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<td>Whanganui District Health Board (reported with the 2010/11 financial review of the Northland District Health Board)</td>
<td>Health</td>
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Introduction

Standing Orders provide for the annual financial review of Crown entities, State enterprises, and organisations the House deems to be public organisations. These procedures now apply to 119 organisations. This is a compendium of the select committee reports on the financial reviews for the reporting year of these organisations.

For the purposes of these financial reviews, a Crown entity is one named or described in Schedules 1 and 2 of the Crown Entities Act 2004 and a State enterprise is defined as in the State-Owned Enterprises Act 1986. On 1 March 2012, the House resolved to include in this scrutiny the examination of the Abortion Supervisory Committee, the Reserve Bank of New Zealand, and Air New Zealand Limited. These organisations were, accordingly, deemed public organisations for the purposes of the Standing Orders.

At the time of producing this compendium, the financial review examinations of the New Zealand Teachers Council and of Air New Zealand Limited had not been completed, and no annual report had been presented for the State enterprise, Terralink NZ Limited.

Consideration of reports by the House

The reports on the performance and current operations of Crown entities, public organisations, and State enterprises are not debatable when presented to the House. But a debate (of 3 hours) is provided for. The Government selects a date and sets the item down as a Government order of the day.

Financial reviews of Government departments and Offices of Parliament, and the reviews of the reports on non-departmental appropriations

Select committees also conduct financial reviews of Government departments and Offices of Parliament, and review the reports on certain non-departmental appropriations. Similar processes are followed but there is a separate timetable for examination, report, and debate. The reports of select committees on these examinations were published in a separate compendium (I.20A) in February 2012.
2010/11 financial review of the Abortion Supervisory Committee

Report of the Justice and Electoral Committee

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Abortion Supervisory Committee

Recommendation

The Justice and Electoral Committee has conducted the financial review of the 2010/11 performance and current operations of the Abortion Supervisory Committee, and recommends that the House take note of its report.

Introduction

The Abortion Supervisory Committee is constituted under the Contraception, Sterilisation and Abortion Act 1977, and is responsible for keeping under review all the provisions of New Zealand’s abortion law, and their operation and effect. This includes licensing institutions to perform abortions, and appointing certifying consultants to consider cases. The supervisory committee makes regular visits to licensed institutions. It has three members, including two registered medical practitioners appointed by the Governor-General on the recommendation of the House. Professor Dame Linda Holloway is the chairperson.

The supervisory committee is not a body corporate, does not administer its own funding, and does not prepare annual financial statements or statements of service performance, so it is not subject to audit by the Office of the Auditor-General. However, it has a statutory obligation to report annually to Parliament on the discharge of its functions; and, since the beginning of the 47th Parliament, the House has routinely deemed it a public organisation subject to Parliament’s financial review procedures. The supervisory committee was last reviewed in depth in the 2001/02 financial year.

The Canterbury earthquakes disrupted many of the supervisory committee’s projects. In particular, loss of access to Statistics New Zealand’s Christchurch premises meant that about 3,000 forms from certifying consultants were unavailable for the purposes of the supervisory committee’s 2011 annual report. The supervisory committee released a supplementary report several months later, with complete statistical figures. There is a downward trend in the overall number of abortions being performed. We heard that this was a result of better access to long-term contraception and better sexual and reproductive health education.

New standardised referral system

In 2009, the supervisory committee introduced a standardised referral system for primary healthcare providers consulted by women considering abortion. Most of the supervisory committee’s information is “end-of-pathway data”—collected from certifying consultants about women who have already decided to have abortions. The new system tracks each woman’s journey from the first visit to her doctor, and will enable the supervisory committee for the first time to collect data on the number of women who complete unexpected pregnancies.
For the data to be robust, the system needs to be widely used by healthcare providers. We understand that they are increasingly using the system and that Family Planning will start using it in late May 2012, which will greatly increase the amount of data collected. Preliminary analyses show a downward trend in the time between a woman’s first visit to her doctor and the performance of the abortion. We also heard that a large number of women saw a first certifying consultant but not a second, which may indicate that, after counselling, they are deciding not to proceed with abortions.

We recognise the value of the standardised referral system and think it would be beneficial for all primary healthcare providers to use it. We will monitor this issue with interest and look forward to seeing the results of these analyses once more robust data has been collected.

**Barriers to long-term contraception**

We heard that publicly-funded long-term contraception is increasingly important, as the oral contraceptive pill is not suitable for women with diabetes and other risk factors now common among New Zealand women.

**Fewer tubal ligation procedures**

Tubal ligation is a form of long-term contraception, where a woman’s fallopian tubes are tied to prevent eggs reaching her uterus. We understand that the number of publicly-funded tubal ligation procedures being carried out in New Zealand is declining. The supervisory committee told us that it is concerned and is trying to discover the causes of this trend, and to determine in particular whether the eligibility criteria are too stringent. We heard that making tubal ligations more accessible would also help to reduce the number of women having multiple abortions.

The supervisory committee told us that some district health boards have adopted tubal ablation (removal of the fallopian tubes), a simpler and cheaper procedure, and have introduced mechanisms to prioritise at-risk women. The supervisory committee would like to see these measures adopted more widely around the country.

**Low uptake of intra-uterine contraceptive devices**

The supervisory committee is similarly concerned about the low uptake of intra-uterine contraceptive devices (IUDs) because of the narrow eligibility criteria for publicly-funded devices. These devices particularly benefit women with surgical risk factors making tubal ligation unsuitable. IUDs can be inserted at the time of an abortion, which is an effective way of reducing the number of repeat abortions performed.

**Subcutaneous long-term contraceptive devices**

Publicly-funded subcutaneous long-term contraceptive devices (which are planted under the skin of the upper arm and release low doses of hormones) are widely used in New Zealand. However, we heard that they can have side effects and can also be difficult to remove, and that intra-uterine devices would be more appropriate for some women.

We recognise that long-term contraception reduces the number of unplanned pregnancies and thus of abortions. We share the supervisory committee’s concern at barriers to
Certifying consultants

We understand that the number of certifying consultants appointed each year is declining, and that the workforce of consultants is aging, with fewer specialists now available. The supervisory committee told us that it had observed that certifying consultants who were trained overseas (and had seen the results of illegal abortions) were strongly committed, while younger doctors without these experiences were less interested in being certifying consultants. The committee also linked the decline in the number of general practitioners specialising in obstetrics to general practitioners’ declining interest in becoming certifying consultants.

The regional availability of certifying consultants is also a concern, with few available in Southland, the West Coast, and the Bay of Plenty. We heard that, although women seeking abortions in these regions have not encountered delays, it is desirable for them to have consultations in their home towns if possible, as it is more likely they will be able to attend multiple consultations and counselling.

Right to Life Inc litigation

In August 2011, the Supreme Court granted Right to Life Inc leave to appeal against a judgment of the Court of Appeal in June 2011, which had overturned the High Court’s 2009 finding that the supervisory committee was wrongly interpreting its statutory functions and that there was reason to question the lawfulness of many abortions being performed. The hearing was held on 13 March 2012 and the Supreme Court is expected to deliver its judgment later in 2012.

We heard that the members of the supervisory committee are frustrated by the time and resources the Right to Life litigation has consumed, and by their continuing inability to comment publicly because the issues are still before the court. The supervisory committee told us that, even though the Contraception, Sterilisation and Abortion Act 1977 is over 30 years old and does not reflect the way the health system has developed over that time, it believes that it can continue to operate under the legislation.
Appendix

Approach to this financial review

We met on 5 April, 3 May, and 31 May 2012 to consider the financial review of the Abortion Supervisory Committee. We heard evidence from the Abortion Supervisory Committee and received advice from the Office of the Auditor-General.

Committee members

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

Evidence and advice received


Organisation briefing paper, prepared by committee staff, dated 16 January 2012.

Issues paper, prepared by committee staff, dated 6 March 2012.
2010/11 financial review of the Accident Compensation Corporation

Report of the Transport and Industrial Relations Committee

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Accident Compensation Corporation

Recommendation

The Transport and Industrial Relations Committee has conducted the financial review of the 2010/11 performance and current operations of the Accident Compensation Corporation, and recommends that the House take note of its report.

Introduction

The Accident Compensation Corporation is responsible, as a Crown Agent, for providing no-fault personal injury cover for those eligible in New Zealand, including overseas visitors. ACC works to prevent injury, to treat it when it occurs, and to rehabilitate people to productive life as soon as practicable and at a reasonable cost.

Financial performance

The chair told us that, at the time of his first appearance before this committee, the corporation had accumulated just over $9 billion of unfunded outstanding claims liability (the amount required to meet all future payments on current claims) over five years. ACC achieved a net surplus after tax of $3.5 billion in 2010/11, which, in conjunction with previous surpluses, meant the unfunded liability was reduced to $6.7 billion by 30 June 2011.

We asked in what year more was last paid in claims than was gathered in revenue. We were told that this is not a relevant calculation as far as the board was concerned, as any differences are between levies and changes in claims liability. We were assured that ACC could meet its immediate obligations, despite the unfunded outstanding claims liability.

We asked about the plans for continuing to turn ACC’s performance around, and were told that the gains to date from better rehabilitation were far better than had been expected. ACC is planning to begin measuring not only the cost of rehabilitation, but whether aims for rehabilitation are being achieved, irrespective of the severity of an injury. The goal is to get each person to the best point possible, as quickly as possible. We heard that more work needs to be done to ensure consistency of support and outcomes over the whole country.

Reviews of decisions

We noted the increase in decisions going to review (from 5,193 in 2007/08 to 9,271 in 2010/11) and the increase in decisions overturned at review or on appeal (from 900 in 2007/08 to 2,288 in 2010/11). We asked about the number of incorrect decisions made by ACC and any costs associated with those decisions. We heard that it is less expensive for ACC to have to pay out on some claims it has previously declined than it was to have approved most of those claims in the first instance, as it had done in earlier years. The proportion of decisions overturned at review or on appeal had not increased markedly (from 27–28 percent in 2007/08 to 31–32 percent in 2010/11).
We heard that most claims taken to review are for elective surgery where the surgeon has decided that a procedure should be covered by ACC, but ACC decides that it is not. We noted that a larger proportion of claims going to review is being decided in ACC’s favour in the 2011/12 financial year so far, than in 2010/11.

**Client advocates**

As members of Parliament, we are often approached by ACC clients seeking our advocacy for their claims. We asked whether, should a member of Parliament approach a case manager or a branch manager on behalf of a claimant, information on that approach would be recorded. The corporation explained that historically such information was recorded by ACC on an ad hoc basis, but that a process will be implemented from mid-March 2012 to capture all interactions by a member of Parliament’s office with ACC branches (whether they take place, for example, by phone or email, or in person).

**Staff issues**

We were interested in the effect of changes in the organisation on staff morale. ACC recognised that when organisations are under pressure to perform more and to do more with less, some stress is inevitable. However, we noted that staff engagement, as measured by the Gallup Staff Engagement Survey, met the target of exceeding the New Zealand State Sector 50th percentile, and had improved from 2009/10 to 2010/11. The board still sees room for improvement, and has been planning its response to the survey results.

We noted that the biggest collective employment agreement covering ACC staff had expired three years ago, and remains unsettled.

**Injury prevention**

We noted that motorcycle injuries in the year under review were fewer than in the previous year, and that sporting injuries for targeted claims in rugby, soccer, netball, and rugby league had fallen by more than the target 2 percent. We were therefore interested in ACC’s involvement with injury prevention programmes, and their contribution to the reduction in injuries. ACC told us that almost all the money spent on injury prevention was spent by the Department of Labour on workplace injuries or the Ministry of Transport on crash prevention, with the corporation’s contribution being mainly to run pilot programmes. We note the total annual expenditure on injury prevention programmes has decreased, when the expenditure in the year under review is compared to earlier years. We also note there have been successful programmes implemented. The corporation said it was too early to say whether the reduction in motorcycle injuries was a trend or a blip.

**Procurement**

We asked about the aims and implications of ACC’s new procurement system for the provision of services such as vocational rehabilitation or home care. The corporation explained to us that historically it had merely had a purchasing system rather than a full procurement system, and while it expected that the change would bring about some cost savings, the main reason for the move was to get better outcomes for clients. We heard that, under the previous system, far too many suppliers were used, which made it difficult to get consistent results. The new system is making the measurement of the quality of
service provision much easier. The biggest cost savings were expected to come from better rehabilitation and better outcomes for clients.
Appendix

**Approach to this financial review**

We met on 1 March and 5 April 2012 to consider the financial review of the Accident Compensation Corporation. We heard evidence from the Accident Compensation Corporation and received advice 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**


Accident Compensation Corporation, response to written questions, received 28 February 2012.

Accident Compensation Corporation, response to written questions, received 6 March 2012.

Office of the Auditor-General, Briefing on the Accident Compensation Corporation, dated 1 March 2012.

Organisation briefing paper, prepared by committee staff, dated 29 February 2012.
The Commerce Committee has conducted the financial reviews of the 2010/11 performance and current operations of the Accounting Standards Review Board, the Electricity Corporation of New Zealand Limited, the Government Superannuation Fund Authority, the Guardians of New Zealand Superannuation, Kordia Group Limited, Meteorological Service of New Zealand Limited, New Zealand Post Limited, the Public Trust, the Real Estate Agents Authority, the Securities Commission, the Standards Council, the Takeovers Panel, and the Testing Laboratory Registration Council, 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 AgResearch Limited

Report of the Education and Science Committee

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AgResearch Limited

**Recommendation**

The Education and Science Committee has conducted the financial review of the 2010/11 performance and current operations of AgResearch Limited and recommends that the House take note of its report.

**Introduction**

AgResearch Limited is the largest Crown research institute in terms of assets and revenue, and has the second largest staff. Its purpose is to enhance the value, productivity, and profitability of New Zealand’s pastoral, agri-food, and agri-technology sector to contribute to economic growth and beneficial environmental and social outcomes for New Zealand.

**Financial performance**

In 2010/11 AgResearch received total operating revenue of $158.348 million and reported a net profit after tax of $6.209 million. We are pleased that AgResearch, after recording a loss of $8.592 million in 2009/10, has returned to profitability, and asked how this had been achieved and whether it was sustainable. AgResearch explained that the most important element was controlling costs, particularly non-science and technical costs. It said that its revenue budget is more realistic than previously. It believes its core business is now profitable, but noted that the constrained fiscal environment remains a challenge. It considers that the organisation is now about as lean as it should be; there is little scope for further cost-cutting, so revenue will need to be increased to maintain profitability.

We heard that the germplasm business of AgResearch’s Grasslands subsidiary had a successful year, as more farmers bought grass seed, generating more royalties for Grasslands. AgResearch sees opportunities for revenue growth in establishing scientifically validated claims for healthy food. We look forward to seeing how AgResearch takes advantage of such opportunities, to ensure the continued profitability of the business.

**Staffing**

We understand that AgResearch has a high proportion of staff members employed from overseas; noting 53 resignations in the year under review, we asked whether it had been possible to replace these staff with New Zealanders. We were told that well over half of the institute’s scientists are still recruited from overseas, but most technical and support staff are recruited in New Zealand.

We were interested to learn that there had been about 150 redundancies from AgResearch over the last three financial years. AgResearch explained that its overall size had been reduced in an effort to achieve the clarity of purpose recommended by the CRI Taskforce, and that it believes it is now about the right size for an agricultural research institute. Aside from this downsizing process, the organisation’s staff turnover has been around 6 to 7 percent over the last five financial years, a level AgResearch is comfortable with.
Business structure

AgResearch has reviewed its farm holdings, and is disposing of five of its larger farms. We heard that these farms were legacy assets, which had been used for research demonstration farms or technology transfer. This work can now be done at field days, by electronic reports, by field trips, in the laboratory, or using mathematical modelling. The farms were therefore no longer required and the small amount of revenue they earn is not at a good rate of return for the size of the asset.

We heard that the disposal of the Wallaceville campus was still in progress, and is expected to be completed in the next financial year. It has been a long process involving the Office of Treaty Settlements, the Historic Places Trust, the Lower Hutt City Council, and the Department of Conservation. In the course of the disposal process the book value of the site has fallen from about $18 million to about $9 million.

AgResearch explained that the revenue raised by these disposals will be reinvested in upgrading facilities on its remaining campuses, and it emphasised that the quality of facilities is an important factor in recruiting good scientists.

Funding

AgResearch told us that it aims for balance in its research portfolio, and we asked how it manages research towards short-, medium-, and long-term goals simultaneously. We heard that technology transfer work and research with short-term goals tend to attract the most private-sector funding. Government funding becomes more necessary for research with longer-term goals; AgResearch’s CRI core funding is mainly directed at long-term work to establish a platform for future research. We heard that the sector now understands better that all stages of research need to be funded for results to continue to flow.

The technology transfer voucher scheme, administered by the Ministry of Science and Innovation, is for businesses, particularly in the high-value manufacturing and services sector, to work with research organisations on research and development projects. We were interested in AgResearch’s experiences using it. AgResearch explained, however, that, as funding from the Primary Growth Partnership (a programme of joint investment by the Crown and industry in research and innovation in the primary, forestry, and food sectors) was also available in the sector, the voucher scheme was not as useful to its clients as it is to those of other CRIs. We heard that the agricultural sector can be divided into on-farm, where industry-good levies often apply, and off-farm, where vouchers are more likely to be relevant to projects researching the further processing of farm produce. AgResearch became an accredited supplier to the scheme from July 2011 onwards; it has had two technology transfer vouchers to the value of $94,000 approved as at the end of February 2012.

Work areas

Organic farming

We noted that AgResearch expects its work on organic farming adaptation to be sufficiently developed in the 2012/13 year to attract bids for external investment, and were interested in what this would involve. We heard that organic firms that AgResearch works with are likely to be interested in investing in such technology, and while AgResearch
cannot apply directly for Primary Growth Partnership funding, it could work with these industry partners to help them to develop applications for funding if this was appropriate.

**Genetic modification**

We are aware that AgResearch is involved in a number of projects involving genetic modification, and asked how this work was funded. We heard that any work involving genetic modification techniques is almost entirely Government-funded through research contracts, with the exception of one very small project with private co-funding. AgResearch does not receive any significant income from the private sector in this area, either from research funding or from intellectual property.

A particular focus for AgResearch is in the development of genetically modified pasture grasses such as clover or rye grass, and we asked when the resulting strains would be ready for commercial release. We heard that the necessary scientific validation would take at least 12 years.

We asked if AgResearch believed that its work involving genetic modification fitted with its environmental sustainability work. AgResearch did not consider this is a problem; it sees its role as providing a toolbox for the agricultural sector, and considered the choice of which tools to use and how should be made by New Zealand as a whole.

**Environmental sustainability**

We were interested to learn that some work on environmental sustainability is conducted by AgResearch, rather than NIWA or LandCare, because it can carry out the research in a working farm system. Results and conclusions from environmental sustainability work tend to be publicised by sector groups rather than individual CRIs, as the sector groups are in the best position to pool the available information and communicate it in a useful way. For example, environmental work on tree planting and harvesting regimes in farm systems carried out by AgResearch and by Scion might lead to a publication by Beef and Lamb New Zealand.

**Collaboration**

**Universities**

We asked about collaboration between AgResearch and the universities. We heard that AgResearch has historically had strong research ties to Lincoln and Massey Universities, but that the fastest-growing relationship was with the University of Auckland. AgResearch staff would take adjunct roles in universities where this made the most sense, but it emphasised that there are many ways to collaborate with universities, and it is more common for staff to be co-located with university staff than to have a formal adjunct role. AgResearch is also supervising a large number of PhD students, and is working with some universities to form a joint graduate school.

**New Zealand Agricultural Greenhouse Gas Research Centre and the Global Research Alliance**

We were interested to see that the New Zealand Agricultural Greenhouse Gas Research Centre was opened in March 2010. This centre was part of a collaboration between AgResearch, DairyNZ, Landcare Research, Lincoln University, Massey University, NIWA,
the Pastoral Greenhouse Gas Research Consortium, Plant and Food Research, and Scion. The centre is funded through the Ministry of Agriculture and Forestry, and is hosted by AgResearch at its Grasslands campus. AgResearch works with MAF to coordinate the input from New Zealand science into the Global Research Alliance, a New Zealand initiative with 37 member countries which was established to help reduce the intensity of emissions from agricultural products.

AgResearch explained that the centre is the kind of facility that New Zealand needs to host, as other countries are less likely to focus on problems of particular interest to New Zealand, and New Zealand has significant expertise in ruminant biology and greenhouse gases. New Zealand has recently hosted international science panels to look at the next year’s work programme for the Global Research Alliance. We heard that members of these panels are leaders of important institutions overseas and that many useful collaborations have come about from New Zealand’s involvement in the Global Research Alliance. We heard that Ireland, the United Kingdom, Australia, and the Scandinavian countries are also strong contributors to the science in this area. We will watch with interest the outcomes of these two collaborations, within the New Zealand science community and internationally.
Appendix

Approach to this financial review
We met on 21 March and 4 April 2012 to consider the financial review of AgResearch Limited. We heard evidence from AgResearch Limited and received advice from the Office of the Auditor-General.

Committee members
Nikki Kaye (Chairperson)
Hon Simon Bridges
Catherine Delahunty
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O’Connor
Scott Simpson
Dr Megan Woods

Evidence and advice received

AgResearch Limited, response to written questions, received 9 March 2012.

AgResearch Limited, response to written questions, received 30 March 2012.

Office of the Auditor-General, Briefing on AgResearch Limited, dated 21 March 2012.

Organisation briefing paper, prepared by committee staff, dated 19 March 2012.
The Transport and Industrial Relations Committee has conducted the financial reviews of the 2010/11 performance and current operations of Airways Corporation of New Zealand Limited, of the New Zealand Railways Corporation, of the Civil Aviation Authority of New Zealand, and of the Transport Accident Investigation Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

David Bennett
Chairperson
The Health Committee has conducted the financial reviews of the 2010/11 performance and current operations of the Alcohol Advisory Council of New Zealand, of the Crown Health Financing Agency, of the Health and Disability Commissioner, of the Health Research Council of New Zealand, and of the Health Sponsorship Council, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Dr Paul Hutchison
Chairperson
The Primary Production Committee has conducted the financial review of the 2010/11 performance and current operations of Animal Control Products Limited, and AsureQuality Limited, 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 Government Administration Committee has conducted the financial reviews of the 2010/11 performance and current operations of the Arts Council of New Zealand Toi Aotearoa, of the Museum of New Zealand Te Papa Tongarewa Board, of the New Zealand Film Commission, and of the New Zealand Historic Places Trust (Pouhere Taonga), 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 Auckland District Health Board, and the Waitemata District Health Board

Report of the Health Committee

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Auckland and Waitemata District Health Boards

Recommendation
The Health Committee has conducted the financial review of the 2010/11 performance and current operations of the Auckland District Health Board, and of the Waitemata District Health Board, and recommends that the House take note of its report.

Introduction
The Auckland District Health Board is the fourth-largest in the country in terms of population size and funding received. It operates New Zealand’s largest public hospital, the Auckland City Hospital. Its main responsibility is to fund and provide health and disability services in the Auckland region.

The Waitemata District Health Board is responsible for providing healthcare and disability support to the largest DHB population in the country—over 547,500 residents of Rodney, the North Shore, and Waitakere.

Financial and service performance
Auckland District Health Board
In 2010/11, the DHB’s total revenue was $1,821.162 million, with a total expenditure of $1,821.02 million, resulting in a surplus of $142,000. We note that the DHB has consistently been in surplus for the last four years; however, the surpluses are very modest when the revenue size is taken into account.

The Office of the Auditor-General has rated the DHB’s management control environment and financial information systems and controls as “good”. Its service performance information and associated systems and controls were assessed as needing improvement; the ratings achieved were with the same as those received in 2009/2010. We are concerned that the DHB has achieved only 38 of its 82 targets for the financial year. The Auditor-General also considered that the DHB needs to communicate its performance and its interpretation of results more accurately.

Financial sustainability is a critical issue as the DHB is functioning on a very slim surplus, with large provider deficits: $21.214 million as at 31 March 2012. The deficit to date in the DHB’s provider arm (its hospital services) is the largest in the sector. The deficit is largely offset, however, by a surplus in the services that it funds from other providers: $17.451 million as at 31 March 2012. The DHB informed us that it has a complex funder-provider system and is considering adopting the effective system developed in the Waitemata, which has a more sustainable financial position.

Waitemata District Health Board
In 2010/11, the DHB’s total revenue was $1,321.595 million, with a total expenditure of $1,317.29 million, resulting in a surplus of $4.305 million. A loss of $10.516 million was
incurred from the revaluation of buildings. We note that the DHB has had serious financial performance issues in the past, recording deficits in three of the last five years, and congratulate it on achieving a surplus for this last financial year.

The Office of the Auditor-General rated the DHB’s management control environment and financial information systems and controls as “good”, as it did in 2009/10. Its service performance information and associated systems and controls were also assessed as “good”, an improvement from the “poor” rating received in 2009/10.

We are pleased with the dramatic turnaround in Waitemata’s performance; we congratulate it on being among the top nine DHB performers in terms of target attainment. The DHB told us they are currently tracking at 98 percent against their emergency department targets.

Collaboration

The northern region DHBs, encompassing Northland and Counties Manukau in addition to Auckland and Waitemata, have been working towards practical collaboration. Auckland and Waitemata have been planning collaboratively for some years now, and the two DHBs share a chair (Dr Lester Levy), a Māori board member, and integrated back-office functions. We were told that decision-making processes at all levels involve internal collaboration between governance, management, and clinical teams.

Unsatisfactory buildings

Since 30 June 2011 the Mason Clinic in Waitemata has been deemed a “leaky building”, with impairment estimated at $6.4 million. We understand that more recent information suggests the cost of fixing the clinic may be even higher. Proceedings are to be issued against one of the original contractors involved in the construction of three of the buildings, which is inside the statutory 10-year time limit for leaky building claims.

Temporary repairs are being carried out so the clinic can be used while options for repair or relocation are being explored. The DHB assured us that the clinic is watertight and poses no risk to the safety of staff. We are also aware that the mental health unit in Waitemata is inadequately housed, and the DHB has full regional support for its refurbishment.

Improving facilities

Major redevelopments have been completed at North Shore Hospital with a $45-million project involving a 50-bed assessment unit, a diagnostic unit, and an emergency department, and a $7.9-million renal unit. The new renal unit is part of a service project to be carried out in three phrases over the next five to 10 years. A new 40-bed elective surgery centre for the Waitemata DHB is in the detailed design phase, and is due to open in June 2013. A loan facility of $36.9 million has been negotiated with the Crown Health Financing Agency to fund this project.

Adverse events

We are concerned that the Auckland DHB has the highest rate of reported serious and sentinel events, with 32 of the 54 events due to falls. This represents a marked increase on preceding years. We note, however, that the rise in reported adverse events could be
partially due to improvements in reporting, and the size of the DHB could also be a factor in the number of reported adverse events.

The Auckland DHB said that they have been making a big effort to ensure accurate counting of incidents while seeking additional ways to collect and standardise data. Information sharing has been emphasised more, and root cause analysis has helped to create an open culture of disclosure whereas staff had previously exhibited defensive attitudes in this respect. We welcome these efforts and look forward to seeing a decrease in adverse events.

**Productivity**

The chair of the Auckland DHB is of the view that productivity is its single biggest issue. Academic evaluations have suggested that it is possible to perform procedures more efficiently, with lower costs, shorter hospital stays, and more satisfied patients. We were told that the DHB is striving to utilise resources effectively and efficiently while achieving its goals, and giving patients the best possible experience, while maintaining an effective teaching and research environment. The Auckland DHB assured us that productivity is being addressed and it is seeking opportunities for more collaboration with other DHBs in the region.

A Treasury report in 2007 showed that investment in health was rising while health outputs were falling. The report noted the lack of comprehensive routinely-tracked measures, such as a productivity or efficiency index, at a national or DHB level, despite the importance of securing value for money. We understand that measures such as day case rate and average length of hospital stay are commonly used to measure productivity. We note that Waitemata and Auckland’s figures for length of stay were higher than the national average in 2010/11. We would like to see accurate reporting on measures of productivity, to determine the extent to which the DHBs are delivering more services with better results for the available health dollar.

**Recruitment**

We asked about Auckland DHB’s recruitment status, and were told that it is being managed tightly after over-recruitment in previous years. For example, a lower turnover of graduate nurses has resulted in more nurses remaining in employment. When a resignation occurs the DHB is re-evaluating each role as it becomes vacant, and all new appointments require approval from the chief executive.

**Supporting cultural diversity**

We are aware of factors influencing population health disparities in both DHBs between the Māori, Pacific, and Asian communities. For example, previously 18–20 percent of Māori patients did not attend pre-booked appointments with health specialists, so the DHB starting ringing patients 24 hours before their appointments to remind them to attend. This initiative has reduced non-attendance at booked appointments, and non-attendance rates among Māori have dropped to 10 percent.

We heard that the DHB has been utilising cultural support services, including translators in wards. We were also told that longer emergency department opening hours and free health
Care for children under six years have helped to reduce health inequalities between ethnic groups.

Auckland DHB has a Māori health plan, which details areas of concern but lacks performance indicators or measures to assess progress. In general we are satisfied that both DHBs are aware of their responsibility for reducing health disparities among their populations, although we note that their measuring, monitoring, and reporting of progress in this area could be improved.

**Aged care**

We asked what planning had been undertaken by the DHBs to ensure adequate provision of aged and dementia care. Waitemata told us it provides integrated specialist dementia services and is working alongside rest homes and private hospitals, with a particular focus on preventing falls. The DHBs are also working on detecting dementia as early as possible and are integrating psycho-geriatric care with aged care.

**Oral health**

We are pleased to see increased investment in oral health. A $14-million project in Waitemata is introducing community oral health services and building new facilities. The project includes the construction of 11 new fixed clinics and a fleet of mobile clinics. Phases one and two of the project have been substantially completed with phase three in progress.

Waitemata DHB said that the clinics have been operating with extended hours, and they have seen a lot of parents attending clinics alongside their children. Technology such as text messaging has been utilised to follow up patients and remind them of appointments. The DHB is seeking to increase the flexibility of clinic opening hours and to keep clinics open during school holidays.
Appendix

Approach to this financial review
We met on 30 May and 13 June to consider the financial review of the Auckland and the
Waitemata District Health Boards. We heard evidence from the Auckland and the
Waitemata District Health Boards, and received advice from the Office of the Auditor-
General.

Committee members
Dr Paul Hutchison (Chairperson)
Shane Ardern
Dr Jackie Blue
Dr Cam Calder
Kevin Hague
Iain Lees-Galloway
Andrew Little
Barbara Stewart
Hon Maryan Street
Dr Jian Yang

Evidence and advice received

Auckland District Health Board, Responses to questions, received 20 April and 11 June
2012.


Waitemata District Health Board, Responses to questions, received 23 April and 11 June
2012.

Office of the Auditor-General, Briefing on Auckland and Waitemata District Health
Boards, dated 28 May 2012.

Organisation briefing paper on the Auckland District Health Board, prepared by
committee staff, dated 30 March 2012.

Organisation briefing paper on the Waitemata District Health Board, prepared by
committee staff, dated 30 April 2012.
2010/11 financial review of the Bay of Plenty District Health Board, the Counties Manukau District Health Board, the Hawke’s Bay District Health Board, the Lakes District Health Board, and the MidCentral District Health Board

Report of the Health Committee

The Health Committee has conducted the financial reviews of the 2010/11 performance and current operations of the Bay of Plenty District Health Board, the Counties Manukau District Health Board, the Hawke’s Bay District Health Board, the Lakes District Health Board, and the MidCentral District Health Board, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Dr Paul Hutchison
Chairperson
2010/11 financial review of the Broadcasting Commission

Report of the Commerce Committee

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Broadcasting Commission

Recommendation

The Commerce Committee conducted the financial review of the 2010/11 performance and current operations of the Broadcasting Commission and recommends that the House take note of its report.

Introduction

The Broadcasting Commission, which operates under the name NZ On Air, was established under the Broadcasting Act 1989 as a broadcasting funding agency. It invests in local television, radio, music, and other media content to extend the choices available to New Zealand audiences. NZ On Air’s stated mission is “to champion local content through skilful investment in quality New Zealand broadcasting”. It seeks to make sure that local content is innovative, visible, and valued by diverse New Zealand audiences.

NZ On Air is governed by a board of six members appointed by the Minister of Broadcasting. Nicole Hoey is acting chair pending the appointment of a new chair; Neil Walter stepped down in February 2012 after five years in the role.

In 2010/11 the commission’s total revenue was $130.304 million and its total expenditure was $130.037 million, resulting in a net surplus of $267,000.

Documentary funding process

NZ On Air described the “strand” system it uses for funding documentaries. It said that for projected one-off, relatively low-budget documentaries, a broadcaster sends NZ On Air a written description of the intended coverage. NZ On Air allocates a lump sum to fund the documentaries, and delegates a member from its board to sit on the working group that decides which documentary proposals to fund. Approximately 20 percent of NZ On Air’s decisions are made using this system, which aims to reduce the time spent by the full NZ On Air board on individual decisions.

The working group usually includes two or three people from NZ On Air and two or three from the broadcaster. The consensus decisions of the working group are sent to the NZ On Air board for authorisation. We heard that the board could in theory overturn a working group’s decision, but it has never happened. If a board member registered an objection to a certain type of programme, this would be recorded in the minutes of the meeting, and the programme would be approved by majority.

Conflicts of interest

We observed that as a publicly funded agency it was very important that NZ On Air be seen to deal effectively with conflicts of interest, and asked about its processes for doing so. We heard that since its inception the commission has maintained a register of board members’ conflicts of interest, which is tabled at every board meeting. When the agenda for a board meeting is set, board members notify the chief executive and chair of the board of any conflicts of interest before papers are sent to members who have indicated a possible or perceived conflict of interest. It told us it expected board members to alert the board to any possible perceptions of a conflict of interest.
We asked whether it was appropriate for a television producer to chair the agency. NZ On Air told us that it was appropriate for the board’s longest-serving member to act as temporary chair, and that no funding decisions would take place during the term of the acting chair.

In the board meeting that took place after the screening of the Inside Child Poverty documentary in 2011, it was decided that board members perceived to have a conflict of interest in a particular field should not contribute to funding decisions in that field. NZ On Air said it was working towards funding more long, in-depth documentaries, regardless of the subject matter. It often had no idea what the content of documentaries would be when making funding decisions.

The majority of us recognise that NZ On Air has processes for minimising conflicts of interest, but encourage them to keep public perceptions in mind.

Some of us expressed strong concern about serious public perceptions of conflicts of interest, and about what, in our view, were actual conflicts of interest involving board members of NZ On Air. It told us that its processes were robust, and was not reviewing its conflict of interest procedures.

**Funding decisions and public broadcasting**

We asked NZ On Air about its criteria for funding decisions. The Broadcasting Act requires it to reflect and develop New Zealand identity and culture. It funds programmes in the drama, documentary, children’s, and special interest genres. It prioritises Television One, TV2, and TV3 as they provide the biggest audiences, and looks to Prime Television and Māori Television to provide diversity. It provides a small amount of funding for regional news on some of the regional channels.

We asked about the future balance of funding for different genres of programming, particularly in relation to special-interest, documentary, and information programming. The commission believed it had the balance approximately right, and would maintain its current levels of funding for such programming.

We asked about recent NZ On Air funding for shows about diversity. It told us it has funded a show called New Zealand Stories, about different communities across the country. It is pleased with the Asian Radio Show on Radio Live, and is completing substantial research on broadcasting for Pasifika communities.

We noted that Television New Zealand had moved to a commercial model and was forming a partnership with Sky Television, and that the TVNZ 7 channel was being discontinued. Some of us suggested that these changes left NZ On Air to solely perform the role of custodian of public interest broadcasting in New Zealand. It noted that Māori Television continued to make an extraordinary contribution to public broadcasting.

We asked whether NZ On Air had considered funding shows aired on the TVNZ 7 channel, such as Media7, Back Benches, and Court Report. NZ On Air said it would definitely consider them for funding if they were proposed.

We asked why NZ On Air was contributing $1.6 million to New Zealand’s Got Talent, when Television New Zealand was paying a $13.8 million dividend to the Crown. It told us that the production costs for the show were very high, but it was funding less than half of them. There were currently no New Zealand-based shows in the performance genre, because of their high cost and risk of underperformance. It expected the show to be very popular with a large, appreciative, family audience.
Innovation

We asked how NZ On Air fulfilled its goal to promote innovation. It said that it asked broadcasters to stretch boundaries and undertake more unusual programming, and encouraged innovative production techniques. It told us that despite New Zealand dramas being made for only a fraction of the production cost of similar American or British shows, they rated just as highly, which suggested that New Zealand productions were very competitive and innovative.

Digital strategy

NZ On Air’s digital strategy has two strands: the New Zealand On Screen website, which was a new way to get existing content to new audiences, and the Digital Content Partnership Fund, which has funded a number of online, mobile, digital and other projects. Asked whether the digital strategy had been a good investment, NZ On Air told us the strategy was under review, as technology was rapidly changing, and it had learned that big audiences were still mostly to be found through mainstream broadcasting.

Industry development

We asked how NZ On Air influenced job creation and skill development. It told us that although it did not spend money on industry training, its funding supports approximately 2,600 to 2,700 highly skilled, tertiary-level jobs in television and radio.
Appendix A

Approach to this financial review
We met on 29 March and 3 May 2012 to consider the financial review of the Broadcasting Commission. We heard evidence from the Broadcasting Commission and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Broadcasting Commission, Responses to additional written questions, received 4 April 2012.
Broadcasting Commission, Responses to written questions, received 15 March 2012.
Organisation briefing paper, prepared by committee staff, dated 16 February 2012.
Appendix B

Corrected transcript of hearing of evidence 29 March 2012

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

Witnesses
Nicole Hoey, Acting Chair
Jane Wrightson, Chief Executive
Alan Shaw, Chief Financial Officer

McClay Good morning, welcome. You can see who we are because they give us name badges, but welcome to the Commerce Committee this morning. Thanks for giving us your time to come along to the financial review. We’ve set aside 1 hour for this hearing of evidence and I would invite you to make some opening comments and then I’m sure there’ll be some questions.

Cosgrove Can we get an indication of how long the presentation will be?

McClay Yes, we have an hour for questions, so if you could be mindful of your presentation and then the number of questions you want to ask.

Hoey [Māori greeting and introductions] New Zealand On Air funds content across many platforms, from digital platforms through to traditional broadcast. Our Act requires us to reflect and develop New Zealand identity and culture, and requires us to have a special focus on drama, documentary, special interests, children, and Māori. We use a range of investment models, from contestable programme funding to partial operating funding for community access radio and regional TV news, to be the major supporter for new New Zealand music, internet-based content like the wonderful New Zealand On Screen website, and to ring-fence funding for Radio New Zealand. We focus on audience, not on industry support. This clear focus on outcomes is the major strength of the model.

The year under review has delivered some wonderful success stories for New Zealand On Air and the audience we serve.

Firstly, I’d like to acknowledge our colleagues in Christchurch. It is through their work that brought into our homes the real understanding of
what Christchurch was dealing with. Our Christchurch journalists, broadcasters, and programme makers, many of whom had lost colleagues and families or were dealing with their own destroyed homes and workplaces, still brought stories to the nation so that we could all understand the scale of these dreadful events.

One year on: our funded programmes *When a City Falls* and *A Shocking Reminder* that screened on TV3 and Prime Television a few weeks ago made sure that Christchurch programme makers could continue to tell their stories to a nationwide audience. Other support New Zealand On Air provided to our Christchurch stakeholders is mentioned in our annual report.

Overall, for the year, we invested $82 million in nearly 1,000 hours of great television, over $5 million into New Zealand music, $5 million into community and regional broadcasting, $33 million into public radio, and over $2 million into digital and archiving. From a $132 million budget we spent only 2.2 percent or $2.8 million on running the agency with a staff of 15 people.

As a 30-year screen practitioner I’m extremely proud to sit on a board that puts the bulk of its funding into content where it belongs. Our top-rated funded TV programme was *North* fronted by Marcus Lush. Over 680,000 New Zealanders watched this on its first broadcast. This figure is equivalent to 6pm news figures. We funded the New Zealand No.1 single by Dunedin band 660 called “Don’t Forget Your Roots”, and it was the No.1 airplay song.

Over the last 12 months what we have funded is an extraordinary diverse range of content. With the amendment to the Broadcasting Act in 2008 we are able to consider digital and online options as well as general broadcast content, so we look for gaps and opportunities to serve New Zealand audiences across many platforms. The key to our work is a strong, independent, and contestable funding model. This means we get the best idea at the time, irrespective of the channel. I believe there isn’t a person in New Zealand who doesn’t have a strong broadcast like or dislike so that’s why we invest in everything, from Radio New Zealand Concert to *New Zealand’s Got Talent*. We try to provide something for everyone, and in the vigorous debates around allocated and public funding to good projects and platforms it is important we have a strong governance model and skilled staff, and we do have this.

Despite what you may have heard recently, no one voice dominates at New Zealand On Air. Our investment decisions are made carefully. Looking at audience demand and gaps in the market, we don’t fund all local content you see and hear but we feel we fund the most important. If you haven’t managed to read the history of our work over the last two decades, written by Paul Norris and Dr Brian Pauling, it’s a lively account on how we do things. We are happy to take questions. Nō reira, tēnā koutou katoa.

McClay Thank you very much. Thank you for that presentation; it was clear. Look, I’m going to kick off. There’s been some negative comments about
types of programmes NZ On Air has agreed to fund. Can you tell us about some of the criteria that you have in place when making funding decisions.

Hoey The criteria that we have in place for making funding decisions—I will just hand it over to you, Jane, in terms of the management perspective.

Wrightson The Broadcasting Act requires us to reflect and develop New Zealand identity and culture. It specifies four key categories around that: drama, documentary, children, and special interest. We fund a range of programmes within each of those genres. Within arts and culture we look at performance as well and we take a fairly broad church approach to this, so a range of performances is what we’ll absolutely look at. We prioritise TV1, TV2, and TV3 as providing the biggest audiences to us. We look to Prime and Māori to provide different and diverse programmes for us, and we provide some small amount of funding for regional news across some of the regional channels.

Curran Thanks for your presentation today, and there’s no doubt that New Zealand On Air certainly funds some powerful programming in New Zealand and plays a very important role in our diminishing public broadcasting environment, and the role that you play as the broadcasting (inaudible) is important, and it is also important that there be regular scrutiny of that role.

As you would be aware, there’s been a fair amount of publicity and discussion about New Zealand On Air in recent months, particularly around conflict of interest issues, which, as a publicly funded agency it’s very important that any publicly funded agency is being seen to be dealing with public interest issues and conflict of interest issues well. We on this side of the table have been reassured by the Minister in the House on several occasions that conflict of interest issues are being managed well within New Zealand On Air, and I think there have been some public statements by your organisation to that effect. Can you basically explain how you deal with conflict of interest issues within your organisation?

Hoey We have a conflict of interest register that is tabled at every board meeting, and when the agenda comes out a couple of months beforehand if you have a conflict of interest before papers are sent, you notify the CEO and chair.

Wrightson The chief executive also then has a role, before papers are despatched. So if I believe there may be a potential conflict of interest I will note that in the papers and will not provide the papers to the board members, and the board on that day will then decide whether or not a conflict exists.

McClay How long has that procedure been in place?

Wrightson Since the beginning. We have really strict rules around this, obviously, because we disperse a large amount of public funding.

McClay In breach?

Wrightson I’m sorry

McClay In breach?
Wrightson  Not to my knowledge.
Hoey Not to our knowledge. That’s also audited every year by the Audit Office and they’ve never picked up anything else that’s had to be raised with us.
Curran Well then can I ask: does Mr Stephen McElrea declare a conflict of interest when it comes to decisions on programmes, including documentaries of a political content?
Wrightson Yes, he is one of six at the table. I think that over 20 years we have had board members with almost every range of political view you can imagine around the table. That one has a political view does not represent a conflict of interest, in our view.
Curran Well, that doesn’t answer the question: does he declare a conflict of interest?
Hoey Yes, he declares a conflict of interest.
Curran On decisions on any programmes, including documentaries?
Hoey Yes
Wrightson Yes.
Curran Did he declare a conflict of interest on the decision around funding the child poverty documentary?
Wrightson He wasn’t involved. It was an Inside New Zealand working group, run with another board member, so Mr McElrea wasn’t involved in the decision around that programme.
Curran As a board member he wasn’t involved?
Wrightson No.
Hoey No. It is a working group that makes that decision—
Wrightson Under delegation from the board. This is a strand—shall I do that?
McClay Yes, maybe run us through that.
Wrightson So the strand system has been in operation for about 15 years. What that means is a lump allocation of money for usually documentaries, like Inside New Zealand, like the ones that run as TV One Docs on TV1, like Pakipūrī on Māori Television. The point of it is for efficiency reasons. If you’re going to have, say, five, or 10, or 15 one-off documentaries, all of which tend to be relatively low budget, there’s not much point tying up a board meeting with multiple decisions. So the board sets aside a bulk amount of money after the broadcaster writes a description of what this strand will be covering, what it’s going to do, you know, all that kind of stuff, and then a board member is delegated from the board to act as one of the panel that selects the individual titles. Now that panel tends to be two or three people from New Zealand On Air and two or three people from the broadcaster. Decisions are fully by consensus. In other words if we want something and the broadcaster doesn’t, it doesn’t proceed, because the broadcaster won’t screen it. If they want it, and we don’t, it won’t proceed, because they won’t have the money to do it.
But what you’re telling us is that at governance level, at the board level, that the decisions to fund that programme aren’t made.

The decision fits funding *Inside Child Poverty* was made by the Inside New Zealand working group—

—which has been in existence for 12—

since 1994-ish.

And that’s the way the decisions are made on that particular strand—not all decisions are made like that. It’s made only on that strand, and it is because the volume of documentaries that come through, and at the time they come through.

Was Mr McElrea involved in the decision to fund the programme entitled *Whānau Ora*?

Yes.

Did he declare a conflict of interest before that decision was made?

No.

On how many separate occasions has Mr McElrea declared a conflict of interest or—

I couldn’t answer that. I think we’d have to go back to board minutes to see that.

Through you, Chair, could the witnesses please provide in writing to the committee a full list of all matters in which Mr McElrea has declared a conflict of interest?

Absolutely.

My question was around the working group process, because you obviously are working on several projects at the same time, so really the way you deal with it is to take the board members and push them out to these working groups.

That’s right. It’s an efficiency mechanism.

How many, I mean if you can’t give us the exact number—but generally, what percentage is made as a board and what percentage is made through the strands. Can you give us an idea?

Eighty percent by the board and round about 20 percent by the working groups.

So, generally the board—?

Yes, the majority of the decisions are rubber-stamped by the board and made by the board, of television funding decisions.

And the same type of process—is it done unanimously with the board as well as with the strands?

Yes, it’s a consensus, obviously a consensus. There’s six members on our board, but only five at the moment. We all have strong views. We’re not dominated by one person at that table.
Lotu-Iiga When you say consensus, if someone had an issue with a certain type of programme they could—

Hoey That could ask to have it minuted and it is done by majority then—a majority vote—and then goes into place.

Lotu-Iiga But generally it’s—

Hoey Generally it’s by consensus; we’re a very collegial board. I’ve been on it for the last 6 years, and thoroughly enjoyed it as a practitioner. And so as a practitioner I obviously have conflicts of interest that are noted in the register and I, as a practitioner, have to work out there with my colleagues. I as a practitioner am very satisfied with the way the conflict of interest rulings are made and done and can stand up.

I was the president of SPADA before this and I can stand up and be very confident about conflict of interest.

Lotu-Iiga You’ve been on the board for 6 years; you were appointed in 2006?

Hoey Yes. This is my second and final term.

Lotu-Iiga OK

McClay Maybe in asking you to provide us information around the number of conflicts of interest, if you could provide it for all the total number of conflicts of interest that have been declared by members of the board for a period of time.

Hoey Absolutely.

Curran So going back to the decision to fund the child poverty documentary. That decision was made by a strand. Was Mr McElrea part of that working group?

Hoey No.

Wrightson No.

Curran He was part of the board, he is on the board, and made the decision to fund the Whānau Ora programme?

Hoey That was also a working group that I was part of. It wasn’t the board.

Curran And Mr McElrea is part of that working group?

Hoey Yes, he’s part of that working group.

Cosgrove Can you explain to me—a working group makes a decision. Presumably the board, which has ultimate oversight for all things in respect of funding, does that decision then bounce up to the board; you said there’s some rubber-stamping that goes on.

Hoey No, what happens with the way the working groups work, which accounts for round about, I’d say less than 20 percent of the funding, is that board members are delegated to go on to those working groups. A television manager from New Zealand On Air is also on that group, and normally two to three people from the television channel are on that group. The working group you’re talking about that Mr McElrea was on I also was on that working group and saw all the proposals, and I’m
extremely happy with the way that we, as New Zealand On Air, conducted ourselves.

Wrightson Members work under delegated authority from the board. The decision is then ratified by the board at the following meeting.

Cosgrove So the final decision goes back to the board as a whole—

Hoey —for ratification—

Cosgrove So, the final decision goes back to the board as a whole—

Hoey Ratified

Cosgrove —for ratification—

Hoey Not for approval, for ratification.

Curran At that point is it appropriate for a conflict of interest to be declared.

Hoey No because the decision's been taken.

Wrightson No, the conflict of interest's got to happen—

Cosgrove Could they overturn a decision of the working group?

Hoey It's never happened in my term here.

Cosgrove Could the board have overturned a decision of a working group? Is there anything in your Act that says you can’t?

Wrightson I suppose but it would be—

Hoey We don’t know the answer to that so we can go back and look at it.

Wrightson I can tell you it never has.

Cosgrove With respect, I’ve got two different answers. The Acting Chair says she doesn’t know; the CEO says she does. Could somebody give us an answer. Is there any legal prohibition against the board overturning a decision of a working group.

Wrightson It’s not legal, it’s a governance policy issue. A board can do anything it likes but as the ultimate governor it has never happened in the history of New Zealand On Air.

Lotu-Iiga How long’s that history, just for clarification.

Wrightson Twenty-two years.

Lotu-Iiga For 22 years no decision by any strand has been overturned by the board?

Wrightson Correct.

Bakshi How does this working group get constituted? Who is on the board of a working group? How do you decide that?

Hoey The decisions are made by—what happens is that the board members put in an interest as to whether they’d like to be on that working group. It’s discussed by the board who they feel the best person would be, or the best people on that working group would be, and then it’s agreed by consensus by the board who goes on to those working groups.

Curran Given the public debate and publicity around the child poverty issue and the raising of that complaint about that by Mr McElrea, is New Zealand On Air reviewing its conflict of interest procedures?
Hoey  Not at this stage, but a new chair may well want to do that. I’m sitting here obviously as acting chair.

Curran  Well, can I ask why it hasn’t been addressed at this point. You’ve had board meetings since—

Hoey  We’ve had one board meeting.

Curran  Has it been raised as something that needs to be looked at?

Hoey  No.

Curran  Well, can I ask, in your capacity as acting chair is it appropriate to have a television producer chairing the funding agency?

Hoey  I think it is, yes. As the acting chair right now, being a guardian for the agency is how I see my role until the chair arrives, so yes, otherwise I wouldn’t have taken the position.

Curran  The New Zealand On Air website lists a brief biography of its board of directors, and you are listed as working for a production company Cinco Cine.

Hoey  No, I actually own it, not work for it, but I also work for it but I own it.

Curran  Over 3 years and on four separate funding requests your film production company received $1.5 million in New Zealand On Air funding. That was declared, as you just noted before. You declared your ownership of that company in a conflict of interest register when you were appointed. Is it appropriate for you, as a television producer, to be chairing the agency at a time when conflict of interest issues are seriously in the public eye, when there may be requests that come before the funding agency? Is it not too close, where you are actually working for an organisation, that you own an organisation that requests funding, and now you’re chairing the organisation that hands out the funding?

Hoey  I think that New Zealand On Air has extremely strong and robust conflict of interest rules, and that with me chairing the agency at the moment, that these rules are totally in place and that I abide by them, and I have known to abide by rules from the industry as a whole. So my answer to your question is: yes, I do think it is appropriate that I’m chairing, as the longest-serving member, as acting chair for the agency until the new chair is appointed.

Curran  Do you think that there’s a perception issue here around New Zealand On Air’s (inaudible) to the conflict of interest issues that are being raised?

Hoey  No.

Curran  So you would say that conflict of interest issues that are being raised in the public arena are wrong, and New Zealand On Air is not taking—you’ve just told us that you haven’t discussed it at a board meeting and that you have taken over the acting chairmanship as a funding body while you are working for a television company that has made applications to New Zealand On Air.
Hoey  That’s correct. The conflict of interest register is tabled at every meeting—it’s an agenda item.

Wrightson  I might also add that Ms Hoey is acting chair from March and I presume through a bit of April. There is no funding round during this time.

Cunliffe  So leaving aside for a second your status as the acting chair, presumably during your time on the board productions from Cinco Cine have gained New Zealand On Air funding. Is that the case?

Hoey  That is correct, yes.

Cunliffe  So during each of those occasions have you recused from those meetings of the board?

Hoey  Yes, absolutely. I also recuse myself from any funding decisions made around the children’s round, because we have a large children’s television programme, so I see no children’s funding applications at all.

McCay  Ms Curran asked about perception of conflict of interest. I want to put perception aside and ask actually whether you believe there’s been a conflict of interest and do you believe you’ve acted appropriately in every instance that your company’s been involved in a funding decision.

Hoey  Absolutely.

McCay  Categorically, no question.

Hoey  Categorically, no question. That’s why I also recuse myself once again of seeing any children’s funding application whatsoever, where my expertise lies.

McCay  We need to be careful of questions on perception and actually what’s happening, and I accept what you’ve said.

Lotu-Iiga  You were appointed in 2006 under the Labour Government were you not?

Hoey  Yes I was, and I was reappointed under the National Government.

Lotu-Iiga  So would you recuse yourself from any applications from programmers or companies related to, say, unions or having any relationship with the Labour Party because it may be a perceived conflict of interest?

Hoey  Absolutely not; I’m a programme maker at heart.

Lotu-Iiga  No, you wouldn’t. You don’t have any association with the Labour Party in any form?

Hoey  No.

Cunliffe  Just back on Mr McElrea. There is a perception that he may have somehow had some influence on a decision not to proceed with funding for a documentary retrospective on the years of the Clark administration. Is there any substance to that? Firstly, the board was considering whether or not to fund a retrospective documentary on the Clark administration.

Hoey  So your question again, sorry. It got mixed up there.
Did the board have before it an application—I don’t know if this is an application to consider funding for a documentary on the Clark administration?

Yes, it did.

And what was the result of that consideration?

That documentary was funded. Once again, there are six members on our board.

So I’m just asking—it’s kind of you to answer a question I haven’t asked, but it’s easier if I ask the questions and you just answer the one I’ve not asked.

Sure.

So the result of it was that the documentary was funded?

Absolutely.

And Mr McElrea was or was not involved in that decision?

He was involved in that decision.

He was involved in that decision?

Yes, he was.

OK, that’s fine.

Going back to Mr McElrea and the Whānau Ora documentaries, there was a strand that was—

It was a working group.

It was a working group; there were four documentaries that were—

There were four slots available.

And have those decisions on those slots been made.

Yes, three of them have been and there is one in development at the moment.

And can you tell me the names of those documentaries?

What are the names of those documentaries?

I don’t think we know the final names—the ones that are published.

The working names?

I don’t know the working names. One’s on Whānau Ora, one’s on education, one’s on—

—a school, education.

I’ve forgotten the third one—I can let you know—and the fourth one is in development.

And when you say “in development” does that mean that a decision has been made or that it will be made on whether to fund it?

A decision hasn’t been made yet whether to fund it.
Curran  So what does “in development” mean?

Hoey  “In development” means that the producers are asked to go back and give more information on how the documentary will proceed.

Curran  And when is that due to come back to the board?

Hoey  We haven’t been advised yet by TV3. We’ll be advised once they’re happy with how the proposal is looking that will come back to us.

McClay  Does that happen very often—that you go back and ask for more information?

Hoey  Yes.

McClay  Often?

Hoey  Inside strands when you’re doing something like this, yes, because you get inside this, and I think there are over around about 60 applications, so talking as a producer you don’t normally spend the amount of money you’ll need to spend unless you’ve got around about a 70 percent chance of getting the final kicking to touch. So the producer goes back and does more work and spends more money on it, along with some money that’s given by New Zealand On Air for development in the channel.

Curran  And Mr McElrea will remain on that working group throughout this process?

Hoey  Not for the final decision.

Curran  Why is that?

Hoey  A conflict of interest—he has put forward a conflict of interest on that potential documentary.

Curran  And when did he put forward that conflict of interest?

Wrightson  Late last year.

Hoey  Yes, late last year.

Wrightson  If that particular subject matter determined by the broadcaster has been developed up properly, then he’ll be conflicted on that decision because of a particular relationship he has declared. If that project doesn’t go ahead and another one is selected for further development, there’s no particular conflict at that stage until we know what the project is.

Curran  And he did not declare a conflict of interest on the Whānau Ora programme even though the name of it is a Government programme and policy which has been controversial?

Wrightson  No.

Cosgrove  Don’t you think that’s strange? I accept your point that potentially, and I accept Sam’s example, that extraneous groups will apply and we all have relationships within those groups. But wouldn’t you have thought it strange that a person who is a close personal friend of the most senior
politician of the land, the Prime Minister, who is a political appointment—all Governments make political appointments—when confronted with a documentary which essentially would have, I take it, formed a view on certain Government policies, that he didn’t see that as a potential conflict of interest, given it’s timing to a general election was rather germane? Don’t you find that rather strange?

Hoey Yes once again there are four of us who sit on that board—

Cosgrove No, with respect, I understand how your decisions are made; that’s not the question. Whether it’s by majority vote or consensus, that’s not the issue. Don’t you feel that the way that’s been characterised, that that is a huge conflict of interest and should have been declared?

Hoey The proposal that was placed in front of us is not as you’re suggesting it might be.

Cosgrove It doesn’t take any view or express any opinion on Government policy or parties’ policies. It expresses no view at all on that.

Hoey It’s going to be an authorial documentary on how the programme is running.

Cosgrove So, on a Government programme?

Hoey Yes, how it’s running.

Cosgrove So I go back to my question. A person who is appointed by the most senior politician, and has a close and intimate relationship and a formal role with that senior politician in a party political sense, does not declare a conflict of interest about a documentary that deals directly with a Government policy very close to a general election campaign?

Hoey As Whānau Ora is about to roll out we don’t know—none of us around here know—actually how it’s going to roll out and how it’s going to work.

Cosgrove It’s a Government programme, a Government policy, and I would—let me just hypothesise. I would assume a person in Mr McElrea’s position may be quite disposed to a programme that was positive about a Government policy and may be less disposed to a programme that was somehow negative about a Government policy. That’s fine; that’s called human nature. But the point is this: I would put it to you that that’s an absolute conflict of interest, and in order to protect the credibility and integrity of Mr McElrea, the Prime Minister, but more importantly your organisation, that should have been declared, and more especially other board members should have had the foresight to have raised that issue.

Wrightson I don’t think that’s true at all.

Cosgrove Which part of it?

Wrightson Almost all of it, actually. The rationale for doing this strand was a desire by New Zealand On Air to try and get some more different and researched and longer form documentary material on screen. What we do in our world is push for diversity, as you know.
TV3, after we’d discussed with them our concerns that we’re not getting enough diverse documentary—we’re getting a lot of popular factual, we’re getting a lot of high-rating stuff, it’s all really good, we said: “But what about the more serious stuff, what about the more well researched, longer form longitudinal stuff that would be actually thinking about issues around the country?” TV3 thought about that for a while and said: “Well, we could have a go at looking at, say, four institutions in the country and various issues around them.” We said: “Good. We don’t mind what the subjects are. We just want more thinking documentaries.” So at that stage we put out a joint RFP, based on the TV3 framing of the strand, that said we’re trying to look at institutions in this country, we don’t care what the views are, we want good thinking documentaries around them. The result was, as Nicole said, over 60 applications got whittled down to four, which went into development, then chosen as much by who the storyteller was, as the story.

So with Whānau Ora we don’t know what the documentary’s going to say, we’ve absolutely no idea, nor would anybody have had at that time. You’re picking storytellers with some mana in their particular patch who have the skills to go and look at a subject for a long period of time—they’d be shooting over about a year—and looking at seeing the strengths and weaknesses of models. What’s it going to say at the end? Is it going to be pro-Government, anti-Government? No idea.

Curran Can I offer a counter view to that, and this is that these decisions were made during an election year on a Government programme, Government policy, which was controversial, remains controversial, has been the subject of much debate in Parliament and in the public arena, and if it had been on asset sales, for instance, would you still have taken the same view?

Wrightson We’re an autonomous Crown entity. We don’t care what the current political prevailing things are. We are trying to make opportunities for documentary makers to tell documentary stories. We don’t care what angle they take, as long as they’re well-made documentaries.

Curran Well, I put it to you though that you have just said that Mr McElrea has declared a conflict of interest on the fourth programme, so if he’d declared a conflict of interest on the fourth programme, the subject of which we do not know and are not allowed to know, because it has been withheld from the public, then why did he not declare a conflict of interest on Whānau Ora.

Wrightson Because he doesn’t have a conflict of interest on Whānau Ora, any more than anybody does. He may have views on that arrangement; I have no idea what they are. But there is no conflict of interest for him on Whānau Ora.

Mitchell I just want to ask you—I want to come back actually to what my colleague Sam Lotu-Iiga was talking about, and that is the fact that—because we are calling people’s reputation into the spotlight here, and I just want to talk about Judy Callingham who had very strong associations with the Labour Party, and was a member of the New Zealand On Air
board. Do you feel that she was able to carry out her board role in a professional manner?

Hoey I will have to answer that because you were never working for the organisation then. I was sitting on the board, and the answer is “absolutely”.

Mitchell And coming back to what Clare was just talking about, Whānau Ora, if you applied her logic, then the child poverty documentary would never have been approved and made anyway. Was Stephen McElrea—at any point during that process did once stand up and say that he wouldn’t support it or didn’t want that child poverty documentary made?

Wrightson No.

Hoey No.

Cosgrove Did he ever express a view?

Hoey No, because it was made by a working group, which he was not part of.

Mitchell But he’s on the board, and even though you ratified the decision he still would have had an opportunity to say “I don’t think ….”

Cunliffe Would you consider that the conflict of interest management systems at NZOA are as good as, for example, the conflict of interest management in the Cabinet (inaudible) equal importance? Do you believe that you would be held to the same standard of rigour?

Hoey If you’d like to give me your rules around the conflict of interest (Interruption)

Cunliffe The rules put a test in place. The test is not an actual conflict of interest. The reason I raise this is because of the chief executive’s point that no actual conflict existed, and we would take your word for that. But the test for Ministers of the Crown is—and this is relevant because there is a perception that Mr McElrea may or could be reflecting interests of a Minister or Ministers—could a possible perception of conflict of interest arise, and the Cabinet Manual requires that if a possible perception of conflict of interest could arise then the Minister concerned must—must—avail themselves of one of a menu of tools to manage that, including not receiving any information on the subject, recusing from all discussions, and noting formally with the Cabinet Office. They do not have the option to do nothing. They can make a selection off that menu, based on how serious the perceived conflict might be.

The reason I raise it is because perception is in bounds for Ministers. In fact, it’s required to be taken into account. Would you say that from the point of view of the NZOA board, perception is in bounds or out of bounds in terms of your management of potential conflict?

Hoey In terms of perceived conflict of interest, I like to think that we as board members put any perceived conflict of interest on the table at the time of the meeting or before the meeting.

Cunliffe So you would therefore like to believe that board members are careful enough that they would take into account not only an actual conflict but
be prepared in advance for any issues of perception, and they manage around that. We have no reason to doubt the integrity—

Hoey That is my expectation, and that is certainly my expectation of every other board member that I sit on the board with.

Cunliffe That is, of course, of some comfort to us and I’m sure would be to the public. The issue though then arises, given that there is little doubt that the appointment of Mr McElrea to the board has raised a thorough-going perception issue that is not limited to a particular programme, that goes to his very role on the board, what conflict of interest management processes you have got around that perception issue overall. The implication obviously is that recusing him from a particular matter may not be sufficient to deal with that perception test. How do you, as the acting chair, navigate those difficult waters?

Hoey We’ve had discussions around that at the last board meeting with concern to Stephen, and the board members all placed their views on the table and we acted accordingly, as a whole, as a board.

Cunliffe What kinds of views—you don’t need to name whose views they were—but what kinds of issues arose in that discussion and how did you decide to manage them?

Hoey Where there were perceived conflicts we decided that it was best the person who the perceived conflict was about was not acting in those areas.

Cunliffe Did you, as a board, accept that there may be a perception issue around Mr McElrea’s appointment, given that it was a media response?

Hoey His appointment as a board member? We have no control around the appointment of board members.

Cunliffe Let me reframe that—his ongoing role on the board, given that it had been a matter of debate in the media and in Parliament.

Hoey But we also have no control about his on-going role on the board. We’re all Government appointees, as you well know. We cannot take a person off our board.

Cunliffe That wasn’t the question, with respect. But I’m not asking you to state whether you would have wanted to let the person go from the board, because that’s not your decision, but given that they are there on the board on an on-going basis, and that you’ve admitted, not in a majority sense, but you’re aware that the perception issues are in zone, you are, I think, saying to us that yes there were some ongoing perception issues around Mr McElrea, and therefore you will have considered what measures to put in place to manage those issues. Could you brief us in a bit more detail about what the ongoing measures are to assist Mr McElrea to manage those ongoing perception issues?

Hoey Well, obviously our new chair is going to be appointed very shortly. All I can say is we had discussions about that at the last board meeting. I believe we have acted in the correct and right manner, and in my role as acting chair I believe that it is the decision of the incoming and the new
chair to put what they believe is the best for the agency. I’m only acting chair as I keep on saying to you, and—(Interuption)

Cunliffe I just need to question the actual question answered.
Hoey I have answered it.
McClay You’ve been given an answer.
Cunliffe Do you, as acting chair, have confidence, which you clearly do and you’ve given us your opinion several times, that the measures are appropriate. But the question was not a normative one; it was a factual one. What measures have been put in place to deal with the ongoing perception question? I’m not asking whether you—I think I take as a given that you do, as acting chair—believe that whatever measures you put in place are sufficient, but I don’t know, the committee doesn’t know, the public doesn’t know, and it’s a matter of public interest, what those measures are. So I’m just asking for the facts before we get to the evaluative bit.

Hoey Our conflict of interest measures—
McClay You did describe those at the beginning and they’ll be in the transcript how you deal with conflict of interest—(Interuption)
Cunliffe I think earlier on the acting chair said that she thought—
McClay To be fair she didn’t say that they had created—
Cosgrove The question’s in order. Why don’t we allow the witnesses to answer—there’s a novel idea.
McClay To the degree you believe there’s more you need to offer, please do so.
Hoey The board has obviously discussed these issues at length. The issues are only around perceptions. The conflicts of interest are not real.
Cunliffe Which are?
Hoey The one’s that you’re raising around Mr McElrea. The board has only had one meeting since the December meeting, which was where they were discussed. By the time we get to the next meeting I think we will have the new chair, so the board took the decision at March that there will be only full board decisions made around any strands until the board gets a chance to convene with its full membership in June.

McClay Do you believe that Mr McElrea has acted professionally in his role as a board member.
Hoey Yes.
McClay And at all times?
Hoey Yes.
McClay To the best of your knowledge. Do you know whether Mr McElrea has declared a conflict of interest to the board that he is a member of Government?
Hoey He’s not a member of Government; he’s a party political member.
McClay Has he declared an interest and said that he’s been involved with the development of Whānau Ora policy?
Hoey No.
McClay Do you know if he receives any funding because Whānau Ora is involved in it, now that it’s been implemented?
Hoey We haven’t the faintest idea.
McClay Has he ever told you whether he’s in favour of Whānau Ora policy or against.
Hoey No.
McClay So therefore you believe he’s acted professionally and you don’t see that there is any real conflict of interest, perceptions aside.

Curran Is Mr McElrea the electorate chair of the seat in Helensville in the Prime Minister’s electorate.
Hoey Yes he is, to my knowledge.
Wrightson We believe so.
Curran Is he a member of the National Party and does he hold other positions within that?
Wrightson I believe so.
Hoey According to their website, yes.
Curran Did Mr McElrea make a complaint about the child poverty documentary through the chair and direct it to the chief executive?
Wrightson No, he raised a question.
Cosgrove What was the question?
Wrightson He asked about the scheduling within the week of the election and whether that was a good thing or not.
Curran And what did you do as a result of that email?
Wrightson The chair discussed it and then we wrote to TV3 asking if there was any way in the future—not about that particular scheduling of that week. We were worried that it would oddly enough become a political issue for us, even though the scheduling of the programme has nothing to do with us, and we asked TV3 if there’s a way that in the future that this might be avoided.
Curran Did you make contact with the Minister’s office.
Wrightson Only to advise them, that’s all. You have a copy of that email.
Curran At what point did you make contact with the Minister’s office?
Wrightson At the same time we wrote to TV3—a heads-up.
Curran The previous chair of New Zealand On Air has been named by the Minister on numerous occasions as having the Minister’s confidence, and the Minister has said in Parliament on several occasions that he gets his
information from the chair around the conflict of interest measures. As a result of your recent conversation at your board meeting have you advised the Minister of those discussions and of any potential changes, or no changes to conflict of interest measures?

Wrightson No, it’s a governance issue. It’s not for the Minister.

Curran So there’s been no conversation, no discussion, no report provided to the Minister on conflict of interest measures or any discussions or changes around those conflict of interest measures?

Wrightson I’m trying to recall. In fact the only issue is that correspondence that we’ve done, and I can’t recall it all, has been released to you, so if you’ve not got it we haven’t done it.

Mitchell Just very quickly on that. I think that the board prides itself on your political neutrality, so really by screening the child poverty programme 4 days out from our general election it almost put you in a difficult position, didn’t it, because all of a sudden New Zealand On Air who prides itself, and has got a long history—22 years of history—of being absolutely politically neutral in terms of your programming and everything else—did the screening of that child poverty documentary that was funded by New Zealand On Air 4 days out from our general election put you in a difficult position, or did it sort of threaten that political neutrality that you guard so carefully?

Wrightson We didn’t think it was helpful. But as you know scheduling is not within our bailiwick.

Curran Just going back to my line of questioning around Mr McElrea’s actions in sending an email, and it’s debatable as to whether it’s a complaint or not, and it certainly has been perceived within the public arena as a complaint—

McClay But you said clearly it was a question though, didn’t you?

Wrightson Yes, and Ms Curran has a copy of that email, probably in front of her—I don’t, but it was a question.

McClay Are we able to have copies of that? I don’t think other members of the committee have—if you could send them to us.

Curran Do you believe that by raising that issue with the chief executive as well as with the chairman that Mr McElrea had an actual conflict of interest?

Wrightson I think it’s basic governance that a director can ask a question at any time, and that’s what happened.

Cunliffe Yes, but hang on. We talked before, and some people have argued, but we questioned each other at some length about the difference between an actual and a perceived conflict, and, firstly, perceived didn’t matter and then (inadmissible) it did, and then you’ve told us there were recent discussions about ongoing management techniques to deal with the perception issue, and now we’re in the interesting situation where we’ve have an actual instance where the board member concerned has raised an actual question on a political matter just prior to a general election, and so
we’ve moved in this example (*inaudible*) from the realm of perception to
the realm of actuality. Now, surely on that matter, of any matter, of all of
the above, that would have been the most obvious one for that board
member to have absolutely no contact with the chief executive because
that was political by its nature. As other members have absolutely said, it
put the board in a very difficult position.

Wrightson I think our worry was that the screening of the programme at the time
would drag us into the political domain, and it certainly has. So I think
our worries were somewhat justified. I think had Mr McElrea contacted
the broadcaster and asked the question, that would have been absolutely
out of line and of course he didn’t. He asked a question, as any board
member can.

Cunliffe Did you feel under any pressure whatsoever.
Wrightson I did not.

Cunliffe Then you’re a fine chief executive; others might have. (*Interruption*)

Curran Did you write to TV3 immediately, or fairly quickly, after you received
that email expressing strong concern about the timing of that
documentary?

Wrightson You have a copy of that letter.
Curran Did you?
Wrightson Yes. You have a copy of that letter. It was, I think, a couple of days later.

McClay Just before we go on, I am assumin g that over the last year you have done
more than dealt with perceived conflicts of interest, and that’s a new line
of questioning. I hope we can get into some of the other excellent work
that you’ve done.

Lotu-Iiga Moving right on, I’m actually going to refer to your annual report for a
change.

Wrightson That’s why I thought we were here.

Lotu-Iiga That’s right. We’re reviewing your annual report, aren’t we. You talk
about the three values in your annual report. One is innovation, the
other’s diversity, and, of course, you deal with value for money.
Congratulations—I totally agree with your sentiments on value for
money. To have such a low percentage in terms of your administration
and costs, I think other Government departments and other entities have
got a lot to learn from what you’re doing. Diversity, I think, you’ve
touched on quite clearly. Relationships there, you’ve got Niu FM, you’ve
got *Tiki Tour*. I just want to focus on the innovation part. Can you give us
a definition of what you see innovation being? I went through how you’re
dealing with innovation, but I want to get a clearer sense of how you
perceive innovation, or what your definition of it is. Because you talk
about the Platinum Fund and *MakingTracks*.

Wrightson That’s right. Because we’re in the content business innovation has to be
right at the forefront. It works on two levels. One is certainly creativity
and ideas, which is where, as I said, we keep chipping away and scratching
away at broadcasters and going, you know, can we do things differently, can we have something a bit more novel. Can we just stretch our boundaries a little bit here; we can help. And we also look for innovation of course in production technique, particularly in these days and times of quite constrained funding. They have to be really smart and really sharp.

That is the thing about New Zealand programme makers. You probably already know the statistics around drama production in this country, which are always kind of interesting. You know, we have New Zealand drama on screen which is looking and rating the same as international, which is an absolute miracle. It’s just happened in the last 5 years that we’ve had three major series on three major channels. It’s fabulous. The public funding component of them is maybe $600,000 or $700,000 an hour—that sounds like an awful lot of money, until you realise that the international programme that it’s competing with, something like a Desperate Housewives or one of the British ones, they’re made for US$2 million to US$4 million or British pounds an hour. So we’re doing amazingly well. The money is all on screen, and it’s a hell of a lot more competitive and innovative than some of our international counterparts.

Lotu-Iiga That’s good. That’s explained it quite well in terms of what you’re trying to do in that space, in terms of technology advances. In your annual report you also talk about your functions as set out in the Broadcasting Act. It says your main focus, obviously, is different audiences—so that’s the diversity part—then it says that job creation and skills development are also positively impacted through your work. Can you give us some examples about how you do that, in terms of the content?

Wrightson Yes, like Nicole said at the beginning, because we are totally focused on the audience it means that we’re a very pure model. It’s an excellent thing. So we don’t spend money on training or industry support or anything like that. It’s all on content. But what we know is that, in television in particular—with the 1,000 hours or so that we fund—that creates about 2,000 jobs in the sector. The radio world, that we support through Radio New Zealand and community radio, there’s probably another 600 or 700 jobs through that. These are valuable, high-tech jobs. This is skilled tertiary work. They are breeding production crews and creative people, who, as we know, are sought after internationally now.

Lotu-Iiga Just coming down to your table on—I’ll give you the page number, but you probably know it anyway—investments. Just around genre, you’ve had some fluctuations between drama and comedy. We’ve seen quite an increase in the “Special interest/Other”. You’ve referred to “Documentary/Information”. What’s the future of that sort of genre composition, if you like? Where do you see the future of where you are funding these types of programmes, particularly in the coming year?

Wrightson Yes, those four genre are the ones that are specified in the Act. We think the balance is about right, but we look at that very carefully every year. The board has a planning day once a year and it chews through what we know is coming through the pipeline and what we think—as a gap analysis—isn’t there that should be.
Lotu-Iiga  Looking forward, do you guys have a view, have you done that strategic planning for next year? Where do you see that heading? In what directions do you see the composition heading?

Hoey  Yes, yes we have. It is remaining fairly constant for this year as well because our funding has not increased in any way. We are funding more diverse things as well. Where it is at the moment is where we’re hoping to retain it at, through those four genre.

Wrightson  We will be looking for production efficiencies obviously and we might need to rejig the slate a little bit in due course. But what we really don’t want to do is to overbalance into cheap programming. So we like some cheap programming—but it’s the expensive and the riskier programming that is the kind of work we are tasked to do.

Bakshi  You just mentioned that new innovations had been introduced. Can you guide us through what fundings you have allocated for new programmes which show diversity in your funding?

Wrightson  I’m sorry, I couldn’t hear the beginning because the door closed. Could you repeat?

Bakshi  The programmes you have recently funded, can you tell us which are those programmes which show diversity in New Zealand On Air’s funding?

Wrightson  Yes, they are still largely in the “Special Interest” category. We have got one going to air quite shortly called New Zealand Stories, which we’re quite excited about, that is looking at different communities across the country and different make-ups within those communities. So we’re going to see, I think, a fairly broad range of New Zealanders living in a similar area, and we’re going to be bringing those stories to the screen for the wider New Zealand. I think this will be good.

Hoey  The success of the Asian Radio Show on Radio Live too, we’re especially delighted with that and what’s happened there.

Wrightson  We’ve just completed, or are just completing, quite a big piece of research on Pasifika communities as well. Because now that we are looking after the funding for Niu FM and 531pi, it means that we are able to take a wider purview now of broadcasting services for Pasifika audiences and we’re hoping to do some extra work and a good strategy around that this year.

Mitchell  The New Zealand On Air digital strategy has been running for a few years now. Do you feel that that’s a good investment? Can you talk about that a little bit?

Wrightson  Yes, we’re in the middle of rewriting it as we speak. It’s extremely hard, as you know, because it is a fast-moving patch. There are two lines to our strategy at the moment. One was the development and launch of New Zealand On Screen, which was a new platform to get existing content to new audiences permanently, and the other was the Digital Content Partnership Fund, which has funded, I think, something like 16 online, mobile, digital and other projects. The pinnacle of that, of course, was
winning New Zealand’s first international digital Emmy for *Reservoir Hill*. Having said that, what we’ve learnt from that process—because it’s highly experimental—is that the big audiences are still on mainstream broadcast. So we’re now rethinking that a little bit, to think probably in the digital space we have to rely now on projects that are firmly attached to a larger platform, otherwise they just get lost. There is no point throwing it up on YouTube and waiting for people to find it.

**Curran** I’ve got three questions, and because my colleague has one as well I don’t expect long answers from you. The first one is taking things up a bit. Given the move by Television New Zealand to move to a commercial model and away from public broadcasting, given the demise of Television New Zealand 7, which is our only public broadcasting television station in New Zealand, and given the emerging role of Sky on the pay TV channels and its relationship with TVNZ, do you believe that New Zealand on Air, which has the systems in place, including conflict of interest systems, to be the guardian, the custodian, of public interest broadcasting in this country?

**Hoey** Firstly, in terms of public broadcast services I think Māori Television does an extraordinary job in that field. You say that there is no public broadcaster, so firstly I think—

**Curran** It has a different mandate

**Hoey** Yes, it has a different mandate, but it does an extraordinary job in terms of public broadcasting.

**Curran** Do you believe that New Zealand On Air has the systems?

**Hoey** Yes.

**Curran** You do.

**Hoey** That’s why we were set up and it’s how we’ve managed to survive 22 years under different administrations, because we have a very pure and very clear Act.

**Curran** In the light of Television New Zealand’s $19 million net profit for the first half of this financial year, which was, I think, announced yesterday or the day before yesterday, and a payment of $13.8 million dividend to the Crown, why then is it necessary for New Zealand On Air to subsidise the production of a *New Zealand’s Got Talent* show with $1.6 million of taxpayers’ funds?

**Wrightson** Because there is a difference between being popular and being profitable. We are hoping this is going to be one of our big shows for this year. We’re really excited about it. It’s 14 episodes. The production costs are enormous—this is why it’s not on screen. At the moment you have a range of performance-based programmes on screen, you do not see any New Zealand ones and that’s because of the cost and the risk. A public investment of relatively low level—we’ve said it would be up to 50 percent and we’re expecting it will be considerably lower than that—is necessary to underpin it, but we’re by no means the majority investor.
We’re not at all ashamed about funding programmes that people want to watch.

Curran Has New Zealand On Air considered taking up the funding of programmes such as *Media7*, *Backbenches*, and *Court Report*, which are presently on TVNZ7?

Wrightson If they are proposed to us, we’d absolutely look at them, yes. They’re good programmes.

McClay Thanks very much for your time. I was going to make a comment about a New Zealander having to go to Australia to win one of the competitions, but I look forward to hopefully seeing it on our television screens this year. Thanks for the time you’ve given us, you’ve been extremely professional and I’ve enjoyed having you before the committee.

*conclusion of evidence*
2010/11 financial review of the Broadcasting Standards Authority

Report of the Commerce Committee

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Broadcasting Standards Authority

Recommendation

The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of the Broadcasting Standards Authority and recommends that the House take note of its report.

Introduction

The Broadcasting Standards Authority was established by the Broadcasting Act 1989 and is an independent Crown entity under the provisions of the Crown Entities Act 2004. It is a broadcasting content regulator, covering free-to-air and pay television, radio, and election programmes. Its principal job is to determine complaints alleging that broadcasters have breached the codes of broadcasting practice.

Financial performance

In 2010/11 the authority’s total revenue was $1.412 million, comprising $609,000 from the Crown, $751,680 from the broadcasting levy, and the balance from other sources. Total expenditure was $1.375 million, resulting in a net surplus of $36,572.

Audit opinion

The Office of the Auditor-General issued an unqualified audit opinion on the financial statements and non-financial performance reporting of the Broadcasting Standards Authority, rating its management control environment and its financial information systems and controls as “good” (the same ratings as in 2009/10). The authority’s service performance information and associated systems and controls were assessed as “needing improvement” (as in the two preceding years).

Improvements were recommended to the authority’s service performance reporting, particularly in terms of its performance measures and output targets.

Review of regulatory framework

The authority’s view is that its legislation, the Broadcasting Act 1989, is “grossly outdated” in a changing media environment, and it would like to see the Act amended. We note that the previous committee recommended that the Act be reviewed.

In 2011 the Minister of Justice initiated a review of news media regulation through the Law Commission. The Law Commission’s issues paper The News Media Meets “New Media”: Rights, Responsibilities and Regulation in the Digital Age, released in December 2011, considered the regulatory framework in the light of new and emerging media. It concluded that change was needed, and suggested that a new single regulator be created. The authority expressed concern that the larger-scale reform suggested by the Law Commission might delay urgent short-term adjustments.
The authority attributes its significant recent staff turnover to uncertainty about the organisation’s future, and hopes that reforms to its regulatory framework will be effected quickly.

**Investigative function**

We noted that the authority is reactive and cannot initiate investigations, and asked whether among the reforms it sought might be some power of investigation. The Minister can direct a review by the authority, but this has never happened. The authority said there is no media regulation organisation with investigative powers, and regulatory bodies may act only upon receiving a complaint. The Law Commission report suggests that a regulatory body with some investigative function is desirable.

**Radio LIVE decision**

We note that the Electoral Commission recently found that a broadcast by Radio LIVE just before the election was in breach of the Broadcasting Act, and has since been referred to the police. The breach related to an hour-long radio show hosted by the Prime Minister, called the *Prime Minister’s Hour*. As this finding directly contradicted the authority’s decision on the matter in October 2011, we were keen to understand the process by which its decisions are reached. The authority said that ambiguity in its legislation left room for interpretation, and suggested that it could usefully be clarified. It pointed out that its decision was not appealed to the High Court.

**Separation between regulators and politicians**

In the light of the New Zealand environment and the *News of the World* scandal in the United Kingdom, we wanted to explore the issue of influence. The authority said it had never seen any evidence of undue influence from the political sphere on the organisation, and gave an assurance that it always acts with complete independence. The authority noted that the Law Commission report suggests that more separation of regulators and politicians could remove the potential for perceptions of influence. The authority suggested that this issue could be addressed with a media tribunal partially composed of judges, who in New Zealand are perceived to be independent.

**Identifying community standards**

The authority seeks to develop its standards with reference to the communities they are intended to serve, but as New Zealand communities are very diverse, it does not believe there is any easy way to reflect all community values. Once the authority has made a decision on a complaint, it seeks feedback from randomly selected people in the community. It can say to that group, “This is what we have decided. What would you decide under the circumstances?” It believes these outcomes could be quite helpful. It intends to examine the demographics of complainants in terms of location, ethnicity, and age.

The authority said it would consider our suggestion that it consult mayors about this matter, as they exist primarily for the betterment of communities.

**Appeals process**

We learned that 250 complaints were received by the authority in 2010/11, resulting in 236 decisions. Five decisions were appealed to the High Court, and three decisions were
subsequently overturned. We noted that this was a low rate of appeals. We asked whether it was unusual for the majority of appeals to be successful, and requested data on appeals from the last four years. We were told that only a few appeals are made each year, and the rate of success for appeals varies.

The authority said that appeals are a part of the process, and highlighted their usefulness in clarifying standards of acceptability. The authority stressed that its decisions are made quickly, and the appeals process through the High Court permits a more intensive examination.

We suggested the authority develop a performance measure for permissible appeal rates, or set a target for a proportion of decisions to be upheld upon appeal. The authority did not believe this was necessary.

**Performance measures**

Like previous committees, we would like to see improvements in the authority’s statement of intent. There remain unclear links between performance measures, outputs, and financial forecasts. We would like to see the authority develop performance standards that measure its effectiveness. The authority said that it is working to set clearer targets and output specifications; it sees its most critical performance goal as making it clear how it reaches decisions and deals with complaints.
Appendix A

Approach to this financial review
We met on 16 February and 22 March 2012 to consider the financial review of the Broadcasting Standards Authority. We heard evidence from the Broadcasting Standards Authority and received advice 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

Broadcasting Standards Authority, Responses to additional written questions, received 16 March 2012

Broadcasting Standards Authority, Responses to written questions, received 16 March 2012


Office of the Auditor-General, Briefing on the Broadcasting Standards Authority, dated 16 February 2012.

Organisation briefing paper, prepared by committee staff, dated 30 January 2012.
2010/11 FINANCIAL REVIEW OF THE BROADCASTING STANDARDS AUTHORITY

Appendix B

Corrected transcript of hearing of evidence 16 February 2012

Members
Todd McClay (Chair)
Kanwaljit Singh Bakshi
Clayton Cosgrove
David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell
Jonathan Young

Witnesses
Peter Radich, Chair
Susan Freeman-Greene, Chief Executive

McClay Good morning. Thank you for coming and joining us this morning. Can I particularly thank you for being so responsive to the committee and coming at what I know was probably very short notice. We have a very big work schedule ahead of us around financial reviews, and we are keen to get into them quite quickly. So I know that you have had to juggle schedules a little bit, but we are grateful for that and want to recognise the effort you have put in on our behalf. Can I say that we are recording this and we have 45 minutes available to us. I know members will have a number of questions for you, so if you would maybe just introduce yourselves to us—you can see who we are—and, again, thanks for coming along.

Radich Thank you, Mr Chairman. My name is Peter Radich and I’m the chair of the Broadcasting Standards Authority, and with me is Susan Freeman-Greene, who is the chief executive of that organisation.

McClay Fantastic. So, chairman, if you would like to make some opening remarks and maybe run through some issues, if you would like to, then we will come to questions.

Radich Yes, thank you. Can I perhaps start by explaining briefly who we are and what we do. We are one of the smallest of the Crown entities. Our budget is about $1.5 million dollars. About half of that comes
from the Crown and about half comes from industry levies. We always live within our budget. We have about six full-time-equivalents in staff terms. There are four appointed members of the authority itself.

We deal with approximately 250 complaints each year. The complaints that come to us have already been directed to the broadcaster, and they only come to us if the complainant is dissatisfied with the way in which the broadcaster has dealt with the complaints. We obviously uphold some; some we don’t. We are accountable to the High Court on appeal. From time to time some appeals are taken—some are successful; some are not—in the usual way. Some of our complaints involve some pretty major matters of human rights, but many complaints do not, and some complaints are properly categorised as being trivial.

In the past 6 months we’ve been subject to a changing environment—a changing foundation, in a way. The Act under which we operate was passed in 1989. It’s grossly outdated now. It was passed at a time when there was no internet, I think there were two television channels, Geoffrey Palmer was the Prime Minister—it’s a long, long time ago.

Cosgrove They were great days.

Radich They were great days, yeah. There have been very few changes to the Act, and I think everybody agrees that the Act is now outmoded. In the last 12 months we have been asking and signalling a desire on our part to see the Act changed or modified or fixed up in some way. We’ve wanted to see processes renovated. Then, in the period before Christmas, there was the major move form the Law Commission, initiated by the Ministry of Justice, and as a result of that pretty major move, there are now some questions as to whether the house should not be renovated but it should be demolished completely and replaced with something else.

So we are, to some extent, living under a cloud, and we don’t know whether we are red-stickered or green-stickered, or what we are. We are still able to function perfectly well, and we are functioning perfectly well. We’ve decided that we will simply go on with our business. We will make all the improvements that we can make, given the situation in which we operate. If somebody, sometime, decides that the house comes down completely, then obviously we accept that, and we are hoping that what we may do in this next period is such that there may be something useful to be taken out of our house and taken to a new structure if our house is demolished.

So, Mr Chairman, broadly speaking, that’s where we are. We don’t believe that we have any problems. We don’t have any financial issues that we’re aware of. We don’t have any operational issues that we’re
aware of. We don’t and can never satisfy everybody, because we’re making value judgments the whole time. We’re anxious to run a correct and proper process and hope that we do. We try to bring proper professionalism to our job, but we recognise that we are accountable to the public, we are accountable to the High Court, and we are, of course, accountable to you.

McClay

Good. Thank you very much.

Curran

Thank you. Thank you for coming along today, and it’s good to get the opportunity to have a bit of a good look at the Broadcasting Standards Authority, particularly in the context of the changing environment, and, as you’ve rightly pointed out, the work that the Law Commission has done, and the impact of that on you, your functions, and your very existence, which I do want to ask a couple of questions about.

But you made your last comments saying, essentially, that the Broadcasting Standards Authority doesn’t have any problems, and yet that’s sort of juxtaposed with the very much changed environment of the convergence of media between what was traditionally print and broadcasting is now the internet, which has changed all that.

But I want to cut straight to the chase first up and ask—because there is an issue that’s in my mind around the—you know, if you don’t have any problems, how are you existing in this environment, and I guess what is the impact on some of the decisions you’re making? I guess that there is a fairly burning live issue or Radio Live issue at the moment, and I’m keen to know how you reconcile the decision last week of the Electoral Commission that found that the Radio Live programme, the “Prime Minister’s Hour” last year just before the election, that it was an election programme and that it breached section 70 of the Broadcasting Act 1989, which is the same Act which you’re responsible for, and yet that decision was completely counter to the decision that you made on 14 October last year, where you said “We do not believe that on this occasion the mere presence of the Prime Minister made the programme into an election programme.” Those two decisions are completely contrary to each other, and I’d like to know what you think and how you reconcile that.

Radich

There are a good number of questions in there, and if I can perhaps start at the front end where you asked whether we, in fact, have any problems in the changing operating environment. I suppose I can answer that by saying that operating under the existing statute, we are doing that correctly, and, we believe, appropriately, but, of course, that is a narrow part of the overall broadcasting landscape, and we don’t have any control over internet and those sorts of things. They’re obviously beyond our jurisdiction.
I think what I intended to say was that we are following the requirements of the Broadcasting Act as it stands, and we haven’t created any internal problems by doing so. But because the landscape around us is changing, we have, to some extent, been destabilised—not seriously so, but when there are questions about the existence of an authority and whether it should continue, its natural authority, to some extent, does get undermined. We accept that that is simply a function of a changing situation. It’s a consequence of a changing situation. There’s nothing much we can do about that, but what we do say is that the sooner we go from uncertainty to certainty, and the sooner that the reform process is completed, the better, because what has happened is that while the wide reform process has been signalled, the short-term changes have now been put on the back-burner.

At one stage there was a suggestion that there should be some interim changes to the Broadcasting Act to make it more manageable and to make it more efficient in its operation. But we think that now that the whole of the landscape is being proposed to be changed, those short-term things are being put aside. I think I need to say that whether it was influenced by the signalled changes or not, in the past year we have had a change of chief executive and we have had a change of legal manager. We’ve had other significant staff changes signalled and I think, to some extent at least, this may be because people may be wondering about whether their career paths are as secure as they once were.

Curran Can I ask then is that impacting on the decisions that you’re making? Because if we could go to the second part of the question—

Radich We don’t believe so at all. We are presently strongly resourced with our staff, and there is no issue there of inadequacy of resources. Is that sufficient for me to pass to the second question?

Curran I would like to go back to that, but I am keen to get an answer on the reconciliation between the decision that you made last year—October last year—and the decision that was made last week, which are completely contrary to each other.

Radich Sure. Can I start by saying first of all that we are accountable to the High Court for our decisions. Our decisions are reviewable in the High Court. The usual custom and the usual practices in relation to a quasi-judicial body such as we are is that we are not normally questioned about the substance of our actual decisions, because our decisions are seen to speak for themselves. So I don’t think it would be proper for me to talk in too much detail about specific decisions, but I don’t want to duck your question, and I will address your question in this way. The Act under which we operate, the Act under which the Electoral Commission operates—the Broadcasting Act—is, as I said, a very old Act. It’s open to interpretation in a number of
different ways. We interpreted a particular part of the Act in a particular way; the Electoral Commission interpreted that part of the Act in a different way. When we issued our interpretation of the Act, it was open to anybody who was dissatisfied with that interpretation to take an appeal to the High Court. No such appeal was taken.

There were two parts to our decision. The first part required us to interpret a particular part of the Broadcasting Act, and the second part of our decision required us to make a call on whether what had happened was contrary to broadcasting standards. So the complainant in that case had two hurdles to get over. We held that the complainant didn’t get over either of those hurdles, and there’s now a question about whether, in fact, the complainant may have got over, or should have been allowed to have got over, the first hurdle. I haven’t heard anybody suggesting that the second hurdle could have been cleared. It may be that there is such a suggestion, but I haven’t heard it.

And the second hurdle is that the particular broadcast was contrary to broadcasting standards. Now, whether something is contrary to broadcasting standards requires the codes of broadcasting practice to be looked at, and it requires what happened to be evaluated against those standards. Now, the sorts of standards that we are talking about are things like unfairness—was there unfairness in the broadcast? Was there denigration in a broadcast? And when we looked at all of those standards, we couldn’t see that any of them was particularly relevant or that they were able to be sustained by a complainant. And, as I say, to the best of my knowledge, nobody has complained about that part of our decision; it’s the first part that they say we didn’t get right.

Curran

Just before my colleague asks you a question, it appears as if what you are doing is blaming the Act for your ability to interpret it and that it is outdated—that’s what I’m hearing you say. But it appears as if, you know, here we have another organisation which has looked at it in a completely different way, and I’ll just read you a passage from it. They said: “The Electoral Commission said that what matters is whether objectively a listener would regard the programme as encouraging or persuading or appear to encourage or persuade voters to vote against any other party or candidate.” And they said that it is unrealistic for a programme hosted by the Prime Minister or any other prominent politician to be election-free. And yet you said: “We do not believe that on this occasion the mere presence of the Prime Minister made the programme into an election programme.” What I find extraordinary in this is that it’s almost as if you’ve taken completely different interpretations of something—and there’s no doubt that it was an atypical situation—but there’s a very narrow approach, and there’s a much more kind of overarching approach, which the other organisation took. You know, the reconciliation of that I find to be extraordinary.
Radich Can I respond to that by saying that I don’t think it’s appropriate for me to debate the decision that we’ve reached. Our decision speaks for itself. We don’t claim any absolute certainty of result; all of what we do is subject to somebody else reviewing it and indicating whether we’re right or wrong. The Act provides a clear process for anybody who was unhappy with our determination to go to the High Court, but nobody ever did. And so I think it’s a bit rough now when somebody comes and has a different view, a legitimately held different view, to suggest that our genuinely held view is illegitimate. I think that’s a bit rough.

Lotu-Iiga Yeah, it is. Can I just ask a quick supp on that? I’m not going to ask you to relitigate your decision, but a simple question as to do you have trust and confidence in the staff, the men and women who work in your organisation, to make the right decisions?

Radich Can I say that the decision that we made is made by the four members of the authority. The decision is made on the basis of our assessment of the situation. It’s made on the basis of the assessment that our staff make of the decision. We are all people who respect our professional standings. We do our best. We don’t claim always to be right, but we’re confident that we follow correct process. Again, I return to the question— In any process of this kind when there is another opportunity for somebody to correct what they say was wrongly done in the first instance, that should be taken, but it wasn’t taken here.

Lotu-Iiga So the answer is yes—

Radich Absolutely yes.

Lotu-Iiga —emphatically yes.

Radich And I should add something else. At one stage I saw on a blog a suggestion that there could have been some sort of influence, improper influence. I absolutely reject anything of that kind. We are completely free of any influence. I’ve never experienced it. If I did, I would be shocked by it. It simply doesn’t happen, and I think that what has to be accepted is that we have diligently gone about our business and made a decision. Some people say it’s wrong; some people say it’s right. The High Court’s there—

Lotu-Iiga Sir, no one here is impugning your integrity and your ability to do your job.

Radich OK, well thank you, thank you.

Cunliffe I’m going to ask a couple of quick questions that are primaries. The first is I was unclear in an earlier point in your discussion whether you were implying that you thought it was improper for this committee to
ask questions that related to the substance of your decisions. Is that the case or do you believe it’s within our ambit to ask such questions?

Radich

Well, I think that there are levels beyond which it’s difficult to go. I think that—

Cunliffe

So it is possible for us to ask, but you will only answer up to a certain point?

Radich

That’s what I think is the conventional practice.

Cunliffe

That’s fine. Are you surprised that of the five appeals taken against your decisions in the year under review, three were upheld—so the majority of appeals resulted in your decisions being quashed?

Radich

Well, I think that—

Cunliffe

Is that unusual?

Radich

No, I don’t think that’s particularly unusual.

Cunliffe

So in the previous year how many appeals were raised and how many resulted in your decisions being quashed?

Radich

Let me go back to your first point. I think of the appeals that were determined and the ones where we were held not to have done things correctly, the decisions within our authority were split, and I think that on a number of those where the appeal was upheld I happened to be in the minority—and I’m not looking for any compliment as a result of that—but I’m using that—

Cunliffe

The court proved you right.

Radich

Well, I wouldn’t be as bold as to say that, but can I just say that—

Cunliffe

Actually, if I can just—I’m sorry to push back. In a good spirit here, what I’m wanting to do is ask a number of questions and they’re quite specific, so it might be more expeditious if you restricted the answers to the question rather than the question you wished I’d asked, because it’s probably coming next.

Radich

Sure. OK. Give me another one.

Cunliffe

Is it unusual for you to experience a majority of appeals resulting in your decisions being overturned?

Radich

I don’t think that there’s anything usual or unusual. I don’t think—

Cunliffe

OK, so no answer to that. In the previous year how many appeals were raised?
Radich: I can’t recall, but it may have been two.

Cunliffe: Can’t recall? Two? How many of those resulted in your decisions being overturned?

Radich: Again, I haven’t brought those statistics.

Cunliffe: You can’t recall the previous year?

McClay: If you haven’t got the statistics, you could maybe get them to us after—

Radich: I can easily get them to you.

Cunliffe: Could we get 5 years’ worth of data, please: the number of appeals and the judgment of those decisions?

Radich: Yes, absolutely.

McClay: Just, David, on that one—Actually we agreed last week that we were only going to go back 4 years, so 4 years’ worth of information.

Radich: We’ll give you those figures.

Cunliffe: See what happens when you miss a meeting, chair.

Radich: So when you’re asking in any year are you talking about financial year or calendar year, because it’s different?

Cunliffe: On the same basis as the year under review—

Radich: OK, that’s fine.

Cunliffe: —so just go back. For example, you’ve gone back to 2006-07 in previous reporting. That’s obviously a financial year basis, so why don’t we keep it at that. Are you able to self-initiate reviews or are you entirely respondent to complaints?

Radich: We respond to complaints, but there is a provision in the Act which says that the Minister can direct us to investigate a particular area, and we never have.

Cunliffe: Can you instigate an investigation?

Radich: We can’t.

Cunliffe: Did you receive any complaints about the potential impact on editorial neutrality of the Minister for Economic Development, the Minister of ICT, providing loans to broadcasters in an election year which defrayed their spectrum licence fees?

Radich: We’ve had no such complaint of that kind.
That’s interesting. Did you receive any prior complaints on the Radio Live issue that my colleague Miss Curran has referred to, before the one that has resulted in the jurisprudence which we are discussing?

I don’t believe we did.

Did you receive any complaints at all about the previous ownership relationship between the Minister of ICT, RadioWorks, and Radio Live in relation to the forgiveness of spectrum licence fees or the loan [inaudible]?

No, because these are matters which are, in a way, outside broadcasting standards. Our complaints are directed to a particular broadcast rather than being able to be directed to some underlying relationship or policy or whatever.

It would make it more difficult to catch.

A quick one there. Mr Cunliffe was asking about the number of decisions that were questioned—five, three of which were overturned. How many decisions do you make in a year?

We make typically 250.

So would you suggest that five decisions out of 250 being challenged and three being overturned is a significant number? Or would you think that actually you get it right 97 percent of the time—or 99 percent of the time?

An admirable job of leading the witness, it has to be said, but leading the witness, none the less—

I gave him the opportunity to correct—

That’s for other people to judge. But can I say that it ought not be thought that appeals are a negative thing, because whenever an appeal is taken, it gives us an opportunity to reassess what we’ve done. And it also gives an opportunity for us to receive directions from the High Court and to change our course, which of course we do. Can I also make the point that when we make our decisions, we have to make them expeditiously. We have so many coming in that we can’t sit around for days agonising about them and we don’t have any oral argument as such. We don’t have people turning up before us and taking us through all of the issues and allowing us to test all of the issues. We have to have a reasonably quick process. When the matters go to the High Court, they often take several days and they are supported by the arguments of counsel, so it’s a very different and much more intensive process. So I suppose we think that getting through the work that we get through with the very low—what I
could call—reversal rate is not a bad outcome. But, as I say, it’s for others to judge that, not us.

Curran Just following on from what my colleague has asked, have you received any complaints about the child poverty documentary screened on TV3?

Freeman-Greene One.

Curran You’ve received one. And at what stage is that at?

Freeman-Greene It’s a very preliminary stage. It hasn’t been to the board as yet.

Curran Is it public as to who’s made that complaint?

Freeman-Greene No, not at this stage. It hasn’t actually—it’s just in the early process stages. And there’s still time to get more.

Curran Going to the issues that my colleague also raised that you said basically: “Those issues are not within our scope, because we are not investigative as an organisation.” What organisation exists that can investigate issues of political neutrality or non-neutrality, and perceptions or realities of political interference in the media?

Radich I imagine it would be this Parliament. You know more about it than—

Cunliffe How could we do it?

Radich Sorry?

Cunliffe How could we do it? We’re partisan by nature.

Radich I don’t know, but it’s not within our territory.

Curran Given the review that’s been undertaken by the Law Commission of the overall environment of how the media operates and how that has changed, and which I note they describe the BSA—and the Press Council, so it’s not just you—as being pre-internet beasts.

Radich No, we’re not the only dinosaur.

Curran Would you agree that as well as the need for a convergence of some sort of regulation in this new environment, there should also be a role for investigation of issues that are broader? I relate this to the UK scandal—emerging scandal—around the Murdoch empire and other media and how they’ve been operating. So what I’m clearly asking you is do you believe there is a role, an investigative role, for a regulator in the environment as it exists in New Zealand?
Radich: I think ultimately that’s a decision for Parliament, and I can see the arguments in favour of it. I can see that other regulators in New Zealand and elsewhere, whether in broadcasting or whatever, have an investigative role. We don’t.

Curran: Who has an investigative role?

Radich: Well, I think some of the regulators in financial areas and in economic areas, the Commerce Commission, have investigative roles.

Curran: But not in the media. So there’s no investigative role in the media as to how to deal with issues as they arise.

Radich: Well, we don’t have one.

Cunliffe: Nobody else does. Not that you’re aware of, no one else does.

McClay: But largely you’re saying the BSA doesn’t have a role to play and that the legislation doesn’t allow it.

Radich: We don’t have it. And I think that the Law Commission in its paper is suggesting that the new independent body ought to have some investigative function, and as I say that’s a matter for Parliament, not for us.

Lotu-Iiga: Thank you for your report, and just following up—I was on the last select committee, you may recall.

Radich: Yes, I do.

Lotu-Iiga: We did talk about—

Radich: Coronation Street

Lotu-Iiga: Yes, a whole bunch of things relating to the actual standards and the quality of information.

Cunliffe: The nation remembers.

Lotu-Iiga: Just looking at the research part and how you better understand our country’s—You talk about in your report diversity, things are changing, demographics, understanding where public opinion is. You published the report on talkback radio, and if you recall the conversations we’ve had about other areas where you can better engage and get a feel for what our community standards are in a multicultural society and I understand it’s becoming quite diverse. Can you just talk us through, firstly, not only what were your main findings were but also how you in future you better engage and get back to that level of understanding of what the community’s interests are.
Radich

It’s pretty hard because—

Lotu-Iiga

Yes, I know.

Radich

—if you ask somebody—and we often sort of say this—if you ask somebody in Gore what they think of a particular situation, you’ll get one answer. If you ask somebody in Māngere, you’ll get a different answer. How do we blend all of those views and come to some sort of community standard? It’s quite hard. I must say that while it’s tempting to think that you can send out an army of researchers and they will give you the answers, our experience has been that you send out researchers and they sort of come back and tell you what you sort of thought was the case anyhow, and it’s not always that helpful.

Lotu-Iiga

So what are you doing?

Radich

I think that we’re doing our best to connect with as many communities as we can. There are four of us—only four of us—but we come from diverse backgrounds. We’re all completely different people, and we connect into different parts of the community. We’re pretty anxious to try and assess community standards as best we can, but can I give you the best example of the problem that we ran into. There was the programme on Sunday about the Aramoana killings, and in that there was a word used that was said to be unsatisfactory. We all hear the word almost every day of the week, and we are then faced with how we apply those sorts of standards across the community. Three of us thought that it shouldn’t have been uttered. One of us thought it should and that it wasn’t harmful. The court held that it wasn’t harmful. But there are still people debating that issue, and we still get letters saying that the court was wrong and that the one of us who thought it wasn’t harmful was wrong. And there is no ready way of finding an answer for those sorts of dilemmas.

It may be that there is something that can be done, but one of the things that we’re looking to do, to a greater extent, is what we call this litmus testing of decisions. When we make a decision where we think we’ve got the balance right, we then take that decision and we take it out into the community and we find 12 or 20 people, chosen at random, and we explain all the issues to them and we say: “Well, look at what we decided. What would you decide in these circumstances?” Those outcomes are quite helpful, but the experience again has been that if you go to one part of New Zealand you might get a different outcome to that which you will get if you go to a different part of New Zealand, and it shows the diversity of our country, and that’s to be rejoiced in, not to be concerned about. But no easy answers, I think, is the short answer.

Freeman-Greene

Just one other thing that we are going to do is look a little bit more closely at our complainants’ demographics, so actually try and look at who complains, where they’re from, what their demographic is in
terms of ethnicity and age. I think that will provide us with some interesting information about where we need to go, who we access, and who we communicate with well and—

Young Mr Radich, in terms of the random sampling, that litmus test, I’m thinking there’s an eminent group of New Zealanders who come from diverse backgrounds but who all exist for the betterment of their communities. They are our mayors.

Radich Yes.

Young Do you ever sample them?

Radich I have to say we haven’t, but that’s an idea that we’ll certainly take back.

McClay It could be why you look so sane. I wouldn’t recommend that at all, but carry on—sorry.

Radich Yes, we can certainly think about that.

Curran We have a new broadcasting Minister. In the previous term, how many times would you have met with or had contact with the previous Minister of Broadcasting?

Radich I think in the previous year probably three times, probably twice in the Minister’s office, and on one occasion the Minister and his assistants came to us and spent some time talking with us in Cambridge Terrace.

Curran Do you believe that in our environment and in the context of what is happening in other parts of the world, particularly in the UK, that there is a clear enough separation between the broadcasting regulator and the politicians?

Radich Well, I’ve already said that we’ve never seen any suggestion of influence. That’s not to say that it couldn’t happen.

Curran This is a helicopter question.

Radich Yes.

Curran Do you believe that there is a clear enough separation? Do you think that the separation could be more defined or more arm’s length? And do you think it should?

Radich If I can say that the Law Commission thinks that there should be a greater degree of separation, and the Law Commission talks about perceptions of there not being independence. We’ve never heard it alleged that there is lack of independence, but it’s always spoken about in terms of there being a perception, and that’s a hard thing to
grapple with. There’s no perception, for example, in New Zealand, that I’ve ever heard of, that judges who are appointed by the Government are lacking in independence, and I suppose that perceptions can arise in different areas because they may be subject to greater political sensitivities, and, yeah, there may well be a case for a greater degree of separation. There may be—and I think at one stage we mused about this ourselves—a need or a desirability for something like a media tribunal, which is a sort of partly judicial body which is one degree separated further than we are, and that it is seen to be a tribunal coming more out of the judicial stable than something coming out of the Crown entities stable.

McClay Can I just ask, following on from that, the BSA acts with independence at all times.

Radich Of course we do.

McClay You can give us an absolute assurance.

Radich Of course we do.

McClay Since the election have you had an opportunity to meet with the new Minister and how many times?

Radich We met with the new Minister yesterday, and we also paid our respects to Miss Curran yesterday.

McClay And is it unusual to meet with spokespeople from other parties?

Radich Our doors are open. We’re happy to talk to anybody in New Zealand who wants to come and talk to us, but at certain points we will say we can’t discuss those particular issues.

McClay Because you act with complete independence.

Radich We believe so.

McClay Good.

Cunliffe Just a more technical question. You will be relieved it’s not a [inaudible] one.

Radich Sure.

Cunliffe In reading your SOI, it strikes me that the performance measures don’t appear particularly clear, and the output measures and forecast financial information don’t appear particularly clearly linked to it, and I understand that some of the review agencies may have raised some of those issues with you. Given that money is tight right around the
system, Parliament is becoming increasingly focused on entities with sloppy SOIs, what moves do you have in place to sort this out?

Freeman-Greene We absolutely recognise the problem. We're working hard on that. We're working with a board member directly on that issue, in terms of trying to create the linkages from the top of the chain down and vice versa so that we have a much more clear path in terms of the SOI, in terms of the targets, measures, outputs, impact, what difference we made, and why we do what we do.

Cunliffe Can we ask which board member?

Freeman-Greene It's Leigh Pearson.

Cunliffe OK. What do you see, top of mind, as some of your most critical measures of performance?

Freeman-Greene I think they need to be around the way we deal with the complaints. It has to be robust. They have to be robust. They have to be clear and accessible. So we're working quite hard already to try and make some moves there. We have to communicate our information really clearly. I'm not sure that we do that all the time that well in terms of either communicating what we do around our decisions or how to make decisions and how to complain. There's a lot of confusion, for example, of where in the system, if you think about the broadcasters and us, people enter, and I think we need to be looking at that as well.

Cunliffe So do you have any view on whether it's a good thing or a bad thing to have a certain level of appeals or successful appeals?

Freeman-Greene My view on appeals is that they're part of the process, an actual part of the process, and I don't have a view. I mean, I think that what Peter said about that is that if that's part of the process, they can provide a lot of useful information to us and we can learn from them.

Cunliffe So you would be quite happy if you lost all the appeals taken against you at a sitting?

Radich No, I don't think we'd be happy.

Freeman-Greene No, I wouldn't go that far.

Cunliffe You've seen my point. It's not quite value-free—

Freeman-Greene No, but you're talking about that in terms of the measure.

Cunliffe To cut a long story short, I mean I don't think either the public or the politicians believe that the BSA is politicised, but there's a general view, frankly, that it's a toothless tiger and that it's quite rare that you will sustain a sanction against a broadcaster, and that it's very hard to take a successful case that results in action, complicated by, as my
colleague has said, the fact that you don’t have any self-initiating role. Do you believe that amongst your performance objectives there ought to be some measure of your bite, however you might define that?

Radich Can I respond to the first part of the question—the toothless tiger thing. The appeals were taken by broadcasters who considered generally that we were being too tough.

Cunliffe I know, but there’s a risk there that the original complainants may not be well-funded corporate organisations; they might be poor politicians, members of the public, people who can’t afford to sustain judicial action.

Radich Yes, I understand that. There may be some sort of perceptions. We can’t judge those. On the second part of your question, which is whether there should be another performance measure, we’re happy to look at any suggestions as to performance measures of that kind that are actually sufficiently definitive to be able to be used. I must say, being quite frank, I found, coming into the public sector, that a lot of the language is actually quite spongy and hard to understand and hard to measure, and when we looked at some of our earlier writings, in terms of SOIs, I found them hard to understand myself.

Cunliffe It’s called constructive ambiguity, and some people make an art form of it.

McClay We’ve run out of time. Thank you very much for the time you gave us. It was useful and a great discussion. I think David has asked, through the chair, for you to provide us with a bit more information, if you could do that, and the clerk will maybe follow up with you afterwards. But Peter thanks for your time, and Susan, and again thank you for coming at what was a little bit short notice. You’ve done a great job. We might not need to get you back next year, but if we do we’ll give you a bit more notice. How about that?

Radich Thank you, Mr Chairman

conclusion of evidence
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Canterbury and West Coast District Health Boards

Recommendation

The Health Committee has conducted the financial review of the 2010/11 performance and current operations of the Canterbury District Health Board, and the West Coast District Health Board, and recommends that the House take note of its report.

Introduction

The Canterbury District Health Board is the second largest of the district health boards by both population and geographical area, and one of the largest in terms of funding. The DHB provides inpatient and outpatient services from a number of facilities including 14 hospitals of which a significant proportion are in rural areas.

The West Coast District Health Board is responsible for a sparsely populated, isolated rural area in New Zealand, which poses particular challenges. The DHB operates three hospitals, along with various primary health care services.

Since 2009, the Canterbury and West Coast DHBs have been pursuing collaborative governance and management arrangements, the two DHBs share a chief executive (David Meates), and other board members. In vulnerable areas, the terms of clinical appointments specify service in both DHBs; and the Canterbury DHB is considering framing specialist positions as joint clinical appointments, so that specialist clinical services are also available in the West Coast.

Financial and service performance

Canterbury District Health Board

In 2010/11, the DHB had a total income of $1,405,692 million, with a total expenditure of $1,390,943 million, and received a $14.854 million capital charge from the Crown, resulting in a deficit of $105,000. The DHB is on a “single event” monitoring regime by the Ministry as a result of the Canterbury earthquakes.

The Office of the Auditor-General rated the DHB’s management control environment as “very good”, an improvement on the previous rating of “good”. Its financial information systems and controls were assessed as “good”, consistent with the rating received in 2009/10. Its service performance information and associated systems and controls were assessed as “good”, an improvement from the “needs improvement” rating received in 2009/10.

Over the next few years the DHB will receive a $40-million cash injection from the Crown. The DHB advised us that it is not yet in a position to determine the full capital costs of the earthquake damage to its facilities. A major redevelopment of Christchurch Hospital is expected, which would also involve significant capital expenditure over several years. The insurance situation is also complex; however, we note that the DHB is committed to affordable investment.
We are pleased that despite the challenging circumstances, the DHB is achieving nearly all of its health targets. Canterbury DHB is expecting it to be difficult to achieve sustainable service delivery, and successful collaboration with the West Coast DHB. We recognise the commendable way that the DHB has handled the extraordinary circumstances it has been faced with in the aftermath of the earthquakes, and note that it is not likely to get any easier in the near future; we will monitor the DHB’s performance with interest. We would also like to congratulate the DHB on maintaining high standards of care, and achieving nearly all of its health targets despite extraordinarily difficult circumstances. Its success is also reflected in its high ranking against other DHBs in its service performance reporting.

**West Coast District Health Board**

In 2010/11, the DHB had a total income of $130.652 million, and a total expenditure of $137.495 million. The resulting deficit of $6.843 million was substantial, but within the $7.2 million tolerance which had been agreed with the Minister. This deficit is the second highest among the DHBs, and the West Coast DHB has a history of large deficits funded by Crown capital injections. It is therefore on the ministry’s intensive monitoring regime. The working capital position of the DHB remained negative for 2010/11 at $7.4 million, with net cash flow from operating activities also at a negative $2.1 million, although both represent an improvement from the previous year.

The Office of the Auditor-General rated the DHB’s management control environment, and financial information systems and controls as “good”, as it had done in 2009/10. Its service performance information and associated systems and controls were assessed as “good”, an improvement from the previous rating of “poor”.

West Coast DHB is facing substantial financial deficits and clinical difficulties which we will monitor closely, although we are pleased to see improvements in its performance. It is evident that the DHB needs to collaborate with others to maintain its population’s access to services. We expressed concern at the DHB’s limited provision of specialist services, delays in treatment, and the financial implications of travel undertaken by patients to receive treatment in the Canterbury region. We share the DHB’s goal of ensuring that as much care as possible can be provided on the West Coast without patients needing to travel to Canterbury for treatment. For example, a “telehealth” initiative, with virtual rounds and clinics, has been popular with patients, who have been able to receive quality care from specialists in Canterbury without leaving the West Coast.

We asked about the DHB’s standard of service performance reporting, and were informed that there has been a clear improvement as a result of process sharing between DHBs in the region. We note that the West Coast DHB’s property assets are ageing and do not meet current seismic standards, and decisions on replacements will need to be made in the near future.

**Canterbury earthquakes**

**Hospital facilities**

The two large earthquakes which hit the Canterbury region in September 2010 and February 2011, and the numerous aftershocks, caused a great deal of damage. The DHB has estimated the cost of impairment to its land and buildings at $33.8 million; this reflects the reduced market value of land and the estimated cost of restoring buildings to their previous condition. It does not include the effect of increased operating costs or the large
amount of work required to upgrade existing buildings to meet new building codes. These costs are not expected to be covered by insurance, and will need to be funded by the DHB. The DHB suffered damage to its land, buildings, and equipment; of a total of 11,000 rooms, 7,500 were damaged. The DHB expects its insurers to meet a large proportion of the reinstatement costs but it cannot validate the extent of insurance cover or quantify any areas of a potential shortfall until all buildings have been inspected. Maintaining service delivery while undertaking intensive repair work will be difficult for the DHB, which expects such challenges to continue for at least the next seven years. We are aware that some damage to assets such as roads and car parks is not covered by insurance. We understand that the DHB must now make challenging decisions on which assets to repair or upgrade, in order to respond to the future service needs of its community.

Housing

Aware of the acute housing shortage resulting from the earthquakes, we asked whether overcrowding and lack of warm, dry housing in Canterbury present a large health risk. We heard they will do so for some years, and that the DHB is seeking solutions and ways to mitigate the risk to the most vulnerable groups in the community.

Alcohol and drug services

We are aware that the earthquakes have increased the prevalence of stress, and asked whether there had been a resultant increase in the use of alcohol and drug services. We learnt that the DHB’s emergency departments have been seeing less alcohol-related harm, because there is no longer a central business district with a concentration of drinking establishments in Christchurch. However, the DHB is expecting a gradual increase in the use of these services, as more alcohol is consumed in other settings.

Community organisations

With reference to Sir Peter Gluckman’s report on the psychological effects of earthquakes, we note that community organisations provide crucial services for the wellbeing of the community. We asked if these community organisations are under threat from the property shortage and increasing rents. The DHB said it is concerned about this issue, and is working hard to ensure the adequate, effective provision of community health services. We also heard that Health Pathways, a Canterbury information-sharing initiative between hospital and general practice clinicians, has been instrumental in providing support in schools.

Aged care

As a result of the earthquakes 635 residential-care beds have been lost, and we sought assurances that there are plans to ensure the provision of adequate aged care. The DHB told us that better support for older people staying at home has helped to reduce pressure on rest home care.

Other issues

The earthquakes have also contributed to increases in domestic violence, mental health issues, and behavioural issues in children. The DHB would be tested by a major flu or measles outbreak. The DHB expects to see the full mental and physical health effects of the earthquakes emerge in about nine months time. It said that the earthquake-related health burden is slowly increasing, but they are confident that they will get by this winter, while winter 2012/13 will present a greater challenge.
Sustainable service delivery

The Office of the Auditor-General is of the view that without collaboration with Canterbury and surrounding DHBs, the West Coast DHB will be unable to deliver a sustainable health-care system. The Canterbury DHB has been providing clinical support to the West Coast DHB, and the West Coast has been working with the ministry to develop a model that can be sustained within its budget allocation. The model will need to improve the West Coast DHB’s financial viability and service delivery. As the West Coast DHB has a sparse, widely-spread population, the quality and efficiency of its rural service delivery over a large area is a particular issue.

A major sustainability issue is the delivery of acute services on the West Coast, where the urgent need for treatment precludes the provision of services from Christchurch. The West Coast DHB has regular difficulty filling clinical posts, because of its remote location and lack of resources. We understand that this is affecting its clinical viability, and costing the DHB a great deal in outsourced locum replacements. However, we were pleased to hear that these issues are lessening, thanks to collaboration with Canterbury DHB, and three new permanent anaesthetist positions have now been filled.

Collaborative governance and management

We recognise that substantial advantages have occurred at the back-office and clinical levels as a result of the DHBs sharing a chief executive. We heard that the disadvantages of the collaborative governance structure thus far had been difficulty reconciling cultures and board structures, and frequent duplication in reporting.

Community rehabilitation enablement support team

In 2010/11 the Canterbury DHB launched the Community Rehabilitation Enablement Support Team (CREST), an initiative designed to address the long-term financial challenges arising from demographic trends and increasing costs. CREST provides support to patients in their own homes after they have been discharged from hospital. The DHB advised us that the initiative is bringing numerous benefits such as cost savings, greater capacity in the hospital system, and better experiences for patients.

The Canterbury DHB is providing supportive care in community settings to 20,000 people who would otherwise be in hospital. The DHB said that CREST takes a team approach, with nurses and allied health professionals, and has joint protocols with ambulance staff and general practitioners.
Appendix

Approach to this financial review

We met on 2 May and 30 May 2012 to consider the financial review of the Canterbury and the West Coast District Health Boards. We heard evidence from Canterbury and the West Coast District Health Boards and received advice from the Office of the Auditor-General.

Committee members

Dr Paul Hutchison (Chairperson)
Shane Ardern
Dr Jackie Blue
Dr Cam Calder
Kevin Hague
Iain Lees-Galloway
Andrew Little
Barbara Stewart
Hon Maryan Street
Dr Jian Yang

Evidence and advice received


Canterbury District Health Board, Responses to committee questions, received 24 April and 28 May 2012.

West Coast District Health Board, *Annual Report 2010/11*.

West Coast District Health Board, Responses to committee questions, received 24 April and 28 May 2012.

Office of the Auditor-General, Briefing on Canterbury and West Coast District Health Boards, dated 2 May 2012.

Organisation briefing paper, on the Canterbury District Health Board, prepared by committee staff, dated 27 April 2012.

Organisation briefing paper, on the West Coast District Health Board, prepared by committee staff, dated 27 April 2012.
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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 to 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.
2010/11 FINANCIAL REVIEW OF CERA AND EQC

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.\footnote{KSJ Associates, review report on Christchurch 2012 recruitment processes, http://canterbury.eqc.govt.nz/sites/default/files/ksi-recruitment-review-report.pdf.}

**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.
Appendix B

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.
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 Ōamaru 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.
It’s called adventure tourism, I think.

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.

Is that an invitation?

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—

They didn’t see everyone.

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 Capital and Coast District Health Board, the Hutt District Health Board, and the Wairarapa District Health Board

Report of the Health Committee

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Recommendation

The Health Committee has conducted the financial reviews of the 2010/11 performance and current operations of the Capital and Coast District Health Board, the Hutt District Health Board, and the Wairarapa District Health Board, and recommends that the House take note of its report.

Introduction

The Capital and Coast, Hutt, and Wairarapa District Health Boards share the operation of many health services for the wider Wellington region. People within the Wellington health sub-region can use services from any or all of these DHBs at various times, so a collaborative approach has the potential to improve health services for all three districts. Therefore, we decided to examine the three DHBs together, to evaluate the level and quality of services provided to the whole Wellington sub-region of the central region, as well as the individual performance of each DHB.

The Capital and Coast DHB is responsible for providing healthcare and disability support to the approximately 300,000 people living in Wellington city, the surrounding suburbs, the Porirua Basin, and the Kapiti Coast including Waikanae. It operates the Wellington Regional Hospital, the Kenepuru Community Hospital, the Kapiti Health Centre, the Kenepuru mental health campus, and other community-based services, and provides tertiary services to the central region.

The Hutt DHB is responsible for providing healthcare and disability support to the 145,000 people who live in the Hutt Valley. It operates the Hutt Hospital and provides specialist services to the sub-region.

The Wairarapa DHB is the second smallest DHB, serving nearly 40,000 people spread over a large area. Its cover extends from the Rimutaka Hill and Ocean Beach in the south to Mount Bruce in the north, and includes three territorial local authorities (Masterton, Carterton, and South Wairarapa). It operates the Wairarapa Hospital in Masterton, and contracts independent community-based organisations to provide services.

Financial and service performance

Capital and Coast DHB

In 2010/11, the Capital and Coast DHB’s total revenue was $885.332 million, with a total expenditure of $916.919 million, resulting in a deficit of $31.587 million. This result was within its target.

The DHB went into deficit in 2006/07 as a result of beginning a major hospital rebuilding programme; it forecasts that costs related to the new regional hospital for 2011/12 will
amount to $42.055 million. We were told that fiscal savings may be possible in the area of clinical supplies, and we look forward to seeing progress in this area. We note that the deficit has decreased steadily over the last three years; but we are concerned that the DHB still has the largest deficit in the sector, and that the region lacks the critical mass to support the tertiary health services it is trying to maintain. The DHB has a recovery plan, and a Crown monitor has been appointed; it is also being intensively monitored by the Ministry of Health. We note Capital and Coast’s goal to reduce its net deficit to $20 million by 2011/12.

In 2010/11 Capital and Coast has focused on financial recovery, clinical leadership, service improvement, and health gains. The DHB performed well against most of its ministerial targets, but is continuing to find it difficult to achieve the six-hour target for emergency services, its smoking cessation targets, and cardiothoracic volumes. We hope to see progress in these particular areas, and would also like to see Capital and Coast reduce waiting times for elective surgery. We support Capital and Coast’s priorities of streamlining administration, eliminating duplication, and collaborating with its sub-regional partners in many areas.

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance report of the Capital and Coast DHB, rating its management control environment, financial information systems and controls and service performance information and associated systems and controls as needing improvement. All the ratings achieved were consistent with those received in 2009/10, with the exception of service performance information, and associated systems and controls, which were previously rated as “poor”. We recognise that these deficiencies have been partly resolved, but we expect to see further improvement in these areas.

Hutt DHB

In 2010/11, the Hutt DHB’s total revenue was $419.884 million, with a total expenditure of $416.978 million. After operating activities, finance expenses, and asset sales the DHB realised a deficit of $2.874 million, which was slightly lower than budgeted. The DHB shares a Crown monitor with Capital and Coast, and its operation relies upon the Capital and Coast and Wairarapa DHBs in order to avoid unsustainable pressure on its own resources. The DHB plans to break even in the 2011/12 year.

We were pleased to hear that the Hutt DHB is due to complete its $82-million hospital redevelopment project on schedule in 2012. The DHB is progressing towards ministerial targets, and is focusing on achieving financial and clinical sustainability. Recently the Community and Public Health Advisory Committees, and the Disability Support Advisory Committees of Hutt DHB and Capital and Coast DHB have combined.

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance report of the Hutt DHB, rating its management control environment, and service performance information, and associated systems and controls as “good”. The DHB’s financial information systems and controls were assessed as needing improvement. Both ratings were consistent with those received in 2009/10. We are pleased to note that service performance information and associated systems and controls improved to “good”.

2010/11 FINANCIAL REVIEW OF THE CAPITAL AND COAST, HUTT, AND WAIRARAPA DHBS

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2010/11 FINANCIAL REVIEW OF THE CAPITAL AND COAST, HUTT, AND WAIRARAPA DHBS

Wairarapa DHB

In 2010/11, Wairarapa DHB’s total revenue was $127.441 million, with a total expenditure of $131.045 million, resulting in a deficit of $3.6 million. The DHB is being monitored intensively by the ministry, and the Crown Health Financing Agency classified its credit rating as “not stable”. We are concerned about this deficit, and the financial sustainability of the DHB, as it is unlikely to be able to recover easily because of its small population base, and heavy dependence on Capital and Coast and Hutt DHBs for secondary and tertiary services.

In 2010/11, the DHB managed to deliver savings of $5.6 million with an efficiency programme, without compromising its service delivery standards. The DHB is continuing to face increasing demand, and is struggling to provide health services within the available funding. It is forecasting further deficits. For the 2011/12 year the DHB has secured funding from the ministry and is seeking efficiency gains and cost savings through collaboration with the other two DHBs.

We are satisfied that the DHB is committed to achieving a more sustainable financial position over the next two to three years, with predicted savings of $1.6 million for 2012, with an overall deficit expected of $4.3 million. We will continue to monitor the DHB’s progress in reducing future deficits, and improving its financial sustainability.

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance report of Wairarapa DHB, rating its management control environment and financial information systems and controls as “good”. Its service performance information and associated systems and controls were assessed as needing improvement. The ratings were the same as those it received in 2009/10, with the exception of service performance information and associated systems and controls, which has improved from a previous rating of “poor”.

Regional collaboration

The three DHBs work collaboratively on regional issues, and are taking a joint approach to addressing gaps and inequities in health services. Existing regional initiatives include back-office efficiencies—for example, Hutt DHB provides payroll services to the Wairarapa. Capital and Coast delivers about 31 percent of Hutt’s elective surgery each year, with Hutt delivering about 12 percent of Capital and Coast’s elective services. Additional collaborative initiatives include a memorandum of understanding between the Capital and Coast and Hutt DHBs for the joint provision of speech language therapy to paediatric patients.

A number of cross-board appointments have been made to the DHBs to foster closer collaboration in the planning and delivery of health services for the wider Wellington region. Dr Virginia Hope was appointed by the Minister as joint chair for both the Capital and Coast and Hutt DHBs. Capital and Coast deputy chair Peter Glensor is also an elected member of the Hutt Board. Committee chairs Keith Hindle and Peter Douglas, along with Crown monitor Debbie Chin, have also been appointed to both the Capital and Coast and Hutt DHBs. There have also been cross-appointments to clinical roles in the Hutt and Wairarapa DHBs, such as a joint Director of Allied Health. We are pleased with the
strategic collaboration taking place between the DHBs on a number of fronts, and look forward to hearing about future initiatives and achievements.

**Information Technology System**

For sub-regional integrated service delivery to succeed, a shared information system is vital. The central region is proposing a Central Region Information Systems Plan (CRISP), which is supported by the sub-region. The system is to be shared by all clinicians in the central region, providing access to a single set of clinical records, regardless of patients’ location, at an estimated cost of $38 million. CRISP is designed to encourage the sharing of patient information between health professionals, to ensure safe and effective care. It is intended to be aligned with other regional initiatives, and National Health Information Technology Board programmes. It will include a regional imaging archive for all regional DHBs.

Patients will also be able to talk to health professionals when they need to, using various communication technologies. We asked how hard it had been to achieve reporting consistency between DHBs, and were informed that proposed solutions are on the agenda for 2012, which will be aided by the recent development of standardised definitions, and the sharing of clinical records.

**Research and education**

We asked about the Capital and Coast research and education unit’s ability to attract good clinicians. We heard that the unit is highly valued by clinicians and that the culture of learning and research contributes to better patient care. The research and education unit has developed strong linkages with Otago and Victoria Universities, and is crucial to the classification of Capital and Coast as a viable tertiary education provider which can retain adequate staffing.

**Workforce issues**

We asked what the DHBs are doing to help retain and recruit nurses. We were told that the DHBs are currently working on this issue, creating clear career pathways, investing in development and training, and providing inter-disciplinary training.

**Rheumatic fever**

We were concerned about equitable access to outpatient services for Māori and Pacific people suffering from rheumatic fever. We heard about a programme being undertaken by Capital and Coast DHB to reduce the incidence of rheumatic fever among school children and their families in East Porirua. The programme caters for about 1,600 children in nine primary schools. We support the programme, and the potential inclusion of more schools.

**Aged care**

We asked what planning is being done to ensure senior citizens are being well cared for. We were informed that general practitioners have been working with rest homes, and nurses are being up-skilled in caring for the elderly to reduce the need for hospital admissions. We were also pleased to hear that Wairarapa DHB has the capacity to provide dementia care and has spare residential beds available.
Mental health services

It has been brought to our attention that access to secondary mental health services for Pacific people is particularly difficult. We were interested in the Wairarapa DHB’s clinically-led mental health and addiction services group, which is the first integrated mental health and addiction programme in the country. The programme is led by Pathways Care New Zealand, and has delivered 10 percent savings while improving patients’ access. More patients are now living in the community with support rather than in supported accommodation, which is proven to improve patients’ experiences and their health outcomes.

Oral health

We are aware of a deficit in training for dental care in New Zealand and we wanted to know what was being done about it. We were told that investments are being made in this area.
Appendix

Approach to this financial review

We met on 4 April and 23 May to consider the financial reviews of the Capital and Coast, the Hutt, and the Wairarapa District Health Boards. We heard evidence from the Capital and Coast, Hutt, and Wairarapa District Health Boards, and received advice from the Office of the Auditor-General.

Committee members

Dr Paul Hutchison (Chairperson)
Shane Ardern
Dr Jackie Blue
Dr Cam Calder
Kevin Hague
Iain Lees-Galloway
Andrew Little
Barbara Stewart
Hon Maryan Street
Dr Jian Yang

Evidence and advice received


Capital and Coast District Health Board, Responses to committee questions, received 30 March and 27 April 2012.


Hutt District Health Board, Responses to committee questions, received 30 March and 27 April 2012.


Wairarapa District Health Board, Responses to committee questions, received 30 March and 27 April 2012.

Office of the Auditor-General, Briefing on Capital and Coast, Hutt and Wairarapa District Health Boards, dated 4 April 2012.

Organisation briefing paper on the Capital and Coast District Health Board, prepared by committee staff, dated 2 April 2012.

Organisation briefing paper on the Hutt District Health Board, prepared by committee staff, dated 2 April 2012.
Organisation briefing paper on the Wairarapa District Health Board, prepared by committee staff, dated 2 April 2012.
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Career Services

Recommendation

The Education and Science Committee has conducted the financial review of the 2010/11 performance and current operations of Career Services, and recommends that the House take note of its report.

Introduction

Career Services was established on 23 July 1990. On 30 August 2011 its name was changed to Careers New Zealand. Career Services is a small organisation which coordinates career development strategy with various other organisations. It reports on two output classes: working with other providers to improve the careers system, and providing career support services to the public. Over the last 18 months, the leadership of Career Services has changed considerably, including changes through redundancies, and its strategic direction has been redefined.

Organisational issues

Funding

In our hearing with Career Services, we noted the organisation’s non-Crown funding had been reduced in the last financial year, and asked if there was any opportunity to increase it. The organisation is not charged with making a profit, but wants to increase contract revenue to boost its ability to do its work. We were informed the reduction in contract revenue was the result of less use being made of their services by public-sector organisations whose spending capacity had diminished. We heard that Career Services is involved with Government departments, such as Inland Revenue, to help staff understand that if they are made redundant, they have the skills to go somewhere else, and help that transition. Career Services is seeking other ways to get a better return from government funding, such as working with the Department of Corrections to help prisoners move into work upon release, and hosting conferences to generate revenue.

We noted the work done by Career Services to reduce costs, and asked if they had found other opportunities for efficiencies. We were told that it would be difficult to reduce costs further without affecting the front line, but some measures are being taken, such as reducing the organisation’s geographical footprint by moving to a mobile workforce, and sharing offices with other organisations. There is also a renewed effort to reduce head-office administrative overheads. We were told these are the only avenues left for cost-reduction. We received an assurance that next year Career Services will not go over budget, but heard that staying within budget is likely to become increasingly difficult. New Zealand First expressed concern that current budget levels were inadequate for the service to continue to target and expand its services to its target markets.
Staffing
We noted Career Services’ 17 percent staff turnover, which the service attributed to four factors: the web-based nature of the work, which attracts a relatively young, mobile workforce; higher wages offered by other organisations; career opportunities elsewhere (which by its nature the organisation promotes), and changes in leadership. Career Services suggested that increased turnover reflected the leadership restructuring, but this did not affect service delivery. The organisation recognised, however, that a national shortage in qualified career practitioners is a problem. Career Services is working with professional organisations such as the Career Development Association of New Zealand, to raise professional standards in careers guidance.

Careers system
We heard how Career Services is working to help transition youth into employment. Career Services is partnered with Work and Income in a new “Youth Services” initiative which targets at-risk youth with extra support in addition to what Career Services normally provides for people re-entering the workforce. Career Services’ small size and budget forces it to focus on coordinating assistance from other organisations, rather than working individually with job-seekers; this is done by Career Services’ partners in community initiatives, particularly in the Pacific Island community.

Career Services told us that capacity issues are becoming more pressing, as it is seeking to increase its reach. Career Services acknowledged a need to improve coordination with universities, and is developing guidelines for universities to help them improve their careers support. There is a trend towards vocational training and education starting from a younger age, so Career Services regards expanding into schools and targeting students in Years 7 and 8 as important. The organisation works closely with 60 schools to help raise their capability in careers advice. These schools are often self-selected; in future Career Services plans to be more insistent with schools that are identified as poor performers. The organisation hopes to improve its coordination with the Education Review Office and thus its targeting of schools for assistance. We heard that the organisation’s current funding for professional development of teachers is insufficient.

We heard about Career Services’ efforts to bring together all the organisations helping students transition towards careers, including the recent Capable Auckland forum, which took a systems approach to career development. This model worked so well that it is being extended to other regions. Invitations to the forums were sent to school principals; Career Services welcomed our suggestion that Boards of Trustees also be invited. We hope that these forums continue to prove successful.

We heard that the large number of sources of information, such as the competing industry training organisations, causes confusion. Career Services is seeking to consolidate the competing sources of information for the benefit of job-seekers. This has already been done in Christchurch, where the Canterbury Careers website has consolidated information from 15 different websites in a single site.

Career support services
A key obstacle to finding work can be job-seekers’ lack of understanding of the skills they offer potential employers, and their transferability. This applies both to students and to
people re-entering the workforce. Career Services has developed a user-friendly website to help users recognise their skills, and understand what careers they are suited to. Website analytics are used to track usage, to help improve the website.

We recognise that early intervention is important to prevent students from making poor choices that reduce their subsequent study and career opportunities. We heard that 40 percent of students change or dramatically alter their course of study after their first year at tertiary level, so Career Services is seeking to help them to make the right initial choice before they start studying. Career Services has also been working with schools to ensure that when students leave school, they are “work ready”, for example helping students to prepare a CV, and encouraging them to register with Career Services.

We were told that Career Services is working towards ensuring better informed consumers (students, teachers, parents, and employers), and thus more appropriate expectations. We are pleased that this initiative will include an emphasis on vocational pathways, and that the new approach focuses upon the learner. We trust that this will improve outcomes for students, and those seeking work.
Appendix

Approach to this financial review
We met on 4 April and 9 May 2012 to consider the financial review of Career Services. We heard evidence from Careers New Zealand, and received advice from the Office of the Auditor-General.

Committee members
Nikki Kaye (Chairperson)
Hon Simon Bridges
Catherine Delahunty
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O’Connor
Scott Simpson
Dr Megan Woods

Evidence and advice received
Career Services, Annual Report 2010/11.

Office of the Auditor-General, Briefing on Career Services, dated 4 April 2012.

Career Services, additional information, received 5 April 2012.

Career Services, handout, received 4 April 2012.

Career Services, responses to written questions, received 22 March 2012, and 24 April 2012.
# 2010/11 financial review of the Charities Commission

Report of the Social Services Committee

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Charities Commission

Recommendation

The Social Services Committee has conducted the financial review of the 2010/11 performance and current operations of the Charities Commission and recommends that the House take note of its report.

Introduction

The Charities Commission is an autonomous Crown entity established under the Charities Act 2005 to register, support, and monitor charitable organisations in New Zealand. Its functions include compiling and maintaining the Charities Register, monitoring registered charitable entities to ensure they remain qualified for registration, educating and assisting charities on matters of good governance and management, and taking action against registered charities that are not complying with the Act. As of April 2011 there were 25,684 registered charities. In the 2010/11 year the commission processed 2,638 applications for registration, 23,770 annual returns, and 7,735 notices of change.

In 2010/11 the commission's total revenue was $5.894 million and its total expenditure was $5.480 million, resulting in a net surplus of $414,000. The commission received a “very good” rating for its management control environment and a “good” rating for its financial information systems and controls from the Office of the Auditor-General. The Office of the Auditor-General found that reconciliations between the annual returns and the financial system were held only as electronic files; there were no hard copies available as evidence of the preparation and review by different staff. The commission has since changed its work process to maintain hard-copy evidence of the reconciliation process.

In 2009/10 and 2010/11 the commission received “needs improvement” for its service performance information and associated systems and controls. The Office of the Auditor-General found that some of the commission’s performance measures in its statement of intent were based on survey responses, and it needs to provide more context for them in the annual report. The commission also needs to ensure it has adequate systems for reporting on the new performance measures it intends to include in its 2011/12 annual report.

Disestablishment

Part 3 of the Crown Entities Reform Bill currently before the House seeks to disestablish the Charities Commission and transfer its functions to the Department of Internal Affairs, except for its charities registration function, which would be carried out by an independent board of three people with the support of the department. The intention is to improve the delivery of the commission’s services by giving it access to the resources of a bigger department, including information technology. If the legislation is passed, the transfer will take effect from 1 July 2012. The commission noted that quite a few of its projects have been put on hold because of the likely transfer, but that there is no evidence that this is affecting its performance as yet. We heard that the commission would have preferred to
see the first principle review of the legislation as expected by Cabinet to be completed before undergoing a change of this magnitude. Some of us are very concerned about the proposed transfer of functions and disestablishment of the commission, because of lack of evidence of cost savings, and the chance that the cost of the changes may outweigh any potential savings once the costs of redundancy payments and breaking contractual agreements are taken into account.

The commission’s staff turnover for 2011/12 to date is 25 percent, compared with 20.5 percent in 2010/11 and 15 percent in 2009/10. The commission acknowledged that morale was being adversely affected by the prospect of the proposed transfer, but it has been working with the Department of Internal Affairs to keep staff advised on developments and has provided career transition coaching for affected staff. Staff in exit interviews have mentioned lack of job certainty and not wanting to work in a large government department as factors contributing to their leaving.

Some charities have expressed concern that the independence the commission has developed over the years may be compromised once its functions are transferred to the Department of Internal Affairs. We commend the commission for its work in the sector to date, and we look forward to its good work continuing once the transition to the Department of Internal Affairs is complete.

Website

The commission makes a large amount of information available on its website, along with its application processes. It received about 50 percent of registration applications online, and about 83 percent of annual returns were filed online. The commission has been encouraging more charities to use its website, by means of workshops, by referral from its call centre and other government departments, and by pre-populating annual returns completed online, saving time for charities filing online. There is so far no analysis of the savings made by the online service, but the commission’s primary concern has been customers’ convenience, which is assumed to provide cost savings to both customers and the commission. The commission says it continues to offer the same level of service and quality of information to charities that do not use the online service.

Evaluation and workload

As over 75 percent of registered charities have provided at least two years’ worth of financial data in their annual returns, the commission can now analyse the data to find areas or groups within the sector that represent a non-compliance risk. The commission is also working with the Inland Revenue Department on its risk profiling methodology. The returned data has indicated certain risk areas, including charities sending money out of New Zealand, charities with commercial purposes, and inactive charities. The commission’s monitoring and investigations team has a peer review process to ensure the quality of work being completed.

The commission predicts that it will process over 22,000 annual returns in 2011/12, and that the number of notice of change applications will increase as a “logical consequence” of the time that has elapsed since the commission’s establishment and the subsequent registration of entities. The commission has hired additional analysts to deal with its backlog of cases, and once their task is complete it expects its workload to stabilise.
Appendix

Approach to this financial review

We met on 28 March and 9 May 2012 to consider the financial review of the Charities Commission. Evidence was heard from the Charities Commission and advice received from the Office of the Auditor-General.

Committee members

Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Jo Goodhew
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

Paul Goldsmith replaced Melissa Lee for part of the hearing of evidence.
Denise Roche replaced Jan Logie for part of the hearing of evidence.
Richard Prosser replaced Le’aufa’amulia Asenati Lole-Taylor for part of the hearing of evidence.
Phil Twyford replaced Jacinda Ardern for part of the hearing of evidence.
Michael Woodhouse replaced Melissa Lee for part of the hearing of evidence.
Dr Jian Yang replaced Hon Jo Goodhew for the hearing of evidence.

Evidence and advice received


Charities Commission, Response to pre-hearing questions, dated 21 March 2012.

Charities Commission, Response to written questions, received 5 April 2012.


Organisation briefing paper, prepared by committee staff, dated 21 March 2012.
2010/11 financial review of the Children's Commissioner

Report of the Social Services Committee

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Children’s Commissioner

Recommendation

The Social Services Committee has conducted the financial review of the 2010/11 performance and current operations of the Children’s Commissioner and recommends that the House take note of its report.

Introduction

The Children’s Commissioner is an independent Crown entity that operates under the Children’s Commissioner Act 2003. Its purpose is to promote the rights, health, welfare, and wellbeing of children and young people aged up to 18 years. Its responsibilities include inquiring into and reporting on matters relating to children, monitoring Child, Youth and Family and other persons, bodies, and organisations exercising a function or power conferred by the Children, Young Persons, and Their Families Act 1989, promoting public awareness of children’s rights and the development of policies to protect the rights of children and young people, advocating for and on behalf of children and young people, monitoring complaints, researching matters relating to children and young people, and promoting the United Nations Convention on the Rights of the Child.

2010/11 performance

In 2010/11 the Children’s Commissioner’s total revenue was $2.223 million and its total expenditure was $1.989 million, resulting in a surplus of $234,000. The Children’s Commissioner received “very good” ratings from the Office of the Auditor-General for its management control environment and its financial information systems and controls, but, as with 2009/10, “needs improvement” for its service performance information and associated systems and controls. Deficiencies that were identified in 2009/10 have been resolved in part.

However, some improvement is still necessary. The commissioner’s service performance framework needs further development in three areas: all outcomes need to be set at the society level; specific measures should be set at the impact level, with targets covering the three years of the statement of intent; and systems to measure performance should be designed and documented at the time of setting the measure. The commissioner has sought advice from the Office of the Auditor-General, and identified best practice for performance reporting used by overseas children’s commissioners and child guardians to assist in improving its performance framework. The Children’s Commissioner is working to address these areas and we expect to see further improvements in the next financial year.

Policy and programmes

The new Children’s Commissioner has taken up his role part time, enabling him to continue to work part time as a paediatrician for the Hawke’s Bay District Health Board. The commissioner mentioned several examples of programmes and initiatives working well
in Hawke’s Bay, such as the board’s specialist programme to diagnose and treat foetal alcohol spectrum disorder and the “B4 School” health checks.

**Child poverty**

The Children’s Commissioner has established an independent expert advisory group on solutions to child poverty, consisting of 13 New Zealanders who are experts in their respective fields. The advisory group will work parallel with the ministerial working group on poverty. The commissioner believes there are three ways of defining child poverty: income (after housing costs), hardship, and outcome. All three need to be considered when defining poverty, and each have their own subsets; for example, “outcome” encompasses health outcomes, education outcomes, and justice outcomes. The commissioner is aiming for the expert advisory group to apply all three definitions when it is examining child poverty.

**Child-focused lens**

There are many different Acts, policies, and organisations—both Government and non-governmental—focused on improving the health and wellbeing of New Zealand children. The commissioner noted that these are not competing ideas or processes; rather, they are different lenses being applied to one issue. The same concern was raised about child poverty and the number of committees, reports, and inquires underway on the issue. The commissioner said that his office’s independence is of importance when pulling together different viewpoints and advice, and he thought that the expert advisory group would be able to contribute a “helpful” report on child poverty.

A child-focused lens could also be applied to legislation, with all legislation being scrutinised via child impact statements to ensure children’s rights are respected, protected, and fulfilled. This would bring New Zealand in line with the United Nations Convention on the Rights of the Child, which requires countries to review their laws relating to children and to meet the standards set by the convention.

Article 33 of the convention states that countries should take “all appropriate measures, including legislative, administrative, social and educational measures,” to protect children from drugs. The commissioner, who has a role in monitoring compliance with the convention, noted that any programmes aimed at reducing children’s and young people’s exposure to and use of drugs needs to be evidence-based. The work of the Smokefree Coalition and its success in reducing cigarette-related harm was used to illustrate this point.

**A Children’s Act**

The commissioner repeated his desire in his submission on the Green Paper for Vulnerable Children that there be a Children’s Act. The aim of the Act could be to specify goals and targets likely to reduce the vulnerability of children; the goals and targets could have Ministers and chief executives of departments responsible for them and held to account. Some of us are of the view that there should be a highly ranked Minister for Children or that the Children’s Commissioner should be an Officer of Parliament, according it the status that the Parliamentary Commissioner for the Environment currently has.
Monitoring and reporting

In 2008 the Children’s Commissioner and Child, Youth and Family agreed on a framework to enable the commissioner to carry out the responsibility of monitoring and assessing the quality of services provided under the Children, Young Persons, and Their Families Act. This framework was reviewed and updated in 2010. The commissioner’s office visited nine Child, Youth and Family sites and 12 Child, Youth and Family residences, and conducted six inspections under its national preventative mechanism responsibilities. The commissioner’s opinion is that Child, Youth and Family is continuing to make improvements in many areas. The commissioner is extending his monitoring of services to “section 396 providers” (non-Child, Youth and Family providers, as set out under section 396 of the Children, Young Persons, and Their Families Act).

The commissioner is scoping the possibility of re-establishing the clinician-led “scorecard” of child health services to develop standards for the planning and delivery of child healthcare services, and of publishing an annual “state of the nation’s children” report that will coordinate relevant data from ministries to identify issues for public policy.
Appendix

Approach to financial review
We met on 4 April and 9 May 2012 to consider the financial review of the Children’s Commissioner. Evidence was heard from the Children’s Commissioner and advice received from the Office of the Auditor-General.

Committee members
Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Jo Goodhew
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

Hon Annette King replaced Jacinda Ardern for the hearing of evidence.
Katrina Shanks replaced Hon Jo Goodhew for the hearing of evidence.
Rino Tirakatene replaced Su’a William Sio for the hearing of evidence.
Holly Walker replaced Jan Logie for the hearing of evidence.

Evidence and advice received

Children’s Commissioner, Response to written questions, received 20 April 2012.

Office of the Auditor-General, Briefing on the Children’s Commissioner, dated 4 April 2012.

Organisation briefing paper, prepared by committee staff, dated 6 March 2012.
2010/11 financial review of the Commerce Commission

Report of the Commerce Committee

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Commerce Commission

Recommendation
The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of the Commerce Commission and recommends that the House take note of its report.

Introduction
The Commerce Commission is an independent Crown entity under the Crown Entities Act 2004, and a body corporate under Section 8 of the Commerce Act 1986. The Minister responsible for the commission is the Minister of Commerce, and it is monitored by the Ministry of Economic Development. The chief executive is Brent Alderton, and the chair is Dr Mark Berry.

Financial performance
The Commerce Commission produced a surplus of $8.638 million for 2010/11. Its total operating income was $44.163 million, mainly from Crown revenue, exceeding the forecast of $41.444 million.

The commission returned $5.3 million in levy-based funding to the Crown. It retained a surplus of $3.2 million resulting from a combination of a downturn in merger activity and changes to its structure and processes, in order to build up reserves to manage risks.

We congratulated the commission on its performance over the past year, and asked whether it could manage its increasing workload with a reduced budget. We were assured that it had very dedicated staff and adequate resources to fulfil its mandate.

Public information and education
We were informed of a pilot scheme the commission undertook in the non-residential construction sector to gauge understanding of the Commerce Act. It observed poor understanding and compliance, and attempted to remedy this using a range of media.

We were concerned that less than two thirds of the business and consumer education budget of $1.707 million was spent. The commission told us that using cost-effective media such as DVDs allowed it to reduce costs, and stressed the need to hold funds in reserve for unexpected events.

We asked whether the commission’s study was related to ensuring compliance during rebuilding in Christchurch. The commission told us that it chose non-residential construction as the subject of the pilot to limit the terms of reference for the scheme. It said, however, that it was taking a proactive role regarding compliance in the rebuilding of Christchurch.
We asked whether the commission had examined alternative tender processes for rebuilding work in Christchurch, such as online tendering. The commission said it had not examined these processes in detail.

**Fringe lending**

The commission explained its work with the Financial Markets Authority on fringe lending. The commission examined a base group of 400 lenders in Auckland, and found 15 high-risk lenders, with whom it then worked to change their practice. We were concerned that the commission might not have found all the lenders that fall into this group, which it acknowledged, but said that the project is developing. We will monitor this issue in future reviews.

**Regulation**

**Telecommunications**

The previous committee expressed concern that legislative changes might limit progress on opening up wholesale access to the copper line connecting a phone user to the local exchange. We noted reports up to 2010 of growth in the rate of unbundling of copper local loop services and broadband delivery, and a general increase in investment and competition.

We asked whether the commission believed Telecom New Zealand Limited or Chorus, the network infrastructure division, might retain any disproportionate market power following the demerger of Telecom. The commission said Telecom is now a stand-alone retail operator with no advantage over any of its other competitors, and there are no economic incentives for Chorus to favour any retail operator over another. The commission noted that the amendments to the regulatory regime it had suggested to the previous committee were implemented, and believes the regime is working well.

We expressed some concern about the potential effect on competition if Chorus were to purchase any local fibre companies. The commission told us that the existing telecommunications regulatory regime would cover such acquisitions, and that any acquisitions that might lessen competition in a market are subject to the Commerce Act.

We asked the commission whether, in view of convergence in broadcasting and telecommunications industries, it thought the regulatory environment for broadcasting and telecommunications should converge. It emphasised that the issue was not related to broadcasting, as content delivered over telecommunications networks, such as video on demand, was not subject to broadcasting regulations. We noted that Sky Television, the dominant provider of pay television, was developing online content, and asked whether the commission had foreseen any resultant issues. It told us that this matter was currently the subject of consultation on the draft report on the telecommunications development levy, and it expected to have a draft decision in a few weeks. We will follow this matter with interest.

**Electricity**

We were concerned to note that electricity prices have increased for domestic consumers over the past decade, while prices have declined in real terms for industrial and commercial
consumers. We asked whether the commission perceived any issues of market power at the industrial or the commercial level that might explain this disparity. The commission had not examined retail pricing over the past year, but told us that it had the power to examine this issue, and had investigated aspects of electricity generation in 2009. It found that the market was competitive and there were no breaches of the Commerce Act 1986.

We asked whether the commission could investigate the possibility that electricity generators were using the limitations of the national electricity grid to drive up prices. It told us that it had powers to investigate such issues, but that this issue was also covered by the 2009 investigation.

Another area of interest was potential Commerce Act issues arising from any future sale of state-owned assets. The commission explained that if 49 percent of the shares in a state enterprise were sold, those shares would remain subject to the business acquisition rules of the Commerce Act. If part of a minority shareholding were purchased by competitors, or if a shareholding were large enough that the shareholder could be perceived to have significant influence on the enterprise, it might raise Commerce Act issues, which the commission would need to look into. The 51 percent shareholding retained by the Crown would not be examined by the commission, as the status of those shares would not have changed. The commission pointed out that it did not have the power to impose price controls; that is a matter for the Minister.

**Shipping**

We were concerned that the power of shipping companies could be used to play off New Zealand ports against each other, and that, previously, exemption from section 36 of the Commerce Act 1986 could have facilitated this trend. We were told that if a large shipping company were to compel New Zealand ports to compete with each other for business, the Commission would have jurisdiction to examine the issue under section 36 of the Commerce Act. We will follow developments in this sector with interest.

**Dairy**

The committee has adopted a formal inquiry on the price of milk in New Zealand, and we asked whether the commission’s review of dairy markets might include any investigation of the retail price of milk. The commission said that its review, which will conclude in July 2012, focused on the farm-gate milk price.
Appendix A

Approach to this financial review
We met on 1 March and 22 March 2012 to consider the financial review of the Commerce Committee. We heard evidence from the Commerce Commission and received advice 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

Commerce Commission, Responses to written questions, received 16 March 2012.


Office of the Auditor-General, Briefing on Commerce Commission, dated 1 March 2012.

Organisation briefing paper, prepared by committee staff, dated 27 February 2012.
Appendix B

Corrected transcript of hearing of evidence 1 March 2012

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
Iain Lees-Galloway

Witnesses
Dr Mark Berry, Chair
Dr Ross Patterson, Telecommunications Commissioner
Brent Alderton, Chief Executive
Kate Morrison, General Manager Competition

McClay: Dr Berry and colleagues, good morning and welcome. Thank you for giving us time to come before the committee today for the financial review of the Commerce Commission. [Introductions]

Berry: We have prepared a paper, which is being distributed, and I won’t talk to that. Rather I will just give you a highlight of some of the key points that we would like to raise in a preliminary way.

2010-11 has been a busy year for the commission. We’ve delivered a substantial work programme, at the same time also seeking to achieve increased efficiency, so those have been the drivers for us this year.

Just a couple of matters of immediate moment to us. First, litigation. This has been a year of unprecedented litigation for the Commerce Commission, and there have been two major drivers for that. The first is the litigation around the Part 4 regulation under the Commerce Act, and we were asked for the first time to set input methodologies for electricity, gas, airports regulation. We had always anticipated merits reviews or appeals, and it was our hope that they would be heard in 2012 but we found ourselves embroiled in some very lengthy judicial review proceedings. So that had a
significant impact on our workflow this year, and I’ll come back to that later.

The other major piece of litigation is the ongoing air cargo cartel case. This is a long-running case against eight named airlines, and it’s to do with price fixing for security and fuel charges between the airlines. There was a stage one hearing that lasted for 1 month in court arguing jurisdiction. The airlines pled that they were not caught by the Act because their conduct was outside the jurisdiction. We won that stage one hearing in the High Court and the stage two substantive hearing is now set down for February 2013. Six months’ court fixture time has been set down for that case.

Another matter of immediate moment to us has also been fringe lending. We have been proactive in this sector. In September last year we carried out compliance visits in the lower Auckland area. We did this in conjunction with the Financial Markets Authority. Out of the 400 based lenders we looked at we identified 15 at high risk, and we ended up giving warnings to a number of those, and have begun to see significant improvements in disclosure under the Credit Contracts and Consumer Finance Act. We are planning follow-up visits in Auckland this year and we also will look to move the pilot Waikato and Bay of Plenty.

I should just emphasise here we do endeavour in this important area of consumer law to pursue cases where appropriate. We often seek penalties, but we do have a real focus on seeking compensation for consumers. I will give you the numbers for 2010-11 for penalties and compensation under both credit contracts and fair trading. We achieved penalties of $39.5 million and compensation for consumers of $52.3 million.

Another matter which is of immediate moment to us is the dairy industry. Since we appeared before the select committee last year we have been actively involved in a number of matters. Most recently we have been working with MAF and MED officials in respect of proposed changes to the Dairy Industry Restructuring Act. We have recently agreed to do a so-called dry run of Fonterra’s farm-gate milk price under its manual. So our task is to do this dry run looking at the proposed amendments to the Dairy Industry Restructuring Act. We look at that Act and then we will be asked to do an assessment of Fonterra’s milk pricing manual against those terms of reference. The project is in formulation but for the moment the expected completion date for this task is at the end of July this year.

A significant achievement over the last year is that in our regulation branch the set of the input methodologies was an enormous task for us to achieve, and we did meet the deadline of December 2010. To give some feel for the magnitude of the task, our reasons for our decisions ran into over 2,000 pages of length.

Turning to our competition branch, it’s been business as usual, but I should emphasise that we have an increased focus on advocacy. Seeking to help
businesses to understand the Commerce Act and to comply with it has immediate benefits to the economy. This lies very much at the heart as to why we have the legislation. We undertook market research through Research New Zealand, given that the Commerce Act turned 25 last year, and we discovered a quite significant lack of awareness of the Commerce Act, its provisions, and compliance with it. So we’ve seen this as a real need to begin driving understanding and to promote an advocacy role. We did a pilot start-up in the construction sector where again we found low levels of compliance of knowledge. We also discovered evidence of a practice known as cover pricing, and this is where the tenderers coordinate their bidding patterns.

What have we done since then? We’ve done presentations to the Construction Industry Council and Registered Master Builders Federation, and held a number of other town hall meetings. We’ve done 15 articles in industry publications with wide outreach. So we are continuing to penetrate this industry as one of our target areas and continue to particularly monitor cover pricing practices. Our next project we are scoping for advocacy is in the health sector.

Just one other thing I’ll note on advocacy, which is related to it for awareness, is that we did do a Fair Trading Act video, where we did the eight or nine major cases that have been through the courts, and we got actors to do a live video. That’s had very high penetration, and most recently we are partnering now with schools through the Ministry of Education for that to be part of school curriculum.

In the paper I’ve outlined I’ll just very briefly go through some of our other business as usual achievements. The Fair Trading Act continues to be very busy. I’ll highlight just two of the areas mentioned in the paper. The first is telecommunications. We have a so-called centre of excellence where we have dedicated staff doing telco Fair Trading Act work. It is still continuing to be a very high-level area for complaints.

We are finding that compliance is a real issue and problem in the sector, so we are beginning to work alongside the telco companies and work with them. We have a good working relationship with some in terms of going through the problems that they experience, and we share with them the complaints to see if we can come to resolutions.

None the less we still do prosecute in significant cases of non-compliance, and one example last year was prepaid phone cards. The turnover of that is NZ$70 million to NZ$90 million a year. That’s how much the public spends on these cards. We did a lot of analysis of a number of these cards and discovered that in fact the minutes claimed were not being delivered on these prepaid phone cards. So we took two prosecutions and had penalties against Tel.Pacific of $100,000, and Compass Communications was penalised $140,000 in the District Court.
One other aspect of our Fair Trading Act work at the moment is the low level inquiry unit. We started this about 2 years ago so that we could deal to the very small cases in an efficient way, and it has been a success story. I will mention just one example for this year. Protecta Insurance was not stating that persons had the ability to cancel insurance arrangements, and so we had a number of complaints about this cancellation fee problem, and the fee hadn’t been disclosed in their policies. We spent a small amount of time with Protecta pointing the problem out. They agreed to reimburse 840 policyholders, amounting to compensation of $44,471. The cost to us of running that file was $850, so that we had very low cost, and for that achieved a very significant consumer outcome.

The other area of competition branch work that is significant still is the cartel arena. We are coming to the end of our major international cartel cases. Air cargo I have already mentioned. The other major cartel case that has moved through the system this year is freight forwarding, which is another similar one of these international cartel cases. We brought an action against six airlines. Five have now settled in court with penalties amounting to $7.45 million. We just have one remaining case where Kuehne + Nagel is still pleading jurisdiction. We have a finding in the High Court that the case is in the jurisdiction of the New Zealand Act, but that company is appealing to the Court of Appeal. So there is just that one piece of litigation left.

Turning to regulation matters, I’ve already given you an introduction and I will just outline the judicial review litigation that we faced in the course of this year. There were extensive challenges to us brought by Vector, Transpower, Wellington Airport and Christchurch Airport. We had engaged in consultation and hearings over close on 2 years, and we’d done it on a cross-sector basis, given common issues. We also had quite strict timetables for filing submissions, and so on.

Those plaintiffs launched a wide-ranging attack on our processes and argued that our processes had been flawed and we should be required to go back essentially to square one. There was a 3-week hearing in the High Court and we prevailed on every issue but one. The court held that we needed to do further consultation around Transpower’s cost of capital leverage. So we had a total outcome of victory, but for this we needed to do a small amount of extra consultation, and that is under way.

There has been no appeal of that judgment, which now means that the court can move forward and set the timetable for the long-awaited merit reviews. Progress is already beginning in terms of doing that timetabling, and there is the prospect that a significant part of this case will be heard now in the period from September through to December this year, but that still awaits coordination of the court and parties to the litigation.

The other major judicial review we faced was what is known as a starting price adjustment input methodology, and I’ll try not to bore you with the detail of this. The Act sets out a whole lot of input methodologies that we
had to set—asset valuation, WACC and other things like that. When the legislation was in its bill form, there was reference at one point to the commission having to do a starting price adjustment input methodology, and when the matter came back to select committee. Before the bill was enacted that matter was removed from the bill.

So we took it very much as a signal that the legislative history indicated that there was no need for us to do a so-called SPA IM. This matter was argued, and there are some technical arguments both ways around it, but the court found that in fact it was necessary for us to do a starting price adjustment input methodology. So that's where we ended up in a situation of an adverse finding about us and needing to do a further task.

We have lodged an appeal in this case, and that is being heard on 22nd and 23rd of this month, so the appeal will be disposed of promptly. But in the interim time we have been doing work on the SPA IM, so regardless of the outcome of the Court of Appeal we will not have done anything to delay the process, so that if we win the appeal we will go back and do our price path resets as we had initially intended, and we had done a lot of work on that. If we are unsuccessful on the appeal we simply continue with our SPA IM work stream. So that is the current state of that litigation.

Just two other matters. Transpower price increases have been a matter that has attracted some attention. We are required to determine the maximum revenue that Transpower may charge each year based on a regulated rate of return. The maximum revenue we have set for the next 3 years recognises the need for significant capital investment for Transpower. For example, major committed projects such as the HVDC Cook Strait cable are on hand, as is the 400 KV North Island upgrade.

But the commission has undertaken a rigorous methodology setting out rules that it has put in place for future CAPEX approvals. Two key aspects of that is the need to consult interested parties, and there is also a need to meet an investment test that forecasts a net positive benefit to the electricity market. I should also add that transmission only constitutes 10 percent of consumers’ bills, so where there was a significant price increase as a result of our agreement to the extra CAPEX on Transpower this year, bear in mind that a 20 percent increase in CAPEX expenditure for Transpower converts to a 2 percent increase on the consumer’s account.

Finally, I’ll mention very briefly, airports. We have set information disclosure requirements and input methodologies for airports. They were set as part of our December 2010 package. Under the legislation we are required to report in 2012, or such other date as each of the airports sets its new airport charges. We are expecting to commence work and to produce three separate airport reports for each of Auckland, Wellington, and Christchurch airports.
I should hasten to add this is not a price path regulatory regime like electricity and gas. All we are being charged to do is to report on the information disclosed and how that measures up against the purpose statement of the regulatory provisions, so we are being asked to opine on the extent to which the information disclosure meets the objectives of the Act. In other words, if we look at our asset valuation and WACC input methodologies, and look at the information disclosed by the airports, does that disclose that there may or may not be excessive pricing, which is one of the key purpose statement limbs contained in the Act.

I'll pass very briefly, with your indulgence, to Dr Patterson to give a brief update on the telco work stream, and then, for the financials there is a very brief statement from our CEO, if that’s of assistance.

Patterson

Competition in telecommunications markets has continued to improve. In the fixed line market the number of unbundled exchanges has increased to 141. Those exchanges serve more than 90 percent of urban lines. That’s far more unbundling than was ever predicted would happen back in 2007. Bundled voice over IP broadband packages—voice-over IP—are making inroads into the market with significant lower costs to consumers, and in the mobile market the recent entrant infant 2degrees has increased its subscriber share to 18 percent, and that market is now characterised by intense competition between the big operators.

If I just outline the major work that we’ve done over the period, we completed the standard terms determination for a mobile termination access service, which set the price and non-price terms for voice and text termination rates, which are the wholesale rates paid between carriers. In addition, we extended the number portability determination for a further 6 years to 2016. The ability of customers to switch service providers while retaining their telephone numbers remains a key component of the competitive telecommunications landscape. We completed two competition reviews for backhaul for unbundled copper loops and unbundled bitstream access, and we found in the case of the unbundled local loop that competition was widespread and regulation doesn’t apply in that area. Regulation only applies where markets aren’t competitive.

In the monitoring and enforcement area we were active, and particularly in relation to Telecom’s non-discrimination obligations under its operational separation undertakings. In September 2010 we reached a $1.6 million settlement with Telecom over its loyalty discount offers. Subsequently, we investigated a claim that Telecom was providing a service to its own retail business that allowed it to offer voice services from the exchange in conjunction with broadband services from a cabinet when it did not provide that service to its competitors. The commission concluded that Telecom’s conduct breached its non-discrimination obligations, and in October Telecom paid $31.6 million compensation to the companies who had been harmed by that conduct as well as $250,000 towards the
commission’s costs. In both cases affected parties were compensated promptly, and expensive and lengthy litigation was avoided.

A major focus last year was of course the ultra-fast broadband and rural broadband initiatives, which culminated in the passing of the amendment Act in June 2011. The commission provided advice and analysis to officials, covering a wide range of industry issues, including the implication of structural separation of Telecom. The commission also made submissions to the select committee on amendments necessary to the bill to establish an effective regulatory regime.

In the period since the passing of the Act and Telecom’s structural separation on 30 November the commission completed a number of tasks, which were set out in the legislation. It averaged the price of local loop unbundling. It set the terms for access to a new service, a low-frequency service, and reviewed all standard terms of determination to make consequential changes that were necessary because of the amendment Act. The commission continues to be involved in a number of activities giving effect to those amendments, including information disclosure under the various undertakings, the asset-sharing arrangements between Chorus and Telecom, and a number of other operational matters.

Under its monitoring activities the commission published its annual monitoring report and an international benchmarking report, and just last week held a 2-day conference on demand-side issues affecting the uptake of ultra-fast broadband. Participation at the conference was limited to 400, and that was well over-subscribed, so the commission webcast the conference. The webcast was viewed by four and a half thousand people in 23 countries, and the conference Twitter-feed reached over 400,000 people and had more than a million in questions. So we’ve taken better use of modern technology stakeholder engagement to a new level.

Finally, in November 2011 the Supreme Court held that the commission had made errors of law in relation to determining the TSO for years 2004-05 and 2005-06, and the commission is now reconsidering those determinations in accordance with the Supreme Court ruling. Thank you.

Alderton I’ll be brief. In terms of our continued financial performance, as an organisation during 2010-11 we determined to look for better and more efficient ways to carry out our work. In 2010-11 we spent less than was budgeted and returned $5.3 million in levy-based funding to the Crown, although a little over $3 million of that was transferred to the 2011-12 year. A surplus of $3.2 million in general markets activity resulted from a downturn in merger activity, new streamlined processes, and our organisational restructure.

Our restructure over the last 2 years has allowed us to move to a more streamlined and efficient way of working. We have reduced our headcount, partly as a result of that structural change, but also partly due to the peak of
our Part 4 work having passed. We now have a business plan establishment of 183 permanent and fixed-term FTEs and are currently delivering with 169 FTEs, of which 155 are permanent. As a consequence of that fall in our overall staff positions over the past 3 years we’ve also been able to reduce our accommodation costs this year.

As a matter of principle we manage our expenditure within our funding. We have retained some surpluses in accordance with our output agreement to build up reserves, effectively using the commission’s balance sheet to underwrite our litigation activity, and this will be particularly important over the next few years as the commission faces unprecedented levels of litigation, particularly in the Part 4 area. The financial pressures in this area will be met by our litigation fund and reserves.

Overall, the commission is well placed to meet the challenges imposed by a tight fiscal environment. The changes we have made internally mean that we can remain an effective competition authority and economic regulator within the funding levels that we currently receive. Thank you.

McClay Thank you very much. Colleagues: who’s first?

Cunliffe A comment and then a few questions. Probably around the table we share an appreciation for the work that the commission does. Your report is a very tight and tidy one, and considerable effort has obviously gone on to improving performance measures and the structural reforms at a contained cost at the same time that workload has gone up. So if I might turn to you, Commissioner, a lingering concern would be that as the workload is continuing to increase but the resource base is not, whether there are pressures upon the commission’s ability to deliver on its mandate, which is, I think, widely regarded as a very important one.

Berry I think we have an ability to deliver on our mandate. Inevitably, we can’t do every case that comes to us, and so we have very carefully structured screening criteria. For example, it’s always been that we’ve had in excess of 15,000 Fair Trading Act complaints each year. We screen them according to consumer detriment and other tests such as that, so I think it has to be appreciated that we can’t do everything and we do prioritise, and I think we do that quite effectively. We have a very dedicated staff. If I can just mention just one thing: with that input methodology work stream, staff did work extraordinary hours to actually achieve those kinds of deadlines. We are very lucky to have a dedicated panel of commissioners and staff who do go the extra mile to achieve matters. But the short answer to the question is that we have adequate resources to engage in the current mandate.

Cunliffe In the electricity industry you’ve been doing some work in terms of ensuring that consumers are protected and markets are effective. Taking a 10-year view of the market, there’s been considerable desegregation in the price path between the domestic and the industrial and commercial tariffs, and the domestic tariff has risen sharply and the (inaudible) has declined in
real terms. Does the commission perceive any issues of market power at the industrial or the commercial level that might explain why small consumers seem to be facing much steeper pricing increases for electricity than large ones?

Berry  
I expect the question is largely directed to generators’ and retailers’ pricing conduct, but we’ve had under particular scrutiny the electricity distribution and transmission charges. It’s not a matter that actual levels of price and the generation in retail markets are not markets that we have had under investigation within the last year or so, so I have no immediate answer to the question you’ve raised.

Cunliffe  
Does the commission have any proactive powers in relation to looking at generation or retail should it wish to use them? Should it leave it as prima facie evidence?

Berry  
If the issue is whether or not there is excessive pricing or matters like that, there is the ability for the commission to consider whether or not to engage in a price control inquiry where we would do an investigation and a report to the Minister, recommending whether or not there was a problem that should be looked at. I should hasten to add that in the time just before I commenced my appointment at the commission there had been a major look at certain aspects of the generation market, and after an investigation into that there was a finding of no breaches of the Commerce Act. As part of that report there was also an indication that there was nothing that was looking to trigger a price control Part 4 kind of inquiry, given the dynamics of the competitive market with the auctioning at the generation level, and so on.

Cunliffe  
I appreciate that you’ve got a much broader brief and more cross-sectors at the moment, and that we have the Electricity Commission able to drill down in more depth. If, though, for example you saw evidence of perhaps gaming of grid constraints by a generator to force up prices, would that be a matter of concern potentially to the commission?

Berry  
We have powers to look at that. I mean, it might have a monopolisation angle to it. I would wonder, given you’ve got four generators, whether any of those would trigger a section 36 inquiry. Technically, you would conventionally start to think about that as a monopoly issue—question mark. But if there is an underlying question about whether prices are higher than they would be in a competitive market, it would point you in the direction of a Part 4 inquiry. As I mentioned before, we did touch on that at the conclusion of the wholesale electricity market report about 3 or 4 years ago.

Cunliffe  
So one of the protections for consumers currently under reserve protection, if you like, is the good corporate citizen requirements under the SOE Act for those generators which are currently State-owned. The Government has signalled its intention to move to a partially privatised model where it is
intending to sell up to 49 percent of those assets and Solid Energy. Were that to come to pass, would the strictures of the SOE Act continue to apply?

Berry

Look, I can’t say I’m an expert on the SOE Act. I just haven’t immediately given that any thought, I’d have to say.

Cunliffe

Perhaps I’ll rephrase the question in terms of more the securities legislation. I realise this might straddle yourself and the FMA, but in terms of the rights of any potential minority shareholders, if a board was presented with proposals for a series of investments which had a rate of return higher than the hurdle rate and their—for the sake of argument—current average returns, and the majority shareholder was capital constrained and didn’t wish to contribute to that, what might a minority shareholder have in respect of its profit being sub-optimised by that decision?

Berry

I think the observation you made at the start of the question is the answer. It’s not something—we are not a securities regulator; that is a matter of which the Financial Markets Authority would have expertise to advise upon. To the extent that we would have any relevance to the proposed sell-down of 49 percent of the shares in these SOEs, they would still be subject to the business acquisition rules of the Commerce Act. So if you ended up in a situation where a significant shareholding or part of that 49 percent was suddenly subject to cross-holding between competitors, that may raise Commerce Act issues. We would certainly look into that kind of an issue. But outside of that it’s not apparent to me that under the Commerce Act the business acquisition rules would require any scrutiny in relation to that proposed transaction.

Cunliffe

If a hybrid entity, for example in the electricity industry, became a takeover target and minority shareholders wished to proceed with what they perceived to be a profitable move or takeover offer, the majority shareholder did not—might that raise any Commerce Act issues or reflect in any way upon your commission’s obligations to consumers?

Berry

I don’t see that that would have an immediate Commerce Act implication. The issue that arises is whether or not an acquirer achieves a sufficient level of holding to be able to exert some kind of influence over the company. We straddle often difficult cases where you get somebody holding 10 percent or 19.9 percent—does that confer influence such that you ought to regard them as an associated person. For the most part, our findings would indicate that those kinds of holdings would not be likely to raise those kinds of concerns. But there are some cases where, with other factors, you may start to get problems of association between a minor shareholder being a competitor of the company whose shares are acquired.

Cunliffe

Right. So if you had the same investing entity investing across, let’s say, all three generators—let’s say Contact decided to buy 10 percent of each of the three—might that raise some Commerce Act issues for you?
Berry We would look at it along the lines I've just outlined. The question is would that 10 percent confer upon, on that example, Contact—would it give them any ability to influence the competitive decision-making process of the target company.

Cunliffe That’s the potential influence on the competitive decision-making process?

Berry Correct.

Cunliffe It could potentially be substantial if one company owned cross-shareholdings across the industry?

Berry It may, but the kind of indicators that you look at for that is the spread of the shareholding representation on the board, any kind of cooperative or other agreements between parties, and if you have a situation where you’ve got one majority shareholder at, say, 51 percent and a very widespread of other minority shareholder—

Cunliffe They may be less likely to run—

Berry Yeah, I mean the history of cases would tend to reflect that that kind of level of shareholding is not likely to trigger a business acquisition opposition from us.

McClay Just a supp on that. Where there was a majority shareholder who had a majority in all four of the examples that David’s given—say, 51 percent—would that create any undue concerns for you along the lines of this question? So four SOEs that are under mixed-ownership models, and one party—in this case it’s the Crown—has 51 percent in each.

Berry They are the existing shareholders, so there is no transaction. They’re not acquiring 51 percent. They are the existing shareholders, so there is no acquisition that would be under scrutiny for that 51 percent. What would be under scrutiny is the transaction to sell the 49 percent. That was always the model, and the Act makes it clear that Crown entities are subject to the Commerce Act. The behaviour of all of these SOEs is still subject to the trade practice rules of the Act, as are business acquisitions, but there is no acquisition of the 51 percent in the relevant sense.

Cunliffe Going back to the chairman’s intervention, in the event that the current issues around the cross-shareholding, which is 100 percent, are mitigated by the Crown’s obligations, or the board’s obligations, sorry, under the SOE Act, and if the effect of the changed ownership framework is effectively to remove the SOE Act provisions—we know, for example, that would be the case in respect of the Treaty clause, where the Government has said that they will unilaterally take on 100 percent of the obligations with 51 percent of the shareholding—might the move away from the SOE Act cause the commission to look again at whether the cross-shareholding that the chairman’s described might be an issue?
Berry  I think the competition criteria are very much stand-alone and aren’t impacted by any other kind of ancillary considerations. It simply comes back to very traditional competition analysis about what the actual level of influence or control is within each of these generation companies. Question one, so you work that out, then the question of how they compete against each other is something that is another matter again.

Cunliffe  My final question on this line: if you saw significant increases in the (inaudible) price appreciation in the new environment, might that cause you to be proactive in examining structure and conduct issues in this market?

Berry  If you’re looking at an industry that looks as though it’s non-competitive and prices are being charged as if you’ve got a monopoly provider of a good, it does come down to that question as to whether or not you ought to do a Part 4 inquiry into that market. So that always is the residual power that we have to do an inquiry and to make a recommendation. But at the end of the day we have no power to impose price controls; that becomes a matter for the Minister.

Cunliffe  Switching sectors for a second, to what extent does your freight forwarding work look at the impact of ownership control in shipping lines and their interaction with our ports?

Berry  The freight forwarding case has entirely been airfreight—that litigation. So that’s where that matter lies.

Cunliffe  Is the commission taking any action or doing any research in the area of shipping?

Berry  There is no current work stream in relation to the shipping work stream at the moment. We have had some discussions with the Productivity Commission around their recent report, but bear in mind that there are exemptions in the Commerce Act, which have some grey boundaries to them.

Cunliffe  And which the Productivity Commission is, as I understand it, advocating that those exemptions be removed.

Berry  For the ones—they draw a rateable and a non-rateable distinction between the rights and arrangements, and so they are recommending—

Cunliffe  But would you be concerned from a public welfare point of view if, hypothetically, say, a very large shipping company was able to exert strategic influence on the industry such that it perhaps might cause a—what would you call it—a race to the bottom of terms and conditions in the ports as they play one port off against another to secure throughput if ports weren’t fully occupied? Would that fall within any of your powers of jurisdiction to look at the issues arising from dominance in the shipping market as opposed to the efficiency of the ports?
Yes, we would have jurisdiction under our monopoly provision to look at the monopsony power of a shipping conference line, if in fact they were able to depress prices around the ports and that was having an adverse impact. Section 36, our monopoly section, covers not just monopoly but it also covers monopsony pricing conduct, and so—

Might I then signal some interest in that area going forward, giving the appalling situation at the Ports of Auckland currently. We shall see how that plays out, but I imagine that the influence of the shipping companies might be a matter of somewhat higher public interest going forward.

I'll come back to you.

Thank you Dr Berry, and as David has said, congratulations on the work that the commission has achieved this last year. I want to come to the construction sector, which you have done a considerable amount of work on. In your report you've stated that the construction businesses are not aware of competition law and this may be affecting competition for non-residential building projects. In fact, in your statement you said that, if I heard correctly, that there's a low level of compliance, and you talked about cover pricing and issues such as that. You've looked at the non-residential construction, presumably because there is a large capacity for subcontracting as opposed to residential. Is that the reason for that? Also, looking at the fact that with the Christchurch rebuild and the incredible amount of construction taking place down there, is part of what you've done to ensure that there is the correct competitive environment for that to occur so that the property owners are getting the very best result from this process?

I will take you through a number of angles on that. We ask questions of people: “Do you know that price fixing is unlawful, and if you discovered it who would you tell about that?”, and a lot of people thought they might talk to Consumers Institute or the Police, and it was remarkable that a lot of people didn't really know which agency had primary responsibility for it.

We simply looked at a non-residential pilot because we had a need to do a very targeted start point in one of the outreach advocacy-type programmes. In the course of that we discovered that, in accordance with our general research into the Act's awareness, again, it was very low in that area there. I haven't got the figures, but from memory something like only 30 to 40 percent of businesses interviewed would have had what you would describe as a suitable degree of awareness.

In the course of that we did discover these cover pricing practices, where an architect, or somebody, would put out a plan to bid for three people, and suddenly it was, you know three credible bids, but a pattern emerging that one person was getting a turn to win the contract. So we're hopeful that our education in that is starting to have an impact. We are monitoring that sector, so we are looking out for any continuation of that kind of conduct.
We are also hopeful that by getting the profile we have on this that others in the building sector will become aware of Commerce Act obligations, so that ripple effect is hopefully coming through.

Turning to the Christchurch rebuild scenario, I should add that we have actually been working quite closely with the agencies involved in the rebuild of that city, given the need to get an efficient outcome to the rebuild of the city with a whole range of needs to meet—different insurance needs, and so on. So we’ve actually been proactive and have talked under that umbrella with various practices. We’ve had a number of scenarios bounced off us as to whether we think it is compliant with the Act, so we’ve acted in a very constructive way to help give assurance that the way that contracting patterns are being done down there aren’t going to violate the Commerce Act.

Young So you have high levels of confidence that compliance will be met?

Berry The matters that have been brought to us for discussion leave us in a position of thinking that there are no Commerce Act issues to pursue in terms of what we have been asked to review in the context of that exercise.

Young Excellent—good to hear that. In terms of companies and tradespeople tendering for work in the Christchurch rebuild, have you looked at the processes by which companies are doing that? For example, e-tendering, Christchurch City Council has a portal; other agencies have portals—

Berry We haven’t got into the minute details of how all the work is being tendered or looked at. What we’ve been asked to comment on is a number of practices that have been followed in relation to the processes that some companies are engaging in.

Young Ok—

McClay You carry on.

Young I’ve got a whole different line of questions.

McClay Have you? I’ll come back to that—

Cunliffe Just signalling we’ve got a joint line on telecommunications and broadcasting and then we’ve got a few questions about the banking industry. The banking will be for the chair and the convergence issues will be for the Commissioner—

McClay What are you doing?

Young Well, maybe just one more question following on from that. In your education process, which I think is very, very good indeed, in terms of the funding that you had available, which you didn’t fully utilise—obviously, to educate people to go into the construction sector it is very important to
bring compliance; is there any reason why you didn’t spend your allocated funding? Was there more that could have been done but you were constrained by time or pressures that stopped you doing that?

Alderton  I think a couple of things. We have been pretty effective in terms of the efficiency with which we’ve approached this, so things like our DVD programme was actually a very cost-effective way of delivering a message to a very wide range of people and organisations. The other thing is that we do need to keep a little in the kitty, as it were, because if there is a large-scale authorisation or something that comes in the door like that, that could easily consume $1 million to $1.5 million. So there’s a point where you don’t want to commit through the year; you still need to keep something in reserve in case something comes in the door towards the back end of the year.

Young  Ok, so you’re just being prudent around that. Thank you.

Cunliffe  Telecommunications—obviously a very busy area of work, and just in passing note in your annual report, page 14, there are some very pleasing statistics, Commissioner, on the growth estimation of the unbundled local loop, the holding of a higher position on the broadband stakes, and a general increase in the level of investment and competition, at least up until 2010. I guess the concerns of Parliament in respect of some aspects of the UFB proposal and the impact on the regulatory framework are on record, and I would like to, now that we’ve seen a little more of the potential shape of the demerger of Telecom, ask the Commissioner for his current view on, (a), where in the value chain, if you like, of the twin entities of Chorus and Telecom2 there may be residual pockets of market power, and, (b), whether the trade-offs in terms of the dilution, if you like, of the regulatory framework and exemptions from some parts of the regulation that were the quid pro quo for structural separation, whether they leave the commission optimally placed to maintain the momentum towards the competitive market, which has been built up? Commissioner, I’m sorry that’s a broad question, but—

Patterson  Ok, thank you. Look, I’ve said many times that structural separation was a game-changer. If you look at the history of regulation of telecommunications, the issue has always been a vertically integrated monopoly provider of an essential input that was leveraging that monopoly power into downstream competitive markets. So the non-discrimination issues that I discussed earlier under functional separation, or operational separation, as we called it here, was all about disadvantaging retail competitors through discriminatory conduct. Operational separation didn’t remove the economic incentives to do that, but it meant that there was a process to catch it and deal with it when it happened.

Structural separation removes those economic incentives. When you look at Telecom now it’s a stand-alone retail operator with no advantage over any of its other competitors, and it’s out there in the brave new world trying to
compete really for the first time on equal terms. So we see, in terms of Telecom, it’s hard to see any potential regulatory issue arising. On the Chorus side, of course, you have the monopoly—layer one and layer two—services within Chorus. But Chorus does not have any retail operation, so it has no incentive to favour any retail operator against any other.

So, in essence, the major concern with Telecom regulation is solved with structural separation; therefore, our focus is very much on Chorus as a regulated entity but, again, the likelihood that we would see the sort of contact that we saw conducted by Telecom Wholesale in the operational separation model—the economic incentives aren’t there at all. That’s the first part of the question.

The second part of the question is that does lead to a far different regulatory regime. We made submissions to the select committee about improvements that we thought could be made. By and large those improvements were made and I think that the balance is about right, and all the signs are that the regime is working well.

Curran Could I ask a supp on that? Would you have a concern if Chorus was to absorb the other three local fibre companies that exist, or one or more of those that exist in that area?

Patterson Look, that wouldn’t be a Telecommunications Act issue; that would actually be a Commerce Act issue. But I think the comment you would make that each of those LFCs is operating in a different geographic region, though certainly competing against Chorus in those regions because they are providing a fibre alternative to the Chorus copper service. But that would be a Commerce Act issue, not a Telecommunications Act—

Curran What I’m hearing you say is potentially that could raise some competition issues?

Patterson I think my comment would be I would think the existing telecommunications regulatory regime would deal with any competition concerns that may arise. Again, it wouldn’t be my judgment, but there is a regulatory regime in place, so of course to acquire the LFCs is still subject to the regulatory regime of the Telecommunications Act. Its access prices are set for fibre. They’re set in contract for 10 years. Its existing copper prices remain regulated.

McClay Just on that one, under the Commerce Act as it stands at the moment you have the regulatory power to deal with that hypothetical situation should it arise in the future?

Patterson Yes, effectively under the Commerce Act the issue is whether that acquisition would substantially lessen competition in a market, and that’s just under the general Commerce Act.
McClay  So go on if you have more, because Sam will take the last 5 minutes. He’s got some questions.

Curran  Ok, right, well I certainly do. You said that structural separation was a game-changer, and one would think that what follows on from that logically would be a change in the regulatory environment in terms of how the ultra-fast broadband is going to play out with the rapid convergence of the industries in which it's going to operate, and that this is certainly not a phenomenon for New Zealand—it’s happening in every country around the world—and that therefore, the two environments, the telecommunications industry and what has been known as the broadcasting industry, are merging together. So one would think that what would follow would be a subsequent change in how that regulatory environment is viewed. Last year when you were before the select committee we talked about this and you said that the adequacy of regulations covering broadcasting was among the proposed terms of reference for a study on issues relating to ultra-fast broadband, and you're undertaking that study right now looking at any barriers to upgrade.

My question is, really, where is your thinking at right now? Has your thinking progressed in this area? I know that the commission hasn’t released a final report on this yet. Two questions: is it the commission’s view right now that there should be a converged regulatory environment in telecommunications and broadcasting in New Zealand to bring us into line with other countries, some of which are very close to us in the way they operate, such as Australia and the UK? And do you have a concern that the current Minister seems to have pre-empted any decision or recommendation by the Commerce Commission by agreeing with Sky last week at the future broadband conference in Auckland that competition issues can be resolved by the market in this area? And do you have a concern about that?

Patterson  In response, and with a bit of guidance from the chair, rather than directly answering those two specific questions, which I don’t think it’s appropriate for me to comment on; the regulatory regime is a matter of policy. I think what I can say is this: firstly, in your comment I think you quoted me as having talked about broadcasting last time. I’m sure that that’s not a word I used. What we were very careful to say is that the issue for us was content, and content delivered over telecommunications networks.

We’ve said in our draft determination for the new telecommunications development levy that video on demand, which is the key product being delivered by telecommunications companies—that’s not broadcasting; that’s an on-demand service. I know the media have this fixation about broadcasting and telecommunications and trying to characterise a battle, but it’s not a broadcasting issue.

What we have said is video on demand is a telecommunications service. There are submissions—we are in the middle of a process about that. A
number of parties have made submissions disagreeing with that, and we will come to a final view. So it has always been the bundling of video on demand as the key driver with broadband and voice that drives uptake of fibre.

Curran Well, you say that a number of media have got an obsession with broadcasting. That is how the industry is characterised right now. It doesn’t have another term that is used for it. And there is a raft of voices, not just voices that have vested interests in this area, but commentators from within inside New Zealand and outside New Zealand that are saying that our environment is not fit for purpose right now. Yet we’ve got two voices which are speaking against that, one of which is the Minister, and the other one is perhaps the largest vested interest with a view to not regulating in the broadcasting sector, which is Sky, which argues very strongly that competition can be resolved by the market. For the near monopoly to be saying that would surely seem to be—

Curran Eerily familiar?

Curran Eerily familiar. And we can talk about content; that’s fine; but I guess my question stands. You say it’s a policy issue, but, surely, if you are not able to comment on it—we’ve had an in-depth discussion about the electricity industry and competition issues in the electricity industry, but you’re not allowed to comment on a glaring gap in the regulatory environment as we’re rolling out ultra-fast broadband, one of the biggest expenditures of Government money in the last term, and there are clear regulatory issues. Where is the Commerce Commission’s—and perhaps the Chair might like to answer—thinking on this?

Patterson Perhaps if I can answer your question first, and I will say it again: video on demand, which is the key driver of uptake for ultra-fast broadband, is a telecommunications service and is subject to all of the provisions of the Telecommunications Act. Broadcasting refers only to public transmission in a linear format to the world at large, and internet doesn’t work like that. Internet works by consumers downloading what they want when they want, and that falls within our jurisdiction.

Curran And that’s good, because all broadcasters and media organisations are moving into that space.

Cunliffe So the supplementary might be, given that you clearly do have jurisdiction to look at any issues of dominance around video on demand across broadband, do you have in mind any work programme which might look at emerging issues as the dominant pay TV provider moves into the online space?

Patterson That issue is currently in consultation under the draft report on the telecommunications development levy. We have said that the revenue that is received for telecommunication services includes revenue for video on
demand. There have been submissions made agreeing with that; there’ve been submissions made against it. Cross-submissions are due this Friday. We will have a draft decision on that out in a few weeks and then there will be a conference. So that particular issue and the ambit of the Telecommunications Act and the jurisdiction is part of a process at the moment and may well end up in litigation ultimately.

Cunliffe I guess all we can do is signal a strong interest at this side of the table on that issue, and our, I guess, relief that it’s within the purview—

McClay With your indulgence we’ve used more than an hour, but we’ve still got one or two more issues, so if you would give us a little more time, Sam wishes to speak.

Lotu-Iiga Thank you, Mr Chairman, and thank you to your team, for your performance. I think what this report shows is that you’ve got a breadth of different issues that you’re dealing with at different levels of commerce, and I think you’re doing a great job. I just want to turn to an issue that doesn’t get much focus. I know I’ve referred to this issue in the past when you’ve been here. It is around fringe lending, and I note in your report that you’ve got a project under way—a 12 to 18 month project that looks at fringe lending, and you did refer to it earlier, Chair. And I’m glad that’s happened, because I know it’s happened on the back of a financial summit that was organised last year on the back of a lot of publicity—a private member’s bill that I drafted, and I know legislation will be coming this year in this area. Can you just talk about your relationship with the FMA and how you’re going about the work that you’re doing in this area?

Berry I just might ask one of my staff here today who happened to be at that financial summit. Kate Morrison’s our general manager of the competition branch, and she’s been very much on the ground working through with our Auckland office on our project. So Kate will be able to give you more on the ground insights into that.

Morrison We’ve worked cooperatively with staff at the Financial Markets Authority and done some joint visits to lenders. We are pleased with the results of that, and as the Chair noted we intend to continue with that in other jurisdictions outside of Auckland going forward.

Lotu-Iiga To summarise, you found 15 high-risk lenders from a pool of 400 that you’re working with, and they’ve come back to you with some changes in behaviour, changes in practices?

Morrison That’s right, and that’s very consistent with some of the other initiatives that the Chair has described this morning, which is that we have raised the compliance issues, the failings, with the lenders and they have addressed those.

Lotu-Iiga How did you get this group of 400 base lenders? I suppose the question here is that there are other fringe lenders who aren’t registered, who don’t...
have premises—they don’t operate. Is there a concern there that we are not sort of capturing some of these so-called fringe lenders?

Morrison I wouldn’t be able to reply to the detail on the methodology for the selection process, although I could provide that at a later time. But, yes, I think it is possible that there are other lenders out there that we haven’t yet identified.

Lotu-Iiga I note in your report that you talk about how you’ve gone about fining under this triple CFA since 2005. This is on page 32 of your annual report. Has this sort of exercise been done before, or is this something new that you’re undertaking around these fringe lenders?

Morrison This is new activity?

Lotu-Iiga Yes.

Morrison It’s very much in line with—this is obviously specifically in relation to the triple CFA, but it’s very much in line with the whole of competition branch approach to promoting compliance, educating traders and consumers alike, seeking to achieve change through that cost-effective, proactive way, and then litigating when we cannot get a result through that—

Lotu-Iiga So this is a 12 to 18 month project that will cease at some point, and then what happens?

Morrison Well, I think it’s an open question, as you are aware, in terms of triple CFA enforcement in the future, and I know that that is under deliberation with the Cabinet ETI Committee. But certainly the approach in relation to changed behaviour programmes and compliance programmes is one that necessarily works over time. So we would not expect to cease this kind of initiative in a 12 month period; we would expect to adjust it but to continue with it.

Lotu-Iiga Ok, and if you could just send what you’re doing in the education space to us as a written question, that will be great.

McClay We’ve got one more minute; if I may take the last one. I’ve heard and read what you’ve been doing around dairy. Can I ask, has there been any work undertaken, or are you considering any work, around the retail end of milk as opposed to dairying, as a whole lot of work has been at the farm gate, and before on Fonterra, so, particularly interested in any work around retail milk, supermarkets, the supply chain after the farmer has seen the tanker drive away.

Berry Our work is confined at the moment to the farm milk gate price. That was the area that was the most controversial. We appeared before this select committee before the election and tabled a report in relation to the milk market developments. We outlined there a lot of thinking around the different levels of the market from farm gate through to retail, but the one
that has been the most controversial has been the farm milk gate price, and that’s the one that is directly in focus.

It’s going to be a major endeavour for us. We have until the end of July, assuming we settle terms of reference and all matters are bedded down. We have just to the end of July to actually do this dry run in relation to what is a very complex milk-pricing manual. So in answer to your question, the immediate focus is on that farm milk gate price.

McClay And just to follow up on that, I think we have seen evidence that’s available in public through the inquiry that suggests that on average over the last 7 years the regulated milk price—the farm gate milk price—is made up about, on average, 27 percent of the retail price. But I take your point; there is a lot of consumer interest in this issue. Is there scope or a possibility of looking at the rest of the supply chain and the impact that different parts of that have upon the retail price? Although 27 percent is a large part, in as far as the consumer is concerned around the question of the cost of milk, it’s only 27 percent.

Berry We did a fairly detailed report going into this at the end of last year. As I mentioned before, the real trigger is whether the farm milk gate price is right. As you come downstream you’ve got competitive options in terms of the production of town milk, and then you’ve got the competition at the retail end of the market. I don’t have offhand the exact numbers, but we were somewhat surprised how much milk was actually sold outside of the two supermarkets. It was actually a significant volume, so we did initially look at the competitive dynamics happening between Fonterra and Goodman Fielder, at the manufacture of town milk, and we also had a look at the level of competition at the retail end of the market.

But, you know, you do have competitive forces in those levels of the market, such as they are, and the crucial issue was whether or not the farm milk gate price, particularly to rivals of Fonterra, is set at an appropriate price. That was the issue that was largely before us last year. Now, the issue has wider implications for investors and others with interests in this exercise, but I expect when we get to the end of doing this dry run our focus is likely to remain just on the farm milk gate price at the moment.

McClay Good. Thank you very much, and I thank you for your time and indulging us—

Cunliffe One final comment, really. Commissioner you will have observed the outstanding results in our splendid banking sector. With a flat economy they’ve collectively and spontaneously all managed to lift their profits by a full quarter in the last year. Are you interested in that matter?

Berry Um, it’s a competitive market. I mean, we haven’t done any competition analysis of the banking sector.

Cunliffe Hang on, hang on—why isn’t it included—
McClay  Let him—

Berry   You may be aware that the ACCC has had a look at “the four pillars”, as I think they are called in Australia, so that question of people looking at the price-signalling of others in the marketplace—you know, if people change their interest rates it is transparent. I mean, that’s the nature of competition between the four major banks as they are. But we can’t regulate the price of people competing in the market in industries like that.

Cunliffe  Do you think—

McClay   No, we’ll have them in another day.

Cunliffe  We’ll signal some interest in this on your next visit.

Berry    Look forward to it.

McClay   Thank you for your time and for your work.

conclusion of evidence
The Government Administration Committee has conducted the financial review of the 2010/11 performance and current operations of Drug Free Sport 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 Electoral Commission

Report of the Justice and Electoral Committee

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Electoral Commission

Recommendation

The Justice and Electoral Committee has conducted the financial review of the 2010/11 performance and current operations of the Electoral Commission and recommends that the House take note of its report.

Introduction

The new Electoral Commission is an independent Crown entity, established on 1 October 2010, by the Electoral (Administration) Act 2010. From this date, the functions of the Chief Electoral Office (conducting elections and administering electoral laws relating to candidates) were merged with those of the commission (public education and administering electoral laws relating to political parties). From 1 July 2012, the functions of the Electoral Enrolment Centre (maintaining the electoral roll and conducting the Māori Electoral Option) will also be transferred to the commission.

Financial and service performance management

The commission’s total revenue for the nine months from 1 October 2010 to 30 June 2011 was $14.743 million, and its total expenditure was $11.773 million, producing a net surplus of $2.970 million. The surplus was largely a result of the early announcement of the 2011 general election date, allowing the commission to align its procurement activities accordingly, and residual funding of $1.2 million from the Chief Electoral Office for the period 1 July to 30 September 2010.

The Office of the Auditor-General gave the commission “good” ratings for its management control environment and financial information systems and controls, and a “needs improvement” rating for its service performance information and associated systems and controls. We understand that the commission is still in the process of developing tailored policies and systems, and look forward to seeing them completed and implemented.

Establishment of new Electoral Commission

We were pleased to hear that the establishment of the new Electoral Commission went smoothly, in spite of the difficulty of merging two offices and running three by-elections within the first six months. We hope that the upcoming merger with the Electoral Enrolment Centre is equally successful, and will monitor its effect.

Funding for the 2014 general election

The commission’s baseline funding does not cover major events like general elections, which require supplementary funding. We understand that the commission is funding the MMP review and other reviews out of its reserves, and as a result it projects a funding shortfall of approximately $10 million in the 2014/15 financial year. We heard that the additional funding required for the 2014 election has not yet been allocated, and the
commission is concerned because it cannot therefore make the planning assumptions needed to organise the election. The commission said that it needs its own funding appropriation so that it can be certain of its funding much sooner in the electoral cycle, and so it can conduct its own funding negotiations; negotiating via the Ministry of Justice it must compete for funding with police, justice, and the courts. We think that this suggestion should be given further consideration.

**MMP review**

The commission is conducting a major review of MMP, after New Zealand voters voted in the 2011 Referendum on the Voting System to keep MMP as our voting system. The commission is due to report to the Minister of Justice on the review on 31 October 2012. The cost of running the review is $1.6 million. We heard that the commission has received around 3,500 submissions and has held public hearings around the country. The commission said it will release a proposal paper in late July or early August 2012. We look forward to seeing both the proposal paper and the final report, and will continue to monitor this issue with interest.
Appendix

Approach to this financial review
We met on 24 May and 14 June 2012 to consider the financial review of the Electoral Commission. We heard evidence from the Electoral Commission and received advice from the Office of the Auditor-General.

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

Evidence and advice received

Electoral Commission, Responses to pre-hearing questions, dated 22 May 2012.


Organisation briefing paper, prepared by committee staff, dated 10 January 2012.
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The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of the Electricity Authority and the Electricity Commission, and recommends that the House take note of its report.

Introduction

The Electricity Commission was a Crown entity with the primary purpose of overseeing New Zealand’s electricity industry and markets. On 31 October 2010 it was disestablished, and its functions incorporated into the new Electricity Authority. The outgoing chairperson was David Caygill and the outgoing general manager was Mervyn English.

The Electricity Authority was established as an independent Crown entity on 1 November 2010 under the Electricity Industry Act 2010, following a ministerial review by the Electricity Technical Advisory Group in 2009. The authority’s statutory objective is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers. The chairperson is Dr Brent Layton and the chief executive is Carl Hansen. The responsible Minister is the Minister for Energy and Resources.

Financial performance

From 1 July to 31 October 2010, when the commission was disestablished, its total revenue was $29.595 million and total expenditure was $28.739 million, resulting in a net surplus of $255,000.

Like the commission, the authority is primarily funded by appropriations from Vote Energy, but it also collects a levy from electricity generators, purchasers, and line owners to recover its costs. From 1 November 2010 to 30 June 2011 its total revenue was $55.97 million and total expenditure was $55.2 million, resulting in a net surplus of $356,000.

What’s My Number campaign

Under section 16(1)(i) of the Electricity Industry Act 2010 one of the authority’s functions is “to promote to consumers the benefits of comparing and switching retailers”. To perform this function it launched the “What’s My Number” campaign on 29 May 2011, in partnership with the Ministry of Consumer Affairs and Consumer New Zealand. The authority told us that its initial goal had been to receive 50,000 unique visits to its website in the first three months, and this goal had been achieved in three days. At the time of reporting, approximately a quarter of New Zealanders had visited the site. There had been a reduction in the consumers price index price of electricity for the first time in 12 years, and within a month of the campaign retailers had told the authority that it had changed the dynamics of the retail electricity market. Contact Energy had increased its prompt-payment discount from 12 percent to 22 percent, and other retailers had also altered their tariffs.
There had been a 33 percent increase in consumers switching between retail electricity providers.

We asked what savings New Zealanders had made as a result of switching electricity retailers, and were told that the projected annual savings resulting from the increase in switching in June to December 2011 were estimated to be $8.7 million. This figure is based on 52,862 additional switches relative to the same period in 2010, and the average national savings available of $165 per switch in 2011. Measures by power companies to encourage customers not to switch had also provided benefits to electricity consumers, regardless of whether they changed supplier.

We asked whether the authority knew the age profile of customers switching electricity retailers, as we had heard elderly customers were reluctant to switch. The authority had carried out a national survey, which indicated that approximately 50 percent of visitors to the What’s My Number and Powerswitch websites were 30–44 years old. Approximately 13 percent of visitors to the What’s My Number website were 60 or older, and approximately 16 percent visiting the Powerswitch website were from this age group. It told us that in order to make sure everyone was reached by the campaign it was working with the Citizens’ Advice Bureau, which advised some people who did not have internet access or were not comfortable using the internet.

When asked whether it knew at what point consumers would cease to gain from switching electricity retailers, the authority said this was some time away. The authority uses the Herfindahl-Hirschman Index as a measure of competition. The index uses a scale from zero to 10,000; the lower the index, the more diverse the competition, and the less dominance in the market. The index currently measures the retail electricity market at 3,500. The authority estimated that the market structure would be extremely competitive when it measured about 2,000.

It acknowledged that the index was not a perfect measure of whether consumers had access to competitive prices, and pointed to the example of King Country Energy, which was the only retailer in its area but provided very low prices in order to deter the entrance of competition.

**Mixed-ownership model**

We asked whether the authority believed the proposed mixed-ownership model for some electricity companies would affect its work on competition, efficiency, or pricing. It told us that its current policies would be effective regardless of who owned electricity companies, and that competition would be affected not by changes in ownership but by the regulatory regime and factors in the marketplace.

We asked the authority whether it had compared the New Zealand electricity market with that of Finland, which had mixed ownership of some of its electricity companies. It had not looked at Finland, but told us that 25 percent of New Zealand’s electricity companies were privately owned, and a significant proportion were foreign-owned or owned by iwi.


2010/11 FINANCIAL REVIEW OF THE ELECTRICITY AUTHORITY AND ELECTRICITY COMMISSION

**Competition in the electricity market**

We asked whether the authority would characterise the electricity industry as efficient. It told us that its job was to promote efficiency rather than assessing it. It said it was considering evaluating movements in total productivity, but had not yet begun to do so.

We asked the authority what was preventing participants from competing in areas where there is little competition. It said there was less incentive for competition in remote, low-density areas, but noted that even those areas were becoming more competitive. It believed competition would be attracted to low-density areas if prices rose high enough.

We asked the authority whether it saw its task as primarily to promote “efficiency” or “competition”, noting that the purpose statements in the Commerce Act 1986 and the Telecommunications Act 2001 were clear that the aim was the promotion of competition for the benefit of consumers or end-users of services. We acknowledged the efficiency sub-test within the Commerce Act purpose clause.

The authority said it did not use the same measurements for competition as the Commerce Commission. Its yardstick for competition was “workable competition”, which was defined by whether companies were mindful of the prospect of competition when making pricing decisions. It showed us its indicators for measuring competition, and told us it was developing further measures. It emphasised that its role was to promote competition, even when it believed competition was robust.

We asked what action it would take in a hypothetical example in which an industry move reduced competition but could be seen to promote efficiency. We asked whether it would assess this on the basis of the interests of consumers, or the interests of the industry, including the hypothetical company. The authority told us that in deciding whether to implement changes in its code to promote competition, reliability, or efficiency, it uses the net public benefit test, which is the same measure the Commerce Commission uses to determine whether to authorise a merger or acquisition. This test estimates the impact of proposed changes on economic efficiency, which includes effects on innovation and productivity growth (dynamic efficiency). The net public benefit test is often discussed in terms of consumers’ and producers’ surplus, because the net effect of taking transfers between both surpluses into account is economic efficiency.

We questioned the authority closely about whether it would include in the net public benefit test the benefit to a company of the economic rents (monopoly profits) it could earn from artificially high prices or market inefficiencies in a constrained or uncompetitive market. The authority said that the alternative approach of considering only the impact of a proposed change on consumers’ surplus is not consistent with its statutory objective of promoting the long-term benefit of consumers. It said it would be similar to measuring a person’s financial wealth by considering only the value of their assets, whereas their true net worth is their assets less their liabilities. The authority argued that using the consumer surplus test would ultimately shrink the overall size of the New Zealand economy, which was not to the long-term benefit of consumers.

We are concerned that the authority’s approach to including economic rents within producer surplus, and thus public benefit, is inconsistent with the goal of public policy in this area. We acknowledge the good work the authority has done to create a competitive
marketplace to ensure that monopoly profits do not work against the public good. We further acknowledge that this is a legislative issue rather than an operational matter for the authority.
Appendix A

Approach to this financial review

We met on 22 March and 3 May 2012 to consider the financial review of the Electricity Authority and the Electricity Commission. We heard evidence from the Electricity Authority and received advice from the Office of the Auditor-General.

Committee members

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

Evidence and advice received


Electricity Authority, Responses to additional written questions, received 30 March 2012.

Electricity Authority, Responses to written questions, received 16 March 2012.


Office of the Auditor-General, Briefing on Electricity Authority, dated 22 March 2012.

Office of the Auditor-General, Briefing on Electricity Commission, dated 22 March 2012.

Organisation briefing paper, prepared by committee staff, dated 16 March 2012.
Appendix B

Corrected transcript of hearing of evidence 22 March 2012

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

Witnesses
Dr Brent Layton, Chairperson
Carl Hansen, Chief Executive Officer
Rochelle Leahy, Acting GM Corporate Services

McClay We have Mr Hansen, Dr Layton, and Ms Leahy. Welcome, good morning, thank you for coming to our committee. I’m sorry we’ve kept you waiting a few moments. You can see who we are by the name badges we’ve been given. We have 45 minutes for the financial review of the Electricity Authority and Electricity Commission. Can I maybe ask if you could make some opening comment, and then I’m sure my colleagues have a number of questions they will ask of you.

Layton To assist the committee we have prepared some slides, which the Chief Executive is giving to the Committee Secretary, and which will be handed around, if possible. I’m Brent Layton, and obviously Carl Hansen and Rochelle Leahy—Mr Chairman, I’m sure the members of the committee are aware the Electricity Authority took over from its predecessor, the Electricity Commission, on 1 November 2010. And this is the review for the 2010-11 year, so it partly covers 5 months of the Electricity Commission, and partly the Electricity Authority’s activities. We have, however, focused, because we’re from the Electricity Authority, on the Electricity Authority and upon what we’re to do, what we have done to date, and developments in the area that we are responsible for.

The Act in 2010 which set up the Electricity Authority gave us a relatively clear and straightforward statutory objective compared with our predecessor, the Electricity Commission. Our role is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry, for the long-term benefit of consumers. Consumers are
defined in the Act as being electricity consumers. That is our overall statutory purpose, and we incorporated that into our statement of intent that we had to put out in November 2010, within weeks. While we had an establishment board, in this particular instance only one member of the establishment board put their name forward to go on to the actual board. As it turned out, only two of the establishment board ended up on the board. So we actually did get a new board from the establishment board in 2010.

We were required under the 2010 Act to address by the 1 November 2011, within 12 months of our establishment, a range of seven particular issues. And if you look at the second slide, we have listed what those issues were. Our obligation was, when the changes with code were required, to have its code in place and where we were to facilitate things to have actions under way by that time. So we have actually progressed the customer compensation scheme; that came into force in 2011 on 1 April. What that does is it requires that if an official conservation campaign is conducted for energy because, for example, we’ve got a hydro scarcity in the South Island that’s causing—and it’s happened in the past; we’ve had these campaigns. Now the retailers are required to pay consumers $10.50 each per week that those are on. The incentive, therefore, is for them to look to be conservative in their water use, and also not to call for campaigns if campaigns are not really necessary. The scarcity pricing and stress-testing we have also put in. Financial transmission rights—we’ve got the code.

So in fact we’ve dealt with all of those codes—and I’ll leave the committee to look through them all—by 1 November and received the sign-off from the Acting Minister of Energy, the Hon Hekia Parata, in early November before the election. So we have addressed the section 42 matters that were required to be addressed by us, and now we’re in the process of the ones that require actual implementation. We’re in the process of implementing those changes.

We, relatively early on in our activities, set out to find out both the media issues in relation to us, but also about consumer and customer and stakeholder perceptions about the industry as a whole. One of the criticisms of our predecessors had been about communications with people, so that’s why we focused partly on that. And also we wanted to get a baseline of what people’s perceptions were, because one of our main thrusts is to alter those perceptions, by altering the reality, of course, in relation to competition, reliability, and efficiency, which we’re tasked with.

And on slide four you’ll see there’s a survey on comparative competition. The blue line showed the percentage. This is a survey conducted—there are two surveys actually: one, which is indicated in blue, is a survey of consumers in general, just general members of the public; and the second is of stakeholders including consumer stakeholders, but mainly major organisations and representatives of domestic consumers. You will see that, in fact, electricity retailers didn’t rank incredibly well, even compared with
supermarkets and banks and financial services, in terms of perception of competition, but not as poorly as petrol stations or petrol prices. Online bookshops we took to be an indication that people didn’t really know too much about their competitiveness, rather than being a clear indicator—or at least the general public didn’t. You’ll notice from that survey that, in fact, stakeholders had exactly the same view as consumers in general had about the competitiveness of the industry. It told us, at least, that there were quite a lot of perception issues about it.

One of the factors that we were required by the new legislation to do was to promote consumer switching, and the aim was to promote to consumers the benefits of comparing and switching electricity retailers. We established as part of that programme a What’s My Number campaign, which you may have seen on the internet, on television, and in general media. That campaign was certainly very successful in encouraging switching and public awareness that there was benefit to be gained in switching from one retailer to another in some circumstances. And you’ll see from the chart that switching was higher than it had been previously, although it had been rising over time at any rate. The statistics were—the campaign was in our view quite successful. Indeed, even in the view of the marketing organisations it was quite successful. We were pleased that it won the grand prix, or the supreme award, at the New Zealand Marketing Awards last month. As a marketing campaign we managed to beat out Air New Zealand, whose budget, I suspect, was slightly larger than ours. In terms of winning that, we also won two gold medals and a bronze medal for the marketing effort. A little-known fact is that in the September and December quarters last year, the consumer price index for electricity actually fell. It fell marginally, but it did fall rather than rise. At the moment we’re having rises coming through as a result of Transpower’s increases in charges in the main, but that’s not entirely—because in the long term, trends in electricity as a resource base will be upwards.

One of our key objectives, of course, is to promote competition. And the next slide, slide number six, Mr Chairman, gives a statistic that measures the change in competition, and here we’ve looked back to 2004 and compared it with the end of 2011. The statistic is, in fact, looking at each region at what’s called the Herfindahl-Hirschman Index. Now how that’s calculated is, you take the market share of each party and you multiply it by itself, and then you add all of those up, so that if one company had 100 percent, you’d take 100, multiply it by 100, and you’d get 10,000. So the most concentrated market is 10,000 on this index. If everybody was atomistic and essentially had zero percent because they were so small you couldn’t measure it, then the index would end up being zero. So the range of the index is from zero to 10,000. The lower the index, the more diverse is competition, and the less dominance you have. This statistic particularly attracts a high number where there is dominance even if you’ve got a number of players but one is dominant, because the squaring of that high ratio actually builds into the index and leads it upwards.
You’ll see in 2004—if you look at the right-hand side there’s a scale there. We stop at 9,500, but the top, the absolute, would be 10,000 at the highest range, and we go down to only 1,500. But you can see it’s red, which is largely concentrated in 2004. As everybody knew, firms were very much into the silos of where their generation was. They had their retailing and while there were a number of parties, they weren’t competing across the country. The ministerial review identified retail competition as being an issue. That’s why it suggested virtual and actual assets swaps in the South Island. And if you look across at the end of 2011, now we’ve gone to green, which is much lower levels with one or two areas of concentration.

The index isn’t a perfect measure. In fact, if you look at, say, the King Country, it illustrates one of the issues with it. The King Country is largely red, and that shows a degree of dominance. What it reflects is that King Country Energy, a retailer that most people will probably have never heard of, is a local retailer there and they have the sharpest prices off the block. It’s not surprising that they still remain relatively dominant, so it doesn’t mean to say you would necessarily not get sharp prices where you still have red colours. They, of course, are wanting to make sure nobody else gets into their base.

So there’s been a big change and if we look at the next graph where we’ve actually taken a time series in 2004 of that, and that’s just weighted average by electricity consumption of each regional HHI index. You’ll see it starts out at about 6,250—this is table seven; graph seven. It starts out at 6,250 and has fallen to, by most recent calculations, just over 3,500. If you just had decay going on, then over time you would actually have that tend to decelerate rather than accelerate. But what we’ve got is clearly an acceleration of that change in the degree of competition in the electricity market.

One of the other issues that we were required to address which was key, was in fact, the establishment of a robust futures market. The initial obligation was not based on the authority. In the initial stages the Minister placed on the five major generator/retailers the obligation by 1 June 2010 to have established a platform for the transparent trading of forward market contracts for electricity, and they met that requirement. But the second element of the Minister’s obligation of them was to have uncovered open interest—that is, exposure to that market equivalent to 3,000 gigawatt hours, which is roughly 30 days’ electricity consumption, because we consume roughly 100 gigawatt hours per day in New Zealand—by 1 June 2011.

The authority, however, was given a backstop role: that if they hadn’t met that, we were required to facilitate the development. And that we have done—we realised in March 2011 they weren’t likely to make the June deadline; we started progress on that. We looked to, in fact, bring in a consultant on how we would develop it, and table eight shows that the volumes—the main step that we took was to get the major parties to agree
to closer and more tight spreads in market making and greater obligations in
market making. Since that time the volumes have increased sharply. You’ll
see on chart nine that the open interest is now above 2,000. We set 2,000 as
the requirement for 1 March this year and it is now 3,000. So we’ve had a
big change-around in that regard too in recent times, which I dare say I’m
personally very pleased about, because it provides that robust curve that’s
really there necessarily, and it also provides a vehicle for small and new
generators, and small and new retailers, to access markets so that they can
actually compete with the large players.

The next slide, ten, actually shows you how robust that curve is. You can
see that the red line charts is the prices of the futures on 16 March, and the
blue line what they were on 30 November last year. You’ll see that the
futures prices have not changed greatly beyond this year. So beyond this
winter they have been reasonably stable. But because we were getting
concerns about a drier year this year, the futures prices actually did rise—
and rise quite sharply—to reflect that. As it started to rain, and even since
that time, those prices have come down. But if we didn’t have a reasonably
robust curve, you would have expected movements out in the distance. No,
it’s reflecting it. It’s also reflecting only a modest expectation of wholesale
price rises going forward in the futures market.

In terms of our SOI for next year, Mr Chairman, we go back to what is our
statutory objective: long-term benefit to consumers, promoting
competition, promoting reliable supply, promoting efficient operation. And
we’re going to repeat consumer and stakeholder surveys to see if we have
made improvements in our perceptions. We’ve also developed some metrics
for competition, and are in the process of developing metrics for reliability
and efficiency. We put out last November the data relating to our metrics
for competition, and we will be putting out again this coming year a report
which shows, really, our performance relative to those metrics on all three
criteria of competition, reliability and efficiency.

The final slide I have is what our outputs are we’re focusing on: our
strategic priorities while successfully implementing key systems projects,
especially those that we’re required to do by section 42; making sure that we
have the code and market facilitation measure initiatives that we’ve
developed, now focusing more on the ancillary markets like frequency
keeping; and implementing effective monitoring of information and
education initiatives to ensure that people are aware of how the market’s
operating. We have a good understanding of how it is and of what code
changes may be necessary to reach the objective of promoting competition,
reliability, and efficiency for the long-term benefit of consumers. I’m happy
to take questions.

McClay Thank you very much. I might kick it off by asking, have the What’s My
Number and Powerswitch campaigns—what have they achieved, and what
are the results in increased customer switching between electricity retailers?
I’m happy to talk about that. What we have observed is that the campaign originally had a target of 50,000 unique visitors to our website that we set up for the first month and in fact that was achieved in the first three days. So just to reiterate, it was an absolutely stunning kind of result. We’ve actually had about one-quarter of New Zealand consumers go on to that website and calculate whether they feel—really quickly, whether they can actually make savings that are worthwhile going further. If they do feel it’s worthwhile, they’ll go through to Powerswitch and get more information and make that decision. What it’s achieved is the reductions in the CPI that the chairman was talking about, but also there have been statements by electricity retailers that—very soon, within about a month of the campaign, they stated that this really changed the dynamics of the retail electricity market.

You may recall that Contact Energy, for example, was losing a lot of customers within the first month, and they changed their discount for online prompt payments, which had been set at 12 percent. They increased that to 22 percent. There are other parties, too, that have altered their tariffs. What we have seen is a step up in customer switching to the order of a 33 percent increase, and we will be seeing that there’s actually a greater dispersion in tariffs at the moment, because some of the parties that actually had relatively modest tariffs have actually reduced them, or haven’t increased them as much as some of the others. We’re going to be running this campaign again. We announced on Tuesday we’ll be running the campaign starting on 15 April, and it’ll be running for 5 months. The one we did last year was limited because of the Rugby World Cup; it made advertising very expensive from September onwards. So still further progress to be made, but actually it’s exceeded all expectations.

Have you been able to estimate the savings to New Zealanders that all of these changes and different tariffs have created?

I know the team are working on that right now, and there’s actually a document that I need that they’re going to be providing to me on the weekend to review, and it will have those numbers in it. So apologies, I just haven’t got to it, but we’re very close to—Yes, we can send that through.

Just a supplementary on that. Do you have an age breakdown for those customers who are switching? We’re still getting day elevens: you know, if you’re elderly there’s still a reluctance to switch. So can you provide us with an age breakdown, or do you have the information—

What we’ve done is, UMR have done a survey for us, so we could provide that. We made that public the other day.

Your switching data, do you have any—

No, we don’t have, because the switching data comes from a registry that doesn’t contain—there’s a centralised registry. That switching data doesn’t
include age. The way it’s recorded in a registry run by Jade Corporation is it’s recorded by what’s called an ICP number. It’s fairly sort of—you know, it’s not related to people as such, but related to households.

Cosgrove You would think that that would be reasonably important, because I think it’s generally accepted that elderly folk are often in vulnerable positions financially. You know whether it’s changing—I remember when I was in the telecommunications industry, trying to get people to change their number from Telecom to Clear it was a (inaudible). It didn’t matter if you presented a lower price. It was just that it was all too hard, it was all too complicated, and I just (inaudible) off the numbers. So I would’ve thought that that would’ve been relatively important.

Hansen Yes, that’s right. Our survey by UMR asks the respondents, do they know about the campaign, have they done anything as a result of the campaign? From that there is information about the age groups. We’ll be able to send that through. It’s just that we aren’t able to change a fairly computerised registry system just like that. That’s something that has to— The other element that members may not be aware of is that we have also been providing training to the Citizens Advice Bureaux, They have been trained by parties that we funded, and they’re doing a lot of work with people that don’t ordinarily have, necessarily, great access to the internet, or are not that comfortable with it. We’re trying to cover the whole spectrum.

Young Just on your graph, page 5, I notice that there’re obviously increments through those winter months where people are obviously paying high electricity prices. But there’s a consistent lift in November of every one of those years. What do you put that down to?

Hansen I don’t know. I haven’t thought about that one. Yeah.

Layton I have a hypothesis, but it’s only a hypothesis. Often that’s when Transpower are setting their new transmission charges. It may be that at that time, then the distributors tell people what will be the change. People don’t differentiate between an energy charge and a transmission charge, because it comes on their bill in almost every place. In my hypothesis it may well be to do with that. We know in winter why people do it. That’s why we target our campaign in winter; it’s when people are most sensitive to the issue.

Young Around November they’re getting letters from their retailers, informing them of transmission increases.

Layton Well, that’s when Transpower does their thing. That’s just a hypothesis of mine.

Young OK. That’s helpful.

Lotu-liga Just a quick supplementary question, and thank you for your presentation. Just on—on page 5 you say that the retail tariffs are coming down two
quarters in a row, but it’s interesting to see how that tracks over time. Just on switching rates, I’m glad you said it’s not the only indicator of competition. I think—and I think my colleague Mr Cosgrove referred to it—as some point you get so much switching that there are actually costs to switching. At what level would you consider that to be critical? I suppose you’ve seen it go up year on year on year. I don’t know what it’s going to do this year, but at some point that could be actually counter-productive. People could be switching all over the place, and—

Layton Our aim in this campaign has always been for us—the media tend to translate it differently—actually to alter people’s propensity to switch if there’s value there: their willingness to say “This is a possibility for me.”, rather than switching itself. You’re quite right. After you get to a point where you gain a very competitive market, then there will be no gains to be had from switching, and people will tend not to switch. But in this phase when you have a moving towards—as we have been—that more competitive market, then you will see a boost in that switching.

Lotu-Iiga What point is it, do you think that is?

Layton Well, I think we’ve got a little way to go, but not a huge distance. We’re down to about 3,500 on the HHI. That’s reasonably competitive, but not super-competitive. If you got below 2,000, you’d be starting to say we have a super-competitive industry here in terms of the market structure, and as long as the other indicators were showing that their behaviour was like that—dynamic, putting out new offerings and so forth—you’d be starting to conclude that we have got to a point where it’s competitive. Our role, though, is to continue to promote competition, but you’d have to say it becomes an issue.

Lotu-Iiga So 2000’s HHI is what would be a benchmark?

Layton As a rough one, but you then would line it up with other metrics as well. None of these are actually perfect in themselves.

Lotu-Iiga No, no, I understand. I understand that.

Cosgrove Can I ask another hypothesis? In general, are you arguing that our existing electricity entities are very efficient in their performance? How would you characterise it?

Layton What we’d say is that there has been a significant change in the competitiveness in the industry. It’s been happening gradually, but we think that those HHI statistics—

Cosgrove Specifically in terms of efficiency, do you have a view on that?

Layton It’s not our role to determine the efficiency; it’s ours to look at promoting it. One of the things we have resisted doing is looking at the question of their profitability. But we are, in fact, going to progress in terms of our third
measure of efficiency: trying to measure the movements in the total factor productivity, which I’m sure you will recall is a measure of how much output you’re getting for the level of input you’re putting in—how that’s improving.

Cosgrove I recall your MBA lecture on that.

Layton Now that’s happening. We’re looking at measuring that particular, but we haven’t yet done that measurement.

Cosgrove Can I ask you, are any of your planning or forward analysis going to be coloured or changed, and, if so, how, by the mixed-ownership model the Government’s promoting?

Layton We don’t see that our statutory objective changes in terms of the mixed-ownership model, or having any influence on it. Ours is to promote competition, reliability, and efficiency.

Cosgrove The question lends to, have you done any thinking around the impact of the mixed-ownership model on competition, on form, on flexibility, and on price, because they are core issues that you have to look at?

Layton What we have done is concluded that the policies that we have in place at the moment are the appropriate policies irrespective of the ownership structure, and irrespective of whether it’s New Zealand-owned or foreign-owned.

Cosgrove We’ll try to be more specific. What will be the impact on price of the mixed-ownership model? Presumably somewhere in the back of the authority somebody’s dusted off the computer and thought “Hang on, there could well be a change in price with the change to the mixed-ownership model.” Somebody must have done some thinking about that in the authority.

Layton No, because our role is to look at promoting competition irrespective of what the ownership is, and promoting efficiency and promoting reliability. We’re not sitting there saying prices are going to go up as a result of that ownership model or not, because it’s a matter of how competitive the market is rather than what the owners are.

Cosgrove Can I ask you, would you have a view on the competitive nature of the market, given that if you put something in—if I’m buying into a power company, I’m generally not doing it out of a charitable or philanthropic purpose. I’m buying into a power company or a commercial venture to make money, and in order to make money I’ve got to make that entity more efficient, or I’ve got to screw more dollars out of the market, and that is raise costs. So what I’m asking you is, do you have a view on what will happen to the market in terms of competition and profit? Do you think there’ll be an alteration, or do you think these benevolent shareholders will simply accept the dividends (inaudible) price might be higher?
Layton: No, we think that the behaviour of the things will be shaped by the competition that they’re facing in the market place and by the regulatory regime that they’re facing. That we see as appropriate irrespective of the form of ownership.

McClay: You see the competition altering?

Layton: Not as a result of that change. We see it as altering as a result of our policies, and we’re driving them to get more efficient by promoting competition.

McClay: Just a quick supplementary question on that one. Have you done any research or looked at other electricity markets and how they might function compared to New Zealand—say, Finland: ownership structure and Government involvement, private sector involvement, and so on?

Layton: No, we haven’t looked at Finland in particular. We do, when we’re looking to code changes, look generally overseas for examples, but Finland is part of Nord Pool, which has a very similar market to New Zealand.

McClay: And I think we’ve heard this week that the Finnish arrangement of their electricity market includes the Government owning up to 51 percent of some companies, private investors involved elsewhere. You haven’t done any research to see how that may affect the price of competition in New Zealand?

Layton: No, but what I’d point out is that 25 percent of the electricity in New Zealand at the moment is generated by people who are not SOEs—Government owned—so we already have a sizable component of that. We already have a sizable component, in fact, of offshore ownership, and of the retailers, in fact, a significant number are privately owned as opposed to the SOEs—and most of the new entrants. You will have noticed that there are actually private sector new entrants coming into the market. There’s a greater range of generators than people think. There’re even iwi-owned generators operating into the market, as well. So it’s more than this.

Cunliffe: What’s the current rate of return on shareholders’ funds on the re-generators currently operating under partial privatisation?

Layton: I have no idea. It’s not an issue that we monitor, because we’re not looking at controlling the rates of return. We’re looking at promoting competition in the market in which they operate.

Cunliffe: Do you use the same metrics for assessing competition as the Commerce Commission?

Layton: No.

Cunliffe: Why not?
Layton: Well, because we are looking at promoting competition in the market place, and what an individual firm is making—like a lines company which is regulating monopolies, is making excess profits or not—it’s not our issue.

Cunliffe: Are you responsible for the implementation of a CPI (inaudible) regulation—

Layton: No, we’re not. That’s the Commerce Commission.

Cunliffe: Would you be concerned if a particular company would get to make abnormal profits, and of course (inaudible)?

Layton: Well, that would be an issue for us to look at competition, but we think that you have to be careful about looking at just profits. It’s about the length of time that you look at those profits. The yardstick that we have chosen is a workably competitive market, which is exactly the same as the Commerce Commission. The yardstick we have chosen for competition is workable competition, which is the same yardstick as the Commerce Commission.

Cunliffe: With respect, that’s not the objective of your statutory objective, which is to promote competition for the long-term benefit of consumers, not workable competition.

Layton: Well, if you look at how the Commerce Commission is, and look at the interpretation, their workable competition, and look at our interpretation, we have put out a document where we have said what is meant by that is workable competition.

Cunliffe: How do you define workable competition?

Layton: Workable competition is a dynamic concept of where you have entry and exit, and it’s defined by: are parties mindful when making pricing decisions about the prospects of other parties entering the competition?

Cunliffe: How do you assess they are, when it’s a subjective—

Layton: Well, we have a series of metrics that we have developed, and we are very happy to—distribute them to the Committee now.

Hansen: The secretariat there have a handout that’s got this table with—it’s a list of our metrics that we are in the process of developing. We have identified what the metrics are, we’ve managed to go and calculate the Herfindahl Index, but we are going through these and developing more. Each year we’ll be putting out a market performance report, and with that will be a compendium that actually provides the statistics on these various different measures that are used in other jurisdictions. One of the things I have reiterated to the sector multiple times is that our role is to promote competition. Even if there’s actually a heck of a lot of competition, if our cost-benefit study says that an initiative will deliver long-term benefits to consumers, then we’re going to go and do it. So we don’t have a particular
level of competition. We’re telling them whenever we can improve it and enhance it, we’re going to go and do it.

Cunliffe And would that argument hold true if a measure that you thought would give benefits to consumers would reduce competition?

Hansen Only if that delivered a net economic benefit.

Cunliffe So, therefore, you are interpreting the structure of your statutory objectives and then that, for example, the efficiency sub-objective, taking the Commerce Act as a benchmark, is at least co-equal to the competition sub-objective?

Hansen That’s right. Actually the reliable supply and efficiency and the competition are all equal in our mind.

Cunliffe *(Inaudible)* Commerce Act be on?

Hansen No, that’s right. But the thing that really drives us a lot is the work on reliability of supply.

Cunliffe So why is your Act different from the Commerce Act, do you think, in regard to this, and the telco Act? In the telco Act the competition objective for the lowering benefit of consumers is clearly predominant; there is an efficiency sub-test. Here you’ve just told the committee that a measure which reduced competition, but delivered a net benefit in the long run to consumers, would be seen as a positive and you would implement it. Is that correct?

Hansen That’s right.

Cunliffe So how do you measure net benefit? Do you take, for example, consumer surplus and produce a surplus, or just *(inaudible)*?

Hansen We take both.

Cunliffe But the Commerce Commission and the telco commission do not. They only take consumer surplus as directed by the Act. Why do you take—

Layton No, that’s not the general approach that they adopt when assessing mergers in that position.

Cunliffe I beg to differ on that.

Layton Well, I beg to differ, too.

Cunliffe Well, let’s get some advice from you in writing, and, Chair, we might want to follow up with the chair of the Commerce Commission on that. The reason that it’s material is you will recall the dark days of the Telecom monopoly, or the dominant position on the ICT industry. You will recall that for years that was excused on the grounds that high levels of producer
surplus meant that, for example, if you busted up a monopoly the share price would have fallen, and that would be a bad thing because it would destroy value, until we said “Hang on, that’s not the interest of consumers” and we changed the test. When we took a consumer service approach and busted up the monopoly, prices fell, investment doubled, and we rose up the OECD rankings. You will see the parallel, so why have you changed the test?

Layton We haven’t changed the test. We believe that our test is consistent with what the Commerce Commission does in mergers and acquisitions. If I give you an example, recently they had to consider the takeover of a wool scour to create a monopoly. Clearly they came out with a disbenefit for consumers, but they counted against that the improvement in efficiency that the company itself would acquire provided to a net benefit test, and then they approved it.

Cunliffe That’s a perfectly interesting example. If you are offsetting a net benefit to the owner, the owner makes slightly more profit because they can create a monopoly. The consumer is worse off, because they have higher prices which that monopolist is now able to impose on the market and competition. You think that’s a good thing?

Layton No, I don’t.

Cunliffe You don’t? So you don’t think that you should include producer surplus?

Layton What you have to look at is, if you don’t take a test that includes both consumer and producer surplus, then you will end up—in the end, the only consumption is the relevant activity in the economy. And in the end, in the long term, all of the activities, investment and so forth, feed into consumption. If you actually take a consumer test alone, then you will, if you look at the direct and indirect consequences, end up shrinking the economy, and that is to the long-term detriment of consumers.

Cunliffe But do you think that might be a clue as to why there was a long-term - only objective?

Layton I believe that’s why they are there.

Cunliffe Exactly. So if they are, by your own argument surely the long-term nature of the consumer benefit means that there’s no reason to separately count a producer surplus, when the example used—just provided—said inclusion means consumer detriment?

Layton Consumer detriment in the short term.

Cunliffe Can you run through your own argument? We’re outside the electricity industry, but you raised it. The wool scour that corners the market jacks up prices, and makes a shitload of profit at the expense of consumers. It is good for consumers in the long term because, why?
Layton: Well, the argument about it is that it, in fact, increases the overall size of the New Zealand economy. The argument of the Commerce Commission in this particular case is that it had a net benefit for New Zealand as a whole, and that in the long term that net benefit will feed through directly and indirectly to the benefit of consumers.

Cunliffe: I will finish my question. I’ll take it back to electricity in a second sub-point. The first sub-point is, would that announcement hold if the wool scour was owned 100 percent by a foreign owner?

Layton: In as far as the work you have done under your (inaudible)

Cunliffe: I didn’t ask you that.

McClay?: If there’s something else, you don’t have to.

Cunliffe: But chairman, the chairman of the commission quoted the wool scour.

McClay?: Maybe so, but I’m going to bring this back in a little bit closer before we move on.

Cunliffe: My second sub-point will come exactly back to electricity. The first is the hypothetical: would your net benefit analysis hold true if the wool scour is 100 percent foreign owned?

Layton: Yes.

Cunliffe: It would. Even though the profit—

Layton: In the rationale of the Commerce Commission they were not interested in the ownership of that wool scour.

Cunliffe: Even though that money goes offshore?

Layton: Well, that doesn’t necessarily follow, does it—

Cunliffe: No—

Layton: —because they reinvest that money back into New Zealand.

Lotu-Iiga: I’m going to help my colleague. I’m going to bring it back to the electricity market: bring it back to the HHI. You talked about retail concentration. Would it be fair to say that this is a proxy, if you like, of competition, which is one of your mandates?

Hansen: Yes.

Lotu-Iiga: Yes. OK.

Hansen: It’s a very imperfect indicator, but, yes.
Lotu-Iiga Yeah, I know. I’m just saying it’s approximate now. You talked about the King Country example, and I think this is sort of where David’s going to, but it’s actually a real example. You talked about a company that is actually charging quite low prices, and there is little retail competition in that particular market. Now looking at the maps I think you’ve done, I think what’s happened in the market is quite good. There’s a lot of green parts to the New Zealand market. But there’s Gisborne, who’s East Coast, there’s King Country, and then there’re parts of the South Island which still have red parts. So, my question is, in those markets where there are low levels of concentration, what are the barriers actually stopping other potential participants? Are you monitoring those parts of the markets for, as you put it in one part, low prices, low profits, which is what Mr Cunliffe is concerned about? But if you look at the four areas, what’s prohibiting those areas from moving to the green side of the spectrum?

Hansen I’m happy to have the first crack at that. I think what the diagrams show is that some of those red areas in 2004 have become very pale red, actually almost orange. So they actually are moving.

Lotu-Iiga They’re moving.

Hansen Very much. But they’re starting from behind the block, if you like, so they’ve got further to go. I think in the more remote areas there’s just naturally less incentive. If you’re out there as a commercial operator/retailer you’re going to be competing particularly hard, I think, in areas where the cost of reaching your customers is lower. But you’re going to reach the more remote areas, low density areas, at some stage. So I think our diagram is showing that even for those areas, it is still kind of a little bit orange.

Lotu-Iiga They’re a little bit orange. Now in terms of—

Hansen Yeah, they’re doing well.

Lotu-Iliga —promoting competition in those particular areas, you mentioned that there’s a low price in the King Country. There’s a potential for—getting back to David’s example, you could have high producer rents in the long run if there’s a lack of competition. Is that a concern at all?

Hansen Well, what I would expect to see is, in a competitive market, that the party’s competitors will be looking for opportunities to enter. When there are high prices, that’s when the parties will go: “Right, well, King Country, it’s a low density area, but the prices are actually really attractive. We’ll climb into that area.”

Cunliffe I have a supplementary question on this. The King Country example: given that prices are lower than many of the other areas, would that imply an improved consumer surplus in that example? Low prices, higher welfare for consumers? Fair enough? So, the example—let me put a hypothetical to you—
Layton  Well, compared with their paying higher prices, there’d be different consumer surplus.

Cunliffe  Mathematically certain, yes. In that example and given that proviso, you would still be able to tolerate that degree of monopolisation under a consumer surplus - only test, correct? You don’t need monopoly producer, economic rents to justify it when the consumer is getting a better deal because the prices have gone down. So you don’t need to throw out twenty years of competition or jurisprudence?

Layton  I’m not sure what the point of your question is, because I’m not throwing out any jurisprudence at all.

Cunliffe  We’re having an argument about your move to include producer surplus once again, which hasn’t been done since, I think, 1999.

Layton  No, no, I think that my point—and may I make this clear to you: the reason I raised the wool scouring was to demonstrate to you from a recent decision made by the Commerce Commission that your view about how the Commerce Commission measures these things is not actually correct. They take into account those are the producer—

Cunliffe  There has been a recent change in the Commerce Commission, because I recall being involved in the drafting of the Commerce Act and the Commerce Amendment Act, the Electricity Act of 1990, and the Telecommunications Act and the two amendments. In all of those we had a consumer surplus test spelt out, and if the domination of predominance for the competition test over the efficiency sub-test—I think it was section 18 (1) and (2) of the telco Act, for example—

Layton  No. I would beg to differ. The changes that occurred in 2000 to the Commerce Act—or thereabouts; 2001 I think it was for the Commerce Act—have not led them to, in fact, change to a consumer surplus test. This case I am talking about was this year—

McClay  I think this is a good place to finish. Our time is up. No, our time is up; we’ve had our 45 minutes, and we are finishing up. We have used more than our 45 minutes; our time is up. If we have any other questions, we’ll put them to you in writing. We’ll direct these to you in writing. Can I thank you for your time.

Cosgrove  Just before, Mr Chair, with respect, there are a number of requests that have been made for your organisation to get back to us in writing.\(\text{inaudible}\) reiterated so these folks know what they—

McClay  Has the clerk got a list of those? Perhaps we can make sure that once we’ve finished this, we’ve got them down to provide them to you in writing, and you would be able to give that back to them. All right?
Cosgrove: And the second question through you, given the time frame, would the authority of the chair to be willing to let the committee come back for further discussion?

McClay: I think that’s a consideration. Actually, I’m sure if we ask them they’d be willing to do anything, but let’s have that consideration if the committee wants to administer this in a closed session. But thanks very much. Thank you for your time, and thank you for the effort you’ve put into appearing for us today.

\textit{conclusion of evidence}
2010/11 financial review of the Energy Efficiency and Conservation Authority

Report of the Local Government and Environment Committee

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Recommendation

The Local Government and Environment Committee has conducted the financial review of the 2010/11 performance and current operations of the Energy Efficiency and Conservation Authority, and recommends that the House take note of its report.

Introduction

The Energy Efficiency and Conservation Authority is a Crown entity and is funded mainly from Votes Energy and Environment. Its primary purpose is to implement Government strategies for energy efficiency, energy conservation, and renewable energy in the private and public sectors. The authority aims to secure energy efficiency outcomes in businesses, homes, transport, renewable energy, and monitoring and research.

In 2010/11 the authority’s total revenue was $115.624 million and total expenditure was $113.069 million, resulting in a net surplus of $2.555 million.

Financial and service performance management

The Office of the Auditor-General issued an unmodified audit opinion on the authority’s financial statements, rating as “very good” its management control environment and its financial systems and controls, as it did last year. Service performance information and associated systems and controls received a “good” rating, the same as last year.

Renewable energy

Promoting renewable energy is a statutory requirement of the authority. It told us that there are more than enough consented renewable energy operations (mostly hydro-electric) to meet the Government’s target of generating 90 percent of New Zealand’s electricity from renewable sources. It went on to say that it was considering other forms of renewables such as woody biomass left on the forest floor after felling trees.

Authority programmes

As a Crown agent the authority delivers programmes that reflect Government policy. It told us that it has not encountered pressure to change its direction, and puts this down to the underlying value of its programmes. We note that the authority is reviewing its programmes, and look forward to seeing the results.

Solar energy

The solar and heat pump water heating programme aims to increase the uptake of these technologies. Each year around 2,600 houses have solar water heaters installed. We heard that a clean heating programme separately funded by the Ministry for the Environment was integrated into the Warm Up New Zealand programme, and that the authority thinks it might be possible to merge all three if the solar programme continues.
We queried the authority about a report it commissioned from the Nelson City Council on solar water heating programmes, as it has not yet been published. The authority told us that the bulk of the work it undertook with the council was establishing and promoting a solar water heating programme for the city, and that the production of a booklet by the Nelson City Council to advise other councils on the use of targeted rates for such programmes was a secondary objective. It denied that the booklet was “stuck with” the authority.

**Lighting**

The authority has a number of efficient lighting programmes which have focused on changing light sources, for example by using efficient long-life bulbs. We were told that it intends now to shift its focus to the control of lights, using devices such as timers and sensors. We were pleased to learn that the authority works with the Ministry of Social Development in its role of managing government buildings to ensure that public buildings incorporate new developments in energy efficiency and conservation.

**The Energy Spot**

The Energy Spot television advertising campaign shows New Zealanders how they can make better use of energy in a wide range of ways. The focus has been primarily domestic, and we were interested to learn that a new Energy Spot programme will focus on business. We agree that significant benefits can be gained from businesses being as energy efficient as possible.

**Warm Up New Zealand**

The authority’s major programme is Warm Up New Zealand: Heat Smart, an insulation and clean heating programme that aims to retrofit more than 188,500 homes. We were pleased to learn that around 140,000 houses have been insulated to date and that the authority believes the total will reach 150,000 by the end of the current financial year.

Research undertaken by the authority shows strong awareness of the Warm Up New Zealand programme, with about 250,000 households interested in insulating their homes. Houses insulated under the programme belong in roughly equal numbers to average-income households and people with a community services card. We queried regional variations in cost effectiveness and were told that while insulating for heat may be less cost-effective in northern areas of the country than southern areas, it is important for northern homes to lay plastic underfloor sheeting to stop dampness rising through houses.

An apparent under-expenditure of $30 million was due to lower volumes of retrofits and lower average costs per retrofit than expected. This was partially offset by the deferral of associated operating costs, in particular quality assurance costs ($500,000) and the costs of the Christchurch Chimney Replacement Programme, which were not budgeted for ($5.3 million). We were told that the cost of retrofitting a house has fallen because of increased volumes and more investment. The authority went on to say that some manufacturers are offering deals to insulate at no cost to the home owner during the summer months rather than the winter months as is more common. The reduced uptake of insulation grants was primarily due to the economic downturn and the Christchurch earthquakes. While the Warm Up New Zealand programme has been affected by the earthquakes in Christchurch, we were pleased to learn that a large number of houses in Christchurch continue to be insulated.
**Christchurch**

The Christchurch Chimney Replacement Programme was established in the wake of the September 2010 earthquake and offered people whose chimneys were damaged in the earthquake the opportunity to replace old log burners or open fires with clean, efficient heating systems. The costs were covered under claims to the Earthquake Commission. Following the February 2011 earthquake the programme was rolled into Fletcher Construction’s earthquake recovery programme.

The rebuilding of Christchurch is an opportunity to embed energy efficiency, energy conservation, and renewable energy, and we heard that the authority has discussed with the commission and Fletcher’s how best to integrate energy efficient equipment and technologies into the rebuild. The authority is also talking with insurance agencies about responsibility for the cost of insulating houses being rebuilt, as insulating a house that was not previously insulated is deemed to be a betterment issue whereas replacing existing insulation is not. We note that the authority has worked with other parties to retrofit 10 homes to show what could be done regarding energy efficiency, and that insurance questions have been among the challenges in getting this project off the ground.
Appendix

Approach to this financial review

We met on 22 March and 4 April 2012 to consider the financial review of the Energy Efficiency and Conservation Authority. We heard evidence from the Energy Efficiency and Conservation Authority and received advice from the Office of the Auditor-General.

Committee members

Nicky Wagner (Chairperson)
Maggie Barry
Hon Chester Borrows
Jacqui Dean
Paul Goldsmith
Gareth Hughes
Raymond Huo
Nikki Kaye
Hon Annette King
Moana Mackey
Eugenie Sage
Andrew Williams

Evidence and advice received


Energy Efficiency and Conservation Authority, Responses to questions, received 20 March 2012.

Energy Efficiency and Conservation Authority, Responses to additional questions, received 3 April 2012.


Organisation briefing paper, prepared by committee staff, dated 22 March 2012.
2010/11 financial review of the Environmental Risk Management Authority

Report of the Local Government and Environment Committee

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**Environmental Risk Management Authority**

### Recommendation

The Local Government and Environment Committee has conducted the financial review of the 2010/11 performance of the Environmental Risk Management Authority and recommends that the House take note of its report.

### Introduction

The Environmental Risk Management Authority was a Crown entity which decided applications to import, develop, or field-test new organisms or to import or manufacture hazardous substances in New Zealand. On 30 June 2011 the authority was disestablished, and its functions incorporated into the Environmental Protection Authority. The outgoing board chairperson was Richard Woods and the outgoing chief executive was Rob Forlong. The Minister for the Environment was the shareholding Minister.

The authority’s financial statements were prepared on a disestablishment basis, and the Office of the Auditor-General did not rate the authority’s management and financial systems and controls.

The authority was funded mainly from Vote Environment. In 2010/11 its total revenue was $11.19 million, and its total expenditure was $10.778 million, resulting in a net surplus of $236,000.

### Transferring functions to the Environmental Protection Authority

The Local Government and Environment Committee of the 49th Parliament considered the Environmental Protection Authority Bill which, following enactment, transferred the functions of the Environmental Risk Management Authority (ERMA), along with its staff and assets, to the Environmental Protection Authority. We were pleased to learn that the transition had gone smoothly and that the Environmental Protection Authority was able to perform the functions previously undertaken by ERMA from day one (1 July 2011).

Administration of the New Zealand Emissions Trading Scheme and registry, and staff from the Ministry of Economic Development, were transferred to the Environmental Protection Authority on 1 December 2011. While the transfer was delayed, it also went smoothly, and we understand the Environmental Protection Authority has formed itself into a coherent and collegial agency.

We were particularly pleased to learn that a $1.5-million contingency fund for transferring functions to the Environmental Protection Authority was not needed and has been returned.

### Applications and notifications

The Environmental Protection Authority is continuing ERMA’s efforts to streamline the hazardous substances applications process so that it can focus on higher-risk substances.
Recent legislative and process changes have reduced the processing time for applications considerably. We note that a lot of work is undertaken with prospective applicants to ensure that they are fully prepared.

ERMA was structured differently from the Environmental Protection Authority, its board being principally a decision-making body while the Environmental Protection Authority’s board is more concerned with governance. The Environmental Protection Authority has therefore set up a separate technical board to make hazardous substances decisions. We consider this a sensible solution.

The Environmental Protection Authority, like ERMA before it, is required to notify the public of certain applications for the use of hazardous substances or the release of new organisms. We heard that the public notification test is now one of “significant public interest”, and that while applicants may make technical information publicly available quite early in the process, by law it is probably not possible to require them to do so.

1080

Like previous Local Government and Environment Committees, we have a continuing interest in 1080 poison. In 2008 there were 30 reported incidents, objections, and compliance issues relating to the use of 1080. In 2009 the number decreased to 17, but it increased to 34 in 2010 and is likely to increase again for the year ended 2011.

This concerns us, and we were pleased to learn that the Environmental Protection Authority has met the Department of Conservation and the Animal Health Board to discuss these increases, and that the department and the board have undertaken to make efforts to decrease the number of reported incidents.
Appendix

Approach to financial review
We met on 24 May and 14 June 2012 to consider the financial review of the Environmental Risk Management Authority. Evidence was heard from Environmental Protection Authority and advice received from the Office of the Auditor-General.

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

Evidence and advice received

Environmental Protection Authority, Responses to questions, received 16 and 28 May 2012.


Organisation briefing paper, prepared by committee staff, dated 22 May 2012.
2010/11 financial review of the Families Commission

Report of the Social Services Committee

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Families Commission

Recommendation

The Social Services Committee has conducted the financial review of the 2010/11 performance and current operations of the Families Commission and recommends that the House take note of its report.

Introduction

The Families Commission is an autonomous Crown entity, which was established under the Families Commission Act 2003. The commission works as an advocate for the interests of families in general, and positions itself as “a centre of excellence for knowledge about family and whānau in New Zealand”. The commission aims to be relevant to New Zealand families and whānau, a reliable source of knowledge about policies and practice, and a respected source of knowledge about families and whānau.

In the 2010/11 financial year, the commission’s total income was $8.152 million (including Crown, interest, and other revenue) and its total expenditure was $8.536 million, resulting in a net deficit of $384,000. The deficit was funded from previous years’ surpluses. The commission’s expenditure was $49,000 less than in 2009/10, but $128,000 more than its budget.

The commission received “very good” ratings from the Office of the Auditor-General for its management control environment and financial information systems and controls, and a “good” rating for its service performance information and associated systems and controls.

Policy and research

The chief commissioner thinks the last year has been the commission’s best so far. It is more widely recognised as an authority for, and a reliable source of, information, is much more visible, and its advocacy has a strong evidential base. The Families Commission is now co-located with the Children’s Commissioner’s offices in Auckland and Wellington, but the chief commissioner made the point that it is careful not to duplicate research by other agencies.

The reduction in commissioners from seven to four including a chief commissioner follows a review of the Families Commission in 2010 by the Ministry of Social Development. The review, undertaken at the Minister for Social Development’s request, considered the commission’s strategic direction and work programme and whether it provided value for money. The chief commissioner is very pleased with the new governance model, but is aware from public announcements that it is likely to be changed again. The commission has not been provided with any detail or direction as to the intended changes. Some of us believe that this will require some amendments to the Families Commission Act.
The commission continues to exert an influence on legislation; the chief commissioner noted that its “fingerprints” can be seen in almost every piece of legislation and review of legislation that deals with family. For example, the Credit Contracts and Consumer Finance Amendment Bill reflects work on debt and financial hardship conducted by the commission with the Ministry of Consumer Affairs. Another example is the Review of Part 6.AA: Flexible Working Arrangements¹, which has been significantly informed by Families Commission work.

**Government confidence and supply agreement**

The Families Commission is mentioned in the confidence and supply agreement between National and United Future, which was signed in December 2011. A provision of the agreement states:

The Families Commission will have two broad functions – the existing functions will be headed by a single Commissioner, and new monitoring, evaluation and research functions to drive quality services for families. In addition a Families Status Report will be developed to measure how New Zealand families are getting on, and government will re-direct $4m over four years to fund extra parenting programmes and relationship education in secondary schools.²

The commission said that it is looking forward to clarification from the Minister for Social Development as to what is anticipated in order to meet these new expectations, and how it will be funded. The commission expects this direction to come via its output agreement with the Minister. Some of us are concerned at this lack of direction, as it leaves the commission in a position of uncertainty regarding its work programme and its future funding.

**Family violence**

The commission noted the continued success of its White Ribbon campaign. The commission said that the uptake of the campaign had been “terrific”, and last year’s success was noteworthy considering it was held the same week as the general election.

Responsibility for the New Zealand Family Violence Clearinghouse, a centre based at the University of Auckland which collates and disseminates information about domestic and family violence in New Zealand, now lies with the commission. The commission has not conducted any review of the services provided by the centre as yet, but does not foresee any issue with funding this new responsibility. Several of the commission’s outputs for the year are aimed at improving understanding of family violence, including a family violence statistics report, developing a comprehensive set of family violence indicators, and hosting a family violence symposium in May 2012. We are pleased with the commission’s continued work in this area.

Appendix

Approach to this financial review

We met on 4 April and 9 May 2012 to consider the financial review of the Families Commission. Evidence was heard from the Families Commission and advice received from the Office of the Auditor-General.

Committee members

Peseta Sam Lotu-Iiga (Chairperson)
Melissa Lee (Deputy Chairperson)
Jacinda Ardern
Hon Jo Goodhew
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 the hearing of evidence.
Katrina Shanks replaced Hon Jo Goodhew for part of the hearing of evidence.
Rino Tirakatene replaced Su’a William Sio for the hearing of evidence.
Nicky Wagner replaced Peseta Sam Lotu-Iiga for part of the hearing of evidence.
Holly Walker replaced Jan Logie for the hearing of evidence.

Evidence and advice received


Families Commission, Response to pre-hearing questions, received 27 March 2012.

Families Commission, Responses to written questions, received 5 April 2012.

Office of the Auditor-General, Briefing on Families Commission, dated 4 April 2012.

Organisation briefing paper, prepared by committee staff, dated 6 March 2012.
2010/11 financial review of Genesis Power Limited

Report of the Commerce Committee

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Recommendation

The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of Genesis Power Limited and recommends that the House take note of its report.

Introduction

Genesis Power Limited is a state enterprise in terms of the State-Owned Enterprises Act 1986. It develops and procures fuel sources, generates electricity, and trades in wholesale and retail energy. As a result of the Electricity Industry Act 2010, in June 2011 Genesis purchased two of Meridian Energy Limited’s hydro generators, Tekapō A and Tekapō B. This acquisition represents a significant change, as Genesis’s generating assets were previously confined mainly to the North Island.

Genesis’s major physical assets include the Huntly power station, which comprises six separate generating units, which makes Genesis New Zealand’s largest thermal generator of electricity. It also owns hydro stations at Tongariro and Waikaremoana, the Hau Nui Wind Farm in the Wairarapa, and a cogeneration facility at Kinleith, and holds a 31 percent interest in the Kupe oil and gas field. It supplies 19 percent of New Zealand’s electricity.

The chief executive of Genesis is Albert Brantley. The Right Honourable Dame Jenny Shipley is the chairperson of the board.

Financial performance

In 2010/11 Genesis generated revenue of around $1.8 billion, and made an overall post-tax loss of $17 million, partly as a result of $96.8 million in revaluation costs. It employed assets of $3.7 billion and had liabilities of $2 billion.

The company’s electricity revenue decreased by $173 million (10 percent) from 2009/10, but gas revenue increased by $58.266 million (44 percent), and petroleum revenue almost quadrupled, increasing to $58.671 million.

It acquired 26,500 additional South Island customers in 2010/11 as a result of a marketing campaign.

Partial sale and mixed-ownership model

We asked what advantage a partial sale of Genesis shares would confer. Genesis indicated that it believed the broader economic benefits of partial privatisation were not a matter for it to discuss. Genesis said, however, that state-owned companies are expected to be run in the best way possible, and it believed senior management and the board currently brought due determination and diligence to their work; they would continue to work consistently to improve returns, regardless of ownership. If there were a decision to float or partially float Genesis, the board would work to make sure that it was done efficiently. We asked whether
a partial float might attract more analysis, which might improve outcomes and performance. Genesis agreed that listing on the stock exchange can sharpen a company’s attention. It believed that its disclosure obligations would remain the same under partial listing, including those relating to its corporate bonds.

Some of us noted Mrs Shipley’s comment in respect of the Government’s policy to partially privatise: “So whether [Genesis is] fully, partially, or not listed, at the moment it wouldn’t alter how we perform, because of the bond requiring us to pay attention in order to partially fund the cost of the Tekapō transaction.”

We suggested that the period following an unusually low end-of-year financial result might not be the ideal time for partial sale of the company. Genesis said the market was fully informed about its financial situation, including the complexities of the acquisition of the Tekapō generators, and it was confident regarding future revenue. It noted that the company’s performance had improved since the low result from June 2011, and it would reach its targets; it would be ready whenever the Government decided to sell. We noted that, despite indications in its statement of corporate intent, the company did not pay a dividend in 2010/11, and it did not forecast any dividend for 2011/12. We asked why, and whether this had implications for the timing of any sale of shares in the company. Genesis explained that with the Government’s agreement, dividend funds had been diverted over two years to purchase the Tekapō generators; it said its performance was significantly improving.

We asked why the company’s own valuation differed from the Treasury’s, when the valuations of Meridian Energy Limited and Mighty River Power Limited had been closely aligned with Treasury estimates. Genesis said other companies used a slightly lower short-term price path and a higher long-term price path, whereas Genesis tended to do the opposite.

**Social responsibility**

We observed that the proposed legislation regarding the sale of state-owned assets explicitly required social responsibility, which is monitored in state-owned enterprises under current legislation. We asked Genesis if it could guarantee that it would exercise social responsibility under a partially privatised ownership model. Genesis said it would absolutely guarantee this, as it was in the company’s commercial and social interests to do so. It viewed social responsibility and corporate responsibility as indistinguishable, and believed this view was widely held in New Zealand and overseas. We asked whether this attitude might change if the current board and management were to change, particularly with the backing of private shareholders with profit as their primary aim, but Genesis expressed confidence this would not happen. Some of us noted that no advice was provided as to how the so-called “guarantee” of social responsibility continuing would be given practical effect to if the board membership and/or shareholder ownership structure were to change in the future.

Asked whether it exceeded its statutory social responsibility, Genesis said it went much further when this was in the interests of its shareholders. It could not envisage circumstances in which having commercially interested shareholders would diminish its perceived need for social responsibility, but agreed that any socially irresponsible actions for short-term gain could affect a company’s long-term interests.
Undesirable trading situation

The Electricity Authority ruled that an “Undesirable Trading Situation” occurred on 26 March 2011, in which Genesis’s wholesale electricity prices rose to approximately $20,000 per megawatt hour in some regions during a seven-hour period. The Electricity Authority found that Genesis’s behaviour did not materially breach the law and that it had not engaged in or attempted manipulative trading activity, but recommended that prices for 26 March should be reset at somewhere between $1,500 and $3,000 per megawatt hour. The authority believed prices reflected the cost to purchasers of alternative sources of supply or of curtailing demand. It argued that the decision would prevent damage to the perceived integrity and reputation of the wholesale electricity market, while preserving incentives for electricity purchasers to hedge their risks from exposure to spot prices. Genesis has appealed this decision to the High Court. We asked whether it was fair to say that Genesis had taken advantage of the market situation on March 26. It told us it was obliged to act commercially, and did so on that day.

We asked Genesis why it had charged $20,000 per megawatt hour, and whether it believed that the high price was consistent with its social responsibility clause. It noted that it was running four 250-megawatt power stations at Huntly, but would only continue to do so if customers were willing to pay for them. Two of the Huntly power stations were needed fairly regularly, but the third was required much less often, which meant that it cost more to run. The fourth power station was only rarely required, which meant that very high prices were required to cover the cost of running it. It said the cost of running the fourth plant would be extremely high in future, approximately $15,000 to $16,000 per megawatt hour.

It told us that its Huntly stations were very reliable and flexible, and it believed they would play a very important part in the national energy structure in New Zealand, mitigating the risk of electricity shortages resulting from droughts. However, as the Huntly generators were expensive to maintain, Genesis intended to rely more on generation from renewable sources. It planned to put two of the Huntly generators into long-term storage, the first in December 2012 and the second in December 2014.

Smart meters

We asked whether Genesis had confidence in its smart meters, as consumers and media had indicated concern about them in the past. Of the energy retailers, Genesis told us it has the largest number of customers with smart meters—over 249,000 meters, representing over 50 percent of its customers. Its retail strategy was based on advanced meters, which it believed were better than the alternatives.

As Genesis considers that the real value in smart meters lies in the data produced rather than the metering technology, it does not own the meters but contracts the collection of data by a supplier. It has built adaptability into its systems to accommodate changing technology.

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1 The average wholesale price for Genesis in 2010/11 was $59.67 per megawatt hour.
Customers with smart meters can access their data on the Genesis website, to monitor their consumption and usage patterns. Genesis said it was trialling financial incentives to encourage customers to use energy at off-peak times. It had no immediate plans to allow customers to return surplus power to the grid.

“What’s My Number?” campaign

We asked about the effect of the “What’s My Number?” campaign by the Electricity Authority to encourage customers to shop around for affordable electricity suppliers. Genesis told us it had created competition and thus improved the performance of companies. It had exceeded its new-customer targets in the South Island. It had tried to reduce customer churn by offering transparent service, understanding customers’ different needs, and offering a range of products to accommodate them. It saw smart meters as a key to this approach.

Kupe oil and gas field investment

Genesis holds a 31 percent interest in the Kupe oil and gas field, which had been in production for a year. It also holds supply contracts for all of the Kupe gas. Kupe had been in commercial production for a year and had been a key contributor to Genesis’s revenue, mainly from oil. We heard that Kupe had encountered some initial problems, but had met expectations and had produced more oil than original valuations predicted.

Genesis said it shared the concerns of other thermal operators about the availability of gas, but believed it would continue. It had done some work on a joint venture relating to liquid natural gas, which would have had to be imported, but had suspended the project because the technology in question had been superseded.

Emissions trading scheme

We heard that emissions from the Huntly power stations had fallen significantly since the 2005/06 financial year, largely due to reduced running of units one to four, driven by market conditions, hydrology, and additional new generation plants constructed over the period. We asked whether the Government’s emissions trading scheme had affected emissions. Genesis said it was meeting its obligations under the scheme, which had increased costs and thus prices. It said its costs under the scheme for 2010/11 were $14 million, and in 2011/12 would be approximately $20 million.

Health and safety

We were concerned to note that Genesis did not meet its health and safety targets, and asked what action it was taking to improve its performance in this area. It told us that it prioritised health and safety highly. It had included a health and safety component in employees’ key performance indicators, which were tied to salary adjustments. Genesis had recorded a 23 percent decrease in lost-time injuries over the year.
Appendix A

Approach to this financial review

We met on 5 April and 17 May 2012 to consider the financial review of Genesis Power Limited. We heard evidence from Genesis Power Limited and received advice from the Office of the Auditor-General.

Committee members

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

Evidence and advice received


Genesis Power Limited, Responses to additional written questions, received 14 April 2012.

Genesis Power Limited, Responses to written questions, received 5 April 2012.


Office of the Auditor-General, Briefing on Genesis Power Limited, dated 5 April 2012.

Organisation briefing paper, prepared by committee staff, dated 20 January 2012.
Appendix B

Corrected transcript of hearing of evidence 5 April 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Gareth Hughes
Todd McClay
Mark Mitchell
Mike Sabin

Witnesses
Dame Jenny Shipley, Chair
Albert Brantley, Chief Executive
Audrey Scheurich, Acting General Manager, Finance

Young I’d like to welcome you today. Welcome to the Commerce Committee. We look forward to your presentation, and then we’ll open up for questions.

Shipley Thank you very much, Mr Chairman, members of Parliament. It’s our pleasure, on behalf of Genesis, to have this opportunity to present our performance over the last financial year, and for the first half of this financial year to you.

I’m Jenny Shipley, the Chair of Genesis Energy, and I have Albert Brantley, our Chief Executive, and Audrey Scheurich, who is our Acting GM of Finance. Can I extend our apologies for Andrew Donaldson, our CFO. He unfortunately was taken ill yesterday and was not able to accompany us.

The full-year result I think has been provided to you for the year ending June 2011, and we’ve also provided you the summary of the half-year to December. We are very happy to talk about any of the financial results of both the full year and the half-year, and happy to take questions.

I think if you describe what the company was involved in in the last 12 months in terms of the full-year performance, it again focused on the transformation of Genesis Energy into a tightly run, highly disciplined business. Both board and senior management focused on those disciplines.
Effectively, we have continued to attempt to improve our skills and run our company as if it is a listed entity.

Our overall strategy is very clear. We have put a lot of effort into that, and obviously all companies do this from time to time, but briefly we do know where we’re heading in terms of our own company in relation to the market, and we’ve got a very clear plan about how we intend to get there. But, basically, it is by having specific strategies that will service our customers well, and in doing so it will create a significant shareholder value.

As you’re aware, Genesis Energy has the largest number of retail customers in New Zealand. We are just under 680,000 customers in the electricity, gas, and LPG area. We have about 27 percent of the market share and 44 percent of the retail gas market. These two areas represent about four-fifths of our revenue; the balance comes from our oil revenues from Kupe.

As an energy company today I think you would probably describe us as a company with a very balanced portfolio. In the period under review, you will recall that we have completed the transaction in terms of the acquisition of Tekapō. It has most certainly given us a more broad-based portfolio of generating capability, which still allows us to focus on excellence of service, but we now have customers in both the North and South Island as a result of that acquisition, and it’s been a very major part of our work during the financial period under review.

If people were to ask us today what we really are focusing on, both in the period under review and looking forward, it is actually customer experience. I know that sometimes sounds extraordinary when you are a company that generates electricity, but we expect to be able to do that outstandingly well across the portfolio we’ve got. Our effectiveness is whether or not we can attract and retain customers. So the first of our strategies is to try, through good customer service, reducing the churn. Our second area of focus in terms of improving our earnings is to focus on the cost to serve—in other words, how we interact with our customers, the quality of our call service, the quality of our service delivery, and whether or not we can improve margins. And obviously our third area of focus is on the price point—optimising our prices over time to see that we clearly meet our running costs and our expansion costs in the future.

Perhaps to conclude my comments, in the full financial year under review the two key features were the hydrology. As is always the case with Genesis, sometimes it’s either a bounty or a drought. It was a full year where there was a lot of water, and so we have to work particularly hard. During that year, as I mentioned earlier, the Tekapō transaction dominated the work of the board and senior management in addition to our normal business of both production and consumer services. In particular, we were pleased with how that transaction worked through. There was anxiety about whether both in the operational delivery it would impact on the catchment, and also on how it would be financially facilitated. On both grounds, I want to just
advise the committee that I was very happy with both the board and management’s performance. We raised debt. We also agreed with our owner to defer dividends, and as you will recall we also raised a corporate bond, which is a listed entity on the NZX exchange, in order to fund that transaction. Those three elements did represent a lot of our time, and it again confirms the way in which the company performs, because having a listed bond requires us to give every consideration to performing as if we are a listed entity.

So, overall, it’s been a good year. The first half of this financial year has been an improvement on a number of fronts, and I’m very satisfied personally, as is the board, with both the progress and the direction we’re making.

Can I now ask Albert Brantley, with your indulgence, to cover some of the key areas, indicators. And then we’re very happy to take questions.

Brantley Thank you, Dame Jenny, and I’ll try to go through this very quickly. I’m sure the committee would much rather ask questions than have a formal presentation.

If we turn to the next slide in your pack, our acquisition of Tekapō was a significant event for the company. It certainly allowed us the ability to service customers on the South Island and really establish Genesis Energy’s credentials as a truly national-focused energy company.

Our total customer numbers grew this past year, despite a considerable amount of retail competition pressure, and certainly our growth in the South Island both on electricity and bottled LPG was quite significant. Bottled LPG growth was a real highlight for us, taking advantage of our share of the production coming out of the Kupe joint venture.

Our roll-out of advanced meters has also continued very successfully. We have now achieved over 249,000 installed meters, and we’re now servicing over 50 percent of our electricity customer base with advanced meters. We highlight advanced meters consistently because it really is the platform on which our retail strategy and customer service focus for the future is really based on, not dissimilar to the cellphone network. It really is nothing more than a platform and a way forward.

We have started some multi-rate tariff trials in Auckland in January of this year. We’re getting some very interesting results from that. We are launching a similar multi-rate tariff trial in Christchurch next month, and we will continue to advance those multi-rate tariffs and use that as the basis to actually develop tools to allow the customers to take advantage in the future of those multi-rate tariff trials.

Turning to the next slide, as Dame Jenny said, the acquisition of Tekapō certainly has diversified our portfolio. It has now increased our renewable
capacity to 685 megawatts plus, and that helps us to balance our traditional thermal capacity of 1,448 megawatts at Huntly.

While Huntly is the largest single power plant in the country, we always encourage people to think of Huntly as six individual power plants. We have, obviously, the four coal gas-fired 250 megawatt units that everyone’s familiar with. We also have unit 5, the 400 megawatt, very efficient, combined cycle gas turbine. And we also have a 48 megawatt peaking plant. Each one of those units can be run discretely, separately from the others, and it allows us to think of it as six individual plants.

These assets are very reliable, they’re flexible, and we certainly believe those Huntly assets are going to continue to play a very important part in the national energy structure in New Zealand. They do give us the ability to hedge our risk and exposure to variations in hydrology. We are no longer quite at the mercy of whether it rains or doesn’t. In our case, we usually like to see it not rain. What you’ll see from our half-yearly results, we had a half-year of two halves: the first half, a great deal of water; the second half of the half-year result, a lot of concern about drying hydrology. We managed to balance the portfolio quite well and achieve quite a good result.

These assets, while we all recognise the importance to both us and the nation, we have seen that the development of new low-cost generation is putting a lot of pressure on those units. They are what we call mid to upper merit units. They are expensive to maintain. And what we have done is a great deal of work on re-profiling our exposure to load so that we can cover our exposures on the back of our renewable assets and the very efficient unit 5. The strategy behind that is really positioning us so that we can run Huntly when we need to run Huntly to meet the demands of the market, not run Huntly just simply to cover our position. That allows us to make commercial decisions about those units, and we are now starting to make those decisions.

We’ve made announcements in our statement of corporate intent, as tabled in August of this year, that we have short-term plans to start retirement of those units. The first Huntly unit—250 megawatts—is planned to come out and go into long-term storage in December of this year. That’s being done as we reach certification to run that unit, and based on the commercial need for that unit, which we can’t see right now.

We’ve also announced that we have a planned retirement date of the second unit to go into storage in December of 2014. There is some flexibility around that date, because we will see what happens in the market as we pull that first unit out.

Moving now to the next slide—just to talk about the full-year results for 30 June. These results, as Dame Jenny has indicated, were really characterised by very warm and wet weather and an extreme reduction in Christchurch demand. We also saw reductions nationwide in electricity demand. We
certainly saw a lot less requirement for our thermal output, and we did run our plant generally quite a bit less. This resulted in some reductions in our operating revenue, but we also continued our unrelenting efforts to control our operating cost, and we saw a good offset in that as well.

Our EBITDAF was quite a bit stronger for this past year at $293 million, and we turned in a pretty good result for our NPAT, even though it's listed as a negative number. The negative number, of course, is because we took a revaluation on the acquisition of Tekapō of $96 million. Had we not taken that, we would have had a pretty reasonable NPAT result as well.

If we turn to the next slide and look at the last 6 months in particular, we've achieved consistent growth in our customer numbers, continued our efforts to rebalance the portfolio, and seen good strong growth in the South Island customer numbers. Once again, we believe that this reflects very good on our brand and what we're offering to customers in the competitiveness of tenders that we put into the market.

We saw significant improvements from the same period for the previous year on our EBITDAF results. They were up 37 percent to $191 million. Our total revenue was up on the back of 6 months’ operating revenue from Tekapō, better oil revenues out of Kupe, and generally higher wholesale prices. Total revenue was up quite significantly by 17 percent. We have also seen a good increase in the same period the previous year, and our NPAT up 125 percent to $38.3 million.

On the following slide, on slide 7, we’ve got more detailed numbers. Rather than go through those I think I'll just leave it there. I will indicate that we are on track to meet or exceed all of our SCI targets for this year, and we are quite comfortable that we'll be able to do that. With that I'll turn it back over to Dame Jenny for any conclusions.

Shipley Thank you. I don't have anything further to add. We would welcome the questions from the committee.

McClay Thank you very much, and thanks for the presentation information you’ve supplied. You started off by, I think, in part of the presentation, talking about smart meters. Now, if I think back I think there was probably a bit of concern when they first started coming out to households—certainly, some consumer concern—and I think the media dwelt on this for some time. Can you just run me through this. Do you have confidence in them? And the reasons why, and maybe some of the long-term benefits there may be to consumers once this technology is rolled out further.

Brantley Yes. Our approach on smart meters has been one of let’s say a non-traditional engineer’s view. We worried a lot less when we started the advance meter roll-out about concentrating on the hardware. We thought more that the real value in the smart meter is in the data that that smart meter produces, and the interface with the customer on that data. So we
concentrated on not owning the meters, not developing the meters ourselves, but entering into a service contract with a supplier to contract data services. At the same time, we concentrated on our back-office systems that allowed us the ability to collect that data, analyse the data, and actually use it in a variety of mechanisms interfacing with our customers. We also recognised that technology was changing, so we made sure that in the functional spec for the data services we built in the ability to change for technology of smart appliances—ZigBee modems—and we made sure that the meters that were employed had that flexibility.

The advantage of the smart meters is really in a staged approach. We’re collecting the data now. Every Genesis Energy customer that has a smart meter has the ability to go online through our website and access his data. The critical thing for us is our view that it’s the customers’ data. They own the data. We make it freely available to them, they can monitor their use patterns, they can determine how they’re using energy and when. That’s interesting, but we’ve now started to roll out trials on differential tariffs where we then give the customer their financial incentive to start to do something with the data. If they can move some of their load around to different times of the day, then they receive a financial benefit.

But the critical thing is really the next stage, which is providing the customer with a tool that will give them the ability to easily do something with the data, and easily take advantage of the differential tariffs. So, in a nutshell, that’s our philosophical approach to it. The real value comes in the financial incentives in the ability to shift load and the tool, but it’s all driven off the platforms of the smart meter and the data that the smart meter produces.

McClay And just a final supplementary question, because I know we want to move on. In as far as the measurement of the amount of energy that’s used, you’ve got confidence that the meters are better than what was previously available to consumers?

Brantley Yes. The functional spec is that all of the data production had to be done to fiscal quality. Any meter in the country has to meet meter-reading accuracy.

McClay Thank you.

Cosgrove Thank you very much. Dame Jenny, you said that you and your board have attempted to run Genesis I think as close to a philosophy of a listed company as you can, and that’s commendable. Can I ask you—and I won’t ask you for your opinion on asset sales, because unless it’s changed, I suspect from your history I know the answer—but what is the upside, in your view or the board’s view if there is one, in partially floating a sound company, given that you are running it, and I accept that, close to private sector principles, given your own experience and your board members’ experience, apart from so-called added scrutiny and so-called added (inaudible)?
Well, firstly, let me say that I think taxpayers are entitled to know that SOE boards attempt to run these companies in the best way possible. So as a director of either a public or private company, it’s my experience that board members bring that determination and diligence to their work.

I think the second point in the case of Genesis is we do have a corporate bond, and so we actually have real and legal obligations to continuous disclosure—we have to—in any material decisions that we make. So we are right in the zone, and, frankly, the board’s skill, attention, and competency has, in my view, already moved into that space. I have every confidence that the senior management team and the board have the capability of doing either. So whether it’s fully, partially, or not listed, at the moment it wouldn’t alter how we perform, because of the bond requiring us to pay attention in order to partially fund the cost of the Tekapō transaction.

I don’t intend to proffer a view on the relative merits or otherwise because, frankly, our board will continue in its determination of constant improvement to improve returns, whatever the ownership is. We’ve been doing that long before the public announcement, and we intend to continue to do that. It is the shareholders’ right in any circumstance to decide whether full or part listing will occur. The board does not have a view other than—I’m sure they hold individual views—but as professional directors if there is a decision to float or partially float Genesis, then, of course, the board will turn its mind to making sure that that happens efficiently.

Thank you, and can I thank you for giving probably the most lucid answer to that question, because I think you’ve encapsulated absolutely what I think many in the community think. You’ve said, for instance, that whether you’re floated or not, it won’t alter your performance. You’ll operate to best practice. You’ll operate using your experience and the board’s experience to the best possible private sector principles. In fact, you are doing it at the moment. But I suppose my point is and it may be an unfair question but one that I think that I’ve got to proffer is given that—and I think all the SOEs, the four energy ones, operate to those principles and Treasury’s agreed with that in terms of efficiency—where is the upside, I suppose, where 80 percent of New Zealanders are opposed, so sort of walking in and saying where is the upside in partially floating this SOE? All we’ve heard from others, because I think you were out of the room, is: “Oh, there’s a bit of market scrutiny, we might be able to get a bit of alternative advice, or it might tighten a few muscles on the anatomy when we make decisions.”

Look, I’m not going to comment. I think we’ll leave you to debate politically the relative merits of this. Constant improvement is something I expect of our senior management team as a chairman of any company I chair. I’ve been very proud to work with this team, and I can tell you there is constant improvement. We are constantly looking at our asset allocation strategies, and so we’re using commercial metrics. It is returning more, and will in the future, I think, perform well for whoever is the shareholder.
Cosgrove: I think you’ve made a wonderful attempt at answering that, and you’ve provided some evidence as to why we should keep you.

Shipley: No, no, that’s not what I said.

Cosgrove: That’s the conclusion I brought.

Shipley: Well, I’ll leave that to you.

Sabin: Thank you for your presentation. Thank you, Dame Jenny. Just a brief supplementary question. So you’d accept, then, that whether it be the Crown or private investors, the ethos is to provide the best possible opportunities for returns, regardless?

Shipley: Of course. The broader economic benefits of partial privatisation is a different question, and it’s not one that we as directors turn our mind to. There are material benefits, one could argue, but it’s not appropriate that I do so here.

Cunliffe: All right. Firstly, a supplementary question on the previous line, thank you Chair. Can you confirm that your disclosure obligations under a corporate bond or quasi debt instrument would be the same as under a quasi equity or partial equity instrument?

Shipley: Certainly my understanding of our legal obligation is it is basically similar. If there’s anything material occurs within the company or any announcement that’s imminent, we most certainly act in the same way that I would expect us to act in a partially listed setting.

Brantley: If I may? We generally don’t get a great deal of analyst coverage on the corporate bonds. We have specific disclosure requirements that relate to our ability to meet the obligations of those bonds and the bond holders. And we certainly are well aware of that in every single event that takes place. We assess it on the obligations to make sure that we can comply with those obligations to bondholders. We haven’t attracted a great deal of analyst coverage yet.

Shipley: No.

Brantley: We’ve been relatively quiet about what we’ve been doing.

Cunliffe: Let me touch on a couple of things, firstly on your marketing strategy. Can I just make the point that at the very moment that you entered this room I
received in my email box an offer from you: “Hurry up for our April heatpump” offer. I have to compliment you on the timing.

Young And he hasn’t opened his email since, by the way.

Cunliffe The financial results in the last full year—I guess it’s fair to say that net profit after tax took a bit of a hammering from around $70 million up to about -$17 million down. Part of that was the enforced Tekapō swap, and you took a revaluation, which is normal commercial practice. It might not be the ideal time to be floating a large share of the company when you’ve just had an unusually poor end-of-year result. Would you like to comment on that? If you could choose the timing, wouldn’t you rather get in another couple of nice horrible droughts under your belt, and if the cash flow’s up, absorb Tekapō and sell on a high? Are you picking the timing?

Shipley Let’s be clear. The board and the senior management agreed to take what was absolutely known in terms of the consequences of that acquisition and bring it right through in the financials, and that’s what you see.

Cunliffe Understood. It is Government policy anyway.

Shipley The acquisition was Government policy, but you will recall that there were some characteristics of the acquisition, which we decided to take into account, the canals and so on. And that’s reflected in the figure that you refer to.

Cunliffe I wonder why Meridian hadn’t taken (inaudible) before you got it.

Shipley Well, it was our approach that what we know we declare, both in the financial sense and in the disclosure sense. And in both instances we’ve informed the market. So to come back to your question—

Cunliffe We’re very fortunate that we might be getting Meridian’s directors in to answer that very same question.

Shipley Can I come back to the point, though? The market is fully informed about where we are at, and already in the first half of this year when we’ve been briefing the market, they are fully aware of both the benefits and the complexities of the Tekapō transaction. I think universally they view it as a benefit in so far as the portfolio of assets Genesis now holds is very much rebalanced, and we are very confident that in the future it is going to underpin good revenue earnings.

Cunliffe So from a strategy point of view, of course you want to diversify, because being stuck with an ageing coal plant for 90 percent of your generating portfolio is no one’s idea of a good time. Fair comment?

Shipley Well, I wouldn’t describe it as that because they are still critical in the market and we make good money off them from time to time. A balanced
Cunliffe: I come back to the issue of timing. Why is this—let me put it in a positive—the ideal time to sell down the Crown’s equity in this company when, for perfectly understandable reasons, your end-of-year results have taken a big hit?

Shipley: Well, again, it’s a matter for the Crown to decide if and when Genesis will be offered to the market. Is the company ready? I can tell you that both at the board and senior management level, if the Government invites Genesis to be made ready, I can assure you we are.

Cunliffe: That’s absolutely, perfectly proper. But may I rephrase the question slightly? From a purely, and it’s an important question and I’m trusting your answer here, from a purely commercial point of view, if the board had full discretion as to the timing but was required to undertake a partial float, what factors would you take into account, and would you likely be choosing the immediate future given the past year’s results?

Shipley: Well, look, in my experience it can only relate to the appetite for the bond where all of that information was disclosed, and the bond was oversubscribed. So New Zealanders, given the opportunity to invest in Genesis Energy, given that they had the full knowledge—

Cunliffe: No doubt about that, but the question was—and chairman I’m going to need to be specific on this in two respects, and the first respect is, it’s not about disclosure or it’s not about there being sufficient demand (inaudible), but it will come down to price. Might the price be somewhat different if the float took place on the back of—

Young: There’s a lot of speculation in your question.

Shipley: Again, it comes back to our business plan. Our strategy and our business plans are well known in the market, and we believe that the balance of issues are still highly attractive.

Cunliffe: Does this fluctuation in your earnings account for the, if I recall correctly, gap between the valuation that the board has undertaken or has been undertaken for the board and Treasury’s valuation of your likely worth? Would you like to comment on why that gap exists and what your takeaway might be on the realisable value of the company, given the poor results in the last year—for no one’s fault—and the uncertainty that’s therefore resulted?

Shipley: Well, again, at the risk of persisting, the result you’re referring to is at June last year. The performance of the company since then and the chief executive has said that the out-turn at the end of this financial year we have every confidence is going to meet our targets, and it will be a much improved performance. We have every confidence in both our strategy and
the performance of the company in the current environment. I'll ask Albert or Audrey to comment on the valuation, but, generally speaking, if you have a single asset and you ask three different parties to value it, it's not unusual to get a variation.

**Cunliffe** Except, not to delay you, but the same difference did not exist in respect of the other two large generators. Treasury and commercial valuations were almost identical (*inaudible*) they were.

**Scheurich** The commercial valuation takes into account a portfolio approach, whereas the valuations that we did on Tekapō were on an individual asset basis. So there're lots of benefits that go across the company, synergies for Genesis Energy, that will be taken into account in the commercial valuation that won't get taken into account into the asset valuation itself.

**Cunliffe** Why would that differ between Genesis and, say, Meridian and Mighty River? They also have mixed portfolios and have available to them portfolio synergies, but there was a very close alignment between the Treasury’s estimates and—

**Brantley** I think if you'll actually look at some of the assumptions that we take in those evaluations, you'll find that there are some significant differences and assumptions amongst the companies, particularly as it relates to views on a long-term price path. Our view is certainly in the short term, slightly higher price path, but a lower price path long term. I know that some of our competitors take the contrary view of slightly lower short-term price path and a much more aggressive long-term price path.

**Cunliffe** Could you provide us with some detail—

**Shipley** We'd be happy to do that. My recollection is there is an accounting issue that, as well, may be relevant here.

**Cunliffe** Genesis did not meet its targets in respect of RMA compliance or health and safety with quite a number of lost time in injuries. What mitigation actions is the board overseeing? And why do these issues occur? How can you prevent them from recurring?

**Shipley** Can I just briefly comment, the first item that our company deals with in any board meeting is health and safety. It is given the highest priority by the directors and the senior management, and we are aware of some of the issues. Interestingly, a lot of the injuries have been in our call centre, not in our dangerous industrial sites, but I'll invite the chief executive to comment.

**Brantley** Yeah, we certainly recognise when we do a constant appraisal of those SCI targets and whether we’ve achieved them or not. We identified health and safety issues as a significant concern for us. We’ve instituted two significant changes within the organisation to make improvements. One is that we’ve installed a performance pay system within the company that applies to all staff. So the traditional way of making salary adjustments based on simply...
allocating a percent increase that applies to everyone is now driven by individual performance appraisals with KPIs. We’ve included a safety component in each individual employee’s KPI. Included in that is not just a straight measure of lag measurements or just simple injuries; it’s also leading measures about proactive measures in terms of incident reporting, near miss reporting. And we’ve seen about a 27 percent decrease in our total recorded injury frequency rate this year.

Cunliffe Another SCI issue, the company didn’t pay a dividend in 2010-11, and it didn’t meet its dividend year or the payout targets as outlined in the SCI. It’s not forecasting any dividend for the 2011-12 year. Why not? And why is it, again, a good time to sell down a company that has just failed to meet its dividend targets 2 years in a row and has breached its important SCI obligations in that regard?

Shipley At the time that those indicators were set, we obviously had every intention of paying dividends. The Government, when we acquired Tekapo, agreed that we would not pay a dividend, and those earnings were diverted into the payment, the cost of the acquisition. So we have a 2-year window where the dividend will be used to fund the acquisition, as opposed to a return to the shareholder.

Cunliffe I understand that. On the question of sale timing, surely this is not the best time, from the point of view of shareholder value, to dispose of a large quantity of shares in this company, when you have been required to suboptimise profit for this so-called policy reason, which I debate anyway.

Shipley Well, again, the timing, of course, is something for the future. But I have every confidence both in our performance and our projections that we could satisfy through an investor statement and a prospectus the sorts of questions that investors would ask.

Cosgrove On that point, Mrs Shipley, surely you would agree that commercial experience, that commercial logic, would dictate that you are highly likely to get a far better price selling a going concern when it’s performing well or exceptionally well, as opposed to selling it when it’s performing suboptimally.

Shipley Well, I respect the fact that you can use your preferred language. The track that Genesis is on is a track of significant improvement.

Cosgrove I accept that.

Shipley It’s not simply on any one particular measure. I mean, all of the issues you’ve raised there are good underlying explanations as to why those exist. If we had not performed to the point that we could not assist in the investment and not pay a dividend, I think an investor would be wary. But there are very clear explanations for the company’s performance.
Mitchell Actually, I just wanted to come back to what my colleague Clayton
Cosgrove was talking about. A publicly traded company obviously attracts a
lot more analysis. Isn’t this actually quite a helpful tool for the CEO and
board to use in terms of looking for better outcomes and performance in
terms of the company?

Shipley Unquestionably. In my experience, if you are a listed company and you have
to both present to analysts and they then commentate on your
performance, it sharpens your attention.

Mitchell OK. Thank you.

Hughes Thanks very much. Thanks for coming in. My question, to totally change
tack, is why on earth were you charging $20,000 a megawatt hour recently,
and turning what would be normally $230,000 worth of energy into $56
million using your monopoly position temporarily in the market? And do
you think that’s consistent with your social responsibility clause?

Shipley Well, there are many answers to this question. Firstly, we did not make $56
million from the UTS event, which I assume is what you’re referring to.
And, as the chief executive has referred to, when you are running four 250
megawatt stations they only stay in the market if someone will pay for them.
The way in which the costs are allocated to those, particularly when there is
a constraint event as there was in March last year, then the last one that’s
brought on has an extremely high cost. But, Albert, you may wish to
comment on the background to the UTS.

Brantley Yeah, in the discussion about the Huntly asset we indicated that we think of
the Huntly asset as individual power plants that you can characterise as
individual tranches of generation. The first two tranches of 250 megawatt
generations traditionally get dispatched in the market fairly frequently even
in an average year, not necessarily in the dry year. But we’ve seen increased
reliance on new-generation must-run generation in the marketplace. The
third tranche of 250 megawatts gets dispatched much less. So it actually has
to achieve a cost profile that is different than the other 2 units. The fourth
tranche of 250 megawatts gets dispatched very, very seldom. So when we
are asked to bring that into service, for us to be able to recover those costs
against that unit it must reach a high price.

Social responsibility—we are charged with acting in a commercial way. We
have to return asset value if we are to keep assets into the market, and at the
end of the day that was the pricing that was set on the unit on the day. I am
glad that Dame Jenny did for the record clarify that we did not make $56
million on the day, despite what the press said. Our objections to the ruling
on the Electricity Authority’s UTS are really driven on market principles. It
also might be worthwhile reinforcing that both the Electricity Authority and
the High Court found that there was no market manipulation by Genesis
Energy on the day.
Hughes: Was it fair to say you took advantage of the market situation?

Brantley: I think that we are obliged to act commercially, and I think that that’s what we did on the day.

Hughes: So how much did you make on the day if it wasn’t $56 million?

Brantley: It depends on what the final pricing is set at, and that’s still a subject of debate. And the setting of the final prices is still (inaudible). One thing is that, just remember, on the day we were also a buyer of electricity as well as a seller. So it’s the net position that you need to look at.

Hughes: Is what you’re saying though that you explained it was the fourth tranche, the fourth unit, (inaudible) on board, are you saying that’s going to be the going rate in the future—$20,000 a megawatt hour?

Brantley: What we have done is that we’ve been asked to bring that fourth tranche of generation on subsequently and we’ve set an extremely high price on it subsequently.

Hughes: What’s that extremely high price?

Brantley: It’s been upwards of around $15,000 or $16,000—certainly over $10,000.

Hughes: Just one last question, just to look at the gas units you’re using. I note there’s quite a lot of concern with gas suppliers going forward, particularly over the next 10 years. What’s your thinking on that?

Brantley: Well, we have concentrated a lot on our gas book. We have the same concerns about long-term gas supplier that all thermal operators have. We’ve seen traditional development of the gas supply market in New Zealand driven by need rather than long-term supply considerations, just because it is a relatively constrained market. We would expect under normal functioning of what we’ve seen over historic developments that gas supply will be available and will continue to be developed for our existing assets. I think it’s a little harder to look into the future on new assets that may get built, and I think that’s always the challenge that anyone that develops thermal generation assets has to consider.

Hughes: Are you still considering possible LNG imports?

Brantley: We were doing some work on a joint venture on LNG imports. We have actually suspended that work, principally because the technology that was being looked at has been superseded by new developments. We are keeping up with developments on the LNG area, but we don’t have a current programme at the present time.

Hughes: Just one last question. I know Brian Fallow was saying we’ve seen a 130 percent increase in emissions from electricity production from Huntly alone. That’s half of the country’s electricity emissions. What’s the
difference in emission trading scheme units you’re paying under National’s schemes versus Labour’s scheme? How much money are you saving?

Brantley One thing that I might correct is that our emissions intensity from Huntly has reduced 30 percent since our 2005-06 levels. That’s a number that we publish in our annual report. So I’m not quite sure about the numbers that you’re quoting.

Hughes Apples and oranges, though, because we’re talking about coal versus gas.

Brantley At the end of the day, it is a net impact, I think, that we’re trying to look at.

McClay Just on that, so you said your emissions had been changing, reducing since the current Government’s new ETS came into effect. It’s continued to reduce, or started to reduce?

Brantley We’ve seen some impact on the ETS on our business. We take our compliance obligations out of the ETS, we meet them, it drives a cost into our business, and like all of the industry we expect to see that those costs of emissions are factored into wholesale pricing cost. I think our ETS cost last financial year was $14 million for the financial year, and we expect our ETS cost this year is probably going to be in the order of somewhere around $20 million. But we have to reflect that into our bids that we put into the wholesale market.

Hughes Can I just have my question answered? So how much good has that been under Labour’s scheme?

Brantley To be honest, I haven’t taken the luxury of calculating it, since I’m more concerned about what our compliance obligations are, not a theoretical of what they would have been under something that doesn’t exist.

Hughes So I’m guessing it would be roughly double that. My concern is the taxpayers are picking up the tab.

Brantley Well, I really don’t know because I haven’t calculated it.

Young OK, can I just ask a question regarding Kupe and the work that you’ve been involved in there? You’ve had a full-year production and involvement there. How’s that going? And what’s that looking like towards the future?

Brantley Kupe continues to perform pretty well. We’ve had a few teething problems during the commissioning. They’ve been addressed. We are taking a planned maintenance shutdown this year to do some ongoing remedial work. And we’ve got a couple of construction issues that we’re clearing out. It’s met all our expectations, and we’ve actually achieved higher oil production rates than we expected on the original valuations. So it’s contributing significant earnings. EBITDAF earnings for the first half-year were $67 million compared with about $52 million the previous year. So it’s significant for us.
Young: And a considerable amount of that is LPG, bottled LPG?

Brantley: There is LPG that comes with it, but the primary driver is really the condensate revenues, oil revenues.

Young: Right, thanks very much.

Curran: Thank you. The legislation before the House on the mixed-ownership model contains a clause to protect the principles of the Treaty of Waitangi, the Crown-owned component. However, it does not contain any clauses that have guided State-owned enterprises on social responsibility. Given that that issue was very much in the public eye and has remained so since 2007, when the then Prime Minister served warning on all the country’s SOEs that they intended monitoring their legal obligations on social responsibility, can you guarantee this committee that under a partially privatised situation you would abide by that?

Shipley: As chairman I can absolutely guarantee. I’d say so because it’s in our commercial interest to do so, and it’s in our social interest to do so with all our stakeholders, many of whom are iwi, and who are both neighbours—So in terms of the article 2 and article 3 issues, which have implications for energy companies, the company, as a matter of practice, pays very significant attention to them. I don’t expect they’ll be disrupted in any way.

Curran: You say that it’s in your interest to do so, but there will be no legal requirement for you to do that.

Shipley: We don’t get up in the morning and decide this for legal reasons. In my own experience, best practice for an energy company—

Curran: This happened in parts, so how can there be a guarantee that it won’t happen again?

Brantley: If I may, Miss Curran. To put in the context I’m going to bring my experience, having worked internationally in a variety of jurisdictions. I’ve watched this debate about social responsibility, and to be honest it’s very difficult at times for me to understand it in the context of the international experience that I’ve got, because what New Zealanders view as social responsibility is actually corporate responsibility that any entity entertains. I don’t view that the things that we do as a compliance with social responsibility are anything more than what any corporation would do just out of corporate responsibility. Dame Jenny’s quite right. We operate businesses that have impacts on communities, and it’s in our interest to actually maintain the relationships with that community. That achieves good results for them as well as us. I don’t see it changing.

Shipley: At all.

Brantley: To me it’s the same thing.
Cosgrove  Could I put this to you? I accept your view on the matter. I’m sure BP would have given exactly the same response a couple of years ago for its present crisis where it didn’t act, I would argue, in a socially responsible or commercially responsible way. I suppose the point is that there are no guarantees. If Dame Jenny decides to move to another company, if you decide to move to another company, there is a new set of parameters. What does change, though, is a new set of priorities brought to bear by a private sector shareholder. And a private sector shareholder, I would argue, has commerciality at the top of the list, and maximisation of their profits, quite rightly from their point of view, at the top of the list. That’s what will change. So where’s the guarantee, apart from I accept your best intention and your track record, that that will continue post you and your board in the future?

Shipley  Well, look, I accept that directors come and go, but my own observation, both at the board level and at the senior management level right through this company, is we pay particular attention to this, because we are very significant resource users in a number of rohe. And this is not a shallow, in passing, commitment. I’m happy to test Genesis’s reputation with any iwi you wish to name. I can tell you I have no intention, nor does the senior management team, of switching this off. It’s not only iwi, although they have a special place in New Zealand law and in our relationships with them. We have a number of stakeholders—regional councils, neighbouring farmers, other users, all sorts of types. And this company pays very significant attention, because it’s not only good business; it’s good social responsibility. I don’t see it changing.

Cosgrove  Dame Jenny, I don’t challenge your view of the world; I accept it. I accept your and your company’s past track record. I suppose what I’m trying to put to you is that the parameters, the priorities, of shareholders are going to change because there is a float, and because, as you’ll be aware, generally shareholders don’t buy companies for charitable purposes. They buy it to maximise profits, and there could come a day where it’s a choice between doing the right thing as opposed to maximising profits. The two can go together, I accept it, but there’s a different parameter—

Shipley  Well, can I just share my own experience on other listed companies where all directors have an equal obligation to all shareholders, and in this case there is no proposition, from what I understand, for there to be another significant shareholder who in any way challenges the majority interest—albeit that directors have an equal obligation to serve all shareholders’ interests well. I simply don’t see it changing. I think that it’s completely and utterly manageable.

Cosgrove  But there’s no guarantee, because the law—

Shipley  I’m not sure what in this world is guaranteed.

Cunliffe  Death and taxes and the cyclical nature of Governments.
Shipley: Well, that’s true, but also I think there are some understood obligations in New Zealand today. And, again, we can talk in theory. I’d be very happy for you to test Genesis’s reputation with any iwi you choose to name, and I have every confidence that they would say they have every confidence in the way in which we currently hold our relationship with them, and will do so in the future.

Sabin: Thank you, Dame Jenny. You’ve partially answered the question I want to put to you. I can tell that there is obviously a passionate approach to social responsibility in the ethos of the board and the company as it stands. Is there anything from your experience outside of this, or from within, that would suggest to you that having any commercial interest in terms of shareholders would in any way diminish the need for that social responsibility to be at the forefront?

Shipley: I can’t think of circumstances where it would change.

Sabin: In fact, could it be a case that it could actually heighten that, given the world that we live in and I guess a commercial acceptance that those sorts of practices should be at the forefront?

Shipley: Well, they are best practice. Best corporate practice today includes acknowledging your social obligations. Again, these are not only New Zealand companies; global companies tend to take that view more often than not today.

Sabin: OK. Thank you.

Cunliffe: Just a supplementary question on this specific point. Can we check and confirm that, in fact, the board has a fiduciary duty to all its shareholders to maximise profit?

Shipley: Let me just think about this carefully. Well, maximise profit— You have a series of corporate objectives. You have an absolute obligation as directors to treat each shareholder’s interest in an equal fashion, whether they are a majority shareholder or otherwise. In other words, no one can manipulate any other person—

Cunliffe: It wouldn’t be in the shareholders’ interests for the board to suboptimise profit, because you’d be reducing returns to shareholders.

Shipley: I don’t understand the point you’re making. If you’re saying that social obligations mean that you’re not optimising your profit performance then— In my view, if you have a community that welcomes enterprise thriving, you have good business, so they go together, hand in hand.

Young: The shift for the transition that Genesis has gone through in terms of becoming customer-centric, the “Switch my number” programme, all of that’s bringing quite considerable constraint or direction to retail companies,
energy companies. How has that affected Genesis in terms of responding to communities?

Shipley  
Well, the community has— I can only really speak from the evidence. We have gone into the South Island market, even in this environment, and succeeded in securing and actually exceeded our targets in terms of the numbers of people who joined Genesis. It is very competitive out there, and that’s good for customers, but it’s also made companies perform very well. As I said in my introduction, our approach is to try through good customer service to avoid churn. You do that by offering a very transparent service. You try and understand what your customers are wanting from energy companies in terms of communication, response times, time to serve, getting back to people, solving their problems, and so on. Also having ranges of products that meet different customers’ profile.

Genesis is putting in huge effort, and I confirm Albert’s explanation of the smart meter. I do want to encourage the committee to think of the smart meter as a cellphone. The range of services we will be able to offer New Zealand customers in the next 5 years through this innovation, it won’t just be the wealthy who will benefit. I think the social benefits, because we can differentiate and respond to customers’ needs and understand them and in some instances case manage them so we can both supply them in an affordable way through the use of technology to meet their expectations. This is one of the most exciting areas. We are the largest customer group to have a portfolio of over 600,000 people on our books with this technology platform. We are in a very advantageous position, so our people often describe us, as one of your colleagues did, as having an ageing set of assets. Actually, we have a very balanced set of assets today, and a very large customer portfolio, and we are New Zealand focused. We’re not distracted.

Young  
I do think that how you’ve described it as a platform that’s going to offer services to the future is extremely exciting, and I think there’s a lot of actual social responsibility in how it’s going to affect our generation’s needs of the future.

Mitchell  
Yeah, thank you. Dame Jenny, on the corporate social responsibility, I’ve said the fact that I see that there is a very strong culture for it and generally accepted by any company around the world takes corporate social responsibility seriously. Chief executive, in your experience working internationally, have you ever seen pressure being brought to bear on a company by shareholders to reduce or move away from a corporate social responsibility programme? And, secondly, in terms of shareholder value, if you did start to reduce your corporate responsibility programme, isn’t there a risk that you actually start to reduce the value commercially of your company as well?

Brantley  
Yeah, my experience is really that they go hand in hand. Performing in a responsible way is part of doing business effectively. You can argue about how you measure maximising profits. It’s about maintaining the profitability
and the performance of the company in the long term for the interests of
the shareholders. To me, that always involves meeting those responsibilities
along the way. That’s only how you build that long-term future. Otherwise,
it’s a short-term view and we’re not maximising that long-term
performance.

Cunliffe So in good old free market capitalism there is no trade-off whatsoever
between profit maximisation and corporate social responsibility?

Shipley I could give you many examples as to why they cohabit not only
comfortably but actually they leverage off each other. I think if you can
simply take a litigious or a commercial approach, you often spend money;
you don’t save it.

Cunliffe And I’m not disagreeing with that, but if I look at, for example, rising
prices—this is the impact on people who can’t afford to pay their power
bills, or the disaggregation of a price path between large industrials who
have had real tenant price decreases, and families in South Auckland who’ve
had very significant real terms of price increases, because they don’t have
any buying power—I don’t think we can blithely waive away three centuries
of capitalism by saying that they are socially responsible nirvana. As much
as I appreciate your efforts, Adam Smith doesn’t agree with you.

Shipley Well, churning, the ability to shift companies, has helped people and
certainly it’s put downward pressure on prices in New Zealand. The
consumers’ ability to have their say has definitely slowed the price increases
in the market in the last 18 months.

Cunliffe On the smart meters, are you able to use two-way smart meters or are you
planning to install two-way smart meters where customers actually put
power back into the grid if they have a surplus?

Brantley Yeah, we have the ability to do that. It’s not something that’s being tested
right now.

Cunliffe So in the future you might, but you’re not at the moment?

Young Time’s up, thank you very much.

Hughes Mr Chair, I’d just like to add a supplementary question on social
responsibility. Do you stand by your statement when they said more social
responsibility in private ownership, and I congratulate the work you’ve
done, your new inaudible and smart meters, etc. Are you saying that, in fact,
you would have done a better job had you been 49 percent private owned,
or 100 percent, and how on earth could that be possible when you’ve got a
statutory provision for social responsibility, and what on the other side
would be a voluntary or marketing message for social responsibility?

McClay A further question is do you go further than your statutory responsibility?
Shipley We go much further than our statutory responsibility when it’s in the best interests of our shareholders. That’s a judgment that directors and senior managers make all the time. That’s why you hire good people to run your companies and hopefully why you appoint capable people to direct those companies. I understand it’s a contentious area, but in my own observation where you’ve got good commerce and a good understanding of the people with whom you’re working in relation to your resources, you have good business and you are returning performance and satisfaction to everyone. If you take a costly commercial litigious approach, you can often win court cases but lose the social agenda. If we had time, Mr Chairman, I could talk to you about the Whanganui claim, but we don’t have. It’s a very good illustration of how the company decided to work effectively and get out of a commercial and legal approach and seek a meeting of minds. Suddenly a whole lot of new things were actually possible. This company is skilled at doing that.

Hughes But do you stand by your statement that voluntary corporate social responsibility would be greater than the statutory provision—

Shipley Look, it’s not an either/or. What I’m saying is that good companies performing well in the market, whether they’re listed or otherwise, don’t require statutes to make them exercise best practice.

Young Thank you. We’re right out of time. Thank you very much Dame Jenny, Mr Brantley. Thank you very much indeed.

**conclusion of evidence**
2010/11 financial review of the Health Quality and Safety Commission

Report of the Health Committee

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Health Quality and Safety Commission

Recommendation
The Health Committee has conducted the financial review of the 2010/11 performance and current operations of the Health Quality and Safety Commission, and recommends that the House take note of its report.

Introduction
The Health Quality and Safety Commission was established as a Crown entity in November 2010 under the New Zealand Public Health and Disability Amendment Act 2010. The commission has taken over the mortality review committees and the reporting of adverse events, responsibilities that previously belonged to the Quality Improvement Committee (of the Ministry of Health).

The commission works with clinicians, providers of health services, and consumers to improve the quality and safety of health and disability services. It provides advice, and leads and coordinates improvements.

Financial and service performance
In its eight months of operation in 2010/11, the commission’s total revenue was $8.118 million, with a total expenditure of $5.021 million, resulting in a surplus of $3.097 million.

The commission’s annualised budget for 2011/12 has been reduced by $1.5 million, and with this in mind the commission is designating priority areas and aiming to get value out of resources. The commission said that predictions of cost savings for the health sector are variable because of the quality of the data on which they are based; but potential overall savings are estimated to be in the hundreds of millions.

The Office of the Auditor-General rated the commission’s management control environment, its financial information systems and controls, and its service performance information and associated systems and controls as needing improvement. As the commission is a new entity which is still developing its policies, this is not surprising. We are satisfied that the commission is progressing work on all the issues raised by the Office of the Auditor-General.

We are pleased that the commission has undertaken work on indicators of health quality and safety, reporting of adverse events, medication safety initiatives, programmes to prevent and control infection and falls, and health literacy.

Triple aim
In conjunction with the National Health Board the commission has modified the Institute for Health Care Improvement’s “triple aim” for New Zealand conditions. The “triple aim” is to improve the health of the population, to enhance patient’s experience, and to reduce costs. The commission has three classes of outputs intended to achieve the triple aim: a
national, all-sector approach to the reporting of adverse events, safer medicines management, and building consumer capability and engagement.

**Health literacy**

We are aware that 56 percent of adult New Zealanders have poor health literacy and asked about the commission’s role in health education. The commission said that there has been concern about medication usage, as patients do not always understand and therefore comply with prescription instructions. The commission discussed the need to train health professionals to ensure their patients are giving informed consent to treatment and understand the alternatives.

**National medication chart**

A standardised National Medication Chart has been introduced in 15 DHBs and the commission is working with the remaining DHBs to address concerns and promote a smooth transition to use of the chart. The chart was designed, after a detailed consultation process, to increase the reliability and accuracy of prescribing. Ideally the commission would like to see all relevant health agencies using the chart, and it said that the private sector is likely to adopt the chart in the near future.

**Reporting**

We asked about the variability in reporting of adverse events, and what is being done to improve it. The commission said it has been engaging with DHBs to improve reporting. The commission has also been revising its policies to ensure expectations are clear, and seeking to make reporting policy more transparent and responsive.

We note continuing tension between encouraging open disclosure and responding to public opinion. The commission said that reporting is valuable, although its value is difficult to quantify using available data, and helps mitigate risks. The commission suggested that the media’s tendency to sensationalise reported data can contribute to reluctance to report.

**Project management**

The commission will continue with projects that were already in progress before its establishment, with a focus on tight governance. We asked how the commission’s approach differed from that of previous committees. The commission said that previously there was no agreement as to what would constitute success. Now every project has a clear value statement, along with the explicit goal of reducing harm. The commission said that existing programmes have also been improved, which has led to better results.

**Best practice guidelines**

We recognise that the Ministry of Health has ceased funding the New Zealand Guidelines Group, a national group responsible for developing evidence-based clinical guidelines, suggesting that other organisations such as the Health Quality and Safety Commission could pick up this workload. The commission said it was not aware of explicit expectations about the guidelines, and does not have the resources to adopt the responsibilities of the New Zealand Guidelines Group. This was of concern to the committee.
We are aware of the great importance of international best-practice guidelines for setting standards and promoting safe practice. We support the commission in its desire to see the guidelines reviewed in the near future, with a particular focus on New Zealand.
Appendix

Approach to this financial review
We met on 9 May and 13 June 2012 to consider the financial review of the Health Quality
and Safety Commission. We heard evidence from the Health Quality and Safety
Commission and received advice from the Office of the Auditor-General.

Committee members
Dr Paul Hutchison (Chairperson)
Shane Ardern
Dr Jackie Blue
Dr Cam Calder
Kevin Hague
Iain Lees-Galloway
Andrew Little
Barbara Stewart
Hon Maryan Street
Dr Jian Yang

Evidence and advice received

Health Quality and Safety Commission, Responses to committee questions, received 31
May 2012.

Office of the Auditor-General, Briefing on the Health Quality and Safety Commission,
dated 9 May 2012.

Organisation briefing paper, prepared by committee staff, dated 7 May 2012.
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Appendix 6
Housing New Zealand Corporation

Recommendation

The Social Services Committee has conducted the financial review of the 2010/11 performance and current operations of Housing New Zealand Corporation and recommends that the House take note of its report.

Introduction

Housing New Zealand Corporation is responsible for managing the Government’s housing stock. It provides housing for people on low incomes or with specific housing needs, provides policy advice to the Government, and undertakes research on housing issues. It owns or manages nearly 70,000 properties, including about 1,500 houses for community groups providing residential services. More than 200,000 people live in Housing New Zealand Corporation houses or flats.

The corporation has two subsidiaries, Housing New Zealand Limited and Hobsonville Land Company Limited. Two previous subsidiaries, Community Housing Limited and Housing New Zealand Corporation Property Developments Limited, were amalgamated into Housing New Zealand Limited on 30 June 2011. The corporation’s responsibility for investing in social housing and building the capacity of this sector has moved to the new Social Housing Unit, which is a government agency set up as a semi-autonomous body within the Department of Building and Housing; where the corporation has been almost the only large provider of social housing in New Zealand, it aims to become the largest participant in a more diverse social housing sector.

2010/11 performance

In 2010/11 the corporation’s total revenue (including subsidiaries) was $1,271 million, which includes $241 million of insurance claim revenue, and its total expenditure was $926 million, resulting in a surplus of $293 million. The total revenue for the corporation alone in 2010/11 was $286 million and its total expenditure was $240 million, resulting in an operating surplus of $48 million. The corporation and its subsidiaries received “good” ratings from the Office of the Auditor-General for their management control environments and financial information systems and controls. They received “needs improvement” only for their service performance information and associated systems and controls; however, deficiencies were noted in all three areas.

The Auditor-General recommended that the corporation continue to improve its understanding of the condition of its property portfolio, initiate a process with its banks to reconcile the number of loans considered to be insured by the corporation with that considered to be insured by banks, and ensure its health and safety management and framework complies with best practice. The Auditor-General noted a few instances where no demand analysis had been performed before properties were acquired by the corporation, and that costs in the Hobsonville cost-apportionment model had not been
reconciled back to the general ledger. Some matters of lower priority were observed to need ongoing attention.

The Auditor-General also noted a number of matters likely to need attention in the coming financial year in the service performance information area: the corporation’s focus on the impact of its contribution, fuller explanation of the linkage between its objective and its outputs, targets for its new outcome performance measures, performance measures for reviewable tenancies, reporting on meeting housing needs, and regular reporting against its outcome framework throughout the financial year. We are pleased that the corporation has taken this feedback into account as it develops its *Statement of Intent 2012–15* and that it is continuing to refine and evolve its performance measurement framework.

**Canterbury earthquakes**

Approximately 97.5 percent of the more than 6,000 state houses in Christchurch sustained some sort of damage in the Canterbury earthquakes. The corporation assessed each of its properties after every major earthquake. At 21 March 2012, over 20,000 urgent health and safety reports had been completed on 5,000 properties in the region. The corporation noted that most of the damage to houses was major structural damage, and said it has pilot programmes for restoring those properties that can be repaired.

The corporation’s earthquake cover was withdrawn by its three major insurers, and it is now covered by the Earthquake Commission; the corporation expects to return to its previous insurance arrangements once cover is available at “acceptable” premiums. The corporation is developing a Canterbury Action Plan, which will reflect the Canterbury Earthquake Recovery Authority’s plans and those of the Christchurch City Council. The corporation also noted its intention to build up to 350 new homes over the next 18 months to address the housing shortage in the Canterbury region, and is already securing a panel of “suitably experienced and skilled property development groups” to start building as soon as possible. We commend the corporation for its work in Canterbury.

**Efficiencies and change**

The corporation returned $72 million to the Crown in 2010/11. It has developed an efficiency plan, including a new operating model, aimed at more efficiency in the delivery of its services and achieving more without increasing costs.

**Enterprise Transformation Scheme**

The corporation said that its Enterprise Transformation Scheme is the most significant change to its business since its inception. The programme will update the corporation’s infrastructure and information technology to enable it to deliver its services better in a more “tightly focused” state housing system. The Enterprise Transformation Scheme is forecast to deliver $240 million worth of efficiencies over the next 10 years.

Some of us were concerned about the use of consultants by the corporation and the amounts paid to them. The corporation told us that it generally follows the Office of the Auditor-General’s procurement guidelines with tendering for contracts, but that some Enterprise Transformation Scheme programmes were not put out for tender as they were valued at less than $100,000, or the specialist skills required were not readily available in the marketplace.
The corporation has changed its operating model so that its call centre is the first point of contact for most of its tenants. We heard that this is because most of the queries it receives are relatively minor, and that the corporation’s new Northgate software system allows the call centre to access a client’s file for information about how much they owe. However, clients still have access to tenancy managers and can be seen in person. We were told the new operating model reduces the chance of calls being missed when a client’s tenancy manager is out in the field. The corporation is confident that clients with disabilities or in need of an advocate will still be able to contact their tenancy manager and be suitably accommodated under this new model.

Northgate

Northgate, a specialist software supplier, is providing the system to replace the corporation’s tenancy management platform, to allow the service to be delivered at the front line. Some of us were concerned about media reports that corporation staff had travelled to London for a Northgate conference in June 2011, then resigned from the corporation and set up a consultancy group with Northgate as a “principal client and adviser”. The corporation said that it had no knowledge of the staff members’ intention to leave at the time of the conference, and that the chief executive had consulted Northgate and was satisfied there was no conflict of interest.

Social housing

The corporation has introduced several new initiatives as part of the overall reform of social housing in New Zealand. The key determinant of eligibility for a state house has changed, so that only high-priority applicants are placed in a state house or on a waiting list; those with lesser housing needs are directed to the corporation’s Options and Advice Service, which sets out all their housing options. The corporation has also introduced reviewable tenancies for all new tenants. New tenancies will be reviewed every three years (or earlier if tenants’ circumstances are known to have changed) to ensure tenants’ needs are being met.

The corporation is part of the Social Housing Reform Programme, which also involves the Treasury, the Ministry of Social Development, and the Department of Building and Housing. The corporation said that it is “actively working” with the Department of Building and Housing to ensure that the corporation’s outcomes and performance indicators align with the sector’s social housing outcomes, and that collaboration between the corporation, the Social Housing Unit, and the Department of Building and Housing can “evolve and develop”.

We heard that a third of the corporation’s houses are in the wrong place, are the wrong size, or are in the wrong condition to meet predicted needs. The corporation is working to ensure that its entire stock is fit for purpose and in the right place to meet demand, working with councils, iwi, and the private sector as part of its reconfiguration of the state housing portfolio. The corporation noted the strong relationships it has with councils—for example, it is working with the Auckland Council with regards to the Tamaki project.
Antisocial behaviour

The corporation has implemented a policy of “Encouraging good neighbour behaviour”. It allows the corporation as landlord to suspend tenants from state housing for a year if they lie about their circumstances, constantly refuse to pay their rent, or intimidate or harm other people or use state housing as a base for criminal behaviour. The corporation said it is engaging with complainants as far as it is legally permitted, to ensure they are aware of developments, and that it can usually resolve complaints about tenants through the Tenancy Tribunal or via its tenancy managers.
Appendix

Approach to financial review
We met on 4 April and 13 June 2012 to consider the financial review of Housing New Zealand Corporation. Evidence was heard from Housing New Zealand Corporation and advice received from the Office of the Auditor-General.

Committee members
Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Jo Goodhew
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

Annette King replaced Jacinda Ardern for the hearing of evidence.
Holly Walker replaced Jan Logie for the hearing of evidence.
Katrina Shanks replaced Hon Jo Goodhew for the hearing of evidence.

Evidence and advice received


Housing New Zealand Corporation, Response to written questions, dated 28 March and 11 May 2012.

Office of the Auditor-General, Briefing on Housing New Zealand Corporation, dated 4 April 2012.

Organisation briefing paper, prepared by committee staff, dated 16 December 2011.
2010/11 financial review of the Human Rights Commission

Report of the Justice and Electoral Committee

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Human Rights Commission

Recommendation
The Justice and Electoral Committee has conducted the financial review of the 2010/11 performance and current operations of the Human Rights Commission, and recommends that the House take note of its report.

Introduction
The Human Rights Commission is an independent Crown entity, established to protect human rights in New Zealand. The commission is funded through Vote Justice. The chief commissioner, David Rutherford, was appointed in September 2011. Rosslyn Noonan was chief commissioner for the previous 10 years.

Financial and service performance management
In 2010/11, the total revenue of the commission was $10.537 million and its total expenditure was $10.351 million, resulting in a net surplus of $0.186 million (the 2009/10 net surplus was $0.228 million).

The Office of the Auditor-General issued an unmodified audit opinion on the commission’s financial statements. The commission received “very good” ratings for its management control environment and financial information systems and controls, and a “good” rating for its service performance information and associated systems and controls. We understand that the commission is undertaking an internal organisational review. We look forward to hearing about the results in future reviews.

Adequacy of funding
In 2010/11, the commission underwent its five-yearly review under the United Nation’s “Paris Principles” for accreditation as New Zealand’s National Human Rights Institution. The review found that the commission would retain its “A” accreditation status, but raised questions about the adequacy of its funding.

We heard that the commission has achieved its goals within its funding for the year under review, while continuing to build its reserves, and is seeking no increase in baseline funding until 2015. The commission assured us that these savings were made through careful management of the budget, with deferral of only one project which might have been delayed in any event.

Disability Commissioner
In 2010/11, the Government established the new position of a commissioner with formal responsibility for disability issues, and provided additional funding to help the commission meet its obligations under the United Nations Convention on the Rights of Persons with Disabilities (which New Zealand ratified in 2008). We heard that the commission would
like assurance that this funding will be added permanently to its baseline funding, after the initial funding period ends on 30 June 2013.

**Appointment of commissioners**

The Human Rights Institution accreditation review also raised a concern about New Zealand’s process for appointing human rights commissioners. The review found that New Zealand’s appointment process is not sufficiently independent, as commissioners are appointed by ministers rather than by Parliament. The commission told us that it has an understanding with the Minister of Justice that an independent adviser will be included in the process. We will be interested to see whether the involvement of an independent adviser alleviates the concern expressed about independence.

**Human Rights Review Tribunal**

The Office of Human Rights Proceedings is an independent office within the commission. The director of this office decides whether to represent people who have complained of breaches of the Human Rights Act 1993 at the Human Rights Review Tribunal (established in 1977 as the Equal Opportunities Tribunal). The tribunal comprises a chairperson and a panel of up to 20 members, appointed by the Governor-General on the recommendation of the Minister of Justice. Deputy chairpersons are sometimes appointed to deal with particular cases. The Director of Human Rights Proceedings told us that the speed with which the tribunal can dispose of cases could be improved by appointing a permanent second, or deputy, chairperson. Some of us think the Government should act on this recommendation.
Appendix

Approach to this financial review

We met on 5 April and 10 May 2012 to consider the financial review of the Human Rights Commission. We heard evidence from the Human Rights Commission and received advice from the Office of the Auditor-General.

Committee members

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

Evidence and advice received


Human Rights Commission, Introductory remarks to Justice and Electoral Select Committee, dated 5 April 2012.


Organisation briefing paper, prepared by committee staff, dated 11 January 2012.
Independent Police Conduct Authority

Recommendation

The Law and Order Committee has conducted the financial review of the 2010/11 performance and current operations of the Independent Police Conduct Authority, and recommends that the House take note of its report.

Introduction

The Independent Police Conduct Authority is an independent Crown Entity. The authority receives complaints about conduct by any police employee or any police policy or practice, and investigates incidents in which a police employee causes or appears to have caused death or serious bodily harm. It has four main output areas: complaints management, investigations, communications, and obligations as a National Preventive Mechanism under the Optional Protocol to the Convention Against Torture (OPCAT).

Justice Lowell Goddard was appointed as the authority chair in 2007 and is in her final year in the position. The authority’s revenue for the 2010/11 year was $3.834 million and the total expenditure was $4.372 million, resulting in a deficit of $538,000.

Financial and service performance management

The Office of the Auditor-General issued an unmodified audit report on the financial statements and non-financial performance reporting of the Independent Police Conduct Authority. Its management control environment and its financial information systems and controls were both assessed as “good”, as they were last year. The assessment of its service performance information and associated systems and controls as “needing improvement” also remains the same, although some of the deficiencies identified by the Office of the Auditor-General in 2009/10 have been resolved.

Investigations

The authority independently investigates all deaths and instances of serious bodily harm caused by police employees. It also investigates or directly oversees the investigation of the most serious complaints against the New Zealand Police. We asked about the working relationship between the two organisations. The authority has a Memorandum of Understanding with the Police, signed in 1994, but we were told that the spirit of cooperation between the two organisations makes it virtually unnecessary. The authority emphasised that the two organisations are not in an adversarial relationship, but rather on a “parallel path” towards ensuring public confidence in policing.

We asked if any of the authority’s recommendations to the Police had not been implemented. Of the 24 recommendations made by the authority during the year, 15 were accepted and implemented by the Police, and the others remained under consideration. In the last five years only one recommendation, suggesting changes to the pursuit policy, has not been accepted by the Police. The authority confirmed that it respected the Police’s decision in this particular matter.
Managing potential conflicts of interest

We asked about the backgrounds of the authority’s investigators, and heard that they have extensive policing experience in New Zealand and overseas. We noted that people may see investigators with policing backgrounds as potentially biased. The authority said it regards impartiality as fundamental. No serving member of any police service is employed by the authority, and it has policies and procedures to identify and manage possible conflicts of interest. It added that the Police are key stakeholders too, and need to have confidence in the authority’s investigation teams.

Management of complaints

The volume of complaints received by the authority remains constant. We asked how the authority manages its heavy workflow. Complaints are categorised by seriousness, which determines how they will be dealt with. Most serious complaints are investigated independently by the authority, while those of a less serious nature are referred for Police action or investigation. Systemic reforms have reduced the number of “open” files. We were pleased to note that while in 2011 there remained 584 open files, this number had dropped significantly from the 959 recorded in 2009.

Communications

The authority released seventeen reports during the 2010/11 financial year. We asked if any of them had made a significant difference. The authority pointed to the “Child Abuse Inquiry Part II” as an example of a report that had a real impact. All of the authority’s recommendations regarding child abuse investigations were implemented, and the standardised management of these files has now become the “gold standard” for the management of all Police investigation files.

Resourcing

We asked whether the authority had resourcing problems. In its work upholding OPCAT, the authority intended to inspect 30 detention facilities during the year, but managed only 20 inspections. It explained that staff had to be diverted to other OPCAT work such as engagement with outside experts. The authority said it had slender resources but was aware that it was working in a tough financial climate. It acknowledged resources were lacking for the OPCAT framework, and said it had to rely on staff taking on extra work in order to meet its responsibilities.

Deficit

In the 2010/11 financial year a deficit of $538,000 was reported. We were told that the shortfall came about because a child abuse inquiry, for which it received a special allocation of $1.7 million, straddled two financial years. The money came in tranches and the allocation for the second part of the inquiry was still to come by the end of the financial year. Therefore a deficit was forecast.
Appendix

Approach to this financial review

We met on 21 March and 2 May 2012 to consider the financial review of the Independent Police Conduct Authority. We heard evidence from the Independent Police Conduct Authority and received advice from the Office of the Auditor-General.

Committee members

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

Evidence and advice received


Independent Police Conduct Authority, Briefing to Incoming Minister, December 2011.


Organisation briefing paper, prepared by committee staff, dated 7 February 2012.
2010/11 financial review of Industrial Research Limited, of Institute of Environmental Science and Research Limited, of Landcare Research New Zealand Limited, of Learning Media Limited, of New Zealand Forest Research Institute Limited, of New Zealand Institute for Plant and Food Research Limited, and of the New Zealand Qualifications Authority

Report of the Education and Science Committee

The Education and Science Committee has conducted the financial reviews of the 2010/11 performance and current operations of Industrial Research Limited, of Institute of Environmental Science and Research Limited, of Landcare Research New Zealand Limited, of Learning Media Limited, of New Zealand Forest Research Institute Limited, of New Zealand Institute for Plant and Food Research Limited, and of the New Zealand Qualifications Authority, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Nikki Kaye
Chairperson
2010/11 financial review of the Institute of Geological and Nuclear Sciences Limited

Report of the Education and Science Committee

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Institute of Geological and Nuclear Sciences Limited

Recommendation

The Education and Science Committee has conducted the financial review of the 2010/11 performance and current operations of the Institute of Geological and Nuclear Sciences Limited, and recommends that the House take note of its report.

Introduction

The Institute of Geological and Nuclear Sciences Limited was established as a Crown research institute in 1992, and has traded under the GNS Science brand since October 2005. GNS Science undertakes research for four purposes: driving innovation and economic growth in geologically-based energy and minerals industries; developing industrial and environmental applications of nuclear science; increasing New Zealand’s resilience to natural hazards; and enhancing understanding of geological and earth-system processes. The GNS Science group recorded a profit (after finance costs and tax) for 2010/11 of $1.844 million. It received 57 percent of its revenue from research contracts.

Commercial co-funding

We took an interest in the proportion of commercial co-funding in GNS Science’s research. GNS aims to only take on commercial work that will enhance its research work; it seeks not only to derive revenue from commercial work, but also to use the content of such work to develop its skills and knowledge for pursuing its research goals. We heard that much co-funding comes from other public bodies; for example, the power companies for geothermal work, or Environment Canterbury for work on liquefaction.

Commercialisation

We asked about the commercialisation of work by GNS Science for export, particularly for geothermal projects. We were interested to learn that, while on average about 30 percent of GNS’s work is undertaken for commercial companies, in the geothermal area almost 50 percent of its work is commercial. Much of GNS Science’s geothermal work now is undertaken on behalf of power companies, mostly using techniques that are not patentable.

We heard that GNS Science is developing instruments and techniques that could be patentable for use in overseas geothermal fields. If GNS Science’s patent lawyers decide that something can be patented, its business development group looks for potential customers. The revenue derived from this work at the moment is very small, only a few hundred thousand dollars.

Workforce planning and capability

We asked if recent changes to funding for doctoral and post-doctoral students had affected GNS Science’s ability to provide suitable positions for these students. We heard that some
specific grants and scholarships are still available, that GNS Science will directly fund a student position in a specific project, and that Marsden Fund grants, for example, may have student supervision specified in their terms. GNS Science currently supervises over 100 students; it also has a joint graduate research school with Victoria University, and is working to set up a similar school with the University of Auckland. GNS Science sees geology, geochemistry, and geophysics as tough disciplines, and believes that it provides a good professional apprenticeship to post-graduate students who choose to stay with it.

We heard that there are too few graduates from New Zealand universities to meet the recruiting needs of GNS Science, and that there is also competition for New Zealand graduates from the Australian mining industry. GNS must therefore recruit from overseas, which has the benefit of helping establish international networks. We heard that the number of places available at universities for the geological science discipline results from a balance between undergraduate interest and the willingness of each university to invest in these courses. We were told that the establishment of the Natural Hazards Research Platform has contributed to a closer working relationship between universities and Crown research institutes, and that there is an encouraging number of first- and second-year geology and engineering students at the University of Canterbury.

We noted that GNS Science’s management team are all men. While the lack of women at that level is of concern, we heard that about half of the department heads are women, so the number of women at a more senior level is expected to increase over time.

Areas of work

Carbon capture and storage

We are aware that GNS Science has been involved in research on carbon capture and storage projects. We are informed that GNS’s involvement in this work arises because locating suitable carbon reservoirs falls within its area of expertise. It was first asked to undertake such work by the Foundation for Research, Science and Technology; more recently it has been working in partnership with Australian scientists. The work is in Australia and funded from Australian sources.

We are aware that some people regard such research as controversial, but GNS Science told us that both the Intergovernmental Panel on Climate Change and the United Nations have concluded that carbon capture and storage should play a key part in mitigating climate change. GNS Science explained that it is not promoting the use of carbon capture and storage, but is carrying out the research necessary to discover whether carbon capture is viable and whether it can make a worthwhile contribution to mitigating climate change.

Oil and gas

We are aware that GNS has significant involvement in research for oil and gas exploration. GNS Science explained that its relationship to the oil and gas industry was as a pathfinder. Its role is not to promote the exploitation of the resources, but, upon request, to provide the science data to the Ministry of Economic Development so that the government is as well-informed as possible when selling licences to commercial interests. Its research provides information necessary for both the exploitation of the resource and the protection of the environment. It also comments on the environmental effects of work taking place
within New Zealand’s exclusive economic zone, such as effects on animal life and the diffusion of sediments into the surrounding ocean.

The work GNS undertakes directly for companies includes describing strata overlying oil and gas reserves; it believes that the better the information available to a company, the better the resulting decisions will be, reducing risks such as leaks from ill-advised drilling. GNS Science recognises that collecting this data can itself sometimes be harmful to the environment, but believes that it is aware of this risk and can mitigate it. GNS suggested that, if it did not undertake this research, decisions would be based on ignorance and prejudice, and that a fully-informed decision based on scientific data is preferable.

Gas-hydrates

We heard that gas-hydrates are potentially the next major source of hydrocarbons. At certain combinations of temperature and pressure, methane (from decomposition processes) binds with water to form a kind of ice. GNS Science studies gas-hydrates in underwater environments off the east coast of the North Island, and they also occur on land in Russia and Alaska. We will be interested to hear about progress on this work in future years.

Honey analysis

We noted that GNS Science had collaborated with the Bee Standards Authority to develop pollen-based testing standards for honey quality, and had refined its testing methods. We asked whether this work had shown any effect from pesticides on honey quality. GNS Science explained that honey pollen analysis was used to investigate honey’s provenance and to provide a quantitative measure of its floral origins. As only the kind and quantities of pollen were tested, other substances such as pesticides would not register. GNS Science also offers isotope analysis of honey to detect adulteration with C4 sugars (cane sugar or corn syrup), which may either occur deliberately after the honey has been harvested, or result from collecting honey produced while bees are fed on sugar over winter.

Some of us commented that we might have expected other Crown research institutes to be analysing honey, rather than one specialising in earth sciences. GNS explained that honey analysis was a niche role for the institute because of its expertise in pollen and isotopes, originally developed for dating and locating rocks and sediments. GNS shares its pollen database with the Institute of Environmental Science and Research.

Canterbury earthquakes

We were interested to learn that much of GNS Science’s work relating to the Canterbury earthquakes has been undertaken jointly with other members of the Natural Hazards Research Platform. The platform was created in September 2009 to provide secure long-term funding for natural hazard research, and to help research providers and end-users work together. It is led by GNS Science, and also includes the National Institute of Water and Atmospheric Research as an anchor organisation, and the University of Canterbury, Massey University, Opus International Consultants, and the University of Auckland as partners. There are 20 subcontracts to other parties.

The platform is receiving $12 million in additional funding ($3 million in each of four years) in response to the Canterbury earthquakes. Of the first year of additional funding,
$1 million was used to cover out-of-pocket expenses of the partners in the platform, and for reimbursement where platform funding had been diverted for application in the national interest. Another $2 million was used to fund about 30 short-term projects (running up to nine months from February 2011) which were needed to inform the immediate response and initial stages of recovery from the February earthquake. Most of these projects have been initiated in response to information requests from stakeholders.

We heard that research work is mostly being funded from existing budgets, while the additional funding is intended to allow the platform to learn from the Canterbury earthquake work and apply this learning elsewhere in New Zealand for the national benefit. Of the additional funding, 75 percent will be delivered in contracts covering the three years negotiated with the platform, while the other 25 percent will be contestable should parties other than the platform partners seek to undertake some of this work.

We asked whether any of the additional funding had been allocated to the Canterbury Earthquake Recovery Authority specifically to address issues with land in technical category 3 (land in the green zone that requires site-specific foundation work). We heard that of additional funding being applied to TC3 work, much was going into work initiated by the Earthquake Commission, but some was going to CERA for policy work. The manager of the platform (an employee of GNS Science) works out of CERA’s offices when in Christchurch, which helps ensure that the various pieces of research remain synchronised. He assured us that TC3 issues are prominent in CERA’s work and some of the research projects; they wish to be sure that the appropriate foundations are used for each piece of land, and that the burden on Canterbury is no more than necessary.

We noted that funding for GNS Science’s GeoNet (a website providing earthquake information from a network of seismic equipment) was similar to previous years, and were interested in how it had coped with high demand resulting from the Canterbury earthquakes. We were pleased to hear that, despite high demand, the site had remained functional. GeoNet staff kept ahead of demand and have now installed new servers. The additional operational expenditure required was provided by deferring capital expenditure to the next financial year. GNS Science is currently conducting a public test of GeoNet Rapid, a new automated earthquake analysis system which can provide initial information to the website in less than a minute after an event. We will watch the introduction of GeoNet Rapid with interest.
Appendix

Approach to this financial review

We met on 29 February and 28 March 2012 to consider the financial review of the Institute of Geological and Nuclear Sciences Limited. We heard evidence from GNS Science and received advice 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


Institute of Geological and Nuclear Sciences, map of Canterbury seismicity.

Institute of Geological and Nuclear Sciences, Answers to questions, received 5 March 2012.

Institute of Geological and Nuclear Sciences, Answers to questions, received 16 March 2012.


Organisation briefing paper, prepared by committee staff, dated 27 February 2012.
2010/11 financial review of Landcorp Farming Limited

Report of the Primary Production Committee

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Landcorp Farming Limited

Recommendation
The Primary Production Committee has conducted the financial review of the 2010/11 performance and current operations of Landcorp Farming Limited, and recommends that the House take note of its report.

Introduction
Landcorp Farming Limited is New Zealand’s largest farmer. It runs 1.5 million stock units on 122 properties with a total land area of 376,156 hectares, owned and leased. Its chief executive is Chris Kelly, and the chairman of its board of directors is Bill Baylis.


Financial performance
In 2010/11, Landcorp had a total revenue of $218.447 million and a total expenditure of $165.806 million, resulting in a surplus, after finance costs, of $42.237 million.

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance report of Landcorp, rating both its management control environment and its financial information systems and controls as “very good”. All ratings achieved were the same as those in 2009/10.

Partnership with Shanghai Pengxin
We were interested in the nature of Landcorp’s partnership with Shanghai Pengxin. We heard that if the Crafar farms sale is completed, the relationship will be formalised under a joint venture, Milk New Zealand Farming Limited. Under the agreement, which will be akin to a fifty-fifty share-milking agreement, the revenue will be shared on a sliding scale.

We also asked how the partnership is proposed to work. We heard that commercial decisions will be made by Milk New Zealand Farming. It will be run by a board consisting of two Shanghai Pengxin representatives, two Landcorp representatives, and an independent chair. We were told that Shanghai Pengxin aims to secure the necessary raw milk through the Crafar farms purchase and maximise added value by selling the product at the top end of the Chinese market. It intends to purchase milk processing from an external provider. Landcorp will run the Crafar farms, and expects their output to be more than 5 million kilograms of milk solids per year within two to three years; in receivership the farms’ output was 4.3 million kilograms per year.

Trading Among Farmers scheme
Fonterra is one of the milk processing companies to which Landcorp supplies milk. We heard that Landcorp has not yet decided how it will use its shares under the Trading
Among Farmers scheme proposed in the Dairy Industry Restructuring Amendment Bill currently before Parliament; it will wait to see the details of the proposed scheme, and seek the opinions of independent milk processors before making its decision. We heard that only the board of directors has the power to decide which processors Landcorp should supply.

We were told that Shanghai Pengxin will hold the Fonterra shares derived from the Crafar farms. If Trading Among Farmers is implemented, it will decide whether to retain or sell these shares.

**Approach to farming**

Landcorp favours farming larger herds on bigger farms, in response to downward price pressures, and to take advantage of new technologies that are too expensive to be sustainable on small farms. It employs herd managers and milk harvesters for multiple herds within farm complexes. Landcorp is trialling technologies which will assist with the management of large-scale farming enterprises.

The Green Party member considers that New Zealand would benefit more from farming smaller units and believes that small-scale family farming could work if the technology were more affordable, and if New Zealand’s brand focused primarily on gaining value rather than increasing production.

**FarmIQ**

FarmIQ is a programme created through the Primary Growth Partnership to market red meat products tailored to customer demand. The programme, a joint initiative between Landcorp, Silver Fern Farms, and the Government, is in its first year. We asked about the programme’s progress, and heard that FarmIQ products are for the first time being sold in Tesco supermarkets in the United Kingdom.

Landcorp is finding that composite sheep breeds are outperforming traditional ones; however the growth rates of lambs of the same breed on the same farm can differ substantially. FarmIQ is currently investigating the factors in this variable success. We look forward to seeing the results.

We heard that FarmIQ owns the intellectual property from the programme, and has a first-user advantage for the first two years; then it will be made available for sale to farmers. We are pleased to hear of the programme’s strong start, and intend to monitor its progress.

**Training**

We asked what training initiatives Landcorp is involved in. We heard that it has seized upon a gap in the agriculture training market, between industry training organisation courses and university courses. It runs a dry-stock training facility near Taupō, and is involved in a proposal to establish a dairy farmers’ training academy on a Crafar farm, which will be funded by Milk New Zealand Farming Limited if its bid is successful. The course will cover areas other courses do not, such as management, leadership, and environmental quality issues. We were pleased to hear of Landcorp’s advancements in this area.
Organic milk

We asked Landcorp if it had made any attempts to shift some of its production to an organic supply. We were told that Landcorp was unable to secure a contract that would guarantee a price that equalled its existing supply arrangements.
Appendix

Approach to this financial review
We met on 10 May and 31 May 2012 to consider the financial review of Landcorp Farming Limited. We heard evidence from Landcorp Farming Limited and received advice 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

Landcorp Farming Limited, Responses to questions, dated 25 May 2012.


Office of the Auditor-General, Briefing on Landcorp Farming Limited, dated 10 May 2012.

Organisation briefing paper, prepared by committee staff, dated 27 February 2012.
2010/11 financial review of the Law Commission

Report of the Justice and Electoral Committee

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Law Commission

Recommendation
The Justice and Electoral Committee has conducted the financial review of the 2010/11 performance and current operations of the Law Commission, and recommends that the House take note of its report.

Introduction
The Law Commission is an independent Crown entity, established to review, reform, and develop the law of New Zealand. The commission is funded through Vote Justice. It provides advice on law reform; reviews the quality of legislation, by providing advice to the Legislative Advisory Committee and the Legislative Design Committee; and helps Government departments to implement its recommendations.

Financial and service performance management
In 2010/11, the total revenue of the commission was $4.856 million, and its total expenditure was $4.499 million, producing a net surplus of $0.337 million (the 2009/10 net surplus was $0.278 million).

The Office of the Auditor-General issued an unmodified audit opinion on the commission’s financial statements. The commission received “very good” ratings for its management control environment and financial information systems and controls, and a “good” rating for its service performance information and associated systems and controls.

Work programme
We heard that the commission focuses its efforts largely on reviewing, reforming, and developing “bedrock” legislation—legislation on fundamental matters that affect all New Zealanders, such as death, crime, and land ownership. It also focuses on areas where there is no law or where the law is contentious, for example keeping under review the regulatory regime for new and emerging media.

The commission’s work programme is agreed with the responsible minister each year. The commission told us that, although its governing statute allows it to initiate its own law reform projects, it has not done so in recent years, and 90 percent of its current work is directed by ministers. We note that the commission adopted a new process to improve the development of its work programme in 2010/11. We will monitor the success of this process in future reviews.

Government response to commission’s advice
In 2009, a new process was adopted to ensure timely Government responses to Law Commission reports. We understand that the commission is satisfied that this process is working well, although would like to see its recommendations progress more quickly through the House.
From 1 July 2006 to 30 June 2011, the commission presented 26 reports to Parliament, of which 16 have been accepted to date. We understand that in some overseas jurisdictions, law commission reports are presented with draft bills attached, effectively by-passing their first reading. These processes guarantee that the commission’s recommendations are debated in the House. The commission also suggested that different procedures might usefully be considered for various types of legislation. It is constrained internally by insufficient legislative drafting resources, and externally by the priorities of the Government of the day.

**Contribution to law reform in the Pacific**

We were told that the commission’s legislative proposals are often adopted by Pacific island countries, and were interested to hear about the work the commission does in the Pacific. We understand that has involved working with the Auditor-General of Samoa and helping establish and support the Samoa Law Reform Commission, by taking on an intern among other measures. We also heard about informal support provided, such as the work of a senior retired judge as an intermediary between the commission and several Pacific island governments. We recognise the benefit of international cooperation and think that there would be value in formalising some of this assistance. We think that it might be useful to focus on providing advice on increasing the representation of women in Pacific island parliaments.
Appendix

Approach to this financial review
We met on 29 March and 10 May 2012 to consider the financial review of the Law Commission. We heard evidence from the Law Commission and received advice from the Office of the Auditor-General.

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

Evidence and advice received


Organisation briefing paper, prepared by committee staff, dated 12 December 2011.
2010/11 financial review of the Legal Services Agency

Report of the Justice and Electoral Committee

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Appendix 3
Legal Services Agency

Recommendation

The Justice and Electoral Committee has conducted the financial review of the 2010/11 performance and current operations of the Legal Services Agency, and recommends that the House take note of its report.

The Legal Services Agency was established under the Legal Services Act 2000. Its main functions were to administer the Legal Aid, Duty Solicitor, and Police Detention Legal Assistance schemes under this Act; to provide criminal representation to legally aided persons; and to fund and provide public community legal services.

The Legal Services Act 2011 disestablished the Legal Services Agency on 30 June 2011, and its powers and functions were transferred to the Ministry of Justice’s new Legal Services and Treaty group. This group is led by a deputy secretary who has the statutorily independent functions of the Legal Aid Commissioner.

We have conducted a financial review of the Legal Services Agency until its disestablishment, and have discussed issues relating to the performance of the Legal Services and Treaty group in our report on the 2010/11 financial review of the Ministry of Justice. We have no further matters to bring to the attention of the House.
Appendix

Approach to this financial review

We met on 1 March, 3 May, and 10 May 2012 to consider the financial review of the Legal Services Agency.

Committee members

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

Evidence and advice received


Legal Services Agency, Responses to written questions, 20 April 2012.

Organisation briefing paper, prepared by committee staff, dated 7 February 2012.
2010/11 financial review of the Maritime Safety Authority of New Zealand

Report of the Transport and Industrial Relations Committee

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Appendix 6
Maritime Safety Authority of New Zealand

Recommendation

The Transport and Industrial Relations Committee has conducted the financial review of the 2010/11 performance and current operations of the Maritime Safety Authority of New Zealand, and recommends that the House take note of its report.

Introduction

The Maritime Safety Authority of New Zealand, which renamed itself Maritime New Zealand from 1 July 2005, is a Crown entity. The chief executive of the authority also serves as the Director of Maritime New Zealand, and in this capacity exercises statutory powers independently of the authority.

Rena grounding

The Liberian-flagged cargo vessel CV *Rena* grounded on Astrolabe Reef, near Tauranga, on 5 October 2011, with 1,368 containers (32 containing dangerous goods) and 1,733 tonnes of oil on board. Later in October, 88 containers were lost overboard; another 200–300 containers were lost overboard in January. Approximately 350 tonnes of oil escaped from *Rena*, some of it washing up at various points along the Bay of Plenty coastline. At the time of our hearing of evidence, the *Rena* was still on the reef, and had split in two. It was estimated that removing the remaining containers from the wreck would take another four to six months, at which point it would be possible to begin removing the hull. The following sections discuss the initial response to the grounding, and continuing work on its effects, particularly on the way the New Zealand Oil Pollution Fund is managed.

Initial response

We asked if, in hindsight, the authority’s initial response to the *Rena* grounding should have been different. The authority acknowledged that it did not engage the community, particularly iwi, in the response as quickly as it should have. It initially followed previously-proven processes that did not involve using volunteers, but the emotional reaction of the community to the coastal damage led it to encourage greater community involvement in the response to the wreck. The authority also told us that it could have communicated the progress of the response more effectively; initial communications were overly technical and, while they provided good information, did not include an overview of the response. It believes that the response was planned and implemented as quickly as possible, and that any impression that necessary equipment could have been brought in more quickly resulted from defective communications. We heard that the authority reflected on its approach as the response progressed, and gradually changed the way it operated. For example, the chief executive spent a week in Tauranga conducting community meetings. The authority came to take a holistic view of its response to the oil spill, the salvage company’s work with the ship, and community engagement.
The authority told us that experience from assisting with the Deepwater Horizon incident in the Gulf of Mexico had guided aspects of its initial response, such as the decision not to use dispersal agents. We asked why the authority had had to fly in two planeloads of equipment when it had previously stated that it has adequate equipment to deal with a much larger spill. We heard that the authority’s equipment is distributed around the country, and was flown in along with other useful equipment offered by third parties.

**Continuing work**

The authority has established a *Rena* response group to coordinate continuing work. This work includes monitoring salvage and wreck removal activities; managing or preventing pollution from containers, debris, and oil; investigating administrative, informational, or financial issues; and the transition from Maritime New Zealand’s response to recovery activities led by the Bay of Plenty Regional Council and the Ministry for the Environment.

We heard that the current director of Maritime New Zealand was to decide whether the owners of the *Rena* should be prosecuted under either the Maritime Transport Act 1994 or the Resource Management Act 1991. A decision will be made after a full investigation, and consultation with the regional council on resource management implications. The international rules that New Zealand follows limit the owners’ liability to $12.1 million, which will not cover the full cost of the response; the authority estimates that the Government has spent about $30 to $35 million on it so far. The Ministry of Transport is responsible for advising on New Zealand’s accession to a 2008 international convention on bunker oil pollution, which would have raised the limit on owners’ liability to about $30 million if it had been acceded to.

We asked how oil was being removed from where it had washed ashore, particularly from deeper sand. The authority explained that the National Marine Oil Spill Contingency Plan is being followed. Almost all the affected sites have been cleaned to a pre-determined standard and inspected. Some cleaning is still being done in rocky areas; it will be completed soon, but the capacity to deal with any further oil on the beaches remains. Assessment teams are available to survey shorelines to determine whether oil is present, and clean-up teams (consisting of local contractors using various manual recovery methods) are on hand to remove any oil. The local community has also established an “adopt a beach” programme to monitor their specific areas of the beach and clean up any small amounts of oil that are found.

**New Zealand Oil Pollution Fund**

The New Zealand Oil Pollution Fund consists of risk-based levies collected from the operators of commercial ships and offshore oil installations and pipelines. Its purpose is to provide a reserve to enable the National On-Scene Commander (appointed by the Director of Maritime New Zealand under section 319 of the Maritime Transport Act) to make commitments in the first hours of a response; the Government can then make an appropriation to cover remaining costs. The reserve was sufficient to meet the first $2 million of costs from the *Rena* grounding; the Government made an additional appropriation of $25 million to cover all further costs. We asked why the total fund balance at the time of the *Rena* grounding had been reduced by over $2 million since June 2009. The authority told us that it had advised the Minister of Transport that previous experience had indicated that $2 million was an appropriate reserve to maintain, and that it had been...
reducing the fund to provide for a reserve of that size. We noted that this approach shifted some of the financial responsibility for oil spill clean-ups from the industry to the taxpayer, and heard that, after the Rena experience, the authority is reviewing its funding strategy for the Oil Pollution Fund. The authority emphasised that it could never hold enough money in reserve to cover every conceivable situation.

The authority’s oil pollution preparedness and response capability was reviewed in the year under review; it was recommended that the authority make a capital investment of about $1.2 million on equipment for dealing with oil spills. It is examining the capability review in the light of the Rena grounding, and determining whether sufficient resources are available to achieve the recommended capability. It was originally intended that capital investment would be funded from the Oil Pollution Fund reserve, but the intention now is to set the levy higher, to include a capital component.

**Funding review**

The authority is currently undergoing a funding review, as a result of a value-for-money review in 2010, which concluded that while the authority was achieving its mandate, the funding arrangements for its services were not sustainable. A discussion document was due for release in October 2011, but the review has been suspended as a result of the Rena grounding. The funding review has already revealed that Maritime New Zealand was not charging some of the fees that it was legally obliged to (such as fees for exemption processes). Also under consideration is whether Maritime New Zealand is receiving an appropriate portion of fuel excise levies.

**Regulatory safety framework**

We heard that the current Safe Ship Management system has proven to be ineffective, and a new regulatory safety framework for the domestic maritime industry (to be called the Maritime Operator Safety System) has been proposed. The new system is intended to put the onus for safe operation more clearly on operators, and to bring the oversight of safety standards and ensuring compliance with them into a closer relationship.

The authority told us that the companies managing the Safe Ship system have been concerned that the new system will bring an end to their current business; but that the authority proposes to give them an opportunity to deliver survey services in the new system while Maritime New Zealand oversees the surveyors. The authority is confident that the 2013 implementation date will be achieved.

**Foreign-crewed charter vessels**

The Report of the Ministerial Inquiry Into the Use and Operation of Foreign Charter Vessels was released a week before our hearing of evidence. We asked how the recommendations of the report would affect the authority. The authority believes that it is already engaged in activity, such as more rigorous inspection of foreign charter fishing vessels, that would help satisfy some of the recommendations, but is still examining their full implications. It is certain that the recommendations would require it to direct more resources into this area, but it cannot yet determine how this would be funded.
Water safety

Pleasure boating fatalities have decreased from 20 in 2009/10 to 13 in 2010/11. We heard that despite surveys showing that lifejackets are worn by 95 percent of those concerned, failure to wear a lifejacket is still a factor in two-thirds of fatalities. The authority has over 200 volunteers, known as safe boating advisers, who usually undertake the launch ramp surveys, among other activities to educate people in good boating practice. Its strategy also includes a YouTube channel with clips on various water safety issues, and television campaigns aimed largely at encouraging the use of lifejackets. We heard that long-term trends are showing decreases in both accident and fatality rates.

Search and rescue

The authority is engaged in two projects to maintain and improve search and rescue capabilities. One aims to establish an appropriate national distress and safety communications system by 2014, to ensure that the current level of coastal coverage is maintained while making use of new technologies. The other project concerns the imminent withdrawal from service of the current international network of low-earth-orbit satellites, and their replacement by the Medium Earth Orbit Search and Rescue satellite network system. The authority is working with Australia to adopt consequent changes in the way distress beacon signals are picked up.
Appendix

Approach to this financial review

We met on 8 March and 3 May 2012 to consider the financial review of the Maritime Safety Authority of New Zealand. We heard evidence from the Maritime Safety Authority of New Zealand and received advice 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


Maritime New Zealand, responses to written questions, received 5, 26 and 30 March 2012.

Office of the Auditor-General, Briefing on Maritime New Zealand, dated 8 March 2012.

Organisation briefing paper, prepared by committee staff, dated 5 March 2012.
2010/11 financial review of Meridian Energy Limited
Report of the Commerce Committee

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Meridian Energy Limited

Recommendation
The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of Meridian Energy Limited and recommends that the House take note of its report.

Introduction
Meridian is a state enterprise under the State-Owned Enterprises Act 1986. It is monitored by Treasury’s Crown Ownership Monitoring Unit on behalf of the shareholding Ministers, the Minister of Finance and the Minister for State-owned Enterprises. Mark Binns has been Meridian’s chief executive since February 2012, following the resignation of Tim Lusk. The chairman of the board is Chris Moller.

Meridian is an energy developer, generator, and retailer. It is the largest electricity generator in New Zealand, and retails power through the Meridian and Powershop brands. It generates electricity from entirely renewable resources, principally seven hydro stations in the South Island. The Rio Tinto Alcan (New Zealand) aluminium smelter at Tiwai Point is its major industrial customer, and uses about 40 percent of the electricity Meridian produces.

All of Meridian’s planned developments are in hydro or wind power.

Financial performance
In 2010/11 Meridian generated total revenue of $2.053 billion, and recorded a net profit after tax of $303.1 million. This represents a significant increase from $184 million in 2009/10. Dividends paid to the Crown totalled $683.6 million. This sum includes a one-off special dividend of $521 million paid from the proceeds of the sale of the Tekapo power stations to Genesis Power Limited. It told us that it was currently having difficulties with low rainfall, and expected its 2011/12 result to be significantly lower.

We asked about Meridian’s return on equity over the past five years. Following a revaluation of its assets, its return on equity averaged 6.1 percent in 2011, compared with an average return of 3.65 percent for the four preceding years. Excluding revaluations, its return on equity in 2011 was 18.5 percent, compared with 14.88 percent for the four preceding years. Its weighted average cost of capital was modelled at just below 9 percent per year.¹

Overall sales volumes for 2010/11 increased by 2 percent from 2009/10. The increase was driven primarily by growth in the number of Powershop customers, which more than doubled in the year to 30 June 2011. Data from the Ministry of Economic Development

¹ The weighted average cost of capital is the minimum return that a company must earn on an existing asset base to satisfy its creditors, owners, and other providers of capital.
showed that Meridian’s electricity prices were about 12 percent lower than comparable private-sector prices. We heard that the electricity pricing mechanism Meridian uses was the same as that of private companies. It told us that it had experienced very high levels of customer churn since the commencement of the Electricity Authority’s “What’s My Number?” campaign to encourage consumers to consider changing providers in order to minimise their power bills. It was finding the market very competitive, and had to work very hard to attract and retain customers, particularly in the South Island where it had lost a significant proportion of customers to Genesis Power Limited.

We asked about the effect of the introduction of a carbon price in January 2011, and how it would affect decisions about investment in renewable energy. Meridian said that if the full carbon price were implemented more quickly, it would favour investment in renewable energy. We heard that Meridian held resource consents for three wind farms and one hydro-generation project; it said investment in new generation capacity would be approved only when market conditions were right.

We asked whether Meridian believed it was being run efficiently. The chief executive told us that although he had been in the job less than three months, he had been asked to review the company’s strategy and operations and had not suggested any changes to the board in that time. The chair said he considered Meridian to be efficient, but that companies should drive for continuous improvement.

We asked the chief executive about reports that his salary had increased 42 percent. He said this was not true, and that his salary had not been publicly disclosed. He told us that the salary was decided through international benchmarking, and was not linked in any way to partial privatisation.

**Overseas projects**

We observed that Meridian has projects in Australia and the United States, and asked about the long-term objective of these projects, the opportunities and risks involved, and the effect of the projects on Meridian as an investment proposal for New Zealand investors. Meridian said its project in the United States was intended more to learn about solar power than to make a large return. Growth in the Australian electricity market was higher than in New Zealand, and Meridian saw potential for development there as a renewable electricity generator and retailer. It said developments in Australia would offer a growth opportunity for the company, provided that it evaluated the market correctly.

**Canterbury earthquakes**

We heard that the Christchurch earthquakes in 2010 and 2011 had caused severe disruption for Meridian. Its Christchurch office had to be moved, and the earthquakes created much social stress, but its systems were now fully functioning again. Meridian lost $10 million worth of insured property, and believed that it incurred a $20–25 million loss in the Canterbury market for the year as a result of the earthquakes.

Since February 2011 it had been working to improve its business continuity, by securing additional remote data storage, improving information technology disaster recovery measures, and formalising business continuity management processes.
**Partial privatisation**

In preparation for a partial sale of its shares, Meridian set up a small team to determine what needed to be done in order for the company to be listed. It had had no indication from the Government as to when a partial sale might occur. Meridian said it had not examined the Finnish model of partial privatisation, but had looked closely at equivalent organisations in New Zealand and Australia.

We asked whether partial privatisation would improve the performance of Meridian in any way. It told us whether ownership might change the internal dynamics of the company was an issue for the owners; staff would do their best to improve performance regardless of ownership. Meridian said that organisations performed better with good leadership teams, and that it had a very good one, but it observed that certain ownership structures attracted better talent. Mr Moller noted in answer to a question in respect of partial privatisation that “the board does believe that this [partial privatisation] is in the best interests [of the company], but, I'll just make a preface to this, a big consideration in that is always what does the 100 percent owner shareholder want”.

We asked what mechanisms were available to new shareholders for increasing profitability apart from cutting costs, increasing efficiency and productivity, and raising electricity prices. Meridian pointed out that rainfall, which is beyond any party’s power to influence, was a very important factor in its profitability. We asked whether it believed new shareholders would want to raise electricity prices; Meridian did not think private ownership necessarily meant price increases. It said prices would have to follow the market, and that there might be opportunities to reduce costs and thus increase margins.

We asked which of Meridian’s assets were its “core” ones, and which could potentially be sold; it said all of its New Zealand assets were essential. It told us that if future shareholders requested that Meridian raise cash by selling fixed or generating assets, the Government would still own 51 percent of shares, so this would not be an issue.

Meridian told us that it was generally aware of its Treaty of Waitangi obligations under the law and of the Crown’s obligations under the State-Owned Enterprises Act. However it had not specifically assessed the risk relating to the possible inclusion of a Treaty of Waitangi clause applying to shareholdings in the Mixed Ownership Model Bill.

**Impact of minority shareholders**

Meridian expressed confidence that a minority shareholder could not dominate the company’s decision-making process even if it held a significant proportion of shares. It said a majority shareholder would always get the final say. We asked what might happen if an opportunity arose for advantageous capital investment, but the majority shareholder did not have capital available to contribute. Meridian considered this unlikely, but said that if it arose the majority shareholder would make the final decision.

Meridian said it believed that minority shareholders would purchase shares with the full understanding that another party held the majority shareholding and thus the deciding vote. It expressed a view that proper communication with shareholders is essential. Some of us remain concerned that the rights of minority shareholders to see potentially profitable projects proceed could come into conflict with majority shareholder interests if the Crown
is capital-constrained. Some of us further note that directors will have an obligation in law
to treat all shareholders equally.

**Mōkihinui dam project**

Meridian believed it had spent approximately $17 million on the Mōkihinui dam to date. We asked about the land swap process in the Mōkihinui river valley, and whether it believed it could find land of value and importance equal to that of the Mōkihinui river valley. Meridian said the valley was not unique, and there are 22 similar river valleys in the Westland area. It believed that the environmental impact would be relatively limited and the development would bring large economic benefits to the West Coast; a survey several years ago showed high public support for the project.

We asked why Meridian continued to undertake large controversial projects, rather than smaller-scale projects, possibly in conjunction with iwi and other local communities. Meridian said that all projects attract some objections. It said that it considered projects of all magnitudes, and that the 60-megawatt Mill Creek project north-west of Wellington, for example, was comparatively small.
Appendix A

Approach to this financial review
We met on 29 March, 3 May, and 24 May 2012 to consider the financial review of Meridian Energy Limited. We heard evidence from Meridian Energy Limited and received advice from the Office of the Auditor-General.

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

Evidence and advice received

Meridian Energy Limited, Responses to additional written questions, received 13 April 2012

Meridian Energy Limited, Responses to further written questions, received 9 May 2011

Meridian Energy Limited, Responses to written questions, received 16 March 2012


Organisation briefing paper, prepared by committee staff, dated 18 January 2012.
Appendix B

Corrected transcript of hearing of evidence 29 March 2012

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

Witnesses
Mark Binns, Chief Executive
Paul Chambers, Chief Financial Officer
Guy Waipara, General Manager, External Relations

McClay Welcome, gentlemen. Thank you for coming along. Sorry to keep you waiting for a few moments; we just had some things to clear up in the committee. [Introductions]

Binns Thank you very much. The committee has had the material. You can feel relieved that I'm not going to take you through it on a page by page basis. A lot of it is historical. I will really only talk to a couple of pages before I open it up for questions.

So if you turn to page 4, just in terms of the highlights for the year—I would make the comment, by the way, that I started on the 16th January, so I wasn’t here during this period for which the review is taking place. But in terms of the financial performance, the financial performance was satisfactory at nearly $660 million in terms of EBITDAF. The dividend level paid was high. In terms of significant operational achievements we commissioned the 64 megawatt Te Uku wind farm at Raglan and started construction on the Macarthur wind farm in Australia—Macarthur, by the way, being the largest wind farm in the Southern Hemisphere.

In terms of operational performance, our customer numbers increased by 7 percent, and, for your information, since then to the 31st December increased another 4 percent, and from that point through to the end of
February increased another 1 percent. That balance of customers has changed somewhat with an increase in the North Island as we rebalanced the portfolio following the asset swaps following the ministerial review.

Another point is obviously a very pleasing growth in our Powershop brand, which is our second brand in the retail market. We had an improvement in our lost time injury frequency rate, which is also exceptionally pleasing, and also our outage factor in hydro was exceptionally good. We’ve actually benchmarked our hydro performance using an offshore company that has looked at hydro performance across assets of our scale and size around the world, and we operate in the top 5 percent in terms of efficiency.

That’s all I’m going to say about the year in question. I’ll just turn now to page 15, which is about this year, which might be of some more relevance to the members. This year we are seeing subdued demand as a result of a sluggish economy. Probably of greater note for us particularly is we are seeing a difficult hydrology situation develop in our southern lakes. On the flip side to that, of course, the North Island generators have seen a lot more rain. Our southern position is probably well illustrated in the bottom graph. If you go to that bottom graph, our Pūkaki, which is our key storage lake, you can see the black line records our current position. You can compare that with the green line. There are two sorts of lines that are referred to in the industry—well, within our company anyway—in terms of poor hydrology; one is the green line of 2007-08 and the other is the infamous year of 1991-92.

So you can see at the moment our current position is we are around about 10 percent lower than the position we were in at the same time in 2008, and if we look at our combined catchments from the beginning of summer through to the end of March, we have had the lowest lake inflows in 79 years. So it is a significant issue for us, and I just thought I might make a few comments about what we are doing about it.

You might see that the level at Pūkaki has actually increased over the last month or so. That isn’t actually, unfortunately, as a result of huge rainfall; it’s a result more of the fact that we have taken a conservative approach to generation. So, basically, instead of tipping the water down the penstocks we have been conserving water. On the other side we have been taking out forward cover, out through to nearly October, to cover our downside in a financial sense. So we believe we have been successful in ensuring that the downside position from a financial point of view is well under control.

The situation from a hydro point of view is illustrated at a national level in the top slide on that page where you can see that we’re basically nationally around about 15 percent below average. The net net of that is that we probably see that there is a highly unlikely event of a risk of any shortages, at least over the next 8-10 weeks.
So, Mr Chairman, I would like to basically stop there. I’m very tempted to take up all the time, but I won’t, so I’ll put it over to questions.

McClay

Thank you very much. Look, I’ll lead off, and I have a question. Could you tell us a bit about the impact around the What’s My Number campaign, but also perhaps linking that to competition, and where that competition is in retail space, and what you’ve seen over the last period of time.

Binns

Yes, we’re seeing exceptionally high levels of customer churn. The What’s My Number campaign has led to a high level of inquiry, I believe, in the industry. The ease of change is significant, and we have had change already for levels of churn for at least the last 12 months. Even last month I think our level of churn was over 20 percent. So we are finding it a very, very competitive market, and a lot of time and effort is having to go into attract and then retain customers.

McClay

And you’re seeing this throughout the country, or is it different for South Island to North Island cities. I’m guessing I want to get to the competitive nature of the industry at the retail end and whether there’s been significant change over that period of time.

Binns

Well, there are obviously a number of networks, but I think it’s fair to say that we are finding all networks that we operate in exceptionally competitive, particularly in the South Island where one of our competitors has got a couple of assets that we used to know very well. We’re finding them very aggressive in the marketplace, and I think it’s fair to say that probably in the South Island we’ve lost a significant amount of share to that competitor. Similarly, in the North Island as a result of the virtual asset swap, I mean, I would dare say that our competitors would suggest that we’ve been pretty aggressive in terms of attracting customers, as well.

Cosgrove

Mr Binns, you’re at a slight disadvantage, because I take it you don’t have a board member present.

Binns

No, apologies, because Chris Moller our chairman, is currently in the United States.

Cosgrove

It’s a pity, because a number of these questions would be directed at governance level. Do you share Treasury’s view that Meridian Energy and the other SOEs, but particularly Meridian Energy, is being run in the most efficient way possible—that it’s being run in a very efficient way.

Binns

That Meridian at the moment is being run in an efficient way?

Cosgrove

Well, they characterise the four energy SOEs that are en bloc, so you’re part of it.

Binns

Yes, most certainly. Well, as you would imagine, Mr Cosgrove, with any new chief executive coming into the job—I mean, I’ve been asked to review the company and to look at its strategy and operations, and get back to the
board with recommendations as to any changes. At the moment, only being sort of 10½ weeks into the job, I haven't gone back to the board with any suggested changes.

Cosgrove In essence that’s why it’s a pity the board wasn’t here, because it puts you in a difficult position. But how would you judge the efficiency of Meridian. I can give you a couple of examples. Our advisers have said, for instance, that your customer satisfaction rate is 96 percent. The MED data shows that your electricity prices are about 12 percent lower than comparative private sector prices. Your revenue on page 14 and your profit after tax has significantly increased. I mean, what are the critical KPIs that you would judge whether things are going very well or whether they were weak and—

Binns On your pricing one, I think you would find that our pricing has moved up towards around about the middle of the pack in terms of—

Cosgrove But it’s still lower compared to MED? The SOEs are still lower in pricing than the private sector, according to MED.

Binns I haven’t seen the latest figures, but the figures that I saw from some time ago most certainly had one of the privately owned companies with higher pricing. You’re right, but I mean they are limited to some very small markets where they’ve been able to carve out some niches. I think what you’re seeing is that their markets are being attacked by the other gentailers as we speak.

Cosgrove I suppose what I’m getting to is that you’re the chief executive; you’ve had a look. How would you characterise the performance of Meridian?

Binns I would characterise the performance of Meridian as pretty good at this point. I would say that there are some areas where I would look to improvement, but at this point, as I haven’t discussed these issues with the board, I can’t point out where.

Cosgrove Without going into detail, could I ask are those areas of improvement, the mechanisms for the improvement, issues that would be dealt with internally or are they issues that would require external oversight—an external scrutiny to motivate you to make change?

Binns No, they would be internal issues.

Cosgrove Your board members all have extensive private sector experience—correct?

Binns That’s correct.

Cosgrove I suppose my next question, given that is the platform, goes to the point that you’re going to be sold sometime in the future—49 percent at least will be sold—and the Government has said—

Binns At most.
Cosgrove  
At most. And the Government has said, and our advisers have advised us in a number of forms, that the motivation for making you guys lift your game, even though you said you are doing that, is that a public float will provide external scrutiny, more transparency, accountability, blah, blah, blah. Now you’ve just told us—and your profitability figures and those externals that look at it you say do a very good job—that there is room for improvement—that that is an internal process; it doesn’t require any external motivation. So could you give us a view as to how a public float is going to directly increase your performance, given that from what we’ve seen it’s in pretty good shape, and how would that be related to an increase in your profitability and ultimately dividend to private sector - public sector shareholders.

Binns  
I would have thought that that’s really an issue for the Government. That’s an ownership issue in terms of how they think ownership might change the internal dynamics inside the company. I mean, from my point of view, and I took this job on knowing it might go with an IPO or it might remain an SOE—I mean, I will do my best no matter what under any ownership structure to improve the performance of the company.

Cosgrove  
I suppose people are scratching thei r heads, going that the proposition’s been put forward that if the Government floats you then somehow, because of some extra scrutiny and so-called market discipline, profits will increase. That doesn’t necessarily follow, does it?

Binns  
I’m not going to answer that, because as I say that is a philosophy—I understand both arguments from both sides of the political spectrum. All I’ll say is that in my role I will do my utmost to improve the performance of the company under either ownership structure.

Cosgrove  
The next question is, in terms of increasing profitability, generally the only way to do that is to cut costs and increase efficiency and productivity, or to ultimately increase the price of the product that you’re selling.

Binns  
Well, in our case, unfortunately, as we’re seeing at the moment, there is another factor in that, and that’s how much it rains. That has an impact not only on our profitability—a major impact—but also on basically everybody in the industry because of the reliance we have in New Zealand on hydro.

Cunliffe  
Move the dams to Auckland—

Binns  
Move the dams to Auckland? I mean, this summer there wouldn’t have been a problem whatsoever.

Cosgrove  
As a general commercial proposition, entities and individuals tend not to buy shares in businesses out of some sort of philanthropic charitable purpose; they buy shares in businesses to make money. So my question is, how fearful should we be once it’s floated that those who buy the shares of course will want to increase return and that will be exhibited in increased power prices? Have you guys done any planning around it?
Binns  We’ve done no planning in terms of changing our modus operandi once we, if we, change ownership, whatsoever. As I say, we’re having discussions, and Paul and I talk about it constantly, about how we could be more efficient, but those initiatives will be rolled out whether we’re owned by the Government or we’re partially owned by private capital.

Cosgrove  What’s been Meridian’s return on equity in the past 5 years or so, and how does that compare to the Crown’s cost of borrowing?

Binns  Well, I won’t comment on the Crown’s cost of borrowing because that’s not my sphere. Would you like those numbers pre-revaluations or post?

Cosgrove  Both.

Binns  Ok, I’ll ask Paul to give us those numbers.

Chambers  You can find those in the annual report—page 17 of the annual report. A return on average equity post-revaluation of 6.1 percent in 2011. I haven’t got the average over the last 5 years, but it looks like in the 4 to 5 percent range. And if you take it on the underlying, excluding revaluations, then there’s the impact on both the profit and the balance sheet; 18.5 percent in 2011, but an average probably of around 15-and-a-bit percent over that 5-year period. That’s excluding revaluations.

Cunliffe  So the board, just teasing out a couple of the financial impacts of ownership, would you just like to explain to the committee the difference between the headline and the underlying return measures.

Binns  So the headline—each year we revalue our balance sheet, or an independent third party revalues our balance sheet, and that’s basically based around what those assets are worth in terms of the future cash flows discounted back to the current time. So the basic measure is you take your profits, you take off depreciation, and depreciation includes depreciation on that revaluation, and you divide one by the revalued balance sheet and that gives you one number. The other number is just your historical value of assets, and remember that some of those assets were built a very long time ago. So they’re basically taken back to the point at which they were transferred across from ECNZ, which was 1999, and you divide current profits by that 1999 figure. You can see that both of those numbers have their own flaws, so what we’re more focused on is not the absolute number but improving that number and delivering a better performance.

Cunliffe  Coming to the question of the impact of ownership form, and obviously the choice of ownership form is beyond your mandate, so I’m not asking for your opinions on that, but in terms of the impact on the financials, would change of ownership be likely to impact in any way on plant availability if hydro or wind or forced outage factors, which are some of your KPIs on the engineering side?

Binns  No, not if we’re doing out job properly.
Cunliffe But that would run as well as it can run, given the hydrology—

Binns We will always try to do our best under whatever ownership regime we operate under.

Cunliffe So there’s no engineering upside to a change of ownership? It’s a financial matter rather than anything that might impact operations—

Binns I would have thought so.

Cunliffe So in terms of the wave, or what you might call the next layer up then, a system of integration in the way that generators might interact together in relation to the market, would you expect a partial change of ownership to affect the dynamics of the marketplace per se, or would that be governed by other factors?

Binns I would see that probably being governed by other factors.

Cunliffe So it’s got no impact on the underlying engineering performance and it’s got no discernable impact on the competitive position in the market; therefore, what other measures are available to the new owner to increase the returns on their investment beyond the continuous improvement, which you would be doing anyway?

Binns Well, as I said, this is a philosophical issue, and everybody understands the arguments from both sides. We don’t want to enter into that debate.

Cosgrove With respect, though, you’re a very experienced chief executive. Given that experience, it’s a fair question to ask how a shareholder, given the dynamics you’ve explained, would seek to maximise a shareholding. I’m not asking you to give a view on whether you agree or not; we’re saying what’s the lever by which a shareholder, including the Crown, could maximum their return?

Cunliffe And just to echo my colleague’s point, you’ve already answered, helpfully, questions around the engineering, the operations, the market dynamics; now we’re asking about the financial dynamics.

Binns You asked about engineering, Mr Cunliffe. You didn’t ask about operations. I come from, yes, a private sector background—22½ years with Fletcher Building. My only comment would be that in a private environment a significant amount of time is always addressed to questions from fund managers and analysts, who provide a high level of criticism, critique, of your investment decisions, where you are spending the money, and gratuitously give you advice as to where you could perhaps be more profitable. And that is something that does come with private sector involvement.
Young If the shareholders did put on pressure and there was a price move in terms of retail, what’s going to happen in terms of What’s My Number, the churn that’s going to create for the company?

Binns Sorry, when you say the private sector puts pressure—

Young No, the shareholders. What Mr Cunliffe has said—if there was an increase in price? In our competitive environment with the What’s My Number programme, the result of that for Meridian’s going to be—what do you foresee?

Binns We’re going to do what we think is right, and we’re going to have to maintain our market share, so we’re maintaining the market share—I mean, if prices are going down we are going to have to follow the market down. That’s just a dynamic of the marketplace, whether we are owned by the Government or we are owned by private ownership, so we just have to make the right decisions.

Cunliffe Would it be fair to say—and I’m just going to cut this short—that if there’s no direct impact on the engineering/operations, there’s no direct impact on the market dynamics by a partial change of ownership, you’ve said you may be exposed more to advice from market analysts; is it fair to say that the main levers available to an electricity generator are mainly around price and price (inaudible)?

Binns No. I’ll pick you up on one point there, Mr Cunliffe. I didn’t say that about operations; you asked me about engineering and you’ve expanded that to engineering and operations—

Cunliffe And I used the example of—

Binns OK, operations is an area where, in my experience, you have fund managers and analysts looking over your shoulder the whole time. They are saying to you: “Look your cost to serve is X in the New Zealand marketplace. It is Y, which is less than Australia or the US.” There’s always constant pressure in bringing your benchmarks as the explanation as to why these numbers might not be as good as “best practice”, whatever that might be. So there is input at that level, and I think it is very arrogant of managers to think that they know everything. I mean, if you can take on board some information from the outside it’s always helpful.

Cunliffe So there might be some opportunity to reduce costs as well as to change the price point.

Binns There may well be. But changing price point is going to be a market dynamic. I mean, you just can’t say: “Oops, I’m private now. I’m going to jack up prices.”

Cunliffe I totally accept that, but then the reverse implication is that if the shareholder return on the investment owned by the Government is higher
than the cost of capital which isn’t your business but is a fact, and if a private party was interested in buying shares and the price expected for those shares was higher than justified by the current returns, then ipso facto they would have to improve profitability, which is either take cost out or put the price up. There would have to be hell of a lot of costs sitting in the system if you’ve got no control over pricing, or it’s not a good investment.

Binns You’re talking about a hypothetical situation that I can’t comment on.

Lotu-Iigu Just financially—you talked about operations; he talked about engineering—your weighted average cost of capital, what’s that at the moment, approximately.

Binns We model it at just sub-9.

Logu-Iigu Do you expect that to change perhaps under a different ownership structure?

Binns We model that cost of capital as if we were listed, because there’s no direct comparison. We are obliged by the SOE Act to act as an equivalent commercial organisation, and we take that seriously, model it as if we were, and then try to return that back to our shareholder.

Lotu-Iigu In terms of modelling going forward are you looking at, say, a partially floated company, say, like Finland, or other examples—

Cosgrove Finland’s dangerous—

Lotu-Iigu We can look at how they’re operating from the, you know, the different financial operational perspectives—

Binns We’ve probably benchmarked ourselves more closely against the equivalent organisations in this country and in Australia.

McClay Thanks. Just before you continue your line of questioning, maybe this is the time to ask: what work has Meridian undertaken to prepare for the Government’s partial sale of a minority of the company? If you run us through that, we might cut through some of the other questions to come.

Binns What we are doing is we have set up a small team that is assiduously working to establish all the work streams that we would need to do to be listed. Obviously, a key to that is identifying, all along, lead time items, such as engineering reports. We’re getting all of that work scoped up so we understand what would need to be done. We’re identifying the people, the firms, that might aspire to do that work and we’re getting ourselves to a position where we can assure the Government that we can meet any time frame that they require in terms of achieving a partial listing, if they decided that Meridian was the next cab off the rank.
Cosgrove: Have you had any indications from the Government as to what that time is likely to be?

Binns: No. We hear the usual information in the marketplace, but we don’t know whether that is right or wrong.

Cosgrove: So you haven’t had any interactions with Government agencies to say, given you’ve got a team preparing and you know you’re on the block, it’s likely you’ll be X or Y?

Binns: No. We tell them what we are doing, Mr Cosgrove, but actual timing and who it might be, none of that is discussed.

Cosgrove: In your small team, how many are (inaudible)?

Binns: We have one individual full time and we have a number, probably five or six, other people whose part of their job now is assembling information for this work.

Cosgrove: Are they doing any risk assessments?

Binns: Risk assessments?

Cosgrove: Assessing risks in terms of liability—

Binns: Oh yes.

Cosgrove: Well, could I ask you then, given that the Government has decided that clause 9 will be replicated, but there will be an explicit provision that says it does not apply to a private sector shareholder, have any risk assessments been made in respect of the proposition that if a Treaty responsibility was rendered, that would be rendered on the 51 percent shareholder, effectively indemnifying the 49 percent shareholder—the Crown will take 100 percent of liability for a 51 percent shareholding. Is there any work being done on that—how you would manage the monetary risk that might flow from that?

Binns: I can’t answer that, but I would almost definitively say I believe that work would not have been done at this point.

Cosgrove: Is it likely to be done? Were you not aware of it, or were you—

Binns: Well, that’s a highly technical question and we would be taking advice from our lawyers on that. We’re engaging our lawyers, obviously, in the process, so that may well come up as one of the key issues for them or it may not.

Cosgrove: Could I invite you to come back to us in writing just to tell us if you have—

Binns: Absolutely.

Cosgrove: Obviously, we don’t want commercially sensitive information, but if it’s now a matter that you’re alerted to, if it’s now on the checklist—
Binns  Mr Chairman, if that’s OK by you, most certainly we will do that.

Hughes  Just a supplementary question on that one before I ask more questions. Given you’re a State-owned asset at the moment, you don’t have the risk of your share price dropping or your shareholders selling shares, are you concerned or doing any thinking around how you provide some certainty to shareholders in that unit—you know, potential new shareholders?

Binns  No, we’re not doing work on that at the moment, and we would see that really being in the ambit of what the Government would require.

Hughes  Do you think that if you were concerned around shareholder certainty in the big lead-in time with some of these generating assets—you know, Project Hayes, Project Aqua—do you see any risks that those big projects will be less likely in the future, given the big uncertainty challenges around large projects like that?

Binns  I don’t think that the shareholding situation will make any difference. Remember, there’s a large degree of certainty around 51 percent, which is control. So I don’t see the shareholding situation having any material impact on—

Cosgrove  But minority shareholders have rights.

Binns  Yes, they do, but all major transactions that are over a certain level under the Companies Act require shareholder resolution, so the basic face of the company can’t change as a result of minority shareholder pressure.

Hughes  I don’t think we’ll see dams moving to Auckland, as David Cunliffe joked, but I do know $800 million - plus of assets were sold, granted not maybe at your behest. Have you done any work to analyse any potential fix for generating assets that could be sold in the future.

Binns  No. And I can categorically say that all our New Zealand assets are must-keep assets.

Hughes  So have you analysed any core generating or fixed assets which are integral to the company’s future success?

Binns  Sorry, when you say analyse them, in what sense?

Hughes  What fixed assets are core to Meridian success that you couldn’t afford to ever get rid of? Have you done any thinking around that?

Binns  As I’ve said, we wouldn’t be looking at selling any of our fixed assets.

Hughes  But what if in a future situation the shareholders requested that you raise cash through selling fixed or generating assets?
Binns: Well, remember the shareholders, again by definition—I mean, if there’s a shareholder request, the Government holds 51 percent of the vote, so I—

Cosgrove: Unless diluted.

Binns: It’s interesting you’d say that, because we’ve been very careful on that and we have modelled forward our cash flows and taking into account our ongoing capital expenditure and an assumed sort of rate of dividend, and we don’t believe that even if we do what we want to do in terms of capital there is any danger of us coming back and asking the shareholders for any further capital.

Hughes: On that point, I guess the committee should say thank you and congratulations for the healthy dividend you’re returning to the taxpayer. On that cash flow forecast, what is the long term or the medium term outlook for dividend and profit for Meridian?

Binns: Well, just the previous question, how long is it over—I mean, 5 years—

Cosgrove: And then it’s all up in the air.

Binns: Well, 5 years. I used to say previously we’d give 3-year forecasts and if you got year 1 right you were doing well. I mean, it is hard, and in this business we’re very much driven—we’re looking out 5 years—off hydrology. Full stop.

McClay: So I guess the question is looking back over the last 5 years and what’s happened 5 years ago, would you have forecast the two significant droughts, 2008, through this year, and so on?

Binns: Well, I don’t think you would have forecast the exact dates, but you know that a dry year is always on the cards and we always have to be prepared for it. We think that the market is in a far better position now than it probably was back in 2008 to deal with a dry-year situation. I mean, we’re always concerned about underpinning our downside. I make the point that markets like the ASX are now far more liquid, and we think that players in the market are pretty mature and willing to enter into bilateral contracts so that you can underpin your downside.

Cunliffe: I just want to explore in a bit more detail some of the issues around minority rights and the potential implications for you. Could you just summarise for the public listening in on what some generic minority rights—rights of minority shareholders—might be that might impact on the company’s decision-making processes in the future?

Binns: Well, I used to be a lawyer, but that was 23 years ago, so it’s probably more in the legal realm to comment on that than—

Cunliffe: It’s standard business practice. I’ll give you a couple of examples, if you don’t want to comment generically. Let’s say a management team brought
to the board potential capex proposals which you believed had a return on investment greater than your target hurdle rate, so it was a go; let’s say that the majority shareholder felt capital constraint and didn’t want to tip any more cash into the business right now; let’s say the minority shareholder thought it was a WACC-plus investment worth having, and wanted to pursue it; how would those issues be resolved and would the minority shareholder have any potential legal right to pursue that investment that they believed was worth doing, that the management team had recommended?

Binns OK, well first of all I would say your hypothetical situation, as I said before, is not one that we probably foresee.

Cunliffe It’s hypothetical, so I’m just asking you to answer on the basis of—

Binns On the basis that it’s a hypothetical question, I mean, it’s quite rhetorical because it’s quite clear.

Cunliffe Have a go.

Binns OK, I’ll have a go. In that situation, as you will know, a majority shareholder at the end of the day calls it. So if you have a majority shareholder that does not have the money and does not want to see an equity raising take place, then they will carry the day.

Cunliffe Is there anything a minority shareholder could do about that if they disagree with it.

Binns I might be wrong; there might be some case law suggesting otherwise, but I would suggest that there is not. And a minority shareholder buys into a company knowing what the situation is, given there’s a 51 percent block owned by another party.

Cunliffe Even if the shareholding’s over, say, 25 percent?

Binns Well, I don’t know if you’re going to try and trap me because there’s some change in company law here that means there is.

Cunliffe You’re not aware of anything that would give a minority shareholder the right to insist that a project—

Binns I am not.

Cunliffe Let me give you a converse example. Let’s take a real one from history. I had some involvement when I was Associate Minister of SOEs. Meridian made a large investment in Southern Hydro in Australia. It was quite a costly investment that brought together some portfolio management synergies that were able to upgrade that facility, and it grew in unrealised value. The company decided, after a process of consultation, to sell down the holding and return a dividend to the Crown of close to a billion dollars.
Now, assuming that that was a profitable shareholding at the time, would a minority shareholder have any potential right to object to the sell-down of a profitable asset at a time when the majority shareholder, in that case the Crown, probably would have had a preference to see the dividend return?

Binns You’re asking me would a minority shareholder have had any rights to stop the transaction?

Cunliffe Object to it, on the grounds that—

Binns Obviously they’re going to object to it and make their opinions known, if that is the case. But, again, I would have thought that a transaction—Look, I don’t know under the constitution whether this would be a director issue or when it would flick into basically being a shareholder issue in terms of the provisions of the Companies Act. So we’re talking about a situation that might be either side of the line. If it’s on the director side then it will be carried by management of the directors, clearly. If it’s a matter that has to go to shareholders under the Companies Act, then I would assume, again, the answer is that the majority shareholder would prevail.

McClay Just on that, under the proposed arrangement the advice would be you will follow not only what the law says but also all other proper business practice.

Binns Exactly, I mean it’s a situation, Chairman, that would arise where you potentially had two shareholders that had differing views anyway, which occurs all the time in commerce.

McClay And these types of issues are dealt with throughout the world under the jurisdictions—

Binns Exactly. They’re dealt with by the corporations.

Cunliffe Another real life example might have been—and you may or may not be able to comment on this from general knowledge—before Air New Zealand was largely repurchased by the Crown, it was publicly reported at the time that there was a great deal of conflict on the board around minority shareholders’ interests and that impeded company decision-making, and it may have led to circumstances where the buy-back was required. What consideration, are you aware, that either your management team or your board is giving to the avoidance of similar circumstances in the future, should you move to a mixed-ownership model?

Binns I can’t talk for the board, because I don’t know what discussions they may or may not have had without me present, but at the management team level we haven’t delved down to that level of detail.

Cunliffe So, Chairman, can I just register, I think on behalf of the three members of our team here, our frustration that we don’t have any member of the board present—none; not the chairman and none of the directors. Every time we put up a question that goes to central issues of governance and the role of
the minorities, which is the key issue at hand, because the company’s doing OK on a going concern basis, we are told they can’t comment because it’s a board matter. So are we going to have to call this company back, Mr Chairman—

McClay What we’re going to do now is I’m going to note your concern and we’re going to go to a new line of questioning on this side of the table.

Cosgrove Point of clarification. I would just say that I’ve noted before; it puts these gentlemen are at a disadvantage, because there are certain issues that they cannot answer. They’ve just confirmed that Mr Moller is overseas. Was there no other board member available?

McClay Well you can do that as a question, as opposed to a point of order.

Binns I do not know what Mr Moller did in terms of ascertaining whether other board members were available. I cannot comment.

Cosgrove This is unusual. We always have a chair, or an acting chair, or a board member for these financial reviews.

Cunliffe Was it a deliberate policy not to have a board member here at a time when ownership questions are—

Binns I can tell you to the best of my knowledge, to which I discussed it, absolutely not.

McClay Thank you. Now we have a new line of questioning here, and in as far as the point you raised earlier, we can deal with that once we’ve finished with the review.

Cunliffe We most certainly will.

Young Thanks, Mr Binns. Just touching on the global reach of Meridian in terms of its overseas projects in Australia and the USA, what’s the long-term objective of these projects? Secondly, what are the opportunities and threats around these? And, thirdly, do these projects make Meridian a more attractive investment proposal for New Zealand investors?

Binns Well, OK, I go back to a comment I made right at the beginning, that obviously the board has asked me, as with any new chief executive, to review the current strategy and come back to them with my thoughts, so that is something that I’m currently doing. So I offer that caveat first up, but in terms of the US, the strategy is around gaining knowledge in the area of solar power. Solar is seen as being a potentially disruptive technology that towards the end of this decade may be viable at utility scale in Australasia, particularly Australia. So the whole strategy is around gaining learnings in the US around solar, where it is more developed, and bringing that back to New Zealand. So it’s more a learning exercise than a huge money winner.
In Australia we believe there is an opportunity for us to be a renewables generator and potentially a retailer in that market, and the level of growth that is being seen in Australia is significantly greater than we’re seeing in the New Zealand environment. So as long as we take a rational view, evaluate the market properly, and make sure we have got core competencies that we can take to the Australian market, we believe it is one that would offer some growth for the company.

Young Can I just also touch on—I think acknowledging the company’s, the SOE’s, work in Christchurch. You talked about hydrology being quite a challenge. We know that. In the year that we’re looking at there was a tremendous effect on Meridian down there. Can you just touch on the effect on staff, how that has been worked through, and the effect on financial concerns, and also infrastructure for Meridian?

Binns Yeah, well in Christchurch it was obviously a terrible event for everybody, and in terms of our company, because we’re heavily exposed to the Christchurch market, we saw a significant impact, both in terms of our business systems and then our office was in the red zone, or just outside the red zone, and had to be moved. So we had to move all our people into new offices in Moorhouse Avenue, and we had to cope, obviously, with the effect on people. We’ve had to be over the top of all the social issues for people as they work their way through this period, so it’s been a very intensive period for our HR people. In terms of our systems, we have had a severe amount of disruption, and it’s taken us some significant time basically to get some of our systems back up and running and performing at the level that we would want them, but I’m glad to say that we’ve achieved that.

Young So was there significant impairment of profitability through loss of—

Chambers There were two main financial impacts, quite apart from the staff impact. One was we lost about $10 million of straight-up property, which was insurance covered but was still significant. The other was the impact on the market, particularly the Canterbury market. Our modelling suggests somewhere between a $20 million and $25 million impact on the bottom line in the year.

Hughes To totally change the subject, I’m interested to know how much you’ve spent so far on the Mōkūhinui dam to date. It’s been going for a long time. How much have you spent, because we’re quite a way from seeing it?

Binns I think it’s in the region of $17 million.

Hughes $17 million. Why are you pursuing the land swap option, and is it possible to ever compensate that land swap, given it is absolutely unique in the country—one of the last great wild rivers. How can you possibly swap any land of commensurate value?
Binns  Well, when you say it’s one of the last, I counted these just before I came. I asked for this information, and there are 22 in the Westland area. So to say that there’s one is absolutely wrong. While you do any development there is some environmental impact. We believe that the environmental impact at Mōkihinui is relatively limited. It brings big economic benefits to the West Coast, in terms of security of supply, and it’s the end of the transmission lines, and prices are higher in Westland than they would be if there was a major generating facility on the West Coast. So we say it’s going to bring big economic benefits to the Coast, and I would say that it is supported by the local councils on the Coast. We did some Colmar Brunton work a couple of years ago and unfortunately I didn’t bring that with us, but I think it also showed that we had a high degree of public support.

Hughes  There were quite a few projects which you’ve started work on and spent tens of millions of dollars from the Mōkihinui—Project Hayes, Project Aqua. I guess we’re probably looking at near the hundred million figure for all three perhaps. Why are you continuing to look at these controversial projects, which do raise such public concern and opposition? Aren’t there more publicly supportable options that you could be producing, including maybe looking at energy efficiency smaller projects?

Binns  I come from a construction background, and let me tell you that there’s not one project in New Zealand that can basically get through these days without going through the Environment Court, and no matter where you go you’re going to get somebody objecting to anything. So I don’t think by definition there are those projects.

Hughes  Is the problem that you’re going down a path of these very large projects when perhaps you could be looking at smaller-scale generating projects and maybe to get some more community buy-in if you were doing community scale, maybe in conjunction with iwi, in conjunction with communities.

Binns  Thank you—a great entrée. Well, if you look at what the next project might be off the ranks for us, I mean it would be a wind project and it would be Mill Creek, which is just north-west of Wellington here, and it is 60 megawatts. So, I mean a 60 megawatt project—I don’t think that gets into the range of being a huge mega project. We are looking at projects that are right across the range of scale, and that ranges from small projects like that, then we have North Bank tunnel on the Waitaki, which probably won’t come to fruition for maybe 15 or 20 years. That project would be 1,000 gigawatt hours, and if New Zealand is going to grow we have to have a ladder of development options available for power companies to start when the time is right. I mean, you just can’t wait until demand exceeds supply, click your fingers, and have a power project. It’s just not possible. Yes, we might go up some dry gulches, because things can change. Otherwise, you’re going to have a very, very imperfect delivery of generation in the New Zealand market.
Young Mr Binn, at the beginning of your presentation you mentioned a couple of assets that were sold by Meridian, Tekapō A and B (inaudible). There was a special dividend paid to the Government from those sales.

Chambers We paid $521 million.

Young In terms of your report, the presentation you gave us, is that reflected in here?

Chambers Yes, it’s part of the dividend amount there.

Young OK, so the difference is the operational dividend.

Binns That’s correct. We pay 75 percent of underlying net profit after tax.

Bakshi You’ve just mentioned that if New Zealand is to grow we need to have more power generation, and I see one of your main clients in the South Island is Rio Tinto. Do you have any plans for them to—for growth in demand from them?

Binns We are unaware, from Rio Tinto, of any plans for them to grow.

Cunliffe A quick supplementary, probably on a different line. You’ve got quite a lot of capex in the pipeline for potential capex projects. Are you able to comment either to the committee or come back to us in more detail in writing about the kinds of future capex projects—

Binns It’s probably better that I come back in writing, Mr Cunliffe.

Cosgrove I want to put this to board members, but I take it just for the record your deputy Peter Wilson, you don’t know whether he was available?

Binns I’m not sure. I don’t know.

Cosgrove Given that you did have notice of this in late February. So, forgive me, but the question is do you think— Your salary increased by 42 percent, correct?

Binns No.

Cosgrove No, what did it increase by?

Binns I started on 16th January and nobody knows my salary at this point.

Cosgrove You’ve seen reportage of the extensive salary increases of SOE chief executives?

Binns I have—incorrect reportage.

Cosgrove It’s incorrect, is it?
Binns  Well, the front page of the _New Zealand Herald_ had that I was paid $1.2 million, which obviously is wrong.

Cunliffe  Did your wife ask you if it was true?

McClay  Because the taxman’s using that figure now.

Cosgrove  So that figure quoted in the media is wrong, is it?

Binns  That figure quoted in the media is wrong for me personally. That figure was the figure for my predecessor to 30th June last year.

Cosgrove  Do you think that sort of salary increase—and again it would be a question I’d ask the board if they were here—I take it you don’t set your own salary, nor did your predecessors—but do you think, given the climate, those sorts of salary increases are justified?

Binns  What, that salary? And I’m reticent to talk about a previous chief executive’s salary—

Cosgrove  Well, I’m sorry to put you in a position, but there’s nobody here from the board, and the taxpayers’ are entitled to get some answers.

Binns  I would say—I mean, it is relatively complex and the base salary, which was increased last year, had been the same for 3 years and was reviewed by the board, and they used international benchmarking to do it, and the rate of increase is relatively small.

Cosgrove  Could I ask you—I mean, obviously, it’s your own private business but is your salary more or less than what was reported in the paper?

Binns  Less.

Cosgrove  Substantially?

Binns  Sorry, you’ve got to realise that what was reported in the paper was a base salary and an incentive. I can’t talk about an incentive because I wouldn’t have a clue whether the incentives are going to be met.

Cosgrove  But is your package more or less than what was reported?

Binns  It is less than that number.

Cunliffe  Is the package linked at all to the success or otherwise of the partial privatisation?

Binns  No.

Cosgrove  But presumably it is linked, as your predecessor’s would be, to the financial success, obviously, of the enterprise, and one would presume that your
enterprise has been extremely successful given your predecessor’s large bump in salary?

Binns

Sorry, what was the question?

Cosgrove

Well, salaries are normally linked in the private sector, from my vague memory when I was there, to performance, and one would presume that a salary bump-up of the numbers that have been talked about with your predecessor would suggest that Meridian is in good shape and that it’s performing extremely well.

Binns

Meridian is performing well, but I mean details of the salary, well my salary, will only come out in subsequent annual reports.

Cosgrove

Given that it’s performing very well—you should put “extremely well”—I just want to return finally—

Binns

Sorry, well—but remember we’ve got hydrology challenges at the moment, which is going to see our number not meet the targets in the SCI.

Cosgrove

I will just ask you one final question. Given that it is performing well—and we won’t go into a definition of that—what is the upside, if any, apart from having a little bit of extra scrutiny from the financial boys to crack a whip occasionally, and that’s actually the job of the current shareholder; what in your view is the advantage of privatising up to 49 percent?

Binns

I don’t think it’s appropriate that I comment. That, again, is a—

Cosgrove

Again, sir, the difficulty we have is that again it is probably an appropriate question for the board, but they’re not here. If you’re not going to answer that, then could you answer this? Has the board formed a view in favour or against the partial privatisation of Meridian Energy?

Binns

I am not a member of the board, so it’s absolutely inappropriate that I should comment on that.

Cosgrove

Well, you see it places us in a very difficult position. What I want is that I would like something in writing from the board as to why they are AWOL from this committee.

McClay

We’ll deal with that afterwards. I think you’ve made the point.

Cunliffe

It’s probably fair to say in public session that the Opposition members are going to seek to call you back with the board members present.

Cosgrove

We may be rolled in that.

McClay

Thank you, you’ve made that clear. I have one last question before we run out of time. Can you talk to me about your commitment to renewables, now that the Government has set a target of 90 percent? But could you,
maybe in the last few minutes we have left, take me through, within the scope of this review, current work and previous work, your commitment to renewable energy in New Zealand, and what work you have under way?

Binns Well, we are a renewable company. We are the only generation company in New Zealand that has solely renewable assets, and we see that as continuing, we think. Electricity is a product that is very, very difficult to differentiate. As I’ve said before you stick your finger in the socket and you don’t know whether you’re being electrocuted by a thermal electron, a nuclear electron, or a renewable one.

McClay But it has a permanent effect.

Binns It has a very permanent effect. But it is obviously a very difficult product to differentiate, and we see the renewable space as being the only generator in New Zealand that is generating solely from renewable sources as being an important area of differentiation. So it’s an area that we intend to keep developing, and all our development pipeline is renewable, either hydro or wind.

McClay And in part could that be some of the reason that customer satisfaction levels are so high? Do you see a connect with that?

Cunliffe But still below target.

Binns We set high benchmarks, Mr Cunliffe. There is undoubtedly a section of the market that values the renewable face of Meridian, and all I would say is we believe that that is a sector that is going to grow over time. So it’s important for our long-term growth.

Cosgrove Have any of your shareholding Ministers instructed the board not to be here today?

Binns I can’t comment on that.

McClay Thank you very much. Thank you for your time here today, and we wish you well.

conclusion of evidence
Corrected transcript of hearing of evidence 3 May 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Catherine Delahunty
Mark Mitchell
Hon Dr Nick Smith
Dr Jian Yang

Witnesses
Chris Moller, Chair
Mark Binns, Chief Executive
Paul Chambers, Chief Financial Officer
Guy Waipara, General Manager

Young Thanks, Mr Moller. Great to see you.

Moller Apologies for not being here last time, Mr Chairman.

Young That’s noted. And just in response to your letter, just to understand that it’s actually not mandatory for the chair to be here. The invitation goes to the chief executive, but we do thank you for coming, and it will enable, I think, a broader appraisal of Meridian’s performance in the last financial year. So what we invite you to do is to introduce your team, and then we’ll give you a short period of time to make comments, and then we will ask questions. Thank you.

Moller All right. Well, thank you, Mr Chairman. You’ve met Mark Binns, of course, as chief executive last time, and Paul Chambers. Some of our other colleagues are in behind me here. I think the instruction I did get in the invitation to this meeting was to submit anything before the meeting in writing so that you could have the whole time for question time. So I actually don’t have anything to say, and I’m here to answer your questions.

Young All right. Thanks very much indeed. Clayton?

Cosgrove Just as an aside, whilst it’s not the strict letter of the law that boards turn up, I do appreciate it, and I know you were otherwise engaged. The difficulty
we’ve found ourselves in is we were posing some questions for the chief executive, which, quite rightly, it wasn’t appropriate that he answer those questions.

Moller And I have read the transcript and understand the point you’re making.

Cosgrove Thank you.

Moller We will make sure that doesn’t happen again.

Cosgrove Appreciate it. I will return to some of the questions in the transcript. I want to start by simply asking you, as we’ve asked others in the context of what may happen to Meridian in the future with the partial privatisation policy the Government has. What’s your assessment of the performance of Meridian Energy over the last 12 months?

Moller I think over the last 12 months, so talking of the financial year that we’re reporting on, clearly it was a good result. We’re facing some real difficulties at the moment with hydrology, and this year’s result will not be anywhere nearly as good.

But in the overall context, having read the transcript, what I would say about any organisation—whether it’s Meridian, whether it’s another SOE, whether it’s a listed company, or dare I say it, given my background, a sports team—you always have to continuously improve. You’ve just got to keep driving ahead, because if you don’t, you stand still and people go past you. So we just have to keep on driving for continuous improvement.

Cosgrove Do you agree with the Treasury’s general assessment in respect of the energy SOEs, but obviously particularly speaking of your own, they are—I summarise—they are operating very close to an extremely efficient standard?

Moller I think they’re operating well. I wouldn’t go as far as extremely efficient, but I’m a great believer in continuous improvement. So today may be efficient, but tomorrow is another level of efficiency, and you’ve just got to keep on driving up that continuous improvement. As I say, if you stand still then you won’t be efficient tomorrow.

Cosgrove And by stand still?

Moller Well, by just being satisfied that your current level of performance is good enough. It never is in this changing world, because people go past you.

Cosgrove Can you confirm this, I know your background, you’ve got a huge private sector background—I take it that all the members of your board have extensive private sector experience.

Moller Yeah, very much largely, yes.
Cosgrove: And would it be the case that you, I assume, would be operating Meridian Energy to the highest possible commercial standards of governance as a board.

Moller: Certainly strive to do that, but there are a number of things we’ve asked the new chief executive, not so new any more, to get his head around and see whether we can do them better.

Young: What sort of things are those, Mr Moller?

Moller: It’s across the board. I mean, a new chief executive coming in clearly needs to look at the overall strategy. Are we going in the right direction? Are we satisfying customers as best as we can? Are we operating our assets that are there now as well as we can? What about our offshore investments? So it’s right across the company saying which bits can we really concentrate on and which can we drive to another level?

Cosgrove: I suppose what I’m getting at is— And I’ll just quote from a counterpart of yours, Mrs Shipley, who publically came in. We were asking her what’s likely to change. In fact, we asked all the chairs what is likely to change if you privatise. And the general answer we got back from most was “a different level of scrutiny from market analysis”. Mrs Shipley made an interesting comment. She said, talking about privatisation: “So whether it’s fully, partially, or not listed, at the moment it wouldn’t alter how we perform.” She’s talking about her entity, being Genesis. So I suppose my question is— given that you’ve got private sector folks that are operating to private sector disciplines—what’s going to change? What’s going to increase the profit if we hock half of you off?

Moller: Well, obviously, under any ownership model we’re going to strive to perform as well as we can, as we are required under the SOE Act. I think many of the arguments have been all trotted out there, and I have read what Dame Jenny Shipley said, I’ve read what Joan Withers said, I have read what John Palmer said. I’m not sure I can add a lot to it. But one thing I would say, though, is, in my view, organisations really perform well when you’ve got the top possible people. And we’ve got a really good team at Meridian, but there are ownership structures that attract better talent. And I think that is perhaps something that hasn’t been said as part of this debate.

Delahunty: Supplementary question to Clayton’s question about your performance. Treasury says that total shareholder return on SOEs at the moment is 18 percent. Would that be true for Meridian?

Moller: I’m not sure about the 18 percent.

Delahunty: The Crown Company Monitoring Unit has calculated that. I’m just wanting to know—which is a pretty amazing return for the citizens of New Zealand, so I’m just trying to find out whether that’s where you’re at at the moment.

Smith: We won’t tell you the share price, if that’s the long-term return.
That return includes two things: one is direct profit earnings, but also it includes revaluation of the balance sheet. So it is somewhat different to a return measure that you might see out there in the commercial world. It should be noted.

Sure, but is it an accurate figure for Meridian?

I haven’t got the exact numbers in front of me, but I thought it was slightly less than that. I thought it was around about 16. But just picking up on Paul’s point. It depends on whether the return is based on pre- or post-revaluations. To get to that 18 percent return I presume that is on original historical cost in terms of investment.

Isn’t it also true that the level of return for a company like Meridian is going to be very much affected by the hydrological effects. If you pick those years in which there’s been very good rainfall, you will provide an exceptionally high return, and I expect, for instance, this year where you’ve got major hydrological challenges that your return will be substantially less than your long-term average.

Absolutely, Mr Smith. And that’s why it has to be looked at over the longer term.

Didn’t you just say that it was quality of the people leading it, so presumably that could really help still deliver to the citizens of New Zealand if it was still going to be a Government-owned enterprise.

What I’m saying is there’s been a lot of debate around—from both sides, and people have their own philosophical views, and I understand that and accept that—all I’m saying is that perhaps the one thing that I didn’t see and what my co-chairman colleagues had said to you was, I think, quality of people is an important ingredient in any business. And the IPO model does attract certain talent. I’m just saying that’s a fact. I’m not saying it’s defining, I’m not saying it’s the only thing, I’m just saying it’s a fact that I perhaps haven’t seen in some of the dialogue from my colleagues.

I appreciate that. I suppose the only—it’s an interesting point you make. I’d make a couple observations. You have one of 22½ years—Mr Binns at Fletchers—one of New Zealand’s leading chief executives, who has obviously been attracted to something about the nature of the company. The only two points that have been made to us, the only one consistently, is some different scrutiny by market analysts, and your point that you make around personnel. But the most lucid comment has been Dame Jenny Shipley’s, in that I can’t find any material correlation, no one’s been able to provide it to us between a partially privatised model as that correlates to some sort of major jump in profitability. So you’re going to have a bit more scrutiny. If you’re running it to the best practice as you are with private sector experience, you guys may still be on the board if it is sold, given the
quality of the decision making. What materially changes for the taxpayer? What’s going to boost the profit by selling half of you off?

Moller Continuous improvement, not by selling it off but just by the organisation’s continuous improvement under whatever ownership.

Young Mr Moller, just coming to the Christchurch challenge that Meridian particularly faced—possibly more than other energy companies. In terms of the effects that that has had on your financial result, can you give us some background to all of those challenges you faced?

Moller Well, I think the chief executive said in our last appearance before you that the cost of that was roughly $10 million on the bottom line. Essentially, one of our offices was completely destroyed and had to be exited from. We’ve now moved from there to Moorhouse Ave to new premises. Our retail operation, which is a big part of our business, is based down there, together with other functions, so quite a lot of number of people by number of staff were quite severely impacted, both in terms of their own personal circumstances, their families circumstances, and the transition in terms of the business. I think we’ve done a very good job in terms of managing that. Indeed, the board met there yesterday, and it was good to see just how it’s up and running properly.

Young So your customer base, in terms of looking at the value of Meridian’s customer base, with that event, plus also the regulation changes that have created what we know as the churn, how have you managed that process and where are you sitting now?

Moller Well, in terms of managing it, we made a strategic choice that clearly with the sale of the Tekapōs we needed to change where our customer base was for economic profitability reasons. We have had very strong competition from the competitor that took over those stations. We have lost market share to them, in part by design, because we needed to rebalance the portfolio. And we’ve picked up a considerable number of customers in the North Island, quite deliberately, to rebalance where we’re at.

Smith I’ve got two questions. The first of those is that the biggest change in this financial year 2010/11 was the implementation of the changes in the electricity restructuring that involved the transfer of the Tekapō part of the Waitaki scheme over to a competitive company. And the big question in both the technical and political debate around that issue was how having a different ownership structure within the Waitaki catchment would fall during a dry year. I don’t think any of us expected that those new systems would be tested so early with this year being particularly challenging. I’d be interested in a perspective from either yourself or the chief executive as to how effectively those operational requirements that were stitched together as part of increasing competition in the electricity market are performing with the security of supply challenges in this dry year.
Moller: I think I will hand over to the chief executive on that question.

Binns: First of all, just to reiterate the comment from the chair, clearly having Genesis have the Tekapō A and B assets has created a far more competitive environment for us down in the South Island. In terms of operationally, I think inside Meridian there were always some concerns as to how it would operate in a dry year. But I’d have to say to Genesis’s credit that the relationship has been good, and there has been discussion on things such as the outage for the canal for them to undertake their repair works. So we have not seen a material adverse effect in this dry year period.

Smith: My second question is the other big change for this financial year that’s under review, which was the introduction of a carbon price on the 1 Jan 2010-11 for that year. And the substantive public policy question for Government now is how quickly the carbon price has stepped up, and how that will impact on the investment decisions on the new renewables. Now, your company has got more renewable investment sitting there waiting to happen. How significant is the public policy decision around the level of the carbon price vis-à-vis the amount of growth in the economy and demand? What’s the relative importance of those in the decision that Meridian might take to proceed with some of those renewable projects that you’ve got sitting there ready to go?

Binns: Well, on the demand side, Mr Smith, clearly at the moment, demand is, I suppose you’d describe it as being muted. So it is at relatively low levels. But when we look out into the future, we think that growth will resume, and I think in our models we’re assuming over the next 10 years that New Zealand will resume electricity demand growth at around about 1.4 percent. That’s our assumption; it’s roughly in line with MED and other market participants. In terms of the carbon price, clearly, when we’re looking at any renewable option, we’re looking at what the impact of carbon might be on thermal activity. That is clearly modelled. I can’t tell you what assumptions we are currently using in terms of carbon price but can come back and—if it’s not commercially sensitive—give that to you. We would see the major threat to our renewables at the moment being other renewables in the form of geothermal developments more than anything that actually has a carbon price associated with it.

Smith: The substantive public policy question for Government that is up for discussion at the moment is whether there is a single step up to a full carbon obligation on 1 January next year, or whether that is phased more gradually over a period of 3 years, so as to try and limit the impacts on consumer prices. And, obviously, consumer prices are also a substantive concern. Would that choice as to whether it is done in one step or over three have any substantive impact on your decisions to invest and proceed with those renewable projects that you’ve got sitting on the books?
Binns  Well, I would imagine that if it is done in one step, the impact on our renewable projects in terms of the order of merit, if you like, would be positive.

Delahunty  I may have missed it in your financial review report, how much have you spent on the planning for the Mōkihinui dam?

Moller  That was answered last time.

Delahunty  I wasn’t here, I’m sorry. Is $17 million an accurate figure?

Moller  $17.8 million, I think, was the number, or $17.6 million—I can’t remember.

Delahunty  So are you still proceeding on the basis that you’re going to get the land swap?

Binns  We are proceeding on the basis, as the chairman mentioned, that I’ve been asked to review everything in the company—our offshore investments, our current onshore strategy, our renewable options. And I’m not at this point at a stage where I have been able to go back to the board with a fully worked through answer on those questions. I’ve given the board some verbal indications of where thinking is at, but I think it’s inappropriate that I be making any comment on any specific project at this point.

Delahunty  So you haven’t looked at the DOC opinion on this?

Binns  I have looked at all our development options.

Delahunty  But I mean do you consider the possibility that it might be wasting money? You are considering in your review the fact that you may not get this, in which case you’d be wasting more public money?

Binns  I’m a very commercially pragmatic person, so I’m looking at everything on every project.

Cosgrove  Could I just return to our favourite subject for a moment? Last time we were here, Mr Binns, you referred to having a small team in place, as I understand it—I could be wrong—working on risk management or transition in respect of the privatisation model. Is that correct or not?

Binns  I don’t think—I didn’t say “risk management”, Mr Cosgrove; what I said is that we had a small team working on preparation, understanding of what we would have to do, programming the work, and getting ready for that if the Government decided that is the way it wanted to go, and it wanted to have us as a potential company to go through the MOM process.

Cosgrove  Thank you. I appreciate that. Mr Moller, could I ask you from a board point of view, can you enlarge on the activities or the planning you’re putting in place in respect to this?
Moller: Yes. We have one dedicated person, full time, coordinating the project. I think as Mr Binns said last time, he was here in front of you. There are five or six people, sort of part time, contributing to it. Paul Chambers is one of those. So what we’re trying to do is get ourselves investment-ready in case the Government says: “We want you to go to the sale.”

Cosgrove: What does “investment-ready” from your point of view mean?

Moller: “Investment-ready” means that you’ve got all your processes and procedures sorted out, that you might have, by way of example, and this is only just one example, charters for your committees, subcommittees, that you’ve got the right subcommittees, you’ve got all the right governance structures in place, you’ve got all the right assets and reports that you might need around—by way of example again; I’m just giving examples—the shape our dams and everything are in, because if you go to a prospectus or an information memorandum a lot of information needs to be provided and the board needs to sign those off based on that information. So we’re collecting all of that together and getting that done.

Cosgrove: Has the board formed a view as to its preference for a privatised model or the status quo?

Moller: The board is wanting to act in the best interests of the company, as required under the SOE Act and under the Companies Act. The board does believe that this is in the best interests, but, I’ll just make a preface to this, a big consideration in that is always what does the 100 percent owner shareholder want. The current shareholder is saying to us: “We want you to consider possibly going to a mixed-ownership model of the sale of up to 49.9 percent.” We believe that’s in the best interest of the company, because the shareholder believes that’s what they want to do.

Cosgrove: That’s helpful. Can I just get that confirmed? So you’re saying that it is in the best interests of the company, because that’s what the shareholder wants to do?

Moller: Together with some of those other factors that we talked about earlier on, which we may or may not agree on.

Cosgrove: Do you have a view, given that the legislation, in theory, guarantees, at this stage anyway, 51 percent voting control but leaves open and a vacant question the possibility that the Crown or the 51 percent shareholder may get, through non-voting shares or other mechanisms, less or far less than 51 percent, ultimately, of any dividend stream?

Smith: Point of order. I think it does put the chairman of the company in a difficult position when he’s being asked to comment on Government legislation. His responsibilities are for the chairing and the operations of the company, and all questions in that space are appropriate. But asking him opinions about Government legislation is not within the board’s chief’s responsibilities, or within the balance of the financial review.
Cosgrove Speaking to the point of order, I just make this simple observation. I have asked several questions this morning and last week—and Mr Moller, in fact, my previous question was about Government policy and Mr Moller proffered a view. It’s for him to determine. The chair did not rule that out last time Meridian were in, and they didn’t rule any of them out this morning. My colleagues have asked similar questions of the chair about public policy and the legislation, because it all relates to the legislation.

Young Chair, what I’m saying is that that question is asking for your comment on Government legislation, so it’s beyond scope, so you don’t need to answer it.

Moller Also, the difficulty, Mr Chairman, is that I didn’t understand the question.

Cosgrove Well, the question is simply this: that the legislation prescribes 51 percent control based on voting shares. It leaves open an open question as to other vehicles—the issuing, for instance, of non-voting shares—and leaves open the question, therefore, that even though the Crown may maintain 51 percent of voting right control, they may indeed end up getting less than 51 percent of any allocated dividend, depending on the structures that are put in place.

Moller I think, as already said by the chairman and by Mr Smith, I think that’s Government policy. Our clear understanding at this stage through the IPO process is it’s a sale of up to 49.9, and the Government will retain the controlling majority stake. That’s our clear understanding. That’s the principle we’re operating under.

Cosgrove And it’s good because the shareholder wants it. Can I ask you have you done any risk management planning in respect of Treaty obligations?

Moller I think that was a question that you did ask last time.

Binns I’ll repeat it. The Treaty obligations with the Crown, is it appropriate that I comment on that? I think you did ask whether we’d done any specific work on this. The answer is no, we haven’t. And we see it very much as a Crown issue.

Cosgrove Has the Government given you any indication of possible time frames for a privatisation?

Moller No.

Cosgrove None at all?

Moller No.

Delahunty Can you quantify how much public money’s been spent so far preparing Meridian for sale?
Binns No, I can’t.

Delahunty Could you provide us the committee with some figures on that?

Binns If the chairman would like us to, we can.

Mitchell Just on that question, have you had to go out and seek additional resources to have a look at this, or were you able to do this in-house with the staff and resources you have at the moment?

Binns No, we’ve brought in one person to head the team to do the work. All the other six or seven people we have brought in internally and they’re doing it along with their day jobs.

Mitchell So there are no real additional costs to the company?

Binns We have taken some legal advice on listing issues, etc., etc., and just making sure that what we’re thinking about is in compliance with NZX rules, that sort of thing. But we’re more than happy to provide the committee with that information, if you’d like it, Chair.

Young Have you found that that process has actually been very informative for Meridian?

Binns I think it’s been very informative, because we now have all the work streams fully understood. We know exactly what we need to do in terms of scoping out the work, the people who could do the third-party work, and we have a fully worked through programme as to how long it would take us to do all this work. As the chairman said, this is just a matter of being ready, because, clearly, we may at some point in the programme be asked to participate, and we don’t know when.

Moller And it’s all about continuous improvement driving to best practice, irrespective of whether we are listed or not.

Smith Is there any difference—As the largest company within the New Zealand electricity market, do you think there’s any significant difference in your approach as an SOE that’s required to operate a successful business around the price of electricity and those private sector players within the electricity market, such as TrustPower and Contact? Or would you view that the companies, whether they be State-owned enterprises like yourself or others, substantially behave in the same way in terms of electricity pricing?

Binns I believe that we basically act in the same manner. Market forces that are at play here that are going to be adopted by us as an SOE or us as a partially listed company are going to be the same.

Cunliffe So nothing’s changed.
Binns Well, not unless the market changes, unless the market forces change. I mean, if somebody builds a great big geothermal plant, supply will change and pricing will change.

Smith A supplementary question to that, a key objective of the Government’s 2010 changes in the electricity market was to try and get a greater degree of competition with the changes in Tekapō, and I note in your report that as a consequence you’ve changed your customer base, where you’ve effectively reduced the number of customers in the South Island to match your generating base, and increased the amount of customer base in the North Island. Do you think that those changes in the market are the reason that we see in the Consumer Price Index that the increases in electricity prices over the last couple of years have been substantially lower than what they have been for the previous decade? Has it helped the consumer?

Cunliffe A quick point of order before the chairman answers the question, which is I’m not sure that the company would necessarily have available to it the dataset that you are referring to, because presumably these changes have occurred reasonably recently and there’s a bit of a lag in complying with—

Young However, I think they’d have an opinion, which I’d be keen to hear.

Smith Well, they’re in the 2010-11 year. The changes took place in 2010.

Binns Clearly, we can’t give you right now empirical evidence, and there are a lot of factors at play, a lot of variables. But I would say in answer to Dr Smith’s question that we have found the environment most certainly far more competitive. And while the chairman is correct, and because of the change in generation assets, we have decided that it’s inappropriate from a risk management point of view to carry so many of our customers in the South Island. A lot of that has been involuntary because we have had Genesis in the market and being very aggressive.

Cunliffe Just a quick supplementary question on that precise point. What was the cost to Meridian of the asset exchange in terms of the transaction costs and the overheads?

Binns I don’t think, unless our chief financial officer can answer that off the top of his head, whether we have that information here.

Cunliffe Can you give us a ballpark estimate?

Chambers There were no major costs of doing that transaction. We sold the asset and received proceeds for that and paid a dividend out. But there were no major adviser fees.

Cunliffe The buyers advised us, for example, that they had some significant write-down costs when they acquired the asset. You didn’t bury those on your balance sheet?
Binns No.

Cunliffe I’m going to restrict myself to questions that are more directly relating to the governance issues. I had the opportunity to speak with the chief executive last time, so thanks very much for coming in Mr Moller. We really appreciate it, and we appreciate that you were out of the country.

Moller I apologised before you—

Cunliffe Yeah, it’s good to see you anyway. It’s great.

Cosgrove There’s a lot of love in the room.

Cunliffe That’s always a worry, isn’t it. The obligations of directors, would they include to treat all shareholders equally?

Moller The obligation of directors is to act in the best interests of the company, and, clearly, I mean one has to work as a chairman and as a board to make sure that all shareholders are communicated with properly, get the appropriate ability to make comments and submissions, and make decisions that are in the best interests of the company.

Cunliffe How would you as chair handle a situation where the self-perceived interest of the Crown as a shareholder differed from the self-perceived interests of major minority shareholders, generally speaking? And we might get some examples.

Moller Well, I think in a practical sense, you have to work very hard on relationships and on communication. But at the end of the day, if we proceed to an IPO, and the Crown, or the Government, has said it is only going to sell a minority interest, then any investor that invests in the company is on notice that they are buying a minority interest and therefore must expect that the majority owner may from time to time exercise its legal right to vote down a proposal that those other minorities may not wish to see voted down. That is just how it works in practice.

Cunliffe I understand that. Let’s say that there may be a proposal which has a rate of return to it that is highly profitable and greater than the hurdle rate that the board has approved. Would that be in the best interests of the company to approve?

Moller It may well be, but if, for whatever reason, the majority shareholder wasn’t prepared to put in the money, one would have to work with the majority shareholder, would have to see whether it’s possible. But at the end of the day, if they exercise their right as the 50.1—

Cunliffe 51. Let’s just tease that out a bit because I think that’s important. So you’re saying to the committee that even if a project was highly profitable, and even if a minority shareholder had from a business point of view the legitimate right to see it pursued by the company, because it could be
perceived to be in the financial interests of the company—because it’s greater than WACC and greater than the hurdle rate—that the majority shareholder would have the right to block it and vote it down without any recourse to the minority?

Moller Well, let’s be clear about what we’re talking about, because not all matters have to go to shareholders. So we’re actually talking about major transactions. And, generally speaking, a major transaction of the nature we’re talking about here would require an investment in capital. That, therefore, is essentially a rights issue, and that is the sort of thing that has to go to a special general meeting, and the majority shareholder has the right to say no at that special general meeting. In the ordinary course of business, and it can be funded within the means of the company and is in the best interests of the company, the directors would approve it and proceed.

Cunliffe Absolutely understand that. It’s just in electricity generation by nature often the capex decisions are long-life, large, and lumpy, which makes this different from, say, a consumer goods company where there typically might be a series of more frequent but smaller investments. So we’re talking about a very large investment, building a large hydro or a wind farm or something like that. You would go to a special general meeting if there was a difference of view between your majority shareholder and the minorities?

Moller Well, irrespective of the difference of view, if you’ve got significant transactions—but I think we’ve got to flip it around as well. For Meridian, in a normal year—and please understand what I’m talking about, normalised over time—we’ve got a cash generation of about $600 million. One of the great things about this company is its ability to generate cash. There aren’t, therefore, many likely possibilities where this may become an issue.

Cunliffe Right, but let me tidy that up. If it’s possible, then you’d do the special general meeting route. Let’s come to the dividend stream, which is my next question.

Young Mr Cunliffe, we are actually over time.

Cunliffe No, I appreciate that.

Young So can you truncate this into a couple of minutes?

Cunliffe Yes, I will. I’ll just note politely that the Government members have had a reasonable whack at this, though it was the Opposition that called for the Government’s representation to come back. So on the dividend stream, what are your dividend forecasts for the next 3 years?

Moller We don’t warrant or forecast our dividends forward. It’s not an appropriate thing to do.

Cunliffe Do you have an expectation?
Moller We have targets—profit targets—and we have a dividend policy. We pay 75 percent of underlying NPAT.

Cunliffe So on that basis, how much would you be expecting to pay out as dividend over the next 3 years?

Chambers Again, we don’t publicly warrant or forecast.

Cunliffe I’m not asking you to warrant, but do you have an expectation because something’s in the Crown accounts?

Binns I don’t think we have those numbers right here.

Young It’s out of scope, that question.

Cunliffe I’m not sure it is out of scope, because—

Smith This is a financial review of 2010-11.

Cunliffe Yes, but in the year in question, the company is preparing for sale. The sale price will be dependent upon the buyer’s expectation of future profitability, which is related to the dividend flow. You have just said that—and the reason I raise it now—confronted with a major investment decision, you would be able to draw upon your profit flow of $600-odd million a year. Therefore, it is logical that you can’t therefore pay that out as dividends, and so I am just asking what your broad intentions are in terms of dividend in the near-term. Is it to maintain your policy of 75 percent?

Moller I mean the policy’s there. Clearly, this year, with hydrology down, that’s going to affect the dividend. I mean, we have not done the forecasts that would be required for an information memorandum on our prospects.

Cunliffe Sure. But you’re saying your expectation would be 75 percent?

Moller No, I mean, that is the current policy.

Cunliffe So that might change?

Moller Well, I think the board’s got to have the right to review these things, in conjunction with the shareholders. But we haven’t done that, because no one has asked us to do so.

Cunliffe You would no doubt have looked at the estimates that the Crown has got, and, as chair, I’m sure you would have looked at the estimates that the Crown has made of future dividend flow. Can you tell me what rough rate of return on investment you think the Crown’s estimates of future dividend flow would imply?

Moller I haven’t looked at them, I’m sorry.
Cunliffe  You haven’ t looked at the Crown’s—? Could you come back to us on that question when you have had an opportunity to look at them?

Chambers  If you can you provide us with the source of those estimates?

Cunliffe  Yes, the Government has put its pre-election forecasts out, and its Budget update out, and they contain, as I understand it, an update on their future estimate of dividend flows from the energy companies.

Chambers  Company by company?

Cunliffe  From the ones that are proposed for sale.

Smith  It’s collective on the SOEs.

Cunliffe  Yes, it’s collective on all. But as you are the largest, it would be possible for you to estimate, I’m sure. If the Crown is sold down 51 percent, and if the Crown is capital constrained because it doesn’t want to borrow any more on its balance sheet, and you are faced with a highly profitable project that your minority shareholders wish to proceed with, would it be an option for you to fund that by either quasi-equity, like non-voting shares or bonds, or the creation of a new on- or off-balance-sheet subsidiary that you could then IPO? Would those be options that you might consider?

Smith  I raise a point of order, Mr Chairman. The Standing Orders for this committee are the same as for Parliament. It does not provide for hypothetical questions the “If, if,” so I don’t see how— It is a hypothetical question.

Cunliffe  What Standing Order is it? I would hate for you to be bluffing.

Smith  There is a very specific Standing Order that does not provide for hypothetical questions.

Young  Look, I think it’s been consistent that hypothetical questions don’t need to be answered.

Moller  And I don’t wish to answer it.

Cunliffe  There is an absolute history— In fact, during the last Meridian Energy question and answer I asked some hypothetical questions which the chair ruled in. I think it was the same on the previous ones. So I think committee would have to have a big discussion—

Young  We can do that. We have gone over time to give you some extra liberty. Thank you, Mr Moller and Mr Binns. Good to see you, and we look forward to seeing you again next time. Thank you very much, Mr Chambers and Mr Waipara.

**conclusion of evidence**

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2010/11 financial review of Mighty River Power Limited

Report of the Commerce Committee

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Mighty River Power Limited

Recommendation
The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of Mighty River Power Limited, and recommends that the House take note of its report.

Introduction
Mighty River Power Limited is a state enterprise under the State-Owned Enterprises Act 1986. It is a generator and retailer of electricity, with interests largely in the central and upper North Island. Its generation is primarily from renewable sources, with nine Waikato River hydro-power stations and three geothermal stations. It also operates a gas-fired co-generation plant. It has overseas interests in the United States, Chile, and Germany through its investment in GeoGlobal Energy. Joan Withers is the chairperson of the board and Doug Heffernan is the chief executive.

Financial performance
In 2010/11 Mighty River generated total revenue of $1.16 billion, compared with $1.1 billion in 2009/10. Its after-tax profit was $127 million, improving on the previous year’s $84.6 million. It surpassed all of its financial performance targets for 2010/11. The level of free funds from operations as a percentage of average debt was 31.8 percent, significantly exceeding the 23.7 percent target.

We asked how it had achieved such positive results at a time when electricity demand had weakened and competition had intensified, and heard that this was largely due to the Ngā Awa Purua project’s providing its first full-year contribution to earnings, increasing Mighty River’s market share of generation and sales. We asked why Mighty River’s electricity prices had risen in spite of good conditions for supply and slow growth in demand; Mighty River attributed this to the rising cost of gas and lines.

We asked about the company’s opportunities in a market that offered limited room for growth. It said that in New Zealand the Ngātamariki geothermal power station, to be commissioned in mid-2013, would contribute to generation and thus to sales. We noted that Mighty River had committed $250 million to its GeoGlobal Energy Fund, and asked about its capital requirements. Mighty River said it did not see much potential for development in New Zealand. It said the amount of work it was doing overseas was equivalent to the total New Zealand electricity system and was very capital-intensive, so it would eventually need additional capital. It had committed up to US$250 million in its overseas geothermal investments, and was currently pursuing investment partnerships in its GeoGlobal Energy Fund. It was reviewing its capital needs beyond that point, and working to retain its credit rating.

Mighty River was rated BBB+ by Standard and Poor’s rating agency, which had suggested that the company would not be able to borrow much more money for project
development. We asked what would happen if the company were partially sold and needed to raise capital for its projects from its shareholders, but its majority shareholder, the Crown, did not have funds available to invest. It told us that it had a range of options for geothermal development, such as joint ventures and investment partners.

We asked whether the company was satisfied that it could fund its capital programme adequately. It told us that it had a well-diversified debt portfolio, and debt headroom of over $400 million. It believed that with its capital expenditure commitments and operating earnings, it could fund its forecast capital programme. Whether it considered further investments would depend on access to equity and debt markets.

Mighty River told us that it had sold some non-core landfill assets and a shareholding in the Ngā Awa Purua geothermal joint venture. It said it did not consider these sales inconsistent with Crown ownership.

**Partial privatisation**

We asked Mighty River what benefits there might be for the Crown in selling a profitable company earning returns higher that the cost of capital. It noted that good future performance would depend on capital-intensive projects. It said that any sale was for the Crown to decide, but the board’s view was that a sale was a “natural evolution” for the company and would be in its best interests. Some of us noted that this was a purely commercial point of view, which did not take into account a number of public policy concerns, particularly in respect of loss of revenue to the Crown from any partial sale of the entity.

Mighty River said that it was efficient and proud of its results, but was always trying to improve. It believed that for listed companies the scrutiny of the market resulted in a different approach to the performance of the company, which could improve its performance.

We asked what would change for Mighty River under partial privatisation, and whether it would increase its profitability. It pointed out that section 4 of the State-Owned Enterprises Act already required it to operate as profitably as comparable companies. It believed, however, that decisions made by listed companies tended to be reflected in their share price, which helped to determine the market value of a company, which could improve its overall performance.

It noted that over the past decade the Crown had reinvested over $1 billion in dividends back into the company. It believed that different disciplines would apply to investments of this sort if analyses were undertaken by market analysts and professional advisers rather than by bureaucrats, which could result in more effective investments.

We asked what the company might have done differently had it been partially privatised. Mighty River told us that it should have sold its landfill assets much faster, but there had been no pressure to do so. It had also spent approximately $100 million on gas exploration that was not fruitful. It believed that under private-sector disciplines the company’s share price would have declined as a result of these decisions, causing the company to change its behaviour more quickly. Some of us were of the view that ultimately these decisions were
board decisions, and therefore responsibility sits not with the shareholder in any ownership structure but with the board.

Social responsibility

We noted that the mixed-ownership model legislation currently before Parliament includes no social responsibility clause, and reminded Mighty River that the Prime Minister warned state enterprises in 2007 that the Government would monitor them to ensure that they were fulfilling their legislated social responsibility obligations. We asked how New Zealand consumers could be assured that the company would be socially responsible. It told us that the industry had developed guidelines and regulatory structures through the Electricity Authority. Mighty River had also become involved in community and budgeting agencies, and had developed a facility for people to pay for electricity as it was used.

Some of us noted that although these commitments were positive, they did not provide consumers with any ongoing guarantees that the current levels of social responsibility would be maintained or enhanced if the current board membership and ownership structure were to change.

Mighty River said that its success was intertwined with the way it treated society and, irrespective of ownership, corporate responsibility was part of the company’s culture. We suggested that this commitment could not be guaranteed and could be affected by a change in board membership or chief executive, and by the commercial wishes of private shareholders.

Treaty obligations

We asked whether Mighty River had done any risk planning relating to its Treaty of Waitangi obligations, which would continue to apply to the 51 percent Crown shareholding following a partial sale. It said that it had not done any risk planning in relation to this matter, as the Crown was solely responsible for Treaty settlements regardless of the proportion of its shareholding.

International opportunities

We noted that Mighty River was amongst the top 10 geothermal companies in the world, and asked about the international opportunities and the risks associated with international competition. It told us that it was working in Chile, the United States, and Germany, and intends to enter other large markets such as Indonesia.

It estimated the potential geothermal capacity of Chile to be about 800 megawatts, twice that of New Zealand. It said that having lost its gas supply from Argentina, Chile was seeking to develop its geothermal resources over the next decade. Other international energy companies were also already active in Chile.

Mighty River said the United States was a very large market with developed geothermal activities. Mighty River owns 20 percent of EnergySource, which undertook the Hudson Ranch I project, the largest geothermal development in the United States in recent years, and was considering further projects. Mighty River’s geothermal experience in New Zealand allowed it to secure involvement in the Hudson Ranch project.
We heard that as Germany planned to shut down its nuclear power plants, it would need replacement energy sources. Mighty River said that German government subsidies compensated for Germany’s lower geothermal temperatures.

**Canterbury earthquakes response**

We asked about Mighty River’s response to the Canterbury earthquakes. It said it had hosted the communication systems of Orion (the local network company) had been lenient with Christchurch customers’ debt, and had not raised prices in Christchurch along with those around the rest of New Zealand.
Appendix A

Approach to this financial review

We met on 5 April and 3 May 2012 to consider the financial review of Mighty River Power Limited. We heard evidence from Mighty River Power Limited and received advice from the Office of the Auditor-General.

Committee members

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

Evidence and advice received


Mighty River Power Limited, Responses to additional written questions, received 18 April 2012.

Mighty River Power Limited, Responses to written questions, received 22 March 2012.


Office of the Auditor-General, Briefing on Mighty River Power Limited, dated 5 April 2012.

Organisation briefing paper, prepared by committee staff, dated 8 February 2012.
Appendix B

Corrected transcript of hearing of evidence 5 April 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Gareth Hughes
Todd McClay
Mark Mitchell
Mike Sabin

Witnesses
Joan Withers, Chair
Doug Heffernan, Chief Executive
William Meek, Chief Financial Officer

Young Good morning, Madam Chair, and welcome to the Commerce Committee. We have an hour with you this morning. I see all our main members here. If you’d like to perhaps introduce your fellow members of your team.

Withers Thank you, Chair. Thank you for the opportunity to present to the select committee this morning. I’m Joan Withers; I’m chair of Mighty River Power. I have with me Doug Heffernan, our CEO, and William Meek, our CFO. Also with us, and giving us some moral support today, we have Jon Hartley, who’s one of our board of directors.

Young I understand you have a presentation.

Withers Yes, we do. The way we’d like to structure it this morning is just to go through a brief presentation that we’ve got. There’s a slide pack. I think you’ve either got hard copies or you’ve got it on your screens in front of you. Doug and I are going to do a double act. We’re going to be going through some details on our strategy, talking about our financial performance, both for the year ended and for the recent results for the half-year to December 2011, giving you some insight into the electricity market, and sharing with you the work that we’re doing in terms of progressing our development activities. We’ll then invite questions. What I should start by saying is that under the Securities Act we are prevented from commenting on the upcoming IPO, because we’re deemed at this stage to be in a pre-
prospectus window. So we are limited in terms of the responses that we can
give to questions about the IPO process.

Cosgrove  Sorry, can I intervene on that? Presumably, you can tell us, for instance, if
the board’s point of view is clearly in favour of the IPO.

Withers  I can talk in general terms about those sorts of questions, yes. But the pre-
prospectus period and its FMA guidelines and regulations are very strict.
One other way we could address this, Clayton, is perhaps, if you do have
questions that you want to raise that we feel are sensitive and might be
contravening those guidelines, we could ask that the committee put those
sorts of questions in writing, under parliamentary privilege, and provide
those to us, of course being cognisant of those FMA guidelines. We’re just
playing by what are very strict rules here, but we will do our very best to
answer and accommodate any questions you have however we can.

Cosgrove  Sorry, are you saying that you may be able to provide us information under,
as you say, parliamentary privilege, which wouldn’t contravene regulations,
but you may not be able to provide that to us as a committee as we sit here
today?

Withers  If it’s a written question, it then could be assessed as to whether we could
respond to it and not contravene those regulations.

Cosgrove  But you can’t make an assessment today?

Withers  Well, we’ll make our judgment, and the ones that we think we can answer
we will answer. But if there are ones that we think are sensitive, then what
we’re saying to the committee is please provide those in writing. We will
have them assessed, and then, if we can—

Young  That sounds reasonable.

Withers  Is that fair?

Young  We will progress and see how we go.

Withers  Thank you. OK. You’ve got the slide pack in front of you, and they’ve got
page numbers on them, so we’ll just refer to those numbers as we go
through.

Firstly, the page 2 slide is really the backgrounder. Mighty River Power is
unique in that we have a renewables-dominated portfolio, which includes, as
you know, both hydro and geothermal generation. That’s supported by our
very flexible gas-fired Southdown plant, which is a firming peaking thermal
station. We are very proud of our strongly renewable credentials, and the
increasing percentage of geothermal in our mix means that now over 90
percent of the generation capacity that we have comes from renewable
sources. And, because geothermal is baseload—which means it’s not like
wind; it’s there all the time—it provides us with significant risk mitigation in
relation to an otherwise reliance on hydrology. Our generation portfolio produces between 15 and 18 percent of New Zealand’s total electricity requirements. So our core business is really based on this diversified, low cost of fuel, electricity generation portfolio, and that’s complemented by electricity sales in the industrial, commercial, and domestic segments.

We’ve got very strong retail brands. You’ll all be aware of Mercury Energy, and we also have Bosco Connect, which specialises in the apartment market. We also have Tiny Mighty Power, which is getting some increasing profile in some of the small regional centres that we serve. Mercury actually won the Deloitte Energy Excellence of the year award last year. So our sales channels account for about 18 percent of total electricity consumption in New Zealand.

The other big string to our bow, of course, is our geothermal competence. Our developments here in New Zealand have provided a platform for us to exploit internationally. Our increasing presence in this niche means we are in the top 10 geothermal operating companies globally.

Turning over to slide 3, that pie chart that you see on the left really demonstrates the strength of our renewables focus. Doug is going to talk shortly about the way geothermal is changing the game in terms of the generation landscape in New Zealand. But the completion of our Ngātamariki project mid - next year will mean that the 30 percent portion of the pie you see up there in green will actually increase to 40 percent. The map on the right shows the positioning of our generation assets and our relative penetration into the various retail markets across the country. We’ve got our foot on some wind development options. Turitea is consented; Puketoi is going through the consenting process. But the current demand situation in New Zealand for electricity means that any firm capital commitments will be some years away.

Just focusing on where our strategy is focused, this sounds like a classic corporate strategic headline: we’re focused on sustainable growth that maximises long-term shareholder value. What we do know at Mighty River Power is what our core competencies are and how to leverage them. So our strategy is focused on achieving ongoing competitive advantage through superior performance across the industry value chain. That includes the development and management of fuel resources, the creation of electricity, and meeting our customers’ electricity needs. Through these activities we’re going to achieve returns to the shareholder over the medium term that exceed the company’s weighted average cost of capital. We have a clearly defined risk framework, and over the last 12 months we’ve actually developed further our enunciation of our risk appetite over a range of criteria.

Points two and three on that strategy slide I’ll cover together. Securing economically attractive development options and understanding the optimal time to execute are a critical success factor in our business. Our
development track record in recent years has focused on geothermal, which will be highlighted later in our CAPEX slide. Although geothermal only occupies a niche globally, geothermal offers a low, variable cost of generation per unit of output, and as mentioned before is a baseload renewable.

Doug’s going to talk in a moment about New Zealand’s electricity demand profile. However, any view on likely generation build path requires a company to make assumptions about the long-run marginal cost, about fuel access and availability, about the portfolio effects, and, of course, about competitor strategies. In that context, our 82-megawatt Ngātamariki project is now under construction, and I just mentioned we’ve got wind development options out there in Puketoi and Turitea.

Over to the next slide. Of course, this select committee hearing is happening in April, and these results came out in August last year and pertain to the full year, FY11, which ended on 30 June. So I’ll briefly cover off the performance to that horizon, and then later I’ll show a slide, which details how we did in the first half of this current financial year.

EBITDAF is the headline figure there: that’s earnings before interest, tax, depreciation, amortisation, and financial instruments. It really represents our operating earnings, and, as you can see, the EBITDAF increased by 35 percent in the full year. Our strong performance was driven by the first full-year contribution of Ngā Awa Purua, which is a geothermal plant that we opened in May, 2 years ago. It delivered more than half of the 17 percent growth in year-on-year generation. We also had the benefit of above-average hydro production due to weather conditions. In fact, hydro production was up 17 percent on the previous corresponding period, and 9 percent above the long-run average of around 4,000 gigawatt hours per annum. It’s not represented here, but our operating expenses were well controlled, which helped to bring the underlying earnings up by $22.6 million or 16 percent.

The headline net profit after tax figure is distorted over both years by the accounting impact of one-off non-cash items, such as changes to the fair value of our derivative instruments, impairment charges, and the impact of changes to the legislation relating to the depreciation on buildings, which occurred in the last financial year. The board and management recognise very strongly—and you’ve just had our auditor in—the need and critical importance of reported profits meeting appropriate accounting standards. But IFRS has created some anomalies within underlying results, so we think it’s important that shareholders get a clear view of what the underlying performance is of the company, so they can make meaningful comparisons both between the current year and prior years, but also between different companies.

As a result of that financial outcome we declared a final dividend of $45.7 million, and I should add that we add back the non-cash IFRS impacts to
determine the dividend payout. The total dividend payment for the year was $110 million, which was up $24 million or 28 percent on the previous corresponding period. We achieved a total shareholder return for the year of 11.4 percent. That includes an asset revaluation of $412 million, which included recognition of the Ngā Awa Purua asset.

Doug’s going to now take you through a couple of charts and show you how geothermal is changing the electricity landscape in New Zealand.

Heffernan

OK. Thanks, Joan. We’ll go to slide 6. This is a slide showing how over the last 12 years the portfolio of Mighty River on the generation side has changed quite substantially. Just working through the colour codes, the main one is just showing green growth in geothermal. What started out as virtually zero in our business is growing to, as Joan said, over 30 percent, and that rapid growth over the last 3 years is from the big projects at Kawerau and Ngā Awa Purua.

The blue in the middle, obviously, is hydro. That does vary from year to year, although the Waikato hydro system variability is smaller than we’ve seen in some of the South Island catchments. It rains more regularly in the Waikato, whereas the South Island is typically snow-fed.

The grey bar is probably another interesting one, as Southdown thermal plant originally ran as a baseload plant when it was commissioned way back in 1996. Since we took ownership of that—we purchased that progressively through the early parts of the 2000s—we’ve reconfigured that into a more firming and peaking role. That’s reflecting that gas costs have gone up over the last decade, and now the best place for that plant is to operate in that peaking firming role.

The little skinny bar right at the top is assets that we sold progressively through the mid-part of the last decade. Our landfill assets that we had acquired as part of the Mercury transaction did not fit the scale of our business, so we rationalised those assets by way of disposal.

Probably just the other thing that graph really does highlight: two projects, in particular—Kawerau and Ngā Awa Purua, just two projects—produce a lot of energy. That’s going back to Joan’s point that geothermal is regarded globally as a premium renewable. Because it is not weather dependent, it runs basically 24/7. The only time it’s not running is when we take it down for maintenance. Its output generally is somewhere between two and three times wind farm outputs. The top wind farms in New Zealand produce less than half of the energy for the same rating, and geothermal about twice the energy output as a hydro plant of the same capacity.

On the next slide, 7, this is looking at a picture in New Zealand. Again, this is going back a long time, way back to 1975. If you look right down in the bottom left-hand corner, you’ll see that New Zealand was burning oil to produce electricity. So this is just in the first oil shocks. What happened
after that was you see quite a growth in gas as we found Māui gas, and utilised that through electricity, and that's the large growth in the yellow bar. Then in the early 2000s the use of coal started to grow quite dramatically through the early part of last decade.

What’s happened, though, since the early 2000s as we’ve developed geothermal, the geothermal make-up of New Zealand’s electricity component has gone from something like 6 percent to now, in the last period, 14 percent. You can see wind coming in, as well. Effectively, what’s happened in the last decade is geothermal has become New Zealand’s No. 3 producer of electricity, and it’s pushed ahead of coal. Coal is becoming much more marginalised within the New Zealand electricity system make-up. Clearly that’s got benefits for consumers, but also environmentally. New Zealand’s carbon dioxide contributions are actually very low by international standards in electricity. New Zealand is one of the lowest of the developed world, but even so we’ve been making significant progress against that over the last decade.

Turning to the next slide, looking at the market, this is trying to demonstrate what has happened in the market on both the supply side, which is the bar on the left-hand side, and on the demand on the right-hand side, since 2007. You can see on the left-hand bar significant capacity additions that have occurred since 2007. Grey is thermal.

Cunliffe This is system-wide?

Heffernan This is system-wide, yes. This is right across national supply and demand. The grey bar includes the large gas plants that were built by some of our competitors, and our expansion at Southdown. The green bar is clearly geothermal, dominated by our work and also wind in yellow. By contrast, demand has hardly moved in that 3-4-year period. So you’ve got a vastly improved supply-demand margin in the electricity market, and you’re seeing significant benefits flowing through in terms of the level of competition that flows as a result of that. Moreover, that expansion of renewables has been displacing thermal, as we saw in that previous slide.

On top of that, if you look to the next slide, the period between late 2008 and late 2011 was an exceptionally wet 3-year period for New Zealand. What this graph is trying to show is if you look at 100 percent, that is showing what would on average be a normal year in New Zealand’s hydro storage. All the lines above that are wet periods, and below it are dry. Starting from late 2008, which is the red colour, you can see around October it goes above the line, or eventually gets above the line in November. The next three years are very wet. So we have a period where the electricity markets had virtually no demand growth, but excess supply, new capacity being added, and a lot more hydro generation than normal. That’s led to very low wholesale prices compared with historical trends. I’m sure David and others will remember some of our concerns in the early part of the 2000s when security margins were very, very weak and there were
supply threats, or there were high prices in the wholesale market because that supply margin was very tight. That’s been turned around fundamentally by those three conditions: new capacity, very wet, and low demand. As the last bullet point says, that improvement in supply-demand conditions and margins has supported very intense retail competition.

Despite that, turning to the next slide, page 10, you’ve seen since 2007 Mighty River’s increased its sales to customers. There are three groups of sales or customers represented on this graph. Blue’s residential customers, so you can see our volume sales to residential customers have grown steadily right through that period, even though the market has not been growing. Similarly, in the green bar, which is the small commercial market, we’ve had steady growth. It probably grew a bit too fast in 2010, relative to our overall business. And, on what we call contracts for differences—these are fixed-price commitments that we provide; they’re derivative instruments that fix prices for customers, typically industrial customers—we’ve also had good, strong growth right through that period. So the Mighty River retail business, our customer side of the business, has actually grown despite that very flat market condition through that whole period. We’ve got reasons why we think we were very successful in doing that against the competition, including putting out a 3-year fixed-price offer which has been taken up by more than 20 percent of our customers, which has proved very attractive and beneficial for them.

Just turning to GLO-BUG, which I refer to there on the next slide, one of the other innovative products that we’ve developed since 2007 has been GLO-BUG. This is an electronic prepay system that is the only smart meter-based prepay system in New Zealand. You can see its growth in customers has been quite rapid through the period of the GFC and recession, and it’s been a great tool for some of our customers to be able to manage the way in which they manage their budget, if you like, and make sure they can pay their electricity, rather than get into a debt situation. We work very closely with the agencies. Helen Amituana‘i is pictured here in the photo. She spends time working with the agencies and helping them, with their clients who use this tool to help manage their electricity bill. Just last week Meridian Energy announced that they were selecting the GLO-BUG system for prepaid solutions in Christchurch, and we’ve been in the community in Christchurch working through the installation of that changeover for Meridian customers.

Young: You’ve been going for about 20 minutes now; can you just wrap up in the next, maybe, 3 or 4?

Withers: OK. Well, we’ll take the half-year results as read, if there’re any questions on that? The capital expenditure profile, if we just look at that, you can see there it just demonstrates the fact that over the last 5 years or so there’s been about $1 billion worth of investment into geothermal. Probably, Doug, the next thing—unless there’re any questions on that? The forward CAPEX for this year, for the FY12 year, forecasting $359 million. That
reflects the spend on the balance of Ngātamariki, which is $199 million, and the investments offshore in international geothermal of about $80 million.

Doug?

Heffernan Yeah, probably just as we’ve mentioned, Ngātamariki is the third of the big projects in geothermal we’ve got going. There’s about 100 people employed on the project at the moment just out of Taupō, dominated by local people that have built up experience on the previous two projects. And the workforce there will peak around 300 in about 12 months’ time.

Probably the other notable one is the Hudson Ranch 1 project in southern California. We invested into that project in May 2010. Construction was completed earlier this year, a 21-month construction lead time, which is very similar to what we achieved on the two projects here in New Zealand. And that is now delivering power to the grid in southern California being sold under a long-term off-take agreement to an Arizona utility. It’s the first of our international investments to go into commissioning. We’re very pleased that the construction went very well, and the plant is now operating very well. We’re looking to see further financial results from that project, and we can deal with some of our other projects through questions.

Young OK. We’re going to open it up for questions now.

Withers Just—do you want to talk about the regulatory issues?

Cosgrove With respect, we’ve got less than half an hour, and we’d like to ask some questions.

Young I’ll start off. You’ve produced some positive results during a time when, as you mentioned before, electricity demand has weakened coupled with, as we know, a pretty intense time of competition. Firstly, how did you achieve that position? Secondly, considering the present limited growth in the market, looking ahead where do you see your opportunities?

Heffernan Well, I think, as Joan outlined, the FY11 results, which you’re referring to in terms of growth, were very much driven by the benefits of having the Ngā Awa Purua project come in and providing the first full-year contribution to earnings. It only contributed for a quarter in the previous year, and you can see the generation volumes are up substantially. Technically, that was market share gains on generation, and, as outlined on my sales slide, we also have gains on the customer side. So market-share gains on both generation and sales led to improving profitability, and that’s a trend that’s continued through the first half of FY12.

Looking forward, we’ve got the Ngātamariki project, which will be commissioned in mid-2013, and once that’s online, providing more generation sales to help drive earnings going forward.

Young Good; thanks.
Cosgrove: Can I congratulate you on your performance. My question, I suppose, is this. You guys have performed very well. You’re effectively a sort of money factory for the Crown and have pumped over $110 million in dividends. Do you think it’s a smart move, then, to sell such a highly profitable asset—even a minority stake? Has the board formed a view? And I don’t think that contravenes the regulation.

Withers: The board has formed a view that the transaction, if it goes ahead, will be in the best interest of the company.

Cosgrove: How do you define that, given that, I presume—would you agree with Treasury that you are operating along with the other three and the SOEs on the block as very, very efficient?

Withers: We are efficient. We are very proud of the results, but it’s like in any board and managerial situation: you’re always striving to improve. I chair a listed company as well as an SOE, so it’s interesting. The day in, day out scrutiny of the market and of analysts against your performance means that there is a different sort of approach coming in externally to the performance of the company over a range of different factors.

Cosgrove: That’s an interesting point—

Withers: Well, can I just finish the point. I guess we’ve had a CEO who’s been in the role for 12 or 13 years. That’s an extraordinarily great situation for a company to have.

Cosgrove: Exit visas aren’t pending are they?

Heffernan: I’m old, but I’m not quite that old.

Withers: Doug and his senior team have always taken that approach. So this is just—look, it’s a natural evolution of where the company is ready and poised to go to.

Cosgrove: It’s an interesting point you make, because others have made the same point. I think a number of people in the community are struggling to see the benefit of selling off 49, or thereabouts, percent of a highly profitable asset returning millions and millions of dollars to the Crown. And when we ask respected board members like yourselves, who have significant private sector experience—and not all of your board members sit on private sector companies. That being the case, you would bring those private sector disciplines automatically, I’d suggest, as you have, to the benefit of the SOE. Apart from some analysts poking their noses around and a bit of critical comment in the market, where is the actual connection to accelerating massive performance in relation to the public?

Withers: Just one point: the decision to sell or not sell is the Crown’s decision as shareholder. That’s the given.
Cosgrove: I’m not asking about that decision. With respect, what I’m saying is this: you have yourself included expert board members who have massive private sector experience. Therefore, one would deduce that you bring that experience and those private sector disciplines—as you have done, given the performance of the company, and I congratulate you on it—to the SOE. So what changes in the float? And where is that direct relationship? Will that accelerate profitability?

Withers: There are disciplines day in, day out. Firstly, the State-Owned Enterprises Act, section 4, requires us to operate as profitably as comparable companies. That’s always the founding position. Every decision you make when you’re a listed entity is viewed by the market place and reflected in the share price. I guess for me, and this is a personal opinion, having a situation where you know that the valuation of your company is based on the market, rather than a theoretical valuation, is a very good place to be.

Cosgrove: Is that the only benefit of the float?

Heffernan: There is one other. The operational efficiency line is one, but I think there’s a much more important one, if I may, and that’s what I would call much more around dynamic efficiency. You’ve referred to the dividends paid to the Crown, but actually over the last decade the company’s invested something over $1 billion that would otherwise have been paid as dividends to the Crown. Essentially what you’ve had, if you think that through, is the State has actually invested $1 billion in the company. And one of the benefits of having other than, shall I say, bureaucrats questioning how well the company is performing—if those investment decisions are being, firstly, scrutinised by a wider set of analysts and professional advisors, and by people other than just the State contributing the capital, there’d be a different set of disciplines would apply. I’ve been here a long time, and the continuous refrain from any Minister of any political persuasion in my whole time as a chief executive has always been, how are we sure that this is a sensible investment? I think that’s the benefit of scrutiny other than the poor Minister, being isolated, asking the question.

Cosgrove: That’s why Governments of all shades have appointed very eminent private sector individuals. Can I ask you this: in terms of your profile going forward—a series of questions on this—what are your projected capital requirements in the near term? I see you’ve got $250 million that you’d like to raise through the global partnership fund, which has no partners apart from yourselves. That is not a capped amount; that’s what you’re seeking to raise. What are the capital requirements you see going forward? That’s a related question.

Withers: As we’ve described, the demand environment in New Zealand is flat, so we don’t see the potential for much development activity in New Zealand. At the moment we’re at, I guess, a point where we’ve invested or committed up to US$250 million in our international geothermal investments. Some of the projects are now coming to fruition. Through the Fund we’ve got...
Hudson Ranch in the US, which has just been commissioned in the last couple of months. We’ve got projects in Chile. We’ve got projects in Bavaria in Germany. We are looking for co-investors to participate in that fund; that has always been our position. So we are just reviewing at this stage what our capital participation will be beyond that point.

Cosgrove

You see, I’m interested in the risks, because Standard and Poor’s in your annual report notes: “there is limited tolerance at the current rating level”—given you’re on their level BBB+—“for any additional debt-funded project.” So the question is this: your float is coming out of it, you seek borrowings, you’ve got Standard and Poor’s saying it may not be quite interested in this. You can’t achieve those borrowings, so the next port of call is obviously some sort of capital-raising through the shareholders. Given that the Crown is going to hold at least 51 percent, and given that one of the primary reasons to sell you was because the Prime Minister and others said that they wanted you to grow, but they didn’t have any money to put in, how are you going to get on? How are you going to manage the risks around those capital raises, because the Crown presumably is going to have to dip into money it doesn’t have?

Withers

I guess if you look at it in the macro, we’ve always had to go to the Crown and ask for capital if we’ve needed it. There are a range of options in terms of the pipeline of opportunities in geothermal. We can do joint ventures within a country; we can look at other investment partners in the GGE Fund. We are absolutely adamant we will retain—

Cosgrove

But you don’t have any partners at this point of the GGE Fund, do you?

Withers

We have opportunity to progress partnerships in the GGE Fund that we’re pursuing at the moment. And what we are committed to doing is retaining our BBB+ credit rating.

Sabin

Thanks very much for your presentation. In your position and the board’s position, you see the opportunity here in terms of this proposed float as helping take this business to the next level, and providing a new opportunity for development both within the business and in terms of the returns. Is that how you see it?

Withers

If it goes ahead, I think it would be seen as a natural evolution for a high-performing company.

Cosgrove

Would it prevent you from evolving—

Withers

We continue to strive, Clayton.

Cosgrove

It wouldn’t prevent you, the undercharging—

Withers

There is a benefit, and we’ve described the benefit as we see it.

? Scrutiny.
Cunliffe  Look, the initial reaction is, right around the table on behalf of the public, we’re in a pretty privileged position. The Crown, on behalf of the public, is the owner of a company which is clearly performing extremely well. You have raised your NPAT by 50 percent. I know there are some extraordinaries there; it’s still an outstanding result. Your TSR is 11.4 percent, which would be significantly better than the cost of capital. Why on earth as owners would we want to sell up to half of you, when you are such a fantastic investment?

Withers  You’d have to ask the Crown that question.

Cunliffe  That is what we are asking the Crown, but as an ex-financial analyst I am mystified by that. Let me follow up that by drilling down into the—

Heffernan  Sorry, there’s one other comment, perhaps, on that. Thank you for the praise, but it is historic.

?  We don’t want to lose you.

Heffernan  It is historic. It’s talking about how well we have done, and the real, important thing, I think, is always—because these are capital-intensive companies—how well they perform going forward.

Cunliffe  I’ve got two supplementaries there. The first is to ask you to elaborate on what aspects of your operational or dynamic efficiency you believe that in the recent past you have suboptimised that would have been different if you had been 49 percent private owned. I would be interested to know why you haven’t done them. If there is nothing that you are aware of, I can’t understand what the upside is.

Heffernan  Can I mea culpa, because Joan wasn’t part of this, nor was Jon. When I look at what the things are we could or should have done differently, one of those would be we should have sold landfill assets much faster. We held on to them far too long. They were not core, they weren’t significant—

Cunliffe  This is landfill assets?

Heffernan  Yeah, and we should have exited, and there was no pressure on the company to do anything about that. Secondly, we spent probably of the order of $100 million on upstream gas in the middle of the last decade, and in my view, in hindsight, we should have stopped faster or not started at all. I suspect under private sector disciplines, the share price would have drifted south, and we would have corrected much faster. From my experience in a listed company environment, that’s what would have happened.

Cunliffe  I guess my next question following from that is what the relative financial return on those kinds of at-the-margin operational efficiencies are, relative to Europe’s, if one was a buyer—surely the biggest levers are price levers—and whether you think private ownership and analysts’ comment would impact your approach to the pricing.
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<th>Speaker</th>
<th>Response</th>
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<tr>
<td>Heffernan</td>
<td>Well, actually volume’s been our biggest lever for growth. But that’s actually been the bigger lever relative to our competitors.</td>
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<td>Cunliffe</td>
<td>Leaving the adjective aside, then, do you think a private analyst would have a different approach to pricing than you have—</td>
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<tr>
<td>Heffernan</td>
<td>Ah well, if you’re talking about retail pricing, look, our pricing’s pretty much in line with people like Contact Energy and Meridian Energy. We’re sitting there pretty much right in the middle of the pack. I think what you’ve seen, again going back to my commentary on competition, with much more intense competition because of that supply and demand margin, the retail pricing’s been forced and concertinaed very close together.</td>
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<td>Cunliffe</td>
<td>That’s what I thought, because we’ve had previous discussions about the efficiency of the spot market and hedges and so forth, but I’m trying to see a way through the argument here, because, other than some timing of some relatively small non-core investments, which you are saying in hindsight you might have done differently, which is a fair point—</td>
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<tr>
<td>Heffernan</td>
<td>I’ve probably got other skeletons.</td>
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<td>Cunliffe</td>
<td>But it’s against the background of counterfactuals unknown, and the results are prima facie excellent, anyway. You saying there’s no upside financial performance around pricing, because you’re constrained by the market. On balance, as a shareholder, keeping 100 percent of an excellently performing company versus the marginal impact of exiting landfills quicker, if that’s the best example we can get—</td>
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<tr>
<td>Heffernan</td>
<td>Upstream gas was $100 million.</td>
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<tr>
<td>Cunliffe</td>
<td>—I’m still mystified. Any comment? It doesn’t seem to me that there’s a huge upside there.</td>
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<tr>
<td>Heffernan</td>
<td>Well, they are things we did. It doesn’t talk about things we didn’t do. So maybe there were missed opportunities.</td>
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<td>Cunliffe</td>
<td>But you are going into geothermal as your security within your current construct. You have developed as a State-owned enterprise the fund which the chair has described. You are investing a quarter of a billion—and, in my view, rightly so—in international leveraging of your full confidence around geothermal, which is world class. There is therefore nothing in your current ownership structure which has prevented that. Is that correct?</td>
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<tr>
<td>Withers</td>
<td>To this point.</td>
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<tr>
<td>Cunliffe</td>
<td>To this point. You are worried that if you upscaled, the Crown would say no?</td>
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| Withers | Not worried about that particularly. All I would say is that having operated in listed environments, there is a different discipline. There is a different set
of scrutiny and analysis that comes up that day in, day out provides the board—

Cunliffe The micro level—

Withers —well, the board and the management team—with direct insight into how the market is perceiving the investments they make and their overarching performance.

Cunliffe Would you have access to that with a 10 percent private shareholding, as opposed 49 percent shareholding?

Withers Too small to be monitored, I would think.

Cosgrove Pardon?

Withers I think at that level you’d be too small to be monitored.

Cunliffe What would be the minimum threshold?

Withers I haven’t got a view on that.

Hughes Thank you very much for your submission and your hearing. I was reading a Business New Zealand report. They estimate geothermal doubling: 22,000 megawatts; a $40 billion industry over the next 10 years. Would you prefer to have, or have you considered the need for, foreign shareholders if you’re privatised and any advantages to your company exporting to these 10 countries and new markets?

Heffernan Sorry, I’m not quite sure which article you’re referring to. If you’re talking about the global expansion of geothermal—yeah—in 10-odd countries or whatever. The original construct for the participation in the GeoGlobal Energy fund was with that in mind, so that’s something we started back in 2007-08. Geothermal, as you’ve seen, is hugely capital intensive, and we knew that if we were actually going to take forward a geothermal strategy in a similar way to what we had here domestically, we’d have to get additional capital to mobilise with us. So at some stage there was going to be a need to bring other partners in to invest and build out those international projects.

Hughes I guess what I’m getting at is I can understand there might be an advantage having foreign investors to help access those markets and provide an institutional knowledge of those countries. But what you’re saying is you’ve already got that through the global partnership.

Heffernan Sorry, that’s for the international investments, because if you think about it, that global development that sits out there, the geothermal development in international terms is going to be in the next 5 years. Size-wise, it’s as large as the total New Zealand electricity system. So it’s huge, and private, public, whatever we were, we were never going to actually be providing a significant amount of capital to that.
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<th>Hughes</th>
<th>Would you be concerned if the mixed-ownership bill passed with a limit on no foreign investment—full stop—and 45 to 49 percent?</th>
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<tr>
<td>Heffernan</td>
<td>My comments are entirely about the fund; they are not about Mighty River’s ownership.</td>
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<tr>
<td>Hughes</td>
<td>Given that it’s quite an exciting prospect—geothermal expertise and technology exports, and the taxpayer, it seems to me, has invested a billion dollars in delayed dividends to the Government, what we are seeing is the taxpayer, who set up the company, will potentially miss out on half of the returns in the future. Would you agree?</td>
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<td>Heffernan</td>
<td>No. That’s not the way valuations work—sorry.</td>
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<td>Hughes</td>
<td>Just lastly, are you using enhanced geothermal systems in New Zealand or anywhere around the world?</td>
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<td>Heffernan</td>
<td>I think I can deal with that. Enhanced geothermal systems—no we aren’t. I think technically some people around the world are holding out enhanced geothermal systems as how to make geothermal a huge industry. But we use conventional geothermal; we are involved in conventional geothermal development both here and globally. New Zealand is lucky, because it’s got such significant geothermal resources that are, if you like, close to the surface, already providing the vapour and liquid that are required for conventional utilisation. Australia is unlucky for once, in that it only has these huge big blocks of granite out in the middle of the country, in the desert, where they have to drill down, inject water into those warm granites, and then somehow hope they can recover it to create what is called an enhanced geothermal system.</td>
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<td>Hughes</td>
<td>Given they pulled out of a project in Basel, Switzerland because of human-induced seismicity, do you think there’re any risks?</td>
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<td>Heffernan</td>
<td>In EGS?</td>
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<tr>
<td>Hughes</td>
<td>Yes.</td>
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<tr>
<td>Heffernan</td>
<td>Look, I’m not technically competent and I haven’t had to worry about it, because we’re not involved.</td>
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<td>Mitchell</td>
<td>I’d just like to congratulate Mighty River—the Hudson Ranch power scheme online. It’s fantastic. Mighty River Power currently is sitting in the top 10 power companies in terms of geothermal—is that correct, geothermal?</td>
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<tr>
<td>Heffernan</td>
<td>Uh-huh.</td>
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<td>Mitchell</td>
<td>And obviously you want to remain there and, obviously, keep moving up that scale. And the international market, the global market, is going to be critical for that. Can you talk a bit more about that, about the opportunities</td>
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that you see in Germany, Bavaria, Chile: just if you’ve got a feeling for the size of the market, and what the risks are if you are competing against those other nine companies?

Heffernan

OK, just to put it in context, here in New Zealand we’ll have something short of 400 megawatts of geothermal capacity. If we look at the Chilean market—for any of you who’ve flown over the Andes—Chile’s got a significant volcanic characteristic and significant geothermal resources, but they’ve never developed a geothermal power system, largely because they’ve been able to rely on their own hydro facilities, and, historically, importing gas from Argentina. That was turned off, and they had to revert to burning diesel—very expensive. So as a country they’re looking to try and develop a geothermal industry. Our view is there’s probably a potential of an 800-odd megawatt geothermal industry in Chile within the decade. There are others who share that view. Origin Energy, Contact Energy’s owner, is active in Chile. Enel Green Power, who own the geothermal production facilities in Larderello, Italy, is also active there, as well as others. And in the Chilean market you can write long-term power off-take agreements. It’s a way of de-risking projects, in that you’ve got a certain revenue stream you can lock in.

The US is a much, much bigger market, much more like New Zealand in the sense that it’s got a lot of developed geothermal activities. The Salton Sea in southern California is one of the two large—very large—high-temperature reservoirs. They are larger and hotter than here in New Zealand, and that’s where the Hudson Ranch I project is located. EnergySource, the parent company that we, through the fund, have got a 20 percent ownership of, has got two other projects that it’s looking at—successor projects that it’s looking at. We only got involved in the EnergySource Hudson Ranch project through a competitive process. The two existing equity owners of EnergySource were looking for additional equity participants. They ran a beauty parade, and the reasons that we got over the line were both GGEs capability, and also Mighty River’s experience in developing large projects here recently. Technology used in Hudson Ranch is identical to what we have at Kawerau and Ngā Awa Purua.

Germany, well, you’ve all read about the German Government’s decision to shut down nuclears. That is a massive amount of capacity that would be taken out of the market in Germany, so they are looking to foster renewable industries. They’ve been very successful in growing both wind and solar, with a combination of energy and industrial policies. In the geothermal space they’ve got incentives for renewable development, again with locked-in long-term tariffs that help de-risk projects. Germany is not normally a place you’d go for conventional geothermal, because it is lower temperature, but the subsidies, in effect, from the German Government compensate for that lower temperature.

We’ve only selected those three countries at this stage. There are obviously others. Indonesia’s a vast geothermal opportunity, but we thought that we
should crawl before we walked, and start to deliver success before we shift up a gear.

Curran Thank you. The legislation, the mixed-ownership model legislation before Parliament, contains a clause which protects the principles of the Treaty of Waitangi for the Crown-owned component. It contains no social responsibility clause. How can your customers, the New Zealand consumers, be assured that there won’t be a repeat of the situation, I think it was in 2007, which required the then Prime Minister to serve a warning on the country’s State-owned enterprises that the Government intended monitoring whether they were fulfilling their legal obligations to behave in a socially responsible way? How can New Zealand energy consumers be reassured that there won’t be a repeat of the situation and that their needs are being taken into account?

Withers Perhaps if you talk about the learnings from that issue, and then we’ll talk about the wider corporate social responsibility.

Heffernan I think the real learnings from that across the whole industry have been well bedded in. You’ve now got regulatory structures that are in place through the Electricity Authority. There are particular guidelines that the whole industry has to comply with that were developed both with the electricity industry and with medical authorities. Actually one of the things that was spawned out of that was the innovation into the development of GLOBUG. That’s got nothing to do with who owns us. That’s really driven by a real view about what was in the right interests and the best interests of the company and its customers, and it’s been very successful. We’re well ingrained in getting involved with community agencies, budgeting agencies.

Curran With respect, can I say that’s all about behaviour as a result of action and publicity and an extraordinary outpouring of anger about a particular situation. Behaviours can revert if there is no requirement in legislation. How do you address that?

Heffernan Well, you know, I think I can answer that. You refer to the Treaty of Waitangi issues in the same part of this corporate social responsibility. One very clear thing we can point to is our relationship with iwi and with Māori land trusts. Without being boastful, I think we’ve got an exemplary record in our relationship with iwi and with Māori land trusts, where the relationship is actually embedded. It’s not time dominated at all; it’s a permanent relationship where we have actually involved them in an equity partnership, which is beyond people. It’s beyond behaviours; it’s permanent.

Curran There will be no legal requirement for you embedded in—which is currently in the SOE Act for you to behave—

Withers Legislation is one issue, but corporate responsibility is part of this company’s DNA. You know, our long-term and short-term success, the
health of the company, is intertwined with the way we treat society around us. We are focused on that irrespective of ownership.

Curran I accept that, but it will not be embedded in legislation.

Withers It’s embedded in our culture, which is even better, and day in, day out that’s what we live by.

Cosgrove I suppose I accept what you’re saying; I’ve worked in the commercial sector. But can I say this and ask you this: the committee’s looking for guarantees. I accept what you’re saying, and you’ve got a very good track record. There will be no guarantee, because that social responsibility clause is being withdrawn. And if your board changes, the chief executive changes, and a new world order comes in, the priorities for the 49 percent shareholder will not be, I put to you, beneficial. They will not be charitable, they will want profit, and they will want to increase their position.

Withers Clayton, any business wants to succeed long term.

Cosgrove On clause 9, with respect, have you done any risk management planning, given that clause 9 will not apply. Effectively the private sector shareholder is indemnified under the proposed Act by the Crown, in that clause 9 will only apply to the Crown. Have you done any risk planning, given that if a liability was visited upon your company in a settlement, effectively the Crown as shareholder will wear 100 percent of that liability for a 51 percent, let us say, shareholding that it will own?

Heffernan Look, we’ve been involved in this since 1999: 2 April 1999, when the company came—

Cosgrove Sorry, because no one in 1999—

Heffernan Can I please answer the question?

Cosgrove No one proposed to sell you in 1999.

Heffernan Can I please answer the question? When we came into being it was—2 April 1999—because of a Treaty claim, and so the first thing that we did as a company was sit down with iwi and try and understand what their issues were. They were adamant that anything to do with the Treaty was with the Crown. The first thing that iwi will tell you is: “Our relationship is not with a company; it’s with the Crown.” We sat down with the Māori Queen at that time, with leaders like Sir Tumu, and formed relationship agreements with them that acknowledge and respect their relationship with the Crown on matters Treaty, and that anything that happens in regard to the Treaty is a matter between the Crown and the iwi. So anything that is a compensation is actually always between the Crown, not because it owns 100 percent, or 30, or 50, or 90 percent—it’s a Crown-iwi matter. That’s where section 9 has got to: it’s exactly replicating what in practice we have been doing since 2 April 1999.
Cosgrove  But my point—with respect, my question was this: yes, it replicates it, but you’re right, it only applies to the Crown, so that the liability is visited on the Crown. What has changed is that the Crown’s ownership stake will be, in theory, 51 percent, but the Crown will be responsible for 100 percent of that liability, indemnifying the private sector or foreign shareholder.

Heffernan  As it always has been under Treaty claims. If you read some of the submissions by our Māori land trust partners, that’s exactly the way they see it too, as I’ve described it.

Cosgrove  But it provides an indemnity, which is new, because the Crown’s always owned 100 percent of it. It provides an indemnity—

Heffernan  It’s not a matter for the company. It’s not a matter for the company.

Cosgrove  My question is, have you done any risk planning on it?

Heffernan  I’ve answered that question.

Bakshi  Talking about the social responsibility, what was your response to the Christchurch earthquake?

Heffernan  Well—I think this came up last year, and we said at the time it was a significant impact on all New Zealanders. Although we have very few staff—in fact, we only had two or three staff; they weren’t even in Christchurch—it did impact the whole organisation in the same way it impacted all of New Zealand. There’re two or three things that happened. We also have customers in Christchurch, although we are a relatively small retailer by scale. With customers there were a number of things we did around leniency on bad debt. We did not increase prices in Christchurch, even though we were changing prices across the country. There were price holidays, if you like, for customers, bad-debt relaxation. From a retailer point of view, particularly in the small commercial business—there were a lot of impacts in the small commercial market, because of the impact in downtown Christchurch—relief for those customers was very important. Staff actually raised money and donated that to Christchurch as part of helping businesses get back up and running in Christchurch.

Young  Last question to Mike.

Heffernan  Sorry, there’s one thing I wanted to mention. We also provided immediate service to Orion, the network company. I had a call from the chief executive within the first 20 minutes asking if we could actually take over their communications with external agencies, because all their systems were down. So it was an indication of a lot of collaboration that occurred across the whole electricity sector, not just from us, which actually helped deal with the huge issues that Orion, the local network company, were facing.
Sabin There’s been some questions, for obvious reasons, around partial floats and sales, and so on. Has Mighty River actually ever sold any assets, and if so, when, and why?

Heffernan Yes, we sold the landfill assets that I referred to, because they were non-core. We recently, just earlier this week, sold a further 10 percent shareholding in the Ngā Awa Purua geothermal joint venture. That was part of an agreement that was entered into in 2007, whereby the company would sell a share of that asset to a partner over the initial 2 to 4 years of the project. That just settled on Tuesday.

Cunliffe Thanks very much. A couple of written information requests, but can I just get you to confirm that there’s nothing inconsistent between 100 percent Crown ownership and rationalising your internal portfolio of non-core businesses?

Withers No, nothing inconsistent.

Cunliffe Exactly. So therefore it’s not an argument for partial privatisation. And look, the information request, just on your slide pack, slide 8 shows new generation’s outstripped demand growth, slide 9 shows lots of work you did over the last 3 or 4, and slide 10 indicates that prices have none the less risen. Any quick comment on why prices have risen, given good supply conditions and relatively soft demand growth, and could you please disaggregate price changes over the last 5 years between wholesale and retail? And you’ll come back to us in writing on that?

Heffernan Which slide were you referring to on price rises?

Cunliffe Sales and prices, slide 10, although it doesn’t contain the information.

Heffernan That’s just volume.

Cunliffe That’s just volume. Yeah, you made the comment on pricing.

Heffernan Look I think, as you are fully aware, I know, going back to supply-demand balance in 2007, it was almost imbalance or there was no margin. So the electricity industry was overdue for that increase in new capacity to actually bring margins back to where they would be, and, indeed, to support competition. But as you are also aware, I’m sure, the cost of gas has continued to increase significantly through the period. We’ve also had significant increases in line prices, particularly over the last 5 years. Indeed, line pricing has outstripped energy pricing in that period.

Young I’d like to say thank you very much for your attendance today. Thank you very much indeed.

conclusion of evidence
2010/11 financial review of the National Institute of Water and Atmospheric Research Limited

Report of the Education and Science Committee

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Recommendation

The Education and Science Committee has conducted the financial review of the 2010/11 performance and current operations of the National Institute of Water and Atmospheric Research Limited, and recommends that the House take note of its report.

Introduction

The National Institute of Water and Atmospheric Research Limited (NIWA) is a Crown research institute, employing 671 staff at 16 sites in New Zealand and Australia. It is the country’s principal provider of environmental research and consultancy services in the areas of atmosphere and climate, coast and oceans, fresh water, fisheries, and aquaculture.

Organisational issues

We noted that there were 57 resignations from NIWA in the year under review (including 28 from science positions and 15 from technician positions). Replacements were recruited for 18 of the positions, six of them for science positions and three for technician positions. NIWA confirmed that the number of science and technician positions in the organisation has been reduced through non-replacement, but noted that there has been no such reduction in Christchurch. We hope that the reduction in science and technician positions will not affect the ability of NIWA to undertake its research functions.

Assets

We note that NIWA’s operations are very asset-intensive, and that rapidly changing technology means these assets require continual investment. Over the past four years, NIWA has undertaken an $87 million capital investment programme. This has increased NIWA’s total assets from $105.268 million at 30 June 2007 (including property, plant, and equipment valued at $71.336 million), to $139.845 million at 30 June 2011 (assets valued at $107.171 million). We are informed that reductions in value due to depreciation, impairment, disposals, and related expenses totalled $51.165 million over the same period. We were impressed with the overall strengthening of the balance sheet.

NIWA noted that large assets need replacement or upgrading occasionally, and that much scientific equipment depreciates rapidly. NIWA has historically made a base capital expenditure of between $7 and $10 million each year to replenish ordinary assets; this had risen to $10 to $12 million in the year under review. Additional capital expenditure during the four years of the capital investment programme has included $12.7 million toward a new supercomputer facility, $25.9 million on the refurbishment of the RV Tangaroa, $3.0 million on NIWA’s environmental networks, $1.4 million on a new coastal research vessel, $1.4 million on a mass spectrometry laboratory, and $1.6 million on a new finfish aquaculture facility. The funding for these projects was all found in existing budgets.
The RV *Tangaroa* has recently been extensively refitted; the work, which included the installation of a dynamic positioning system, should extend the ship's remaining useful life from 26 to 31 years. However, we are concerned that the impact of the *Tangaroa*’s refit on NIWA’s revenue might not have been properly anticipated. We heard that NIWA had budgeted for the *Tangaroa* being unavailable for four months, but that once the refit had commenced, it became obvious that further work should be undertaken while the vessel was in dry dock. This meant that the refit took six months, leading to a loss of $2.7 million in contract revenue in the additional two months the *Tangaroa* was unavailable. NIWA is expecting a modest rise in revenue from the *Tangaroa* in the current financial year as a result of its new capabilities, particularly the accurate positioning and course-setting made possible by the new dynamic positioning system.

We raised issues concerning potential risks represented by an asset as large as the *Tangaroa* in NIWA’s relatively small commercial operation. NIWA explained that a vessel of that size is necessary to undertake the kind of science required for New Zealand’s interests, and that New Zealand cannot afford to have more than one vessel of the required standard. Considering risk factors is a priority for NIWA’s board; if the *Tangaroa* became unavailable, we understand vessels could be chartered internationally to keep the science programme going until it could be repaired or replaced.

**Research areas**

We heard that NIWA had budgeted to receive $55.609 million in contract funding for research in 2010/11, but only received $52.516 million. NIWA explained that it did not win the contracts for three projects it had hoped to undertake. NIWA’s capacity to undertake such work was not adversely affected by the failure to receive the funding. We learned that NIWA applies 3 percent of its core funding to basic research, while 67 percent goes to applied research, and 30 percent to experimental development.

We were particularly interested in NIWA’s three aquaculture programmes. One concerns the husbandry and possible commercialisation of high-value finfish species such as kingfish, hapuku, and salmon. Another is a long-term programme to develop suitable broodstock for the commercial production of kingfish and hapuku. Some of us raised concerns about the environmental risks of finfish farming. The third programme investigates the environmentally sustainable development of aquaculture in New Zealand, focussing until recently on the mussel farming industry, but now on minimising the environmental footprint of any finfish farming.

We were interested in NIWA’s work in Antarctica on climate change, which it undertakes with logistics support from Antarctica New Zealand. This work concerns sea ice dynamics, and atmospheric chemistry (especially concerning the ozone hole and ice core records). Antarctic research is also undertaken in Wellington; it includes climate modelling, and investigation of the potential effects of ocean acidification on Ross Sea marine animals.

**Collaboration**

NIWA works with all of New Zealand’s universities, and has particularly strong collaborations with some. NIWA has established a joint graduate school in marine sciences with Auckland University, and in 2011 a team of NIWA scientists working with Otago University won the Prime Minister’s science prize for an oceanography project. NIWA’s
new supercomputer is one of three high-performance computing facilities supported by the New Zealand eScience Infrastructure (NeSI), the others being at the universities of Auckland and Canterbury. The three institutions fund a project (with initial contributions from the NeSI budget) to provide preferential access, via NeSI, to these facilities at a 75 percent discount on commercial rates to public-good funded researchers based on the merit of their research. NIWA emphasised that the relationship with universities is critical to ensuring that the science sector can be properly resourced in future, and is too important to be treated as a purely commercial relationship. We understand that NIWA also supervises the academic work of around 70 students each year.

Over the past year, NIWA has worked with Māori on multiple projects to advance Māori interests in the fresh water, geothermal, aquaculture, and fisheries science areas. Some research was initiated by iwi or hapū, some by NIWA, and some by a third party such as the Ministry for the Environment. Projects have included eel transfer, catchment management, the Waikato River Restoration Scoping Study, sea cucumber commercialisation, customary fisheries mataitai research, and a Porirua Harbour study.

NIWA contributes to protecting New Zealand’s biosecurity, undertaking research in response to requests or proposals from the Ministry of Agriculture and Forestry, which is responsible for biosecurity. NIWA is also represented on the technical advisory body that guides New Zealand’s biosecurity policy, and has been involved in the responses to sea squirt and didymo.

NIWA’s work on the impact of sedimentation and other discharges in harbours and other coastal areas is usually commissioned by local authorities. It collaborates with GNS Science on mapping sea-floor resources, and with commercial interests on the potential environmental impact of extracting these resources.

We welcome NIWA’s collaborative work with other partners, and look forward to such collaborations continuing in the future.
Appendix

Approach to this financial review
We met on 7 March and 28 March 2012 to consider the financial review of the National Institute of Water and Atmospheric Research Limited. We heard evidence from the National Institute of Water and Atmospheric Research Limited and received advice 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

National Institute of Water and Atmospheric Research, NIWA Overview presentation, dated March 2012.

National Institute of Water and Atmospheric Research, Responses to committee questions, received 2 March 2012.

National Institute of Water and Atmospheric Research, Responses to committee questions, received 19 March 2012.

Office of the Auditor-General, Briefing on National Institute of Water and Atmospheric Research, dated 7 March 2012.

Organisation briefing paper, prepared by committee staff, dated 5 March 2012.
2010/11 financial review of the Nelson Marlborough District Health Board, the South Canterbury District Health Board, and the Mental Health Commission

Report of the Health Committee

The Health Committee has conducted the financial reviews of the 2010/11 performance and current operations of the Nelson Marlborough District Health Board, the South Canterbury District Health Board, and the Mental Health Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Dr Paul Hutchison
Chairperson
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New Zealand Antarctic Institute

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 Antarctic Institute, and recommends that the House take note of its report.

Introduction

The New Zealand Antarctic Institute, known as Antarctica New Zealand, was established on 1 July 1996 under the New Zealand Antarctic Institute Act 1996. It is responsible for developing, managing, and executing New Zealand’s activities in Antarctica and the Southern Ocean, particularly the Ross Sea region. Its activities include supporting scientific research, conservation, and raising public awareness of the importance of the continent. It is responsible for the year-round management of Scott Base, New Zealand’s permanent base in Antarctica.

The New Zealand Antarctic Institute has a six-member board, 30 permanent staff in Christchurch, and a team of temporary staff, including secondments from the New Zealand Defence Force, at Scott Base. Its chief executive is Lou Sanson and its chair is Rob Fenwick. Antarctica New Zealand receives the bulk of its funding by way of a non-departmental appropriation within Vote Foreign Affairs and Trade. In 2010/11 the institute’s total revenue was $14.179 million and its total expenditure was $11.867 million, resulting in a net operating surplus of $2.312 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 Antarctica New Zealand. The management control environment and its financial information systems and controls were assessed as “very good” and the service performance information and associated systems and controls as “good”, as they were last year.

Productivity

Increasing productivity remains a goal for the institute. In 2008 the board of Antarctica New Zealand reviewed its productivity, examining the logistics of taking scientists to Antarctica. They now plan and prepare more carefully for work in Antarctica, and offer incentives for scientists to perform well on the ice.

The institute also aims to make savings on its normal costs towards the board’s target of a 30 percent reduction in overall costs. It reduced staff numbers both in Christchurch and Scott Base while seeking to avoid compromising efficiency or health and safety standards. There has also been more focus on energy conservation at Scott Base, under the Certified Emissions Measurement and Reduction Scheme.
Ross Island wind farm

The Meridian Energy Crater Hill Wind Farm is a very successful initiative to conserve energy at Scott Base. The wind farm consists of three 333kW turbines and is the highest producing wind farm in the world. Its performance has exceeded targets by 144 percent and Scott Base is now 50 percent powered by alternative energy, which the institute considers to be about the highest possible proportion in the extreme climate.

The institute sees its relationship with the United States and the resources they share as a key to further gains in productivity. With three or four more turbines, the institute believes that the United States’ McMurdo Station could also be powered by 50 percent alternative energy, which could encourage further resource sharing.

Environmental stewardship

We asked whether there was an issue with international prospecting in the Antarctic, and, if so, what Antarctica New Zealand was doing to combat such exploration. The institute said New Zealand is part of an Antarctic treaty system, which has a strong regulatory regime for minerals. It did, however, acknowledge potential problems associated with exploitation of krill. Antarctica’s krill represents the largest single reserve of biomass. The institute stressed that the best way to deal with this was to reinforce the treaty system.

We asked why Antarctica New Zealand’s policy advice is provided to the Ministry of Foreign Affairs and Trade. The institute explained that as New Zealand cannot commit as much money to Antarctica as other countries do, it made a conscious decision to focus their energies on environmental leadership and modelling appropriate environmental conduct. The appropriate place to report on this policy area is to the ministry, which governs international treaties.

International relationships

The institute noted its successes in international relations this year. They helped Malaysia accede to the Antarctic Treaty on 31 Oct 2011. The Korean Polar Research Institute decided to use Christchurch as a base to build a new station north of Scott Base. The Norwegian Prime Minister made a $900,000 donation to the Antarctic Heritage Trust. All of these successes came about through visits arranged by Antarctica New Zealand. The committee was interested in the progress of the ANDRILL (Antarctic Drilling) project, a scientific drilling programme to gather information about of the history of global warming and cooling. We heard that the second stage of the project is awaiting confirmation by the United States before proceeding.

We asked about Antarctica New Zealand’s relationship with the United States Antarctic Programme. The institute said that this is their closest relationship, and this season it will need to overcome serious logistical challenges. The United States had a difficult year, losing an icebreaker and an ice pier, and having to ship out a military floating pontoon system. Sharing resources should serve to strengthen the relationship. A joint United States and New Zealand logistics pool is still being developed. The Ross Island wind farm will form part of the pool, as will a Royal New Zealand Air Force Boeing 757 to be added to Antarctica New Zealand’s resources.
Christchurch earthquake response

Following the Christchurch earthquake in February 2011, Antarctica New Zealand reduced the office space it occupied so as to provide accommodation to displaced Government agencies. Since March one hundred and twenty displaced public-sector workers from five different agencies have been located with the institute on the Antarctic campus in Christchurch.
Appendix

Approach to this financial review
We met on 29 March and 3 May 2012 to consider the financial review of the New Zealand Antarctic Institute. We heard evidence from the New Zealand Antarctic Institute and received advice 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
New Zealand Antarctic Institute, Annual Report 2010/11.

New Zealand Antarctic Institute, Statement of Intent 2010—13.

Response to written questions received 26 March 2012.

Office of the Auditor-General, Briefing on New Zealand Antarctic Institute, dated 29 March 2012
2010/11 financial review of the New Zealand Artificial Limb Board

Report of the Social Services Committee

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**Recommendation**

The Social Services Committee has conducted the financial review of the 2010/11 performance and current operations of the New Zealand Artificial Limb Board and recommends that the House take note of its report.

**Introduction**

The New Zealand Artificial Limb Board is an autonomous Crown entity established under the Social Welfare (Transitional Provisions) Act 1990. The service provides prosthetic limbs for amputees and helps meet their rehabilitation needs. The board is the sole national provider of artificial limbs in New Zealand; this service is generally free of charge for New Zealand citizens and legal residents. It operates five limb centres, in Auckland, Hamilton, Wellington, Christchurch, and Dunedin, and holds 13 regional clinics at regular intervals.

In 2010/11 the board’s total revenue was $8.038 million and its total expenditure was $8.182 million, resulting in a net deficit of $144,000. However, this is not of concern as the board has $3.760 million in general funds (total equity) and $2.173 million in reserves. The board received “very good” ratings from the Office of the Auditor-General for its management control environment and its financial information systems and controls, and a “good” rating for its service performance information and associated systems and controls.

The board has sought for some time to change its name to the “New Zealand Artificial Limb Service”, to avoid confusion about its purpose. After consultation with the Minister for Senior Citizens, the board has changed its branding to the New Zealand Artificial Limb Service, although no change has yet been enacted in legislation. The board has also noted that it would prefer to be governed by a standalone Act.

**Fiscal challenges**

The board noted that although the costs of fitting and maintaining artificial limbs continue to increase as technology improves, its funding has remained static since 1999. This is of concern to us, as patients typically require replacement limbs at intervals. The number of new limbs required each year remains within what the board calls “normal” boundaries—828 in 2009, 687 in 2010, and 734 in 2011.

The main cost pressure on the board has resulted from the provision of liners and sleeves in place of stump socks. Amputees report that the resulting comfort has improved their quality of life, but the liners have resulted in significantly increasing costs. The board was pleased to report, however, that it was still coping with the pressure.

Some of us are concerned about the board’s ability to maintain its services in parts of the South Island, because of increased rent and outgoings for its premises in Dunedin. The board is currently in discussions and considering what to do regarding its Dunedin premises.
Client base

The board looks after approximately 4,200 amputees, with around 400 new patients each year. The average cost of a new below-knee limb is $3,435 and a new above-knee limb $7,861. Lower-limb amputations account for 88 percent of the board’s patients. Clients’ satisfaction with the service provided is measured every three years, and currently sits at 96 percent. However, expectations are growing, especially because of high-cost options that amputees research on the internet, and self-prescription. These expectations are managed via their individual prescriptions for their unique needs, and the provision of appropriate information.

We asked whether the board has the capacity to help Pacific Island nations with populations too small to support their own services, and what proportion of the board’s patients were refugees. The board said that although Pacific Island nations seek to access the board’s service, the board will not send limbs overseas until there is a service available at the other end, because the fitting of a limb and ongoing care is integral to successful limb rehabilitation. A small number of refugees use the board’s service, and the board makes interpretation available where necessary.

The board also noted changes in its client demographics. Of its 412 new referrals in 2010/11, 65 percent were for vascular failure (diabetes and peripheral vascular disease), compared with 30 percent of its existing client database. Trauma accounted for 22 percent, against the database figure of 47 percent. The board noted that these differences are not new trends, but reflect the short life expectancy of vascular amputees compared with congenital amputees, traumatic amputees, and many amputees for malignancy.

Training for technicians

The board noted that there is currently no tertiary qualification available for prosthetists in New Zealand. It has tried to rectify this in consultation with tertiary providers in New Zealand, but the small numbers involved mean it would not be economically viable for institutions. The nearest tertiary qualification provider at the moment is in Melbourne. The board provides in-service courses on amputee care for other health professionals who work with amputees.
Appendix

Approach to financial review

We met on 28 March and 9 May 2012 to consider the financial review of the New Zealand Artificial Limb Board. Evidence was heard from the New Zealand Artificial Limb Board and advice received from the Office of the Auditor-General.

Committee members

Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Jo Goodhew
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

Clare Curran replaced Jacinda Ardern for the hearing of evidence.
Mark Mitchell and Michael Woodhouse each replaced Melissa Lee for parts of the hearing of evidence.
Richard Prosser replaced Le’aufa’amulia Asenati Lole-Taylor for the hearing of evidence.
Dr Jian Yang replaced Hon Jo Goodhew for the hearing of evidence.
Denise Roche replaced Jan Logie for part of the hearing of evidence.

Evidence and advice received


New Zealand Artificial Limb Board, Response to written questions, received 16 April 2012.

Office of the Auditor-General, Briefing on New Zealand Artificial Limb Board, dated 28 March 2012.

Organisation briefing paper, prepared by committee staff, dated 23 February 2012.
2010/11 financial review of the New Zealand Blood Service

Report of the Health Committee

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Recommendation

The Health Committee has conducted the financial review of the 2010/11 performance and current operations of the New Zealand Blood Service, and recommends that the House take note of its report.

Introduction

The New Zealand Blood Service was established under the New Zealand Public Health and Disability Act 2000. It is a Crown agent under the Crown Entities Act 2004, and was created to integrate previously hospital-based blood services into a single national organisation. Its function is to ensure a timely, high-quality supply of safe and effective blood and tissue products, and services to clinicians for the people of New Zealand.

Financial situation

In 2010/11, the service’s total revenue was $102.282 million, with total expenditure of $93.030 million, resulting in a surplus of $9.252 million. It is predicting a small deficit in 2012/13, followed by recovery to a small surplus in 2013/14 and 2014/15.

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance report of the service, rating its management control environment as “very good”. Its financial information systems and controls and its service performance information and associated systems and controls were assessed as “good”. All ratings achieved were consistent with those received in 2009/10.

Sustainability

The service is operating in an environment of cost pressure on the health sector, and the DHBs, from whom the service obtains its revenue, are especially financially strained. The blood service is required to recover its costs each year, negotiating volume and pricing contracts with each of the DHBs accordingly. The service has been directed by the ministry not to pass increased costs on to the health sector, which has led to an agreement with DHBs that the usual annual rebate will be forgone in favour of keeping product costs lower the following year.

Exchange Rates

A factor in future product costs will be the exchange rate applicable to the service’s Australian contract for blood product processing, which has been secured to June 2012. We expressed concern at the exposure of the service to other currency fluctuations once the contract ends, and will monitor the effect of foreign exchange variations on its costs.

Exclusion of potential donors

The service screens donors using behavioural criteria to prevent the spread of transfusion transmissible infections. We noted that excluding whole population groups from eligibility
risks increasing discrimination against them and may unnecessarily limit the pool of potential donors. The service acknowledged these potential adverse effects, and the need to minimise them.

We expressed concern at the complete exclusion of homosexual men as donors, regardless of whether they practise safe sex. The service recognised that the issue of selection criteria is generating much debate. We heard that there is a five-year exclusion period for men who have had homosexual relations, which is less stringent than deferral criteria applied in much of the developed world. However, the service said eligibility to donate blood will be reviewed in 2013, including that of men who have had homosexual relations. The service will also monitor the international situation closely while researching alternative ways of assessing risk, with the prospect of a change in approach in five to 10 years. We look forward to seeing progress on this matter.

We also expressed concern that migrants from countries with a high incidence of Human Immunodeficiency Virus (HIV), such as Thailand and sub-Saharan Africa, are automatically excluded from donating blood for five years. The service said that it takes a precautionary stance to ensure safety, as the HIV virus is hard to detect in the early stage of acquisition. The service believe that effective exclusion criteria coupled with sensitive blood testing form the most effective way of ensuring blood products are safe. We endorse the efforts of the service to provide safe, reliable blood products in all circumstances, and we look forward to their reviewing their donor deferral criteria with a view to excluding unsafe behaviour rather than whole population groups.

**Blood management system**

The service is in the early stages of upgrading its blood management system, with an intended completion date of mid-August 2012. The $7 million project is being funded from the $9.3 million surplus retained from 2010/11. The service will also receive a purchase discount entitlement from the supplier of the upgraded system, in recognition of costs resulting from an unsuccessful attempt to upgrade in 2007/08.

We sought assurances that the upgrade would bring considerable benefits. The service explained that the upgrade is essential, and will provide highly effective surveillance for adverse trends and more advanced tracking of patients and products. We were informed that this will help eliminate human error. The service also said that the current system is not well supported, and that the upgrade will provide a stable platform for additional functions, such as an online donor questionnaire.

**Emergency management**

The service demonstrated resilience and effective preparation in its response to the Canterbury earthquakes. The earthquakes affected the service’s centre in Christchurch severely; yet its national emergency management team convened within 15 minutes of the 22 February 2011 earthquake and coordinated a response involving other centres. The service also demonstrated initiative in the strategic use of social media to communicate with donors. We congratulate the blood service on its response to the Canterbury earthquakes.
Good management

The Office of the Auditor-General carried out a performance audit of the service and reported to us their findings in February 2012. It found the service to be a high-performing organisation, which operates safely, and plans well to meet demand while minimising waste, improving its financial position, and providing an efficient service and cost-effective products. However, the office said that economic constraints are affecting the service; and we sought assurance that it will be able to maintain the same high quality and level of service. The service assured us they are seeking to reduce expenditure whilst ensuring value.
Appendix

Approach to this financial review

We met on 4 April and 2 May 2012 to consider the financial review of the New Zealand Blood Service. We heard evidence from the New Zealand Blood Service and received advice from the Office of the Auditor-General.

Committee members

Dr Paul Hutchison (Chairperson)
Shane Ardern
Dr Jackie Blue
Dr Cam Calder
Kevin Hague
Iain Lees-Galloway
Andrew Little
Barbara Stewart
Hon Maryan Street
Dr Jian Yang

Evidence and advice received


New Zealand Blood Service, responses to committee questions, received 27 April 2012.


Organisation briefing paper, prepared by committee staff, dated 2 April 2012.
2010/11 financial review of the New Zealand Fire Service Commission

Report of the Government Administration Committee

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Recommendation

The Government Administration Committee has conducted the financial review of the 2010/11 performance and current operations of the New Zealand Fire Service Commission and recommends that the House take note of its report.

Introduction

The New Zealand Fire Service Commission is a Crown entity established under the New Zealand Fire Service Act 1975. The commission is charged with protecting life and property from fire. To that end it delivers fire safety, fire risk reduction and emergency response services. The commission is also the National Rural Fire Authority. In this role it manages the performance of the 80 rural fire authorities. The chair of the board is Wyatt Creech and the chief executive and the National Commander is Paul Baxter.

The commission’s total income in 2010/11 was $325.196 million, and total expenditure was $324.560 million, resulting in a net surplus of $0.636 million. The Rural Fire Fighting Fund received $4.366 million in 2010/11, and spent $2.549 million, resulting in a surplus of $1.817 million.

Funding the fire service

Under section 48 of the New Zealand Fire Service Act 1975 a levy is imposed upon insurance companies whose clients insure their properties against fire. This levy is collected by the New Zealand Fire Service Commission and constitutes most of its revenue. From the levy, the fire service builds up a reserve fund to be used in the case of significant emergencies, such as the Canterbury earthquakes and the Pike River mine disaster. We note that the responses to Pike River and the two Canterbury earthquakes, and providing urban search and rescue assistance to Japan, cost the fire service $13 million in the period under review. The commission has not received additional appropriations from the Government to recognise these expenses, but we were told that Cabinet recently decided that future deployments of fire service personnel to Pacific countries would be funded by the Government.

The commission drew our attention to issues with levy arrangements. The first is that some companies have configured their insurance arrangements to avoid the levy or reduce the amount paid, while retaining the full protection of the fire service. The commission tries to recoup this money, but said that this is time-consuming and difficult. We also heard that the levy was unfairly distributed, with householders paying much more than their fair share. The number of people who have insurance is shrinking, as the Canterbury earthquakes have resulted in higher premiums, reducing the levy base.

It was also pointed out that the levy does not reflect the range of services offered by the fire service. Non-fire-related callouts account for roughly a third of responses by the fire service, but they are largely funded by the levy. The fire service seeks to recover costs, but
said that it was difficult to recover all the cost from non-fire related events. The fire service depends on employers supporting the activities of volunteer firefighters. It said that recovering costs from businesses that support volunteer firefighters was problematic, because large bills following events at workplaces have led some employers to reconsider their support for volunteer firefighters.

The upshot of these problems is that the commission is forecasting operating deficits over the next few years. The commission does not want to use its reserves to fund normal activities, and we agree with this position. The reserve fund should be used for its intended purpose—to enable the commission to fund responses to large emergencies. The commission would like the Government to review the future funding of the fire service, and we support this.

Relevance of legislation

The commission operates under legislation that was enacted in 1975. In the intervening 37 years the fire service’s role has changed, and the number and severity of fires has steadily declined; the service has had such success in meeting its fire objectives that many of them are now out of date.

The fire service responds to non-fire-related events, such as extreme weather and natural and man-made disasters, including motor vehicle crashes and chemical hazards. It describes itself as “New Zealand’s all-hazards emergency service”. The service pointed out that it has acquired new functions because of community demand rather than through Government direction. The current legislation does not reflect the breadth of this role, and this creates a number of risks: there is no authority to establish national standards for non-fire emergency response, there is no strategic approach to building capability and allocating resources, and there is competition for volunteers.

The commission told us that it wanted the Government to review and update the New Zealand Fire Service Act 1975 to reflect its actual role. We believe that the legislation should be examined carefully and amended where necessary, and we encourage the Government to do so, and review the associated funding arrangements, as soon as practicable.

Productivity measures

We heard that the commission measures its productivity in terms of its response to incidents, its fire prevention programmes, and its finances. We were pleased to see that the commission’s Annual Report for the year ended 30 June 2011 illustrated declining rates of fire, fire fatalities, and moderate and life-threatening injuries caused by fire. The commission drew a correlation between an increase in fire safety education and a decrease in the rate of fires. In future we will ask for updates on the monitoring of fire safety education. We note that most targets for callout responses were met or exceeded, which is pleasing, but we urge the commission to meet all response targets.

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1 New Zealand Fire Service Commission, Briefing to the incoming Minister December 2011, page 1.
2 New Zealand Fire Service Commission, Briefing to the incoming Minister December 2011, pages 1 and 5.
Urban search and rescue

The fire service’s three urban search and rescue (USAR) teams are based in Auckland, Palmerston North, and Christchurch. The teams consist of volunteers, and include members of the fire service, paramedics, structural engineers, and dog handlers. The fire service is the lead USAR agency.

We asked whether three teams were sufficient to meet New Zealand’s needs, particularly in light of the Canterbury earthquakes. We heard that this number was considered satisfactory, and that our teams received rapid assistance from overseas teams after the earthquakes. The commission noted that USAR teams develop strong professional relationships with their international counterparts, and that when disasters occur many nations are quick to offer assistance. New Zealand USAR teams were involved in search and rescue in Japan following the March 2011 earthquake and tsunami.

Canterbury earthquakes

We commend the fire service for its response to the Canterbury earthquakes. In the aftermath of the February earthquake it drew on resources from around the country for the first time since the service was established in 1975. We heard that the success of the response reflected the fire service’s domestic and international experience and capability.

The fire service conducted a post-response review of its actions, finding 42 opportunities to improve its ability to manage and operate effectively following a natural disaster. The commission measures its progress against the review’s targets each month. We were pleased to hear that many of the recommendations have been implemented, and that the rest are well advanced. We commend the commission for its efficient and effective response.

Because of the widespread damage in Christchurch and continuing uncertainty about the rebuilding of the city, the fire service cannot estimate with any accuracy the future fire needs of the city. The service works with the Canterbury Earthquake Recovery Authority to stay abreast of redevelopment proposals, and is working with other emergency service agencies to co-locate facilities in Lyttelton and a proposed hub in central Christchurch. We were told that the need for fire service facilities will not be clear until the future shape of Christchurch’s infrastructure is decided and more is known about continuing risks.

Trauma

We were interested in the commission’s response to the trauma and stress the earthquake response caused to paid and volunteer firefighters. The commission assured us that it takes this issue very seriously. In the aftermath of the quakes it made a welfare team available for firefighters, and it has retained this team. The United Fire Brigades Association and the Firefighters Welfare Society also provided trauma relief. The commission also made a substantial contribution to the benevolent fund of the United Fire Brigades Association. We commend the commission for addressing this issue.

Seismic strengthening and co-location of emergency services

The seismic strengthening of fire stations is a major project. The commission aims for all of its stations to meet the requirements of the Building Act 2004. Of the 450 fire stations in New Zealand, 149 need to be strengthened to do so. The commission is focusing first
on strengthening the 49 stations that comply with less than 34 percent of the building code requirements. Forty of these stations have been strengthened and the rest will be done by the end of next year. Uncertainty about the future shape of the city has so far prevented the fire service from repairing and strengthening its Christchurch buildings, but the commission said that it intends to do so.

There is a national trend for co-locating emergency services, such as fire, ambulance and search and rescue services. We were pleased to hear that this is being encouraged by the commission, as we believe that this makes emergency services more effective, particularly in rural areas.

**Industrial dispute**

The commission is in prolonged negotiations with the New Zealand Professional Firefighters Union over wages and conditions, which has led at times to the union issuing strike notices and union members undertaking only strictly emergency duties. We were concerned that the dispute had prevented injured union members from undertaking suitable duties upon their return to work, and were pleased to hear that this issue had been resolved. The commission wanted the industrial dispute settled and negotiations were continuing. We look forward to the successful resolution of this dispute.

**Industrial dispute in Canterbury**

We are aware that the industrial dispute led to acrimony between firefighters and their management in Canterbury, which came to a head before the memorial ceremony for the 22 February quake. The commission said it was dealing with industrial issues in Canterbury, and that aspects of it had been misreported. The Canterbury regional manager had agreed to step aside for six months, and a temporary manager has been well received by firefighters; but the commission acknowledged that some issues still needed to be addressed. We recommend that the commission seek to resolve these issues as soon as possible.

**Volunteers**

The fire service is heavily dependent on its volunteer firefighters and has to compete with other organisations such as St John and civil defence for volunteers, so the sustainability of its volunteer base is a matter of concern. We note that there is a high turnover of recruits and that the volunteer workforce is also ageing. The commission undertook a volunteer sustainability project in 2009/10, and has begun to implement the recommended initiatives. We look forward to the results.

**Deliberately lit fires**

Deliberately lit fires account for 12 percent of all fires in New Zealand, which is low compared with figures from comparable countries. The fire service has a very successful programme for youths who deliberately light fires, and we were pleased to hear that participants have very low rates of recidivism. The fire service also runs education campaigns to prevent rural vegetation fires caused by carelessness, and educates schools on preventing arson attacks on school property. We commend this work and hope to see it continue.
Appendix

Approach to this financial review
We met on 21 March and 2 May 2012 to consider the financial review of the New Zealand
Fire Service Commission. We heard evidence from the New Zealand Fire Service
Commission and received advice from the Office of the Auditor-General.

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

Evidence and advice received


New Zealand Fire Service Commission, Briefing to the incoming Minister December 2011.

New Zealand Fire Service Commission, Responses to written questions, received 27 March
2012.

New Zealand Fire Service Commission, Responses to additional questions, received 12
April 2012.

Office of the Auditor-General, Briefing on New Zealand Fire Service Commission, dated
21 March 2012.

Organisation briefing paper, prepared by committee staff, dated 19 January 2012.
2010/11 financial review of the New Zealand Lotteries Commission, the New Zealand Symphony Orchestra, and the Office of Film and Literature Classification

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 New Zealand Lotteries Commission, of the New Zealand Symphony Orchestra, and of the Office of Film and Literature Classification, 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
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New Zealand Tourism Board

Recommendation

The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of the New Zealand Tourism Board and recommends that the House take note of its report.

Introduction

The New Zealand Tourism Board, trading as Tourism New Zealand, is a Crown entity established under the provisions of the New Zealand Tourism Board Act 1991. Its primary role is to market New Zealand as an international visitor destination. The Act requires Tourism New Zealand to develop, implement and promote strategies for tourism, and to advise the Government and the New Zealand tourism industry on related matters.

In 2010/11, Tourism New Zealand’s total income was $107.799 million and its total expenditure was $107.754 million, resulting in a net surplus of $45,000.

Rugby World Cup 2011

Visitors

From a tourism perspective, the Rugby World Cup 2011 was very successful. The board informed us that approximately 133,000 short-term visitors arrived primarily to attend the World Cup. We were interested to learn that, while the average tourist spends about $2,400 in New Zealand, the average spending by those who came for the Rugby World Cup was around $3,000.

Media and marketing

The success of the Rugby World Cup can also be gauged by the number of positive stories about New Zealand that appeared in print and on television around the time of the tournament. The Equivalent Advertising Value (EAV) is a measure of how much this publicity would have cost if it had been bought; we learned the EAV for the media coverage of the Tourism New Zealand-led “NZ Inc” media hosting programme for the World Cup was $28 million, of which $5 million represented print and $23 million television coverage. This calculation is based on the 59 international media outlets hosted under the official programme during the World Cup, and on the 180 print and television items that had appeared as of the end of December 2011.

We congratulate the board on receiving a Grand Award from the Pacific Asian Travel Association, a non-profit travel trade association, in recognition of Tourism New Zealand’s marketing of the Rugby World Cup.
Marketing

The board is increasingly using digital and internet-based marketing to reach a wide international market, and we heard that the Tourism New Zealand website has over a million international visits each month, with 17 versions of the site in five languages.

Tourism New Zealand also helps market New Zealand through exposure in films, and by arranging and promoting visits overseas by opinion leaders and well-known personalities. For example, the Prime Minister’s trip to India last year garnered considerable media attention there, and New Zealand has been used as a location in many Bollywood films. Exposure like this is invaluable and we are pleased to hear that the board already is seeking to maximise opportunities for positive, free publicity such as the upcoming release of *The Hobbit* and New Zealand’s co-hosting the Cricket World Cup in 2015.

Satisfaction of Chinese visitors

We noted that Tourism New Zealand statistics show that Chinese visitors have an 85 percent satisfaction rate when leaving New Zealand. While this is not a bad result, the board believes that there is room for improvement, as many Chinese purchase lower-price, lower-quality, short-stay travel. The challenge for Tourism New Zealand is to present a better-quality product on the Chinese market, to offer a better overall experience. We will continue to monitor progress in this area.

Reducing back-office costs and consolidations

The board informed us that it had reduced its back-office costs by 15 percent, from $99 million to $84 million. It has also reduced the number of IT vendors it uses, with a projected saving of $1 million a year, as well as improving forecasting, reducing its office space in Wellington, and closing smaller offices in Christchurch and Hong Kong. In other places Tourism New Zealand has consolidated offices, and in India, for example, they now share space with Immigration New Zealand. We applaud the board for its continued efforts in this area.

Travel restrictions

We heard that consolidation of some offices overseas is proving to have additional benefits, because it has made for a closer working relationship with Immigration New Zealand. This has helped improve visa access, which is often a barrier to visitors.

We asked about the effects of easing the visa policy towards, and the addition of a direct flight to, Taiwan. The board said there was a marked increase in tourist numbers following these changes, from 17,000 to 21,000 Taiwanese visitors, although arrivals had “softened” somewhat following the Christchurch earthquake. The board emphasised that easier visa access generally means more tourists. We encourage the removal of visa constraints and obstacles wherever this is appropriate.

Partnerships

Tourism New Zealand works with domestic and overseas airlines, travel retailers, and regional tourism organisations to promote New Zealand as a premier tourist destination. We especially liked the recent Air New Zealand promotion which offered a free domestic
air fare to overseas visitors, and were pleased to hear that Tourism New Zealand actively promotes such initiatives.
Appendix A

Approach to this financial review

We met on 8 March and 22 March 2012 to consider the financial review of the New Zealand Tourism Board. We heard evidence from the New Zealand Tourism Board and received advice 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-liga
Mojo Mathers
Mark Mitchell
Jonathan Young

Evidence and advice received

New Zealand Tourism Board, Additional responses to written questions, received 19 March 2012.

New Zealand Tourism Board, Responses to written questions, received 6 March 2012.

New Zealand Tourism Board, Supplementary response to oral question, dated 8 March 2012.

Office of the Auditor-General, Briefing on the New Zealand Tourism Board, dated 8 March 2012.

Organisation briefing paper, prepared by committee staff, dated 5 March 2012.

Tourism New Zealand, Annual Report 2010/11.
Appendix B

Corrected transcript of hearing of evidence 8 March 2012

Members
Todd McClay (Chairperson)
Kanwaljit Singh Bakshi
Hon David Cunliffe
Peseta Sam Lotu-Iiga
Mark Mitchell
Jonathan Young

Witnesses
Kevin Bowler, Chief Executive
Kerry Prendergast, Chair
Sue Parcell, General Manager Finance
Suzanne Carter, General Manager Public Affairs

McClay So, Madam Chair, and Mr Bowler, welcome to the committee. Thank you for giving us time today. I apologise if we have kept you waiting a little bit. We had a very large workload with the last group of submitters. We have to finish by 5 to 1 today, but we are very much in your hands. I invite you to make some introductory remarks, and then I know my colleagues have a number of questions they are eager to ask of you. But, again, thanks for giving us the time, and the floor is yours.

Prendergast Thank you very much, Mr Chairman and members of the committee. You have acknowledged the chief executive, Mr Bowler. We also have with us Suzanne Carter, who is our GM of corporate affairs, and Sue Parcell, who is our GM of finance, who will be available to answer questions as well. I will just make a few introductory comments and then Mr Bowler will take you through in more detail.

I have only been in the role since August last year, so it’s a new role for me. Tourism New Zealand is focused on improving tourism’s contribution to economic growth in New Zealand, and we do this in a number of ways. The first one is prioritising target markets and sectors. Our key focus is to ensure a wide range of visitors are attracted to New Zealand with a priority being on the high-value visitor. Secondly, our marketing is focused on converting interest in travel to New Zealand. Thirdly, we have put a lot of time into partnering, so working with other partners in the sector to leverage and to maximise the Tourism New Zealand marketing spend.
Lastly, we’ve spent a lot of time leveraging large events such as the Rugby World Cup to enhance New Zealand’s reputation as a destination, and we have also done quite a lot of work in supporting Christchurch in its recovery from the earthquakes. Now the chief executive is going to take you through some of the highlights from the year ended 30 June last year.

Bowler Thanks Kerry. The fiscal year ending in June last year really was characterised by some quite significant events. So for us natural disasters played a big role in terms of the sort of marketing and the type of activities that we had to focus on. So we had the Christchurch earthquakes in September 2010 and also in February 2011. Then in March, of course, the Japanese earthquake and tsunami has had a big effect on that market place. If that was not enough, we had a Chilean ash cloud and no snow to start our ski season in June, so we had some pretty big natural challenges.

McClay What was that last one?

Bowler The Chilean ash cloud affecting flight operations into the South Island, and no snow for the skiers in June. So quite a lot of big challenges there. On the other hand we also had Asia going from strength to strength. The economies in Asia, putting Japan aside, have performed extremely well, and we’ve seen very good passenger increases into New Zealand from China and from South-east Asia over the period. We forecast that to continue. Then, of course, at the last part of the year, we had the Rugby World Cup, which has had a positive effect on the visitor economy in that last quarter. But at the same time we’ve been struggling with the global financial crisis that just keeps on giving in terms of our important western long-haul markets in Europe and in North America.

So to finish the end of last year with 2.5 million visitors and being slightly up was a pretty good outcome, we think, for the tourism sector, although we had been doing it pretty hard as an industry. So for us we put a lot of emphasis on promoting New Zealand as host of the Rugby World Cup in 2011, and we actually did that for the 5 years prior with the use, particularly, of the giant rugby ball. Around the event our primary responsibilities were around the media, particularly, hosting the media before the event and during it, production of up-to-date broadcast quality video materials for distribution by the host broadcasters, and, of course, looking after those media and making sure they reported on more than the rugby. In fact, our job was to get them away from the rugby and into the heartland of New Zealand, actually, to experience what New Zealand is all about.

The year was also characterised by a lot of effort into Christchurch. Christchurch is a long-term challenge for New Zealand on many fronts and tourism is no exception. We’ve put a lot of effort into getting the message out that only a small part of Christchurch and in fact a tiny part of the South Island is actually affected, and that visitors should still come because that is what New Zealand needs. That’s a message that we’re still working with, with travel, trade, and media overseas through this period. The Rugby
World Cup really helped. We were able to get a lot of media into the city, and for them to see and really understand the scale of the situation there and that visitors could actually come and go through the airport in Christchurch without being affected.

We also took a decision to reinforce our emphasis on high-value visitors through the year, and have put a lot more effort and time into the business event space. We took over the conference assistance programme from MED at the beginning of the year and continue to put a lot more effort into attracting high-value incentive and business travellers to New Zealand.

Kerry mentioned partnerships. Just in the last 6 months we’ve co-planned about $11 million worth of external funding funded activity with the activity that we’re funded to produce. So that’s whether it’s cash received specifically to us to actually buy media with or whether it’s goods in kind like airline seats for media and things like that. We have put a lot focus on converting in terms of our marketing effectiveness. A lot of that focus has been on the conversion of interest in New Zealand into visitation, and we think that’s working well. The signal to us that third-party travel sellers are wanting to partner with us and put their own cash and time into our events suggests to us that it’s working for them as well.

Aside from the marketing effort we’ve also put a lot of emphasis on our back office. So one of the things we faced in the year that we’re in now, so the year that commenced 1 July 2011, was a cut in funding from $99 million to a new baseline of $84 million. So a 15 percent reduction has resulted in a lot of staff changes, and it’s resulted in us looking really hard at all of our non-marketing costs and reducing them wherever we can. One good example is IT. We had 29 IT vendors. We’ve now got five, and we’re on track to reduce our IT operating costs by about a million dollars per annum. We’ve looked at our telecommunication costs and found $100,000 worth of savings there by increasing usage of better tariffs from our providers but also using more video, and we’ve segregated and halved our office square metreage in Wellington, and we’re seeking a tenant for that no longer necessary property.

In addition to that we’ve closed two small offices: Hong Kong and Christchurch, and we’ve combined our offices in Mumbai, Shanghai, and Singapore with other New Zealand Inc. operations, not just to save money but also to provide better cooperation with other parts of New Zealand. Then, finally, we’ve worked very hard on our forecasting processes, our KPIs in the business, to make sure that our managers are spending the money as efficiently as possible and getting the best value for money that we believe we can. That concludes my opening, Mr Chair.

McClay Thank you, very much. Colleagues, questions—Mark, have you got any to start?
Mitchell: In terms of the partnerships that you’ve been forming, particularly the increase in international inbound capacity, what further partnerships and work are you guys engaged in?

Bowler: We work with a range of partners. The most obvious ones are the airlines overseas, so we will engage with most of the international carriers coming here. Air New Zealand is obviously the most important partner, but in every market that we have competing airlines flying we make sure that we’re working with them as well, and underpinning the demand for the seats, to do everything we can to ensure that that capacity is retained on the routes to New Zealand. In addition to airlines, also travel sellers and regional tourism organisations are key partners for us.

Mitchell: You said that with the consolidation of the office you’ve actually managed to capture and streamline the processes a bit. Can you talk to that a little bit more?

Bowler: Yes. We’ve been working very closely with Immigration New Zealand and the markets. Good examples would be India and Shanghai, where visa access is a key barrier to visitors, so I believe Immigration New Zealand have done some really good work, and them understanding what we’re trying to achieve and us working in the same office is really paying some great dividends.

Mitchell: What international markets do you really see as continuing to be strong growth markets for us in terms of tourism?

Bowler: I think the fastest-growing market that we’re engaging in at the moment is probably going to be China over the next little while. Current arrivals from China are about 145,000, and we’re up about 25 percent at the moment. I’d expect that growth to continue. The challenge for us with China is getting value out of that market and yield. So whilst we can get the arrival numbers growing, the yield is the challenge that we really need to focus on—South-east Asia as well. We’re still seeing growth from Australia. It’s our most important market, and we’re up a little bit at the moment, and we do see with the strong Australian dollar, Australians can travel. With the right motivation and the right marketing messages we believe we can keep that market growing as well.

Prendergast: We’re not forgetting our markets in the US, the UK, northern Europe. They’re important and they tend to be the high-value traveller because it’s a long way to come so they stay longer, and length of stay is proxy for value.

Mitchell: I’ve just found one interesting stat, which I think is still a pretty good result, which is that in terms of Chinese visitors and tourists there’s about an 85 percent satisfaction response from them when they’re leaving the country. I think that’s still pretty good, but where’s the gap there? What do you think is that 15 percent gap?
Bowler I can’t say. There’s a small difference between the satisfaction that Chinese visitors have between, say, Western visitors. It’s between sort of 8.5 and 9, so I think there is an opportunity to improve that. Part of it is the sort of travel product they’re buying. A lot of them are buying low-value, low-priced product that isn’t a particularly good experience, and they’re only spending a couple of nights here, and I think that’s having an effect on it. So one of the things we’re working hard to do is to present much better quality products into the Chinese market so that they can experience more of the best of New Zealand.

Prendergast Some of it’s around the retail and that goes to the heart of what Kevin said. They’re being taken to specific retail outlets, where sometimes the labelling has been changed from Made in China to Made in New Zealand. They’re being bought product that in fact they could have got at home. So the retail product is important to them.

McClay Just on that, so there’s an important increase in visitors from China, but are you seeing a change in the type of tourism that’s coming from there? More free independent travellers as opposed to what we might see as otherwise traditional package holidays?

Bowler Yes, I think it’s fair to say that we’re seeing a growth in the FIT style, or a Chinese style of FIT. I was in Queenstown earlier this week, and it was first time that the local tourism leaders were talking about the fact that Chinese visitors were turning up in Queenstown, and often there’s an education connection. Maybe some of their offspring are studying in New Zealand, and they’re bringing mum and dad down, and then hosting them for a holiday in New Zealand. So I think that trend will continue. It’s about a quarter of arrivals you’d describe as in that sort of quality space, but we’d like to see that grow.

Young I take your point in terms of our perhaps northern hemisphere tourist markets. I think last year or the year before, particularly through the GFC, Australian tourism bolstered and kept us pretty buoyant here, and I think you had an arrangement with Air New Zealand around that time where there was an inland part of the package, a trip. Any more innovative ideas like that, which I think was very successful.

Bowler We’ve run a similar promotional offer with Air New Zealand in the past, and we’re continuing to look at whether we can do that again. The proposition that worked really well was “Come to New Zealand with Air New Zealand and then get a free domestic fare.” That did work very well, and I think Air New Zealand are considering whether they will run that again. If they were to, we’d certainly help promote that fare.

McClay I read somewhere a bit around your digital strategy and digital marketing, a huge opportunity, I think, to make contact with people overseas. Can you tell me a bit about your plans there or what you think could happen in that space?
Bowler The digital marketing’s a very important part of our approach to reaching an enormous international audience. One of the changes that we brought about in the 3-year marketing plan was a focus on people actively considering New Zealand, and in simple terms when someone’s searching, whether it’s on Google or on Baidu and they’re searching terms that are relevant to New Zealand, like “New Zealand holiday” those are the sorts of people that we want to get our brand message in front of. So we’ve chosen to use a lot more of that technology to reach those people actively considering than some of the mass media approaches that would have been popular, say, 10 years ago. So that’s working very well for us.

Our website gets over a million international visitors a month, and we have something like 17 versions in five languages, so it’s actually a very, very big web asset. Driving traffic to that is a goal, with the end goal being that the visitor to the website actually clicks on a travel seller, whether they’re an international travel agent or whether they’re a New Zealand operator, and is then given the opportunity to buy something.

Bakshi Talking about digital marketing, I’ve seen that, talking about the Indian contacts, whenever there’s a high-profile visitor from India, particularly for the Bollywood movies, and there’s very good coverage for that, like when the Prime Minister went and was at one of the Bollywood studios, there were about 250 camera-persons plus press people covering that event, and we got a lot of free publicity from that. Are there any plans that Tourism has got in mind to get that free publicity from such sources?

Bowler Yes, the two areas that refer to are the use of opinion leaders and famous people. Certainly, the movie Players that was partly produced in New Zealand, when it releases in India provides us a great platform to showcase New Zealand, like The Lord of the Rings did in the past. There’s a lot of movie production in New Zealand and a lot of opportunities to do that, so we’re working with the movie houses in India to see if we can find ways to encourage them to shoot in New Zealand. Our goal isn’t really the economic side; it’s the exposure side for New Zealand. I was fortunate enough to be in India at that time of the Prime Minister’s visit, and the interest was extraordinary because of the movie and the stars that were able to turn up for that event.

Prendergast But we will look at leveraging opportunities around the cricket in 2015, as we will leverage The Hobbit this year, so any opportunity where New Zealand’s going to be on the world stage, either coming here or like a film being released internationally, we leverage that opportunity.

Bowler Yes, and we’ve used opinion leaders very successfully, from Europe as well as from China recently, and we think it’s a really good strategy.

Cunliffe A quick question in relation to the Rugby World Cup. What was the level of short-term visitor arrivals in 2011 relative to 2010, and do you have any data on how much of that you think was Rugby World Cup related?
Bowler: I understand that the number of people that came to New Zealand who indicated they were here primarily for the Rugby World Cup was 133,000, and we’ve worked with MED to determine what level of those visitors were incremental, and we think somewhere between 70,000 and 80,000 of those visitors would have been incremental. So from an overall New Zealand point of view I think, with reasonable certainty, we can say there was a significant number of incremental visitors over that time.

Cunliffe: Do you have any idea what the average spend per visitor might have been?

Bowler: Yes, we do. We have looked at that and it was above the average. I don’t know—

Prendergast: It was over $3,000 compared to the normal average, which is $2,400. So it was significantly more.

Cunliffe: Right, so 3,000 times—three and a half times 80,000? 240,000 times 1,000—$240 million?

Bowler: Something along those lines, yes, in terms of visitor spend.

Cunliffe: OK. That’s interesting. That would be a lot less than the Reserve Bank estimate of the impact of the World Cup on the economy, but presumably this is the domestic effect.

Prendergast: This is the domestic stuff, yes.

Cunliffe: What do you think about the idea of a departure tax at major international airports as a way of boosting our Tourism New Zealand funding, given the other constraints that are on the public purse?

Bowler: I think that’s really a policy matter, so it’s one that we wouldn’t necessarily take a position on. I think all avenues of funding we’re open to, and that would be one that probably should be considered.

Cunliffe: Have you ever provided advice on the concept in previous Budget rounds?

Bowler: Not that I’m aware of.

Cunliffe: Are you sure?

Bowler: Not that I’m aware of; I’m sure of that.

Cunliffe: Very good answer!

McClay: I better write that down!

Bowler: I’m sure it’s been used before.

Cunliffe: Your memory may be better than mine. I couldn’t possibly answer a question like that with such clarity. No questions, thanks.
McClay Just on the Rugby World Cup, the tourism industry in New Zealand certainly stepped up across the board and it was quite amazing to see all over New Zealand how New Zealanders also played a part, but it strikes me as far as leveraging and what we do from here on, that we’re not always as good at singing our own praises as we should be. So I think the industry did an excellent job around tourism to make every visitor that came here feel welcome, so there’s the best chance they go home and tell a great story about New Zealand, and the ongoing flow-on benefits for many years to come of repeat visits, and so on. But have there been any awards around marketing, any international recognition of this, over the work you’ve done, or people out in the sector?

Bowler We were fortunate enough to be awarded a grand award by PATA, which is the Pacific Asia Travel Association, a grand award just in the last couple of weeks for our marketing for our marketing of Rugby World Cup. I think they looked at all aspects of the marketing, starting from 5 years ago when we started promoting New Zealand and using the Rugby World Cup as a point of leverage, with the giant rugby ball. Then I think they also looked very closely at the media reaction, and we learnt a lot from talking to our counterparts in Canada and other places and sort of learning about—a good example is the Winter Olympics in Vancouver a couple of years ago. One of the things they said to us was “You need to give the media a red carpet experience.”, and we really put a lot of our resources into that, and we’re still seeing media reports, particularly out of the UK, talking about what a great experience it was and putting the pressure a little bit on the British in terms of their hosting of the Rugby World Cup.

Lotu-Iiga Can I just ask a quick supplementary. Because this was a point you raised in last year’s review, and I know you were focusing on some, you know, if you get, for example a *National Geographic* spread and you get some big media profile in another country, obviously it’s worth a lot in terms of our exposure. You’ve been anticipating at the time, when we talked last year, can you give us some examples of how it went? Because it was interesting when you raised the point, but that was one of the big things in terms of raising the long-term visitor numbers and exposure, and tourism for New Zealand.

Bowler I might just ask one of my colleagues to find the appropriate sheet with the actual advertising equivalent while I’m speaking, but we saw some of the results, particularly out of the European correspondents it was extremely good. We did see what we expected, which was our broadcast quality video produced and used by all the host broadcasters, so every time a game was to be broadcast, there would be a lead-up and a lot of our material was being shown globally. So we produced that. So it was exactly on brand. It had the right messages, and it had the right sorts of activities and people in it.

We’re still seeing reports comparing the hospitality that New Zealand delivered to the media, comparing that to other major events, so I do think there’s an ongoing story. We’re seeing more interest from travel buyers for
our Trenz conference, which is coming up in May in Queenstown, so I think there’s sort of a halo of, this was a really big event. It was well executed, and it wasn’t just Tourism New Zealand; it was the regional organisations, the operators, everyone. If they heard there was a team in town there was an enormous amount of hospitality offered.

Lotu-Iiga Have you done some analysis looking back at, I don’t know, a number of mentions in things like Sports Centre –

Bowler We have got the value number.

Prendergast So you want the value of the column inches and print, and visual—

McClay I think it would tell a very good story, is my assumption based upon what—

Bowler We can certainly get it. I know we’ve got the TV and the print; we haven’t got all the media.

Lotu-Iiga That would be good, because I saw it on, you know, like Sports Centre ESPN, and New Zealand does not come on Sports Centre. It’s still NBA, baseball, and that type of thing, and there must be so much exposure that we don’t know of across the world that was of huge benefit. Because we were talking with MED in the last session around, you know, how do you value this? I mean, you can’t, but it would be good to get some solid evidence of our exposure and perhaps put some value on it.

Bowler What we’ll be doing is we’ll look at it from an advertising equivalent point of view, so if we were to try and buy that space, what would it have been worth, and it will be a very big number.

Lotu-Iiga It will be good, because I know you talked to your Canadian counterparts last time we spoke, and just touching on the Chair’s point around learning, going forward to the cricket. That would be, again, another opportunity—

Prendergast And the football.

Lotu-Iiga And the football, and going forward to the Commonwealth Games, or whatever it is. That would be helpful, definitely, in getting a strategy around these types of things.

Mitchell Just coming back to the Rugby World Cup. As a result of the World Cup, did any new markets emerge for us out of that, or any sort of new opportunities?

Prendergast France.

Bowler Yes, I was going to say France, as well. France was already performing better than it had for us, but France has been a market that has responded well over the rugby, and we are seeing more demand from France now than
we were before. So we’re looking to elevate that in our priorities for next year.

McClay Good, look, final one I think. A couple of years ago a Minister made a decision around visa policy for Taiwan, and in fact there was a change in the policy for business and short-term visitors to New Zealand. In fact, the requirement of getting a visa was moved aside. I think from then we saw direct flights come back or be put in, Taiwan to Auckland. Do you think there’s any link between this—it may not be possible to answer—but then also any information around increases of visitors, tourists, from Taiwan to New Zealand, and whether these two changes, visa and direct flights, the bearing that might have had on any increase or decrease.

Bowler The answer to that is when the visa restrictions came off we did see an immediate improvement in traffic from Taiwan. So that went from about 17,000 to about 21,000.

McClay And that was before the direct flights?

Bowler It was just before, yes. And, unfortunately, since the earthquake in Christchurch we have seen that number soften a little bit, so I think they’re kind of two separate events. But there’s no question that easier visa access does result in a better flow of tourists.

Prendergast So I’ve had a meeting with the acting CEO of the Department of Labour at the moment, from Immigration, and I’ve requested to see the honourable Minister Guy just to talk about the big-picture opportunity of removing visa requirements from some markets, particularly Indonesia, Thailand, and ideally, ultimately, China, because they are seen in those markets as constraints. We’re not the only country of course that has visa requirements, but anything we can do to make them easier, and Immigration have done a huge amount in their work with China, even down to reducing a 19-page application to a 4-page application. So it’s about removing constraints, and they’ve got appropriate consultants now in the markets, but Indonesia and Thailand are also potentially key markets. The PM’s going up soon. It would be good to explore opportunities there as well.

McClay So I guess it’s not always about just removing visas—the visa policy is there for a very important reason—but some of the obstacles and barriers, to have the certainty of access to a country for tourism purposes.

Bowler Yes. Sometime’s speed’s really important—just the fact you can access a visa in less than a week.

McClay Look, thank you very much. Thanks for your time. I think you’re doing a great job, and I think even without the Rugby World Cup you’re doing a very good job, and I want to thank you for that, particularly from my electorate of Rotorua where tourism has growing and increasing
importance. It’s obvious to me the hard work and effort that’s put in. So thank you.

Bowler Thank you.

McClay I’ll see you at Trenz in a couple of years’ time, will I?

Bowler Look forward to it.

McClay Colleagues, thank you. That’s it.

**conclusion of evidence**
2010/11 financial review of New Zealand Trade and Enterprise

Report of the Commerce Committee

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New Zealand Trade and Enterprise

Recommendation

The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of New Zealand Trade and Enterprise and recommends that the House take note of its report.

Introduction

New Zealand Trade and Enterprise (NZTE) is a Crown entity whose purpose is to stimulate New Zealand's economic growth by boosting export earnings, strengthening regional economies, and delivering economic development assistance to industries and individual businesses. The chairperson is Jon Mayson and the chief executive is Peter Chrisp. The responsible Ministers are the Minister of Economic Development and the Minister of Trade.

Financial performance

In 2010/11 NZTE’s total revenue was $176.159 million and total expenditure was $180.439 million, resulting in a net deficit of $4.28 million. The deficit was mainly due to converting expenditure incurred overseas into New Zealand dollars at a higher rate than the foreign exchange derivatives’ contracted exchange rate, and the fair value of foreign exchange derivatives contracted for the 2011/12 financial year.

New Zealand Trade and Enterprise performance

We acknowledged the considerable progress NZTE is making in refocusing its operations on areas of high value, improving capacity and performance under the leadership of its new chief executive.

We commend the efforts NZTE has made to measure and improve interactions with stakeholders, employees, and others, and its work to build research capability for enhancing export development opportunities. We concur with the need for ongoing work to improve feedback mechanisms and the measurement of the impact of NZTE on business success and New Zealand’s international trade balance.

NZTE said it believed organisations of its kind could contribute to economic growth, and that it did so, but that measuring their contribution to growth is difficult. It said that its strategy needed to be long-term, and it saw the key to its success in forming long-term relationships with companies, agencies, and the Government, understanding Government policies to achieve economic growth, and translating them into programmes to add real benefit. It believed it was necessary to focus on areas where maximum benefit could be derived, keeping a close eye on the market.
Organisational change

NZTE told us that after a culture survey and cost review, it had recognised a need for change, and revised its organisational structure to increase the proportion of front-line staff. It was still finalising staffing details, including the number of staff posted overseas. A substantial majority of its staff is based outside New Zealand, although some of its most crucial front-line work is in building the capability of companies within New Zealand.

Domestic strategy

While acknowledging NZTE’s contribution to assisting major exporters, we discussed how it balanced its work with larger companies and emerging smaller companies. NZTE referred us to its strategic plan, which specifically noted the importance of fostering a pipeline for future generations of exporting companies. We concur with the importance of ensuring that both existing and future exports are maximised.

Within the emerging company framework, we asked how it chose smaller companies to work with, and whether it was willing to engage with emerging companies as well as more established ones. NZTE said its choice of companies to work with came down to their potential to exceed the expectations of the sector they were operating in, irrespective of size, and whether they were willing to accept advice and mentoring. It argued that a lack of companies of substantial scale was a bigger issue in New Zealand than a lack of market access or international opportunity.

We discussed with NZTE its strategy for working with different domestic business sectors and regions. NZTE told us that it employed a sector-by-sector lens for its domestic strategy, and also looked to work closely with local and regional government and economic development agencies to employ a complementary regional perspective. The role of economic development agencies were growing in importance as implementing agents for economic development policy, and NZTE’s domestic strategy. Combining sectoral and regional perspectives, NZTE had developed the practice of working with “coalitions of the willing” of exporting companies that were willing to commit their own resources in a partnership to enhance export performance.

We asked whether NZTE had considered the potential for bringing smaller businesses together to compete for large international procurement contracts. It told us that many businesses competed domestically rather than collaborating to service overseas markets. NZTE did not believe it could force cooperation upon businesses, as the necessary leadership needed to come from within.

We asked NZTE whether it thought that investment that brought new skills or technology into New Zealand should be measured differently from investment that simply acquires plant or land. NZTE agreed that investment quality was important. It said it was developing quality measures for foreign direct investment, and might use them to decide which sectors to target.

International strategy

A long-standing concern of this committee and of NZTE is the paucity of performance data on international trade in services and international investment flows into and out of New Zealand. NZTE told us that it was having useful discussions with the Department of
Statistics about how to improve the range and depth of data sets available to the Government and the public to track international flows of services and investment. The chief executive noted that total services trade was around $20 billion per annum, and was “quite a dark hole, but a big thing to be a bit quiet on”. He acknowledged, however, that it was difficult to measure, and that NZTE and the Ministry of Economic Development were working to triangulate the data from a range of sources, including international organisations and the private sector, as well as the Department of Statistics.

We urge NZTE, the Ministry of Economic Development, and the Department of Statistics to continue working together on a plan to improve services and investment data, and we look forward to a further discussion on this topic in future.

**Emerging markets**

We asked whether NZTE intended to focus more on emerging markets such as India, Russia, and the Gulf Cooperation Council in the Middle East. It told us that it watched emerging markets, and assigned staff members to an area once a sufficient number of New Zealand customers became involved in the market.

It reminded us that the United States, Europe, and particularly Australia were very important to New Zealand; Australia remains New Zealand’s most important trading partner. With a tight budget, focusing on a new market necessarily means taking resources and staff from focusing on another market, so although NZTE follows emerging markets closely, it is very cautious about moving resources.

**Free-trade agreements**

We asked what role NZTE was playing in maximising opportunities from free-trade agreements. It told us that NZTE works to ensure that New Zealand companies understand the opportunities presented by such agreements, and ensure that they are equipped to operate in the markets the agreements open up.

**International events**

NZTE emphasised the importance of being discerning about participation in international events. It believed that when New Zealand commits to an international event it does a good job, and succeeds well in collaborating across multiple agencies.

NZTE dedicated 45 staff to the Rugby World Cup 2011 tournament, hosted 340 business VIPs, made over 1,000 new business contacts, and facilitated more than 500 introductions and commercial engagements. It believed New Zealand got enormous value in the global marketplace out of the Rugby World Cup tournament, but acknowledged that this value was difficult to measure.

We asked what outcomes NZTE had seen from New Zealand’s participation in Expo 2010 in Shanghai. We heard that expos do not necessarily increase trade flows directly, but enable New Zealand companies wanting to trade with the hosting nation to bring delegations through. It told us that seven ministerial delegations went to Expo 2010, and it believed they had been very successful.
Appendix A

Approach to this financial review
We met on 1 March and 3 May 2012 to consider the financial review of New Zealand Trade and Enterprise. We heard evidence from New Zealand Trade and Enterprise and received advice from the Office of the Auditor-General.

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

Evidence and advice received

New Zealand Trade and Enterprise, Responses to written questions, received 16 March 2012.


Office of the Auditor-General, Briefing on New Zealand Trade and Enterprise, dated 1 March 2012.

Organisation briefing paper, prepared by committee staff, dated 28 February 2012.
Appendix B

Corrected transcript of hearing of evidence 1 March 2012

Members
Todd McClay (Chairperson)
Kanwaljit Singh Bakshi
Hon David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell
Jonathan Young

Witnesses
Jon Mayson, Chair
Peter Chrisp, Chief Executive

McClay Mr Mayson, Mr Chrisp, and others, welcome to the committee. Thanks for giving us time this afternoon to come and speak to the financial review of New Zealand Trade and Enterprise. Can I start by saying I think you do a very important job on behalf of all New Zealanders, and I want to thank you and your hardworking staff for that. You can see who we are. If I could ask to introduce those from the team you wish to, and then the floor is yours for some opening comments. I’m sure my colleagues have a lot of questions for you after that.

Mayson Thank you, chair. Kia ora koutou. As chair of New Zealand Trade and Enterprise I recognise that there are some new faces in this committee from the last time that I was here, so I think it’s appropriate that I do introduce everybody. [Introductions]

Can I say just as a general opening comment that the changes that have been occurring in New Zealand Trade and Enterprise over the last 18 months under the leadership of Peter Chrisp, our new chief executive, are something that I certainly as chair, and the board as well, have felt have been long overdue, and can I say from the board’s perspective that we are well pleased with progress. This is a work in progress. We acknowledge we have a really important role to play with respect to the New Zealand economy and we feel privileged and honoured to work with NZTE to ensure that we can make real changes in the New Zealand economy. I’ll leave that as my opening comments and hand over to Peter.

Chrisp Good morning. Kia ora tātou. Thanks very much for the opportunity to spend some time with the select committee today. I’ve got some prepared
notes here that I would like to work through at the front end, if I could, and then maybe open up for questions. But I’ll just an attempt to lay out the scene as I see it.

I had my first select committee last year. It wasn’t too gruelling, if I recall—

McClay The new members are much tougher this year.

Chrisp Yeah, I’ve heard. We’ve just completed a fairly full diagnostic of New Zealand Trade and Enterprise, including a report that was carried out by the SSC. We had a private sector review using some of our own better-by-design methodology. We did a culture survey and we did a cost review. The main message from this work is that we did tick the boxes on the output agreement and we were, and we are, delivering value to New Zealand companies. Let’s say that there was ample opportunity to improve, and we took the very strong message that we needed to lift our game. The two clearest signals that we got out of that exercise was that we needed to refresh and refocus our leadership and we needed a clearer strategy, because the fundamental problem was that we were spread a mile wide and an inch deep.

I would just first of all talk about the refining of our strategy, and then I would like to talk about some of the results we’ve seen over the last year. So since we went through that exercise we replaced our top leadership team, then worked systematically through different parts of the organisation, refreshing leadership and designing a structure to suit what we needed to get done. Most importantly, we also put in place a new 3-year strategy, a strategy that was developed by our board, and with the involvement of a lot of the other NZ Inc agencies—MSI, Ministry of Economic Development, MFAT, and so forth. The strategy was basically designed to solve the problem of being a mile wide and an inch deep.

I will go through the various ingredients of that strategy. First of all, we reinforce the fact that we’re an operational agency. We’re not there to design the economic growth strategy for New Zealand, or even the export strategy for New Zealand. We are there to deliver on what the Government outlines the strategy to be, and defining ourselves operational and being good and excellent at being operational.

We also needed to redefine who our customers are, so we said to ourselves our customers are actually New Zealand’s private sector companies and businesses who are wanting to grow internationally. We generated a new tag line, which is that we want to help our customers grow bigger, better, faster. Within that—because there are about 13,000 export companies in New Zealand. That’s a very broad spread, so we then had to refine ourselves down further. We’ve now got about 2,000 businesses that are spread across New Zealand’s export sector, and within that 2,000 we focus on about 500 companies, most of whom have a turnover in excess of $3 million revenue and who have an ambition and a capacity to grow, and who want to engage
with Government. So with each of those 500 companies we then design and deliver a bespoke, customised, wraparound set of services, depending on what the particular dilemma is that that company is facing. Services include, delivered in New Zealand, things like Better by Design, Lean Manufacturing, Capital Solutions, things like that. And then services delivered globally include the Beachheads, the trade commissioners, and so forth, really depending on the particular dilemma that the company is trying to solve.

We don’t just work with the firm, though; we also work with groups of companies. We went through and looked fairly carefully across all the work programmes that we’re doing and took the view that we were involved way too much in multi-company activity. So we went through and we looked at where there is a coalition of the willing. Where have you got companies who are prepared to invest and are working between each other and with each other to cooperate, go to market, and do things together? Also, where are those coalitions of the willing that have a particular competitive advantage? And out of that we derived a set of areas that we’re working with—health technology, wine, aviation, marine. There are a few others. For example, we’re now working with round about 100 health technology and service companies aiming at the new, sort of growing $20 billion US medical records market. We work with 21 wineries, producing 58 wines, and a group called the Complexity Group that are aiming once again at the US market and growing premium wines into the US market. So, it’s firms and clusters of firms.

We’ve also got a more focused approach on the international markets. Our footprint is quite dispersed across 36 offices globally, but that reflects the wide market involvement of New Zealand companies. We generally service about 40 to 80 New Zealand companies per office. However, what we’ve seen taking shape over the last year is the so-called New Zealand Inc strategies, with China, India, US, Australia, the Middle East, and ASEAN, and these give not only New Zealand Trade and Enterprise but the rest of the Government involved in these countries a joined-up approach. Amongst all those, China gets prioritised. China is the only market where generally we’re following the pattern of where our customers are going, except for China, in which we are taking a bet in advance of the market by gearing up the resources and the approach, primarily because of the FTA and the opportunities that are there over this window of time.

While pursuing these strategies we also need to be very conscious of the micro or the SME companies which are in very start-up or very early phases. We invested about $20 million in a range of services for these companies, including a network of 14 regional business partners, economic development agencies locally, that we put some funding into and collaborate with as hard as we can along with the Ministry of Science and Innovation to deliver services through those partners. We fund eight business incubators around New Zealand. We fund the business mentors. We have business 0800 telephone services and a website, and they talk to
about 5,000 exporters. We have, for example, nearly 500,000 visitors accessing the website each year.

So I’m painting a picture here of some parts of the system. We’re going for 500 customers in a heavy touch, fully engaged model and therefore other customers a lighter touch. In order to deliver on this strategy we’ve had to make a number of internal changes, and these are still under way. I’ve talked about the refocusing of leadership. We’ve also had to do a lot of work on our measurement and our performance management internally. Some of the biggest feedback we got from our customers was that we were inconsistent, so a part of solving that dilemma, or improving on that dilemma, is lifting the performance of the staff to a consistent level across the organisation. We’ve done a lot of simplification of our internal systems procedures. We’ve also developed some new procedures. We’ve also developed some new IT tools, including a new Microsoft customer relationship management system into which we enter the bespoke, customised, engagement plans, which are then reviewed every 90 days by a team of people internationally and domestically. Having that recorded engagement plan and having a regular customer review every 90 days of that plan is really at the heart of the performance improvement programme.

We have a big focus on the visibility and the credibility of our management and leadership and are really working with our leaders to develop the teams and their organisation. We have a much systematic measurement in reporting. We now have an organisation-wide dashboard in which the headline measures are the revenue growth of our customers, whether the customers perceive they’re getting value from the organisation, and what the deal flow is, and then a number of other headline measures around the internal change programme, whether it’s on track or not.

The next major step internally is to build a searchable, modern, knowledge management system. Because of the scale of the organisation and what we know, it’s still too locked up in different parts of the organisation. There’s now a lot of very exciting searching technology, which should enable us to get access, and other people to get access, to what we know and make that a real asset in the system. So that’s the overall strategy and some of the internal changes to deliver that.

Let’s talk about some of the results. It’s still, in my mind, very early days in terms of results. However, we know that our customer satisfaction still hovers just above 80 percent. While this is a reasonable number, for me it’s still not acceptable and I think we can do better. Our revenue growth is the hardest nut to crack—to understand what impact we have on revenue growth. Our customer portfolio has a growth rate of just over 10 percent per annum, which is not too far above the recently recorded 9.7 percent for the tradable sector. Clearly, there is a major effect on commodity price increases here. However, we do see some signs of value-added company growth. For example, in the TIN 100, which is the analysis of the technology companies, we see the IT sector grew 13 percent, and we
certainly observe that as one of the fastest growing sectors, and clearly there is no commodity price effect in there. So understanding the revenue growth of our customers outside commodity price effects is still a major challenge, but one that will be crucial for us as we go forward.

We also looked very carefully at deal flow, and we use deal flow as a bit proxy for immediate economic activity. We record this in the international offices. Last year we saw a deal flow of just over $300 million for customers internationally. This year by Christmas we were tracking at $200 million. This once again is an area where you need good data and quite rigorous IT systems and apples and apples recording of information. Christchurch clearly absorbed a lot of attention—as it did across the whole Government sector. So last year we invested $4 million in the Christchurch Market Connections Fund, which we established within 21 days of the devastating effects of 22 February, and that helped about 250 Canterbury businesses reconnect with their clients around the world. I think that was an example of how quickly Government agencies can move when there is a common light on the hill that everyone understands, and clearly the light on the hill was obvious when it came to Christchurch. Obviously, the feedback from the customers about helping them get to their market so quickly has been very positive.

The Rugby World Cup—a major effort to leverage the opportunity of the Rugby World Cup across Government and across the public and private sectors, in our case led by NZ 2011, but we also had 45 staff dedicated to that effort as well. So during the cup we hosted 340 business VIPs, made more than 1,000 new business contacts, facilitated more than 500 introductions and commercial engagements.

The Cloud was a pretty big hit up in us reaching out to the world and trying to explain with a bit more sophistication who we are and in particular pushing out the innovation and sort of smart New Zealand part of our story. We got half a million people visiting the Cloud.

Foreign direct investment, which we track very closely—through us came about $600 million of foreign direct investment last year. We are also being quite focused in our costs. In the past 2 years we’ve now returned $13.2 million back to the Crown as a result of OPEX reductions. Full-time equivalent employees are down by 13 percent. We’ve also changed the front to back office from 66 front, 34 back, to 70 front, 30 back, and that’s still work in progress.

Our major fund is the international growth fund. It is a $30 million fund aiming to help companies grow internationally. We had a lot of feedback on the complexity and the bureaucracy around that fund, and the fund was actually underutilised, partly because of that. So we’ve increased the level of commercial rigor and scrutiny in the simplicity of getting access to that fund. The fund is now fully allocated for this year after a slow start last year. We’ve really been focusing on what is the current investment coming from
the company and really focusing on the calculation of the direct economic benefit of the Government’s investment, adding together profit, salaries, and supplier spend that are coming as a result of that Government investment.

Missions has been quite an active trade. It’s even more active this year. I will just give an example. The India mission has been highly successful, led by the Prime Minister. Three politicians were involved, 28 business delegates, 16 journalists, a cricketer, and a gaggle of public officials. I think we formed a very, very effective team as we took New Zealand into India. It was really, I think, one of the more successful exercises that I’ve seen, and there’s been good follow-on business, good follow-on contacts as a result of that, and I think because of that some good feeling about how we could really leverage in particular the Government imprimatur of politicians and market. Politicians really do carry considerable weight in a lot of our overseas markets, and using their gravitas and their imprimatur is really a good way to get trade access.

While these other more external measures are going on, we’ve also been tracking very closely employee engagement, because when you’re in a service-based organisation the mindset and the feeling of your front-line staff is a direct translation into how they service and look after your customers. I think that’s a lesson we’ve all learnt from Air New Zealand, watching the transformation inside that company. So we track it pretty carefully. Last year our average mean culture score was at 63 percent below the public sector mean of 71 percent and the private sector mean of 73 percent. This year we’re at 74 percent—the second survey result. While this is progress, as I said to the team: “One swallow does not a summer make.,” and it’s only 2 data points. I would like to see the engagement, or the feeling of engagement, and the feeling of being able to contribute and really make a difference amongst employees rise over time, because I think that will straight into the service that they’re delivering to New Zealand companies.

The last point I want to make is about the New Zealand Inc. In my view, as being still relatively new to the system, our relationship with the sister agencies has been strong and positive. In my view there’s an absence of patch protection and rancour. All agencies in the economic development area have a strong commitment to work in a joined up way. The catchcry amongst us is that we work for a cause and not for our institution, and there’s a lot of work to join it up and join it up at the programme level, but the will and the ethos is there very strongly.

In my mind, we’ve still got a long way to go. We are three-quarters into the first year of a 3-year work programme. We have a strong programme of internal reform, good support, and good momentum. However, the real challenge for me is to convince ourselves that we are delivering long-term impact and that we really can shift the dial for New Zealand companies who are internationalising and to understand that through good measurement systems over time.
So that’s my opening comments, and I look forward to questions.

McClay

Thank you very much.

Cunliffe

Thank you very much, chairman and chief executive, and quite clearly it’s an organisation on the move, from the changes to the all its indicators from last year to this, and the general feeling around the place that NZTE is on the march. I would like to begin by asking a couple of questions about your strategy, recognising that from your opening comments, chief executive, you see yourselves as an operational arm of Government rather than as a policy-making one, so it’s in that context that I’m asking them. I’ll then drop down and talk about a couple of individual things. Do you believe that it’s possible—sorry to start with a very general one—for the Government, through the actions of an organisation like your own, to add real economic value to clients and thus to lift our rate of economic growth?

Mayson

Yes, otherwise why would we have such an organisation? The difficulty that an organisation like ours faces is how you actually measure the growth, and that is a real ongoing issue for us. We don’t try and claim success from growth in commodity prices or from some of the major firms with whom we don’t engage. What we do claim is success in conjunction with our business partners, for want of a better term. The key to success in my view is forming long-term strategic relationships with the companies with whom we work, with the agencies with whom we work alongside, with the Government that is currently in power, understanding what the Government’s drivers are to achieve economic growth, and trying to transmit that into programmes that actually add real benefit. Peter’s comments about being a mile wide and an inch deep is particularly relevant. We cannot be all things to all people. We do not have an unlimited budget. We have to focus on where we can get the greatest hits and the greatest results. Some of these programmes we are involved in and the relationship that we have may take some years to actually bear fruit. This is not about instant results. You could argue that over the years that all low-hanging fruit has been dealt to. We’re now dealing with adding value where we believe at the high end of the market New Zealand can excel. It’s not about eliminating commodities. We’re working alongside the commodity growth that New Zealand enjoys from its pastoral background but we’re adding value in the process and looking for the areas where we can deliver expertise while working alongside New Zealand companies.

Chrisp

Yeah, I do believe that; I think otherwise I probably wouldn’t have taken the job. But I think what I have learnt over the last 18 months is I think you have to have a very, very sharp eye to what you think the market is doing as well. Part of our rationalisation down to these sort of so-called coalitions of the willing was—I think it’s very easy for us to imagine where economic development could occur without actually seeing any committed balance sheets or any profit and loss; yeah, a market investment in a particular direction. So what we look for very closely is if you’ve got a company, or a cluster of companies, who wanted to go in a particular direction and they’re
prepared to make an investment there, then that’s a good place for us to be too. But what we try and do is buy a delta between two curves; a business as usual shallow curve and a steeper “bigger, better, faster” curve. But what we don’t try and do is make it up based on our theory of what it should be. So I think that’s a real art in the organisation—to watch carefully what the market is doing and then try to back particular directions.

Cunliffe That might help you with the next question, which is whether or not you agreed with the Minister of Finance—I know that the initial temptation in these questions is to say yes before the rest of it’s out—when he said: “There isn’t much you can do about economic growth. It is what it is.” But that wouldn’t seem to be entirely congruent with your philosophy or your strategy would it?

Chrisp Well, this is when I say that we’re an operational agency, so—

Cunliffe I knew that’s exactly what you’re going to say, but I thought it was worth getting it out of you. Do you engage much with Statistics New Zealand? The reason that I ask that is on your issue of performance measurement, which is obviously crucial, because if you’re not making a difference to your clients, then the taxpayer is wasting the investment in you, right, and we’d all agree that this is private sector-led, firm-focused stuff and you need to know whether it’s making a difference. Statistics New Zealand has not for sometime, despite repeated pleadings from this committee and others, and I think yourselves—and I’m asking you to give an update—done much in the way of tracking international flows of services and investment as opposed to goods. There is an enormous amount of detail on goods—very high-level on services and investment. That presumably would make it more difficult for you to track the impact on clients who might be supplying services or engaged in investment—and I’ll come on to investment issues in a minute. Have you been engaging with Stats on those issues?

Chrisp Actually—a bit of a coincidence—I did meet with the chief executive of Stats the other day and we talked about the whole measurement dilemmas. Sir Paul Callaghan has been raising quite firmly some of the measurement dilemmas. To their credit they have—we now understand at least primary production, processed primary, simply transformed manufacturing, and elaborately formed manufacturing, so we do get some gradation in terms of commodity and value-add. The serves are still a dark hole; I agree with that, and that’s a very difficult area. When we met with Stats I found them very willing and able to be part of the measurement journey. They were saying: “How can we do this? How can we help?”. They have to protect their longitudinal integrity, but I found them very, very up for it, and I think it’s something that MED is working with them as well.

Lotu-Iiga Just following the line of questioning, because this is actually quite good, getting the measurement and these sorts of tools. We spoke about this when you first came in here, and could I just say well done. I think already there’s been change, and I think it’s positive generally.
Cunliffe Bipartisan.

Lotu-Iiga Yeah. But just coming back to this, because it is important, if you can’t use Stats, are you working with other agencies? Because you are in the business of doing, and I think that’s really important, and you’re measuring your interactions with your stakeholders, your employees, but the research capability of finding where these opportunities are—market: big tick; I agree with that. Are there other avenues to finding what David’s talking about? Finding the flows, finding the trends? Can you talk about how you’re getting this sort of information or where you’re getting it from? MED’s another group that you can rely on, but where can you get this sort of global stuff? You know, the global—

Chrisp Are you talking about international stuff now or domestic?

Lotu-Iiga Well, the international as well as the domestic.

Chrisp The international stuff is actually in some ways the easiest to gather. There’s a million data points, of which McKinsey and BCG are good sources, and then you’ve got all the banks, IMF. There’s reasonably good data on growth, sectoral growth, in lots of markets around the world. We don’t really struggle with that. We’re probably not quite so good at consolidating that as we should be, but the real measurement challenge is actually understanding what’s going on in New Zealand in a fine enough gradation. The services point that David mentioned is absolutely correct. It’s about just over $40 billion for the export economy. I think there’s another $20 billion in services, so it’s quite a dark hole, but a big thing to be a bit quiet on. We understand particular parts of service growth—engineering services, IT services, communications services, IT. IT’s difficult. A lot of it’s in the cloud—you know, it’s really, really difficult to measure. So we’re doing a lot of work at the moment. I call it triangulation. There’s no one data source. Stats, I think, is going to help us a lot. MED is now doing a great job of consolidating the regional pictures and putting together regional measurement databases. We’ve got our own data coming from up inside our organisation, and we’re now developing a clearing house, where every 90 days we’re going to do a reset of what we know of the international and the domestic economy. We haven’t done our first one yet, but that’s the plan to do that, so that every 90 days as a reset. But there are some very difficult methodological issues to try to figure out in terms of the growth of our customers. Is that any different from the growth of the rest of the economy? I think we’ll get a number of windows on that question. I don’t think we’ll ever actually answer it. When you come down to whether this organisation does anything, I think ultimately that’s a matter of logic more than it’s a matter of evidence and proof.

Cunliffe Just on the international side—picking up what my colleague has just said, and I agree with every comment he made—the issue of services is particularly crucial where we have an international trade agreement, where our ability to profit from that is more services-driven than goods-driven. A
classic example recently has been the Singapore CEP where the national interest analysis presented to the committee indicated that the Government expected to actually lose goods trade but to gain services trade. Now, we can’t tell whether it was worth doing that agreement, because we haven’t measured the services impacts. That’s enough on that, probably, but just to urge you to continue to press on Statistics, because as parliamentarians we’ve been singing this song for a number of years without success. You may also be able to bring influence to bear on an operational point of view on another bugbear, which is that the national interest analyses presented to Parliament by some of your colleague agencies are often very qualitative, and it would seem to fit with your strategy to get good performance quantitative measures in place.

I’ll move on, in terms of the targeting of your clients, ironically a previous criticism of NZTE from the market, particularly the second and third tier, the emerging companies, was in your drive to focus—this is the opposite of (inaudible) on lifting total forex gain, you focused on very large companies at the expense of the pipeline. Now I see on your diagram, on page 7, you’ve got a teardrop-shaped focus, which is probably addressing some of that issue, but I wonder how you pick which of the ones, you know, on the tail of the sperm?

Chrisp Tail of the sperm, teardrop—all end in tears, I’m sure. Yeah, there’s a lot in that diagram. The easiest thing for us to do is not segment and just stand in the market as it will help everyone. Unless you want to make us 1,000 people, then it’s not sensible. I mean, strategy is about choice, strategy is about knowing who your customers are and who you’re trying to add value to.

Mayson It’s actually also about the customers that actually want to get out there and make things happen, which comes back to that strategic relationship issue I was talking about. For customers to be successful and have vision and clarity around what it is they’re trying to do in the markets that they’re intending to move into, to gain value from a relationship with Trade and Enterprise they actually have to share confidential information and know that it remains confidential. They also have to be in a position where they’re willing and open to accept advice and mentoring and help, and you can’t actually move on. So a lot of the companies at the bottom of your teardrop, while they may not currently be market ready, have the potential to make a huge difference. So it’s not actually picking companies on scale within themselves; it’s on whether or not they potentially have an ability to exceed expectations of that particular sector that they’re operating in.

Cunliffe You’re going for the delta. So, I guess what I’m looking for is a clarity around the commitment that where emerging companies meet those criteria that you are willing to engage with them as well as with some of their more well-established cousins.

Mayson Absolutely.
Chrisp  Just to go back a step, why do we land up with something in the middle of that triangle? Just to answer that question, our view after being in the market and watching the markets is that the fundamental dilemma for New Zealand is not lack of market access and opportunity internationally. The fundamental issue is a lack of companies of scale. So that’s what we’re saying. We’re saying we’re dealing with companies—I mean, you are talking about companies with a $3 million turnover. In the UK I think the definition of a SME is less than 300 people. Ok, we’re talking about companies with five, ten, fifteen people.

Cunliffe  In Japan, it’s $100 million.

Chrisp  Yeah, so just get this all in perspective. We’re saying we’ve still got these quite small companies, but they need to have just a little bit of scale first, so they’re able to go to a market, go to Sao Paulo, it not work for a year, and the whole company doesn’t go bankrupt. So they have to have a little bit of scale, a little bit of resilience, and a real ambition to grow. As the chairman said, they need a desire to grow, a real ambition to grow. So that defines that middle circle. We’re actually saying to the really big companies that of course we will help them if they need us. Particularly, MFAT’s got a big value proposition to the big companies. A lot of it is behind the border of regulation, free-trade agreements, and what have you. But the really big companies, in some ways, look after themselves. So we’re really in the middle of this triangle. But there are a number of quite small gem-style companies that we can’t be ambivalent about, and that’s why the triangle goes right down to the bottom. LanzaTech was one of those, for example. Another one called Booktrack, the other day. So how do you make up your mind about a gem? You have to find some way to believe in it. For that one: Silicon Valley - inspired company, Peter Thiel as a co-investor, all the right signals, a belief in what they’re doing, and then you can back the gem.

Mitchell  I just want to congratulatue you on the work that you are doing. I spent the last decade myself trying to grow my own business in most of the markets that are important to New Zealand, and I would have to say that it’s really encouraging to see the direction that you’re taking in NZTE. You’ve been talking about something that actually captured my interest a bit, and that was the fact that what you’re doing as part of your strategy is actually looking at services, businesses, and industries that you can pull together and actually offshore and market. I just wonder, how far can you actually take that model, because there’re massive procurements globally that I know that we’re missing out on, that we could probably have a crack at if we were able to consolidate some of our smaller business into a bigger joint venture and actually go out and have a crack at some of the stuff. Is this something that you’re looking at and something that’s on your radar?

Mayson  I think the key to that is coalition of the willing. There’s nothing worse than trying to take a bunch of competing companies within New Zealand and saying: “Collaborate and we will assist you.” if they don’t want to collaborate. The message we quite often give some of the larger companies,
and I won’t talk about the sectors, but you can imagine who they may be. The competition is not here in New Zealand; the competition is offshore. We need to focus our efforts on ensuring that we have a united voice and an ability to promote these products and services offshore for New Zealand. Unfortunately, a lot of effort is spent in competing onshore here in New Zealand and actually not understanding or being willing to collaborate. Now, there are examples that we can give where that is changing. A perfect example would be the seafood industry and their collaboration in marketing green-lipped mussels into China. I think it’s three—maybe more—or four New Zealand companies are actually collaborating in a market effort to lift the profile of green-lipped mussels, to expand the market, and also to also raise the price level as well, and currently that is working. It’s a really example of what can happen in an industry where previously there was a lot of competition and a lot of blood spilt on the floor. There are other major areas in the primary sector that could probably benefit from that, but we as an organisation will not waste our energy around the coalitions of the unwilling, for want of a better term.

Chrisp Yeah, I totally agree. Those arrangements are quite complex: the Complexity Group, Greenshell mussels and Bodyguard Engineering Wood Group—

Mayson The green sector’s quite good at collaboration.

Chrisp A bit like a marriage—you’ve really got to be in there for the long haul to really make it work. I think the most crucial thing is leadership from within. I don’t think it’s the role of bureaucrats to go around telling companies to collaborate and work together. Once they decide to do that, that’s a completely different kettle of fish.

Cunliffe Dropping down on to your work with sectors, implicit in the coalition of the willing is that you’re not going to do everything in every sector, even if in pure economic theory terms there might be some upside that hasn’t been captured. So I guess I just want to touch base with you about a couple of sectors. Are you doing anything much in the media?

Chrisp No.

Cunliffe On the TV? Film?

Chrisp Film gets quite a bit.

Cunliffe Casinos?

Chrisp No.

Cunliffe Well, those wouldn’t be high-priority sectors for you to do special deals?

Chrisp High priorities, special deals—I’m not sure whether those are words that I’d choose. Amongst what we could see when we scanned the environment,
potential initiatives out there—we can only handle a finite number. And where we believe there is some inherent competitive advantage and there’s a coalition of the willing, then we’re prepared to make them as part of a portfolio.

Cunliffe I guess what I’m trying to get in my head is the alignment between the strategy that you’re pursuing here, which on the face of it seems pretty logical, and the particular cases which, for example, the Minister for Economic Development seems to be taking a personal interest in, which seem to fall outside of NZTE’s strategic framework—the Skycity convention centre, MediaWorks, Warner Bros. You know, Warner Bros is a very large and powerful company so it probably doesn’t need a hand much, selling in a regulatory framework. This is probably a policy issue, so you might be able to—any comment on whether I’ve got that wrong? They seem to fall outside your—

McCay You can leave the statement hanging if you want to, also, but carry on.

Chrisp You took the words out of my mouth, Mr Chairman.

Cunliffe There’s been a bit of a debate about the current account, and as you know from both the BEFU and the PREFU it’s forecast to deteriorate by $10 billion to $17 billion over the next 4 years, despite the good work that’s being done in the tradable export sector. Do you spend any time thinking about the—I suppose it comes back to the services issue. But what are the big wedges in the current account that cause you concern that are offsetting the progress that has been made by (inaudible) goods exporting?

McCay Again that’s fairly broad. Whether you think that’s within the region of what we are doing currently and previously—

Cunliffe I guess I’m going to the financial services—

McCay That’s fairly broad.

Cunliffe Yes, it is fairly broad. Let me be more specific. The biggest drivers—and I’m coming to some investment questions in a sec—of the deterioration of the current account appear to be the impact of the losses that we make out of the finance sector—the order of magnitude of $2.5 billion a year leaves the country through the banking sector, and transport issues like shipping companies, and so forth. The losses that we make on finance absolutely swamp the progress that we’ve made on getting the trade deficit into a trade surplus—absolutely swamp it. So I guess what I am teasing out is does NZTE see a proportion of its action plan being to look at whether there’s anything to do to be, for example, more self sufficient in the financial sector that might reduce some of those drains?

Chrisp I can answer one question in the around the theory, if you like. What we are quite concerned about in the area of capital flows and financing is the work that Rick Boven has done, which shows the capital gap in New Zealand.
But it’s quite interesting where that capital gap is. The capital gap—the one we see a lot because we’re not huge infrastructure projects or we’re not dealing with the really big companies—we are seeing is people raising $2 million to $10 million for quite small companies. So we are quite animated about how we can first help New Zealand companies make their propositions more investable, and also helping the flow of foreign direct investment into those investable propositions through venture capital funds, PEs and other financial markets.

Cunliffe: Let me go exactly to that, because I’m looking at output class 5 and your performance indicators around investment, and it’s all around the number of deals closed, the aggregate value—

Chrisp: Yeah, it is.

Cunliffe: I can’t see any quality measures here. So my first question is a question of principle. I think this is directly in your basket. In your mind ought there be some difference in the way that we record investment which brings new technology, new plant, new skills to the country so that it has a positive economic spill over versus investment that simply purchases or acquires a downstream value chain from an existing asset, be that land or a factory?

Chrisp: Well, let’s just say we’re immediately dissatisfied with that particular metric you’ve pointed out there. That’s a pretty good example of us measuring something because we can measure it, not because we think it’s the best thing to measure. So we do think we’ve got a role to play in attracting FDI. Where we can probably make a different is the smaller end of town not the big end of town, and so we are developing measures to look at what quality FDI is.

Cunliffe: Great—step one and step two: will you take the economic impacts of that investment or the level if spillovers into account in targeting your efforts?

Chrisp: Ah yeah, sure, and not only that but we find ourselves going to markets where you’re more likely to attract investors who have got a competency and skill set to the table, particularly in the technology front. So Silicon Valley is getting increasingly interesting for New Zealand, in my view, because of the growth that we talked about in my introduction. The growth of the IT and technology sectors is quite behind those stats of the commodity prices. There’s quite interesting growth of the IT and tech sector. That’s where I see the capital gaps and that’s where Silicon Valley, Singapore in particular, become very interesting.

Cunliffe: Absolutely. Forgive me if this sounds like motherhood, but I’m assuming you are implying that investment quality is really important as well as quantum.

Chrisp: Absolutely, yes.
Cunliffe: So therefore—again you might want to pass on this one—do you believe there’s enough debate about investment quality as opposed to quantity in the broader policy sections, because we seem to have a lot of debate about the sale of land—

McClay: David, that’s actually outside the scope of what we’re dealing with, so if you are of the opinion there’s not enough or there is enough debate within NZTE you could answer on that, but otherwise we’ll move over to Mark.

Mitchell: During your opening statement, chief executive, you were talking about the recent trip to India with the Prime Minister.

Chrisp: And Mr Bakshi was there as well, so he may able to answer the question as well.

Mitchell: Look, I was just wondering, obviously India, Russia, and the GCC in the Middle East are emerging as pretty important markets for New Zealand as well—

Chrisp: South America, yep.

Mitchell: Yep. Do you have any plans in an operational sense to increase focus or attention on any of those markets?

Chrisp: Yes, and I think what you’re seeing over time—what I said in my opening is that we watch very carefully where New Zealand customers are going. Rule of thumb: 40 to 80 customers per office. So once you’ve got that, it allows you a band. You watch where the flow is. And the markets you mentioned are the ones that are growing. There is a sort of “go East” in the strategy, and there are emerging economies in the world and New Zealand companies are going there. It’s also not to underestimate that the US and European economies in particular are extremely important, particularly when you look at Australia—and we do not underestimate the Australian economy. It continues to be our most important trading partner. And if you look at where the high-value, elaborately transformed products are going, they’re going to Australia, Europe, US. So, yes, there are emerging markets, and we’re watching them very carefully. I think over time they will grow resources; that has been happening. But it is more of a calibration of a footprint rather than a wholesale sort of lurch to one direction. The rule of thumb, too, is that we think the footprint is a zero-sum game. In other words, if you’re building up one part of a footprint, you think you’re logically detracting from one other part of a footprint. I think you need that fiscal discipline in the development of your footprint. Does that answer the question?

Mitchell: I was just going to ask too, in relation to that you’ve currently got the balance at the moment at 70:30 in terms of front-line staff. I assume that a lot of quality staff are deployed. Where do you think you’re going to end up in terms of that balance?
Chrisp I don’t think we’ve got there yet, and to be perfectly honest the way we’re doing is just that you’ve got a reasonably healthy turnover in the organisation—8 to 10 percent, sometimes higher—so you’re more likely to replace front-line people coming through, but you always question a lot harder on the back office; that’s how you get it. I don’t think we’ve reached there yet. It also depends a lot on what the strategies are in the market and what the strategies are in the customer and service teams in New Zealand. I don’t know what the final number is, but I don’t think we’re there yet.

Mayson One of the trends, and I think your question about it is the split between onshore and offshore, and that has changed quite markedly. There’re a greater number of people offshore than there is onshore. In respect of emerging markets or potential markets, there has to be a seen need before we would alter the footprint, but in the last year we opened an additional office in India, for instance, in Mumbai. You raised Russia, and apparently of course there are discussions around the FTA. While currently Russia is served from the Hamburg office, as are the Gulf States—I mean, we do have an office in Dubai—but if there is growth in particular markets and a sufficient number of New Zealand firms that are focused on that particular market, then we’ll review our footprint. But generally if we’re going to lift it somewhere else we will be reducing, because again we’re operating on a fairly tight budget.

Chrisp But also remember what I said earlier on. The front-line facing staff are more than just the international staff; some of the most crucial front-line work is actually here in New Zealand building capability of companies—in New Zealand—and that’s an equally important part of the equation.

Bakshi First of all I would like congratulate your team again, and Mr Chair, on the excellent work your team is doing and the feedback I got from the India trip was very positive, and I could see that a lot of doors have been opened for New Zealand businesses, particularly in India. What I am asking is how do you see the FTAs would benefit the overall New Zealand economy if we signed these FTAs, which we are in negotiating process? What will be the benefit for the New Zealand economy?

McClay Or possibly, what role is NZTE playing in maximising some of the free-trade agreements and the opportunities?

Mayson Well, the FTAs are of course about opening doors, and while in an ideal world we would have multilateral agreements that affected the whole world, that is currently not happening, so FTAs are ensuring that we continue to move forward and creating a closer relationship to the markets that we’re interested in. So from NZTE’s perspective when FTAs are negotiated and put in place, then it’s for us to ensure that the New Zealand companies understand what the opportunities are under the FTA agreement and to ensure that they’re market-ready in taking cognisance of either reducing tariffs or where there is inter-Governmental activity which encourages trade in particular sectors. Again, it comes back to our operational role. The
Ministry of Foreign Affairs and Trade will negotiate the free-trade agreements and we’ll get in and ensure that New Zealand companies and New Zealand services can take advantage of whatever opportunities arise from that FTA. Some of them are far more beneficial than others, but again that depends on the negotiation.

Chrisp They’re enormously important to us. The broad division of labour between ourselves and the Ministry of Foreign Affairs and Trade is that they kick the doors open and we bring the companies through. So that China free-trade agreement is—I don’t think I’d have to persuade anyone in this room about how crucial that agreement is. And now opportunities have happened in China where there’s been extraordinary growth. There’s been a 50 percent increase in our footprint in China, and way more to come. So they’re immensely important. The India free-trade agreement will be crucial. And it’s not just—I mean, you need a quality trade agreement. That’s really important. There’s no point just having any trade agreement. A good quality trade agreement—so if they take a long time to negotiate it, well that’s just the way it is. But it’s also the symbolism and the effect, and the unifying effect of what a trade agreement does in terms of signalling to businesses, public agencies, anybody who’s interested in that country, that there is a joined-up effort possible here to go to market. That’s what I’ve seen as some of the very positive effects. That free-trade agreement position that we’ve got is very, very fundamentally important to us.

McClay The TPP, will that offer opportunities as it moves forward to NZTE to help New Zealand companies do more in some of these markets?

Chrisp Yep.

Cunliffe Don’t know because we haven’t signed it.

Chrisp If we can conclude a high-quality TPP, yes, it would be enormously important for the country.

McClay We’re going to come to David in a moment, but two areas—I want to talk about leveraging for a moment. NZTE did a lot of work in the World Expo in China a little while ago. I had a chance to go and see some of the things you did there. A number of businesses that come from my electorate actually availed of your services. So just feedback—why do you think there might be value around being involved in things like that, and feedback you got. Then also the Rugby World Cup—a huge investment on the part of all New Zealanders, something we’re very proud of. Did you play a fairly prominent role in that? Just run us through a bit about what the outcomes were as far as your work is concerned in those areas.

Chrisp Um, I haven’t got to fingertips the Shanghai expo, because time has passed. Rugby World Cup I went through in my introduction notes.

Mayson I could make some comments on the Shanghai expo. I think the fact that we were involved in the Shanghai expo was part and parcel of the
relationship New Zealand has with China and the negotiation at the time of the FTA. New Zealand was one of the first countries to sign up to be there as part of that expo. Bear in mind that the theme for expos is set by the host country, so while you look at an opportunity to promote your country as best you can, it’s around a particular theme. So in some ways that doesn’t necessarily of itself assist in trade flows. Where it does assist is that it brings a focus on to the country and enables New Zealand companies that are looking to trade with that particular nation to bring delegations through.

There were seven ministerial delegations that were, from our feedback, incredibly successful. It brings New Zealand companies on to the ground with potential customers. So would we continue to be involved in expos again? That will be a government decision, and there will be other factors that will decide whether or not it is something we do. From NZTE’s perspective we felt the Shanghai expo was a great success, and the companies that worked alongside us there similarly felt that they had gained greater market access and met clients through that.

Cunliffe A supp just on Shanghai, which was the only other thing I was going to mention, was how on earth was the budget managed for the Shanghai expo, because you’ve only spent 16 percent of the output class funding, which is a good thing in the sense that you’ve been able to bring it in way under budget. But the budget was increased from $5 billion to $10.5 billion, and you ended up spending only $1.7 billion?

Chrisp Billion? I don’t think we talk in billions, do we? Give us a bit more if you like, but I didn’t think that was in the solution space!

Cunliffe Millions, sorry.

Mayson That’ll actually be different years. The total budget was about $30 million, as I recall it for the Shanghai expo, and we came in under budget—you’re correct.

Chrisp I think what you’ll find is that’s spread across two financial years.

Cunliffe So that’s just the tail of the project?

Chrisp Yes, that’s the tail of the project, and that’s why it didn’t feature so much in—

Cunliffe It wasn’t that the initial budget was wildly out? Because the question—

Chrisp No, we came in under a bit. But just the last point I would make about—

McClay We’ve just got a minute lift, so the Rugby World Cup would be great and you can remind us who won.

Chrisp As I recall, I said when I was at my first select committee that the only real threat to the Rugby World Cup is that we’d lose Dan Carter to injury. But anyway, we won, so who cares. I think the thing about it, as I think I
outlined in my opening comments, I think we got enormous value out of Rugby World Cup. A lot of it is intangible value. I think I tried to lay out the stats that we have of value, but I think the real value is that New Zealand told its story globally. It has really leveraged our brand globally, and just gave us a signal of what when we cooperate around a common cause we can actually get done for the country. I think that was enormously important. The thing I’d say about expos, events, and that sort of stuff is that I think we have to be quite discerning about which ones we bet on. A lot of them come through the pipe. If we make a bet on every event, first, I don’t think we can afford to, and, second, you can’t get everyone to focus on everything all the time. So once again I think the theme of my presentation today has been about choice, so we chose Rugby World Cup, we chose the Chinese expo, and we’ll choose the America’s Cup. They are significant events in which we think there is New Zealand brand value and opportunities. When we commit, we commit multi-agency. We make a good job.

McClay Thank you. Can I thank you for your time, and again to reiterate that I think you and your staff are doing a very good job and a very important job on New Zealand’s behalf. The feedback I get from businesses around the country is that they do value your service, and we’ve seen some impressive changes in the last year or so as you’ve made a few changes internally. So well done—you’re doing a great job.

Chrisp Thank you very much, and we very much appreciate the support of this group, and it’s been a lot of fun.

**conclusion of evidence**
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New Zealand Transport Agency

Recommendation
The Transport and Industrial Relations Committee has conducted the financial review of the 2010/11 performance and current operations of the New Zealand Transport Agency, and recommends that the House take note of its report.

Introduction
The New Zealand Transport Agency was established from the merger of Land Transport New Zealand and Transit New Zealand in August 2008. The agency’s responsibilities include planning and funding land transport; the enforcement of laws, regulations, and rules; and the collection of revenue. The agency seeks to create “transport solutions for a thriving New Zealand” by making better use of existing capacity, creating a resilient, secure transport network, easing traffic congestion, and reducing harm from road crashes.

Management of National Land Transport Fund
The general funds opening balance of the National Land Transport Fund for 2010/11 was $52 million and the closing balance was a negative balance of $247 million. We note that this means the fund recorded a deficit of $299 million for the year, against a budgeted deficit of $103 million. The agency explained that the item that had varied most from budget was the NZTA National Land Transport Programme—capital contribution, where the actual outflow of $987 million was $269 million more than budgeted. This was mainly due to the acceleration of investment in state highways.

The general funds opening balance for 2009/10 was $352 million. To allow all the available funds to be spent each year, the Government has allowed the NZTA an overdraft facility for the fund; the general funds balance may now go as low as a negative balance of $250 million on condition that the balance returns to zero or better at least once in each financial year. The balance at the close of the year under review was close to the limit, but rose to a negative balance of $100 million by the end of January this year.

Market conditions since the onset of the global financial crisis, which resulted in under-deployment in the civil construction sector, have meant that tenders received by the agency have quoted costs for project work about 10 to 20 percent less than estimated. The agency has sought to take advantage of this situation by making heavy use of the fund over the last two financial years (the first two years of the 2009–2012 National Land Transport Programme). This approach, combined with projects such as the Victoria Park Tunnel being completed ahead of schedule, and an accounting error in the Ministry of Transport that overstated the agency’s available funds, caused the agency to reach the limit of the overdraft facility sooner than expected. As a result, there is a moratorium on starting new capital works in the State Highway programme before the end of the current three-year National Land Transport Programme (30 June 2012), but the agency expects to be on track at that time as it is currently ahead of schedule. In addition, as much of the 2012–2015
programme will consist of work that is already approved, there is little scope for new proposals for capital works for at least its first two years.

We note the agency’s intention to discuss with the new Minister an alternative to the current pay-as-you-go system for funding the National Land Transport Programme, where road and public transport users in a particular year fund the full amount of the investment made during that period.

Projects

New Zealand Labour and Green Party members are concerned that the prioritising of the bundle of projects classed as “roads of national significance” is squeezing out other worthwhile projects. The agency said that 35 percent of the capital works in the infrastructure activity class are not associated with roads of national significance, and that many of these smaller road projects have been completed on time or earlier, and within budget. For example, a new bridge at Matahorua Gorge (between Napier and Wairoa) was finished ahead of time and under budget, as was the new Kopu bridge to Coromandel.

We asked if road projects have contributed to an overall decrease in congestion in Auckland. The congestion in Auckland overall is coming down and is expected to track that way on current numbers until about 2021, and then it is forecast to go back up unless there is a significant movement from car-based travel to public transport. We asked if this meant that investment in public transport should be increased, and heard that there had been large investments in public transport in the year under review, including assistance with the purchase of electric multiple units for Auckland, and public transport subsidies. The agency explained that it takes a whole-of-network approach to investment in the transportation network, considering State highways, local roads, public transport, walking, and cycling, to ensure that the urban area in Auckland can function effectively.

Forecasting

We asked whether the agency would consider re-evaluating the priority given to projects (such as some of the roads of national significance) where the priority reflected forecasts that had not been borne out (such as those from the September 2008 National Freight Demands Study). The agency pointed out that while some heavy transport had travelled fewer vehicle kilometres since the global financial crisis, the most recent data has traffic numbers beginning to climb again. The agency said that it would not want something at the bottom of a cycle to distort what it would want to think about in terms of long-run investment propositions.

We were interested in the factors that are taken into account for long-range forecasts, and heard that while costs are relatively easy to determine, especially short-term construction costs, ongoing benefits will be affected by a complex combination of factors. In addition, whatever assumptions are made, the overriding factor is the discount rate at which benefits are assumed to diminish over time. We heard that the Treasury’s default discount rate of 8 percent is considered high in international terms, and that the agency evaluates projects using various discount rates.

The agency emphasised that while transport strategies and network planning would evolve with forecasts, the evaluation of a particular project had to be undertaken using the best
information available, and was difficult to revisit once a decision had been made. It also explained that many potential changes that could be factored into forecasts, such as a significant fall in transport revenue, would affect most projects equally, and would alter their timeframes rather than prioritisation.

**Online vehicle registration**

About 13 percent of all vehicle registrations were done online during the year under review, a 43 percent increase on the previous year. This clearly exceeded the agency’s target of a 15 percent increase, but it considers that 50 to 70 percent of registrations could easily be done online. It offers online registrations at a slightly cheaper price than over-the-counter registrations, and hopes that New Zealanders will respond to this price signal. We welcome the agency’s provision of an online service for vehicle registration, and will be interested to see if the uptake of the online service continues to improve.

**Parking**

We asked whether the agency intended to consider the effect of the price and availability of parking on the use of the state highway network, and thus on investment in transport infrastructure. The agency told us that parking policy is an important consideration regarding transport infrastructure, but that the highly dispersed ownership of parking and of the many factors influencing parking policy made it difficult to analyse, and difficult to influence.
Appendix

Approach to this financial review

We met on 1 March and 5 April 2012 to consider the financial review of the New Zealand Transport Agency. We heard evidence from the New Zealand Transport Agency and received advice 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


New Zealand Transport Agency, response to written questions, received 28 February 2012.

New Zealand Transport Agency, response to written questions, received 16 March 2012.


Organisation briefing paper, prepared by committee staff, dated 29 February 2012.
2010/11 financial review of New Zealand Venture Investment Fund Limited

Report of the Commerce Committee

The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of New Zealand Venture Investment Fund Limited 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
The Local Government and Environment Committee has conducted the financial review of the 2010/11 performance and current operations of the New Zealand Walking Access Commission 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
2010/11 financial review of the Northland District Health Board, the Tairawhiti District Health Board, the Taranaki District Health Board, the Waikato District Health Board, and the Whanganui District Health Board

Report of the Health Committee

The Health Committee has conducted the financial reviews of the 2010/11 performance and current operations of the Northland District Health Board, of the Tairawhiti District Health Board, of the Taranaki District Health Board, of the Waikato District Health Board, and of the Whanganui District Health Board, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Dr Paul Hutchison
Chairperson
2010/11 financial review of the Pharmaceutical Management Agency

Report of the Health Committee

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Pharmaceutical Management Agency

Recommendation

The Health Committee has conducted the financial review of the 2010/11 performance and current operations of the Pharmaceutical Management Agency, and recommends that the House take note of its report.

Introduction

The Pharmaceutical Management Agency (Pharmac) is a Crown entity under the Crown Entities Act 2004, and is funded through Vote Health. Pharmac’s main responsibilities are managing the pharmaceutical schedule of subsidised medicines, promoting the responsible use of medicines, assessing and procuