written questions, received 16 March 2012.

Ministry of Transport, transport sector diagram, received 1 March 2012.

Office of the Auditor-General, Briefing on the Ministry of Transport, dated 1 March 2012.

Organisation briefing paper, prepared by committee staff, dated 29 February 2012.
Appendix B

Corrected transcript of hearing of evidence 1 March 2012

Members
David Bennett (Chairperson)
Chris Auchinvole
Julie Anne Genter
Darien Fenton
Andrew Little
Simon O’Connor
Denise Roche
Jami-Lee Ross
Scott Simpson
Phil Twyford

Witnesses
Martin Matthews, Chief Executive
Martin Glynn, Director Auckland
Bruce Johnson, General Manager, Aviation and Maritime
Gareth Chaplin, General Manager, Financial and Economic Performance

Bennett Martin, do you want to introduce your team?
Matthews Absolutely.

Bennett We’ve got until 11 o’clock if we need it, so members will ask questions after you do an introduction. So just give us a brief intro and then we’ll go into some questions.

Matthews Can I introduce my team first. [Introductions] Mr Chairman, I wonder if I can just take a few minutes.

Bennett Go for it.

Matthews I’m conscious that this is our first time before this committee of this Parliament. I don’t know whether it’s helpful for me to take a few minutes to give you a little bit of a background about how the portfolio works and so on. So if that’s helpful—I know it’s your time and you want to ask questions.

Bennett There are some new members here, so that would be worthwhile.

Matthews What I could do is I have just handed out two pieces of paper, actually, if that’s helpful.
Matthews

We normally do black and white photocopying, for what it's worth. I'll try and keep this short because I know this is your time and you'll have questions for us. What I thought might be helpful is if I just first describe our role relative to the other organisations in the portfolio, and that might help you in your further examinations. Our role as a ministry is essentially as the Government’s policy advisers, and you will see in the diagram with the description of the organisations, we’re sort of to one side, because the Minister of Transport has a direct relationship with those other agencies. The Crown entities, the big one you’re seeing after us is the Transport Agency. We’ve got the Civil Aviation Authority, Maritime New Zealand, along with the Transport Accident and Investigation Commission, which is a slightly different, more independent agency, but none the less, they are the Crown entities.

Matthews

A slightly different agency in that it’s much more independent. It’s a standing commission of inquiry and works quite independently of Government. None the less it’s under our umbrella in the portfolio.

Matthews

The other three agencies I’ve mentioned have their own governing board with direct accountability to the Minister, and we assist the Minister in managing that relationship with those agencies. So one of my responsibilities is sort of to help ensure that the family of transport agencies work cohesively together but recognise they work quite independently.

Of course, we have other Government agencies involved in transport, and that diagram shows that we’ve got SOEs in there, with KiwiRail and Airways, and the other major player in the transport space, of course, is the police, who have road policing responsibilities. So our role as a ministry is about being the Government’s adviser around all of the transport interests, as opposed to having an operational delivery function. So, largely, we are in the business of policy advice, and I’d like to come back to that when I talk briefly about the ministry again in a minute.

If I could draw your attention to the second page, because I think as you talk later with the Transport Agency it might be helpful just to have in mind that we actually have some quite different planning and funding arrangements in transport to other bits of Government, largely because of the close partnership we have with local government in transport because of the co-funding of many transport investments, and also because of what we have in the form of—and if you aren’t familiar with the word “hypothecation” you’ll hear it regularly—the hypothecation of transport funding, which is the ring-fencing of all of the fuel taxes and road-user charges into a fund that is only applied for transport purposes. Now, that’s
very unusual because most taxation funding goes into what most people call the consolidated fund, available for distribution according to the Government’s priorities. All of the fuel taxes are ring-fenced for transport.

So that diagram in front of you demonstrates broadly how the system works. The Government every 3 years issues what’s called a Government policy statement for land transport funding, and that’s what that looks like. It sets out the Government’s overall parameters for investment of the revenues, and that then dictates the overall planning and funding system.

Auchinvole Is that the only funding?

Matthews It’s not the only funding for Crown, in that the Crown also invests significant sums through the ministry in the likes of KiwiRail, so the investment in KiwiRail is—

Auchinvole But roads?

Matthews All of the roading investment is through this fund on this diagram.

Auchinvole Thank you very much.

Matthews The partnership with local government is managed with each region having its own transport committee, which determines a regional land transport set of priorities, and they are an input into decisions that the board of the Transport Agency make around what’s called the National Land Transport Programme—again, something that’s done every 3 years, and that programme dictates the investment over the forthcoming 3 years. The agency cannot invest in anything that’s not in the programme, and it cannot invest in things in the region unless it’s on the regional programme. So that kind of dictates how the system works, and you can see on the far right of the diagram the funding goes out of the fund into about $300 million a year for road policing; significant sums into local roading shares with local government, the State highway development work, public transport funding, and a range of other activities.

That’s a once over the top lightly, but just to give you a sense of how it all fits together, especially when you talk to the agency, it gives you some sense of what the agency is responsible for. It is unique in Government in a sense to have the hypothecation of the funding, and, of course, this planning regime and funding regime also has to take account of that local government relationship.

Auchinvole A point of minor clarification if I may. The agency—the second paragraph—can only allocate funds that are within the regional land transport programme. Is that right?

Matthews In order for something to get on to the national programme, it has to be in a regional programme, so essentially the region has a role.
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Auchinvole Which comes first?
Matthews The regional programme comes first.
Auchinvole And that is generated from—Who assesses that?
Matthews The regional transport committees develop their programme.
Auchinvole OK. And they’ve put in a bid.
Matthews They essentially put up their priorities.
Auchinvole But they don’t get the money guaranteed.
Matthews No.
Ross Remind us who makes up the membership of those committees.
Matthews The committees are made up of representatives of the territorial local authorities, plus currently some representatives of community interests as well. It’s a way of ensuring that these transport investments and programmes are thought of as a region rather than just within individual TAs.
Auchinvole But then there’s bidding between regions?
Matthews NZTA kind of manage that process.
Bennett I think we’ll leave that for now, Martin; if you could carry on.
Matthews Can I perhaps just turn then to us, because that’s your focus here, and I will be brief. Just a few comments on our performance in the period that you’re reviewing. The point I’d make I suppose about the ministry as the Government’s adviser is that we deal with some highly complex issues that involve quite a lot of financial, economic, and statistical analysis. If I can just highlight some of these, because this committee either has or will deal with many of those issues, and I know some members here are familiar with these.

Some of the big things that we’ve been working on, of course, are in the area of road safety. The Government’s Safer Journeys strategy and programme is led by the ministry. We work in partnership with the Transport Agency, the police, and with ACC in particular, whom you have just seen. It is kind of an interesting area and, I think, an effective area, where we are working cohesively as a group of agencies to pursue a common goal about reducing the impact of road crashes on our roads, and, of course, last year we had an extraordinary outcome in one sense with the lowest road toll since 1952, which is an extraordinary result. So Safer Journeys has been a key area of focus for us.
We’ve obviously been working on rail quite extensively over the last year or 18 months. I think one of the great results for us has been the conclusion of the metro rail funding and institutional arrangements for both Auckland and Wellington. I think that positions the operation and infrastructure for commuter rail in both cities for many years to come and I think is a significant achievement. This committee has been involved in the work we are doing on the RUC reform, which is the first major reform of the road-user charges regime since it was introduced in the late 1970s. Although controversial, a significant piece of work for us was the review of the city rail link in Auckland last year. Again, a complex project involving extensive analysis, and another example of the sort of thing we’re doing, or have done, is the Air New Zealand - Virgin alliance, which involved quite complex analysis of competition and related issues in the aviation industry.

A key focus for us, of course, like other Government agencies, is about how we lift our performance and manage our costs, especially in a fiscally constrained environment. I have to say, I’m very proud of what we’ve achieved as a ministry over the last 2 years. One of the things that we have done is, I think, introduce what is a unique and innovative model in Government. Because we are essentially the adviser to Government, my view is we’re not unlike a consultancy firm in many respects. So we’ve introduced the concept of working like a professional services organisation, which is about trying to make sure that the organisation is flexible and responsive but also expert in its field, and that’s made a huge difference to how we work as an organisation. We are much more flexible than we used to be, and we’ve been able to reduce the size of the ministry progressively over the last 2 years to manage our costs. We’ve done that largely through managed attrition and through some reshaping and restructuring of the business to get our costs and cost structure in place.

We continue to drive a focus on how we lift our productivity and performance, but we’re well positioned, I think, to manage in the fiscally constrained environment we are in while continuing to deliver good advice to the Government. I’m going to finish there, Mr Chairman, because I know you want to get on to questioning, but I’m certainly proud of the work we do, and I think we do good, complex work that provides good advice to the Government.

Bennett Thank you very much, Martin, and we do appreciate the work you do and your organisation does, so if you want to pass that on to your team as well. Members may have different points of view on transport priorities, and that’s just how it works, but we recognise the role you undertake and how you do that.

Twyford Thanks for the briefing. My first question is around cost-benefit ratios and State highway expenditure. You put a handy little graph, figure 10 on page 22 of the briefing to Ministers, which illustrated a dramatic decline in the benefit-cost ratio of some approved projects, and I wondered what your thoughts were about why there’s been that dramatic change.
Matthews I think there are two or three things to bear in mind. One is just the very nature of benefit-cost analysis and how the methodology works. Clearly, with projects that have short-run benefits and low costs, it means the costs typically for roading projects are front-end costs and the benefits accrue over time, so it’s the benefits that get discounted. So the consequence is that with smaller projects that have short-run benefits, they tend to get better BCRs. When you get into projects which are larger-scale projects with longer-run benefits, then inevitably the benefits get heavily discounted. So I think as we look at some of particularly these very large investments that are now being looked at around the major State highway projects, inevitably you don’t get necessarily the same result as you do with, you know, curve improvements or whatever, that have significant immediate safety outcomes. So it is something to do with methodology, which is why we are currently looking at NZTA using a range of other things that I am sure they will be able to talk to you about this, where there are other factors taken into account, wider economic benefits, strategic fit, and so on, are now taken into account.

Twyford Well, I wanted to ask about strategic fit, because you also said that the CBRs are a blunt measure, but the big highway projects tend to score well on a strategic basis. What’s the methodology behind the strategic fit?

Matthews Mr Chairman, I’m probably going to get out of my depth at this point. Those are issues you might find more useful exploring with the Transport Agency when you see them, because they’re responsible for that work, and I suspect in terms of giving you the best answer it would be, if you’re agreeable, can I invite you to put that to them.

Bennett We can carry that out.

Genter I guess, can I ask a question, following on from what you’ve just said. As I understand it, the ministry is responsible for providing advice to the Minister, the Government is setting the programme of projects and prioritisation, but you’re also saying that NZTA is providing the work that’s the methodology for determining what the projects are?

Matthews They determine the investment decisions, so they make the project-level decisions about what to invest in, not the Government.

Bennett The Government doesn’t direct; NZTA does it. MOT gives advice on—yeah.

Matthews So the Government policy statement sets broad parameters. So, for example, it establishes, broadly speaking, that the level of investment from the fund should be about $1 billion—

Genter Right, right. And about 40 percent of that over 10 years is going to be in new State highway projects?

Matthews Yes.
So that’s already been determined, and yet the methodology for determining whether or not that’s good value for money is at the level of the NZTA?

Matthews
No, their valuation is at a project level, so should this particular investment take place on this particular road, that is subject to, you know, specific project—

Genter
OK. So within the context of the roads of national significance, if not a single one of those projects turns out to be good value for money under a methodology that’s being used by NZTA, they’re still going to have to go ahead and prioritise some of them because the Government said that we’re investing in it.

Matthews
Yeah. The only thing I would say around those roads of national significance, if I can refer to my earlier description of the system, those projects were identified in regional transport programmes as priorities many, many years—

Bennett
So Julie Anne, it’s not like the Government says this just happens, you know, it goes through a system which comes through, and then NZTA does a lot of that work around the numbers around it.

Genter
As I understand it, the Pūhoi to Wellsford project was not identified in the Auckland regional land transport strategy as a priority at all, or anywhere on the cards, and yet that’s been identified by the Government. So it does seem like—

Matthews
But it is going through the same investment rigour that is required before investment decisions will be made by the agency. The final decisions are the agency’s around that. And, as you have seen, for example, in the last year with the Waterview project, the funding decision, the design, and the development of that is a Transport Agency decision.

Twyford
The next thing I wanted to ask about was the funding options or the kind of envelope Auckland projects, and you will have seen that the Auckland mayor released a discussion paper recently. Have you done any work on the options that are contained in that paper?

Matthews
No, we haven’t. Obviously, we, I think, welcome the process that the mayor is leading to start a debate about these issues, but we haven’t at this stage done any work on those funding options.

Twyford
Do you have a view on the items that are on what the Prime Minister described as a shopping list?

Matthews
No, I’m not going to express a view on those things.

Twyford
I suppose the main question I’ve got is about the need for—the suggested need for funding options. Do you believe that those major projects,
including the additional harbour crossing, could be funded via the National Land Transport Fund and the pay-go system?

Matthews The difficulty I think we have is, as you I’m sure know, that the National Land Transport Fund currently has around $2.5 billion per annum available for investment. Some of those projects are of a scale where it would be extremely difficult—a further harbour crossing, for example, would be extremely difficult to fund on a pay-go basis. So we certainly do need to consider whether or not there are other funding options for some of these major projects. I think the critical point from our perspective at this stage is that, you know, there needs to be an equally robust debate about what the investment options are, as opposed to just how you might fund them, and I tread on sensitive territory by saying this, but broadly speaking that was the position of the ministry in our review of the city rail link business case. You know, it wasn’t to form a view one way or another on whether that’s a good idea, but before you’d make a $2.5 billion investment you’d want to be confident it was the right investment.

Twyford In relation to the work that you did around the city rail link, do you believe that the ministry has a policy capability to consider projects that need to be assessed not just in terms of immediate transport BCR, for example, but being considered in a wider urban development context?

Matthews I think the answer is yes, and the reason I say that is, firstly, we do have some very, very capable people working in the ministry who do outstanding work. The other thing that I have been—

Twyford That’s not in the question.

Matthews I have also been very deliberate in managing our budget to ensure we preserve some capacity to outsource where, in fact, we need specialist expertise that it doesn’t make sense for us to hold on a permanent basis. So we always reserve some of our budget for that specialist input, and you may have noticed in our response to your questionnaire that we contract quite a lot of specialist expertise for exactly that reason.

Simpson Because this is a financial review process, I’m keen to explore what was picked up in audit, which was a significant and dramatic accounting error, and I just wondered if you could talk us through that: how it occurred, what remedial action has taken place since that time to ensure that it doesn’t happen again.

Matthews Absolutely, and I’m happy to do that. The error was an accounting error. I want to stress before I go any further that, you know, there was no misapplication of funds or anything. The effect of the accounting error was that for a period NZTA believed it had more money in the bank than in reality it did. I have to say that the accounting error was discovered by the ministry and corrected. It occurred largely because of a transposition error between spreadsheets, as I understand it. What has occurred is that with the
NZTA we commissioned a major review of the cash management processes, end to end, so to speak, and they have now been significantly strengthened and changed so that this sort of thing cannot occur again. How did it occur? One of the problems is—and you know, I started out life as an auditor, so I kind of understand some of these things.

Member You’ll be very interested in this. Did you bring a green pen?

Matthews I’ve got some of my former colleagues sitting at the side here.

Simpson Can I just interrupt? For the sake of the committee, can you just quantify the size of the error, because I think it’s important in the context.

Matthews $180 million was the accounting error. Now, the effect of the error was, as I say, that NZTA for a period believed it had more in the bank than it did. Nothing was spent that shouldn’t have been spent, and so on. The correction that was made included for starters being able to have a bank account to reconcile to. So we had a great difficulty here. In a normal world, you know, you’d be able to reconcile your cheque book to your bank statement. We didn’t have a bank statement, because there was no bank account for us; it was all essentially maintained around accounting records.

Simpson So this is essentially ledger entries?

Matthews Now, what we’ve done with Treasury is we now have, in effect, that, so that there is a base to reconcile back to. Look, both the NZTA and we took this extremely seriously, and I mention this with some trepidation, but the staff member who made the accounting error took it so seriously that he resigned and has left the ministry. It was a matter that was taken with the utmost seriousness and dealt with by all concerned to make sure it couldn’t happen again.

Simpson And so can you just explain how it can be that it won’t happen again?

Matthews Simply because some of the system changes we’ve made, and in particular the ability to reconcile back to the base of Treasury records, will mean that those reconciliations would highlight any accounting error.

Bennett So you’ve got a bank balance now.

Matthews We’ve got a bank balance.

Chaplin Essentially, yes, it means we’ve got an opening position; we can reconcile to it. And we have a process whereby the ministry and the Transport Agency—this is the number, confirm the number. So we’ve actually set up a process where we double-check against each other.

O’Connor How often is this being done—is it a yearly or monthly process? Monthly reconciliation?
Matthews: Yes.

Matthews: That’s right.

Twyford: KiwiRail Turnaround Plan. I’m interested in the funding projections on that. So the initial projections were $4.6 billion over 10 years, and already $750 million over 3 years has been committed by the Government, and as I understand it the rest is to come from KiwiRail’s balance sheet. Is that right?

Matthews: That’s broadly right. The turnaround plan envisaged that the Crown would inject a total of $1.1 billion towards the turnaround plan. The Government has so far committed $750 million. I should say that the position is that the Government is only making the decision year by year to put the funding of $250 million in, and that is largely to ensure that the board and management of KiwiRail have some pressure on them to demonstrate, you know, progress and performance. So we’re not writing a blank cheque here.

Twyford: Did you say $1.1 billion is what the Government is—

Matthews: The total turnaround plan envisages that level of investment, but the Crown, the Government, has yet to make any commitment beyond the $750 million at this stage.

Twyford: And has KiwiRail allocated any funds yet from its own resources?

Matthews: I can’t answer that question, I’m sorry, but I’m happy to find that out, if we can.

Twyford: I suppose I’ve got questions about the likely ability of KiwiRail to do that.

Matthews: Look, Mr Chairman, I can answer in sort of broad terms. When the plan was developed, it was envisaged that the Crown’s funding would front-end the turnaround plan in order to ensure that some of the large investments in new rolling stock and some network improvements would take place. Because it’s those things that will generate future revenues that allow KiwiRail to invest in out-years into the programme. I am aware at least at this stage the—as you may know from the material you will have seen, one of the issues with KiwiRail’s performance has been it being able to deliver to its clients a reliable service. Whereas, you know, by road the time between Auckland and Wellington had reduced over the last 20 or 30 years to 9 hours, KiwiRail had gone to something like 13. In the last year, as a result of the improvements in both network and rolling stock, they’ve been able to reduce the travel time by 1 hour 15, so what you’re starting to see is some of the freight partners having greater confidence in KiwiRail. You can see the investments taking place, for example, here on the Wellington waterfront down by the stadium with Mainfreight significantly investing in their own facility on KiwiRail land, and it’s that reliability and confidence
from their customers that will generate over time the income streams that allow KiwiRail to invest their share in the turnaround plan. It is a 10-year plan.

Twyford Do you have a view based on KiwiRail’s current state of their balance sheet currently, a view about the likelihood of them being able to come up with $3.5 billion over 10 years?

Matthews The plan was agreed on the basis that they would. I’ve got nothing at the moment that would cause me to think that they won’t be meeting their end of the plan.

Twyford You told us in your replies to some of the questions that there’s some work being undertaken on the Gold Card, and I wondered if you could just give us some more background on that.

Matthews Sure. When the scheme was set up the funding that was provided, which is not through the system I outlined to you; Gold Card funding is by the Crown, a separate appropriation. The funding provided was $18 million. The level of patronage has grown significantly, where the actual cost of the scheme is somewhere now around $22 million. Two years ago temporary funding was provided to cover that for 2 years. The issue for us at the moment is to resolve the funding in the long run for the scheme, because the baseline funding we have available does not cover the cost of the scheme.

Twyford You mentioned the stakeholder survey in your reply to the question, that there were issues raised by stakeholders. I just wondered what those issues were.

Matthews I can’t answer that.

James Photo IDs.

Matthews Oh, right. One of the issues that I think had been raised was what are the issues that operators and councils were having with, you know, proper use of the card? In the absence of photo ID, for example, it’s difficult to know whether or not people using the card are legitimate users. It’s those sorts of things that have been raised, I believe.

Twyford How do you assess or measure the outcomes of that sort of spending and the quality of the spending? Or do you?

Matthews We haven’t performed any evaluation, as it were, of the scheme. What we can give you, though, is good information about the level of uptake and patronage—the use of the scheme.

Twyford Do you have a view about the quality of the spending or the outcomes?

Matthews Not one I’m going to express here.
O'Connor  Firstly, thank you for what you and your ministry are doing. For me it’s around how you are translating that policy work, which is core, into reality, so it’s around things like your road safety plans. Is it still in draft, the Safer Journeys?

Matthews  No, it’s in action.

O'Connor  Excellent, that opens it up. So things like that. You’ve got the learner approved for motorcycles and so forth. How are you going to move that into that practical realm? How’s that going to assist, in your view, with the reduction in accidents and so forth?

Matthews  The first thing is this is where the working partnership we have with the delivery agencies is so important. I chair what is called the National Road Safety Committee, which has the Commissioner of Police, the Chief Executive of the Transport Agency, Geoff Dangerfield, who will be here shortly, and the Chief Executive of ACC, along with a number of other representatives from agencies like Justice, Education, Health, Labour. And the reason all of those agencies are involved with the National Road Safety Committee is that many of them actually have delivery responsibilities, so inevitably, you know, we give advice around potentially a change to a rule—the give-way rule coming up—and a critical implementation responsibility lies in that instance with the Transport Agency, who I’m sure will be able to talk you through the campaign they’re about to launch, public information and so on, along with the police, for example, who have enforcement responsibilities. So that working mechanism is quite important to get all of the Government agencies working cohesively. It also means that when we give policy advice it is informed by their perspectives. So, you know, when Government is making decisions it understands what the implications are for implementation by those delivery agencies.

O'Connor  What would be your primary mechanism for feedback from the road users and such? So say with the motorcycle community, which I’ve got a small bias towards, out of interest—very safe, of course—there’s often a lot of angst at times. I mean, how is that feedback delivered?

Matthews  So with any significant policy shift or, indeed, with any rule there is always a public consultation process with those, so there is an opportunity for input. I suppose the other thing, which is not quite to your point but it’s worth mentioning here is that one thing we have in the road safety space, I think, is a richness in data. For every road crash, the police complete a detailed assessment, and the information relating to that crash goes into what we call the crash analysis system, and that system is then used by us, amongst others, to interrogate and evaluate the impact of policy proposals. So this committee I know historically will have seen some of our work where we have costed both the impacts of policy proposals or rule changes—the costs and the benefits—and that’s able to happen because we have such rich data about what the causes of crashes on our roads are, and so on.
O’Connor Just a follow-up on that, often out in the public there is a sense of—well, when the policy changes are coming and the costs that are associated with that, how confident are you that you are getting that information out there to say “Well, actually, this particular set of road users is saying this is wise, and eventually your ACC levies or other things are going to be quite high because of this.”?

Matthews As I’ve mentioned before, in any event where there’s a rule change there’s always a public consultation process. I would be foolish to deny the possibility that we could do those things better, and we’re always willing to receive feedback about opportunities to improve the way in which the public input into those processes.

Genter Thank you for your work and for coming in and talking to us today. I have some questions that might be a little bit too detailed for you to deal with, but perhaps the ministry could come back to this committee with more information if it’s not available. I note that the Auditor-General’s office noted that there was quite a discrepancy in the quality of the advice being provided to the ministry, that potentially it’s been increasing. There’s been some very good advice but also some of varying quality. And I was just wondering what processes the ministry has in place to evaluate advice that they’ve previously received that’s being used in the development of business cases and forecasting. I can think of a specific example, which is the 2008 freight demand study. That demand study forecast quite significant increases in freight movements around the country to 2030, and it uses—it doesn’t really spell out how it’s come to those forecasts, but in the study it uses population growth and GDP growth as two major factors, and it lays out what its assumptions were. Now, I looked at that study, I asked the Parliamentary Library to look at what the actual GDP growth was from 2006 to 2011, and it was significantly lower than what’s forecast. Yet it seems like the freight—so there’s reason to believe, based on some of the information in this briefing to the incoming Minister, that actually freight movements haven’t increased as expected in that study, and yet the future forecasts are still being used to plan for projects. So I think what you said earlier about it’s really important, I’m sure New Zealanders would like to know that they’re really sure we’re investing in projects that are going to get best value for money and achieve our economic aims, but it seems like—yeah.

Matthews Can I take that in two parts and deal with the specific issue around the freight demand study and then the more general issue around what we’re doing as a ministry to ensure that we deliver consistently good advice. On the freight demand study, I think it’s a fair comment in that the study was done and released in 2008. It was obviously pre-GFC, so we are considering whether or not it’s a study that should be refreshed. The second point I would make is that clearly it’s a projection for what may occur over the next 20, 30, 40 years, and again probably unwise to necessarily assume too much about what’s happened over the last 2 years or 3 years as being indicative of that long-range thing. But I would reinforce my first point, which is it was a
study that was done at a point in time. Until we have refreshed it, it’s difficult to know. But I accept there’s a caution around, at least in the short run, projections were based on perhaps a more optimistic assessment than might be made today.

On your more general point, we are—I think your comment is based on the annual review we have done by the Institute of Economic Research, which I think shows a commitment on the part of the ministry to test ourselves and ask ourselves can we do better? We are investing quite a lot of energy at the moment in how we ensure that we deliver consistently good advice, and if I can give you just one example, at the moment we are looking at recruiting a number of graduates into the ministry, and those graduates will go through an active development programme in their first year in the ministry, which ensures that they are, whatever studies they may have done at varsity, well trained in all of the sort of key disciplines and requirements to be able to do effective policy advice. So we’re making quite a big investment in ensuring that our staff and our systems are as robust as they possibly can be. And it’s an ongoing thing, you know? We would be foolish at any point to think we’ve got there. It’s something that you continue to improve, but the Institute of Economic Research exercise is about an organisation that wants to continuously improve.

Genter Right. And I suppose as a follow-up to that, I mean, specifically with respect to a lot of the work the ministry and NZTA are providing relies on forecasts, and it’s entirely possible—we have reasons to believe that perhaps past trends will be changing in the future. So I’m just wondering if there’s, like, a systematic review of the forecasts that have been used to plan these projects.

Chaplin We have a regular forecasting programme, and so all the sort of key statistical analyses that sit underneath the policy advice are refreshed quite regularly. So, for example, the fuel excise and road-user charges, we forecast road use—we base it on trend data, and we update that annually. As you sort of touched on with the freight study, it was done just before the global financial crisis hit. Clearly, things have changed, but we need, again, to make sure that, you know, have we moved into a new trajectory, or are we looking at something that’s going to—

Genter So what would the process be for—if it is observed that there are changing trends—feeding that into the programme of transport infrastructure investment? Because it’s entirely possible that the transport infrastructure that we’re going to need is going to be different than what was planned for, because there are changing factors such as lower GDP growth and higher fuel prices.

Matthews I wouldn’t necessarily agree with the last point, but I accept that—

Genter Hypothetically.
Matthews Well, hypothetically, it’s probably dangerous to even get there. What I would say is that, as Gareth has pointed out, regular reviews of our forecasts, especially the long-range forecasts, may result in some change in the trajectory or not, but the moment we’ve got new data that becomes the base for the sort of evaluation and analysis we do.

Genter But with some of these big projects, I mean they are the most expensive projects that the Government is investing in. The business cases for those were done in late 2009. They relied on the freight demand study; they relied on some of these old things. And from my questions to NZTA they said there haven’t been any—or some written questions to the Minister—there hasn’t been any update to those business cases, there hasn’t been any update. So I’m curious as to how it’s going to inform—do those projects just go ahead, even if the data tells us that actually the business case is going to be different?

Matthews That would depend on where they are in the process. I mean, clearly if a project is yet to be approved, whatever the business case is that’s used at the time of that decision, would use the data that’s most up to date at that point. Clearly, once the projects have been approved and are under way, it’s difficult to undo, in one sense. So I think you can check with the NZTA, but I would say that at any point when decisions are made, those decisions are made on the most up-to-date data that’s available.

Genter I’m wondering what work the ministry has done on the impact of local government minimum parking requirements on travel demand, because it seems to me that there’s been a lot of research that suggests, certainly in the last 10 years, that parking is an essential part of our transport system, and yet the cost of that is not paid for or managed by the ministry in any way whatsoever. So there’s a bit of a disconnect. And the way that parking is managed through the district plan actually is going to directly impact on the investment decisions of the NZTA. And I’m aware that the cost of parking, for example, is not taken into account generally in the benefit-cost analysis of projects, or even in the demand forecasting—like in the travel demand forecasting. So I’m curious as to whether the ministry thinks it’s its role or not to—

Matthews It’s probably a better question to put to the NZTA, but I realise I didn’t introduce Martin Glynn in the process earlier. But Martin, would you like to comment?

Glynn It’s something we regarded as local authority policy, so it’s something that we haven’t been directly involved in.

Bennett But Julie Anne, you’ve got to understand that the State highway network is what NZTA does; local roads are what—
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Genter
OK, so can I just put a question to the room generally. Do we think that the supply and availability and price of parking at all impacts the State highway network?

Bennett
That’s not for us to answer, but perhaps—like, I think the point being made at the back was that local government are responsible for parking, and local government are also responsible for local roads. So perhaps it’s an issue they need to look at integrating there. Now, your point is, I guess, where the State highway network goes into an urban centre where there is parking demand as well, whether that’s taken into account, and I think that’s a fair point that you’ve raised, and something that I’m sure the—

Matthews
We can liaise with the NZTA about getting a response for that.

Bennett
Remember that local-central division.

Genter
I’m aware of that; I’m just saying that if it’s the job of the ministry to provide advice on transport and travel demand, and it’s a very complex issue, as you’ve mentioned, and it requires some understanding of economics, the fact is that within the rail network and within the bus network the costs of station yards is included in that, and so it seems to me that you couldn’t actually have a functioning transport network if we didn’t have a place to store vehicles.

Bennett
It’s a fair point.

Matthews
It’s just a level of detail below which I can answer.

Simpson
A little bit parochial, because I come from a part of the country where impacts of the Rena have caused a little bit of concern. I’m interested to know what role—the ministry’s played a pretty lead role in that, but where are we now? What’s sort of the latest update? And I guess the specific question is around the oil pollution levy and the formula used, and maybe there is a need for a review of how that formula is calculated. So several questions there.

Matthews
Shall we start with that last bit, and I might ask Bruce to just talk a little bit about how the oil pollution levy works and where we’re at with that.

Johnson
So the oil pollution levy was being reviewed at the time of the Rena incident anyway, and so that is the funding that is dedicated and quite separate from the marine safety charge to oil spill response. And what was being looked at at the time was an updated system which basically charged much more on the basis of risk, and so that work is ongoing and we will shortly be putting a discussion document to the Minister for release, for public consultation, and so that should occur in the next few weeks.

Simpson
And ongoing—from here on, what’s the ministry’s involvement, particularly with the balance of the clean-up?
Matthews: Our role is largely in support of Maritime New Zealand. The director of Maritime New Zealand has the statutory responsibility for managing the response. I stress that’s quite separate from the salvage responsibilities that sit with the owners. And our role has been largely to ensure that they have the necessary resources available, funding in particular, to ensure that the response that’s required by Maritime New Zealand is not constrained.

Fenton: Whose responsibility is it to advise the Government about legislating international conventions? Like the two that were recommended by this committee in 2008 would have had an impact on the recovery, from the Rena owner.

Matthews: That responsibility lies with us.

Fenton: And have you done anything about it, then? Is anything happening with that? What’s happening about it?

Matthews: Amendments to the Maritime Transport Act have been on the legislative programme for the period, but it hasn’t been a priority relative to some of the other transport legislation. We are anticipating that amendments to the Maritime Transport Act will be a priority in this Parliament.

O’Connor: Just around your staffing and so forth, retention rates and so forth, whether you had any comment on that?

Matthews: We’ve had some downward trajectory over the last couple of years in turnover of the ministry. I think this year’s numbers will show some upward movement; that’s partly because we’ve been managing some change processes in the ministry. That’s what I was referring to in my earlier remarks that we’ve been quite active in looking at how we reshape our cost structure. I don’t mean to be cute by using that word “reshape”. We’ve looked as a firm would at the balance of our costs, particularly in our policy business, and we’ve shifted some of our costs to bring in more junior staff to balance against some of our more costly senior staff, and that reshaping has meant we’ve had some staff movements that will show through in this year’s statistics.

Member: Quite positive too when you look at the Gallup survey. I read somewhere that the morale is quite positive.

Matthews: Yes, engagement is growing. Again, we would be an organisation that says we can do a whole lot better, and we’re striving to do that, and my general feeling is that the tone in the ministry is quite positive and constructive at the moment.

Bennett: Thank you very much, Martin and the team. We very much appreciate your answering the questions, and thank you for your help.

**Conclusion of Evidence**
The Primary Production Committee has reviewed the reports on the 2010/11 non-departmental appropriations for Vote Agriculture and Forestry and for Vote Biosecurity, 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
The Local Government and Environment Committee has reviewed the report on the non-departmental appropriations for Vote Conservation for 2010/11, 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
The Local Government and Environment Committee has reviewed the report on the non-departmental appropriations for Vote Environment for 2010/11, 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
The Justice and Electoral Committee has reviewed the report on the non-departmental appropriations for Vote Justice for 2010/11, 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
The Commerce Committee has reviewed the report on the 2010/11 non-departmental appropriations for Vote Tourism and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Todd McClay
Chairperson
2010/11 financial review of non-departmental appropriations for Vote Transport

Report of the Transport and Industrial Relations Committee

The Transport and Industrial Relations Committee has reviewed the report on the 2010/11 non-departmental appropriations 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
2010/11 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 2010/11 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, and a nominations service to put forward women candidates for positions of leadership in Government departments and on statutory boards, and manages New Zealand’s international obligations in relation to the status of women. The ministry’s total revenue for the 2010/11 year was $5.006 million and total expenditure was $4.717 million, resulting in a surplus of $289,000.

Improving efficiency

The ministry has a new leadership team. We heard that the team was focusing on increasing the capacity and efficiency of the ministry’s policy resources, and reviewing the existing support services. As a result 8 percent of the budget was shifted from back-office functions to the policy and nominations service, and the resources in the team providing policy advice to the Minister were increased by 38 percent.

We heard that in 2010 the New Zealand Institute for Educational Research had rated the ministry highest of the policy agencies ranked for policy delivery. The ministry was very proud of this achievement.

The ministry underwent a Performance Improvement Framework assessment, which highlighted a number of strengths: the impact of the ministry in its role of advocating for women in leadership roles, its effective work on sexual violence, its strong performance in its international work, and the capability of the new leadership team. The State Services Commission also suggested further improvements: clarifying the ministry’s objectives and strategy, improving the effectiveness of its corporate services, and doing more in respect of Māori and Pacific women. We look forward to hearing that these improvements have been effected.

Lack of clarity in ministry’s goals

We are concerned about the view expressed in the State Services Commission’s Performance Improvement Framework assessment that there is a lack of clarity in the ministry’s objectives and its strategy for achieving the goals set by the Minister. We understand that the ministry had been working to an action plan with specific goals and milestones, but has now moved to three broad goals. The ministry said that the Government had recently set a specific target of 45 percent of people on state-sector boards being women. The goal for the private sector was 10 percent by 2014. The ministry
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was also working on its statement of intent to improve and tighten the measures and targets.

**Women in leadership roles**

Increasing women’s participation in the private sector has been a priority for the ministry since 2009. The ministry has worked with business leaders and used its analysis to put together a business case for promoting women leaders in the private sector.

The ministry considers that it needs to find effective strategies to drive change in the private sector. It was strongly influenced by what was happening in Australia where business and private sector-led initiatives have improved the situation for women in leadership. In New Zealand there have been two recent encouraging initiatives. The Institute of Directors launched a mentoring programme for women ready for board membership, and NZX will soon be reporting on a “diversity reporting rule”, which was based on an Australian Securities Exchange model. A consultation document is due to be released in about a month, and the rule should be implemented later in the year. We are encouraged by this information.

We asked why New Zealand was lagging behind other countries in women’s participation on boards; it is now languishing last in the Asian region. Their representation has been static for the past seven years, with participation on state-sector boards constant on 41 percent. We heard that the ministry was set up in the 1980s to address this issue, at which time the figure was around 12 percent, so the improvement over 20 years has been dramatic.

**My Board Strengths**

We wanted to learn more about the online assessment tool My Board Strengths, which assesses board-readiness in women and men, and provides tips for preparing for a governance role. Feedback from users had been very positive. We were pleased to hear that the tool featured prominently on the ministry’s website.

**Nominations service**

We asked for further information on the nominations service and received the information after our hearing. The nominations service responds to all requests received, which come from most state-sector board roles and committees. In the 2010/11 financial year, the service could not provide suitably qualified women candidates for only a very small proportion of requests. The service provides candidates through two processes: nominations, and invitations to apply directly for roles. It provided 510 nominations in the 2010/11 financial year (including nominations to non-state-sector boards). Of the women appointed 21 percent were candidates supplied by the service.

The service database is continuously updated. Approximately 105 women were added in the 2010/11 year.

**International obligations**

New Zealand was invited to participate as a peer reviewer in the first OECD-led country review of gender equality. The OECD made gender equality one of its key strategic priorities, as it is closely correlated to countries’ economic growth and improvements in
social cohesion. The OECD was keen for a review of the United Arab Emirates to be performed by New Zealand because of this country’s record on gender equality.

Another highlight from the financial year was the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW) report, which was recently submitted to the United Nations as a Whole-of-Government report on the status of women in New Zealand. We look forward to hearing from the ministry on this report later in the year.

**Violence against women**

We were very concerned to hear that between one-third and one-quarter of New Zealand women have had at least one experience of domestic violence, defined broadly to include financial and emotional violence.

We are concerned about the perceived inactivity of the ministry in addressing the statistics, as distinct from research and discussions, particularly given that addressing violence against women is one of the ministry’s three main goals. However, the ministry said there have been changes in addressing domestic violence; mostly in changes to legislation and police practice, engaging with the judiciary, and the growth of women’s refuges. There is now a comprehensive network of services available to at-risk women. The ministry is seeing a shift in attitudes but believes there is still a long way to go.

The ministry also provided advice on Government initiatives. The It’s not OK campaign, a campaign to address violent relationships in New Zealand, was initiated under this whole-of-government approach. Research by the ministry was a factor in the introduction of the Police Safety Orders in 2010. Sexual violence research published by the ministry in 2009 was taken up by the Court of Appeal and cited when reviewing sentencing guidelines for rape. The Ministry of Social Development-led stocktake of Government expenditure on sexual violence services cited a paper by the ministry on service effectiveness.

We asked about the findings of the Taskforce for Action on Sexual Violence and whether any of the urgent recommendations had been implemented. We were told that a stocktake was done in response to the taskforce’s recommendations, but that no action was recommended as a result. This inaction is of concern to us. The ministry’s contributions to the Government response to the taskforce included input to an inter-agency stocktake of Government-funded sexual violence services, and participation in the Community Response Panel on Sexual Violence Services.

We asked whether domestic violence in New Zealand was being monitored, and if so whether it was getting worse. The ministry said that it was being proactive by ensuring that New Zealand’s legislation in this area was world class, but that investigating the issue was very complex. It is hard to gather the appropriate data, as it bears on people’s private lives; but the situation seems to be static, according to the New Zealand Crime and Safety Survey, which was the most reliable source of information. We will continue to closely monitor this area.

**Gender wage gap**

We heard that according to the measure now used by the ministry, the hourly gender pay gap is currently about 9.6 percent and diminishing; but a cause of the gap’s persistence was
the occupational segregation and professions that were dominated by one sex. We understand the ministry’s work on the underlying causes of wage inequity has been continuing for some years.

We asked about the weekly gender wage gap, and learned that the 2011 New Zealand Income Survey reported that women’s median weekly earnings were $432 and men’s $700.

We are concerned that the ministry has ceased work on pay equity in those occupations and professions dominated by women. We were informed that the ministry’s only strategy for closing the gender pay gap is to encourage women into male-dominated occupations and professions.

**Welfare reforms and early childhood education**

We asked what advice the ministry had given the Government on welfare reforms and early childhood education funding. The ministry provided further information after the hearing that referred to welfare reform Cabinet papers available on the Ministry of Social Development’s website. We are concerned that the Cabinet papers confirm that the ministry was informed but not consulted. There were no Cabinet papers on early childhood education reforms that the Ministry of Women’s Affairs was involved with during the period under review. We asked about the ministry’s monitoring of the Future Focus package of welfare reforms, but were advised there was no formal role of the ministry in the monitoring.

**Staff turnover**

We are concerned about the ministry’s 30 percent staff turnover. The ministry said that this was consistent with the previous year, that staff only numbered 23 so percentages could be misleading, and that periods of change affect staff morale. The ministry was not expecting the turnover to rise.
Appendix

Approach to financial review

We met on 7 and 28 March 2012 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, Annual Report for the year ended 30 June 2011.


Ministry of Women’s Affairs, Responses to committee questions, received 24 February 2012.

Ministry of Women’s Affairs, Responses to additional committee questions, received 22 March 2012.

Office of the Auditor-General, Briefing on the Ministry of Women’s Affairs, dated 7 March 2012.

Organisation briefing paper, prepared by committee staff, dated 13 February 2012.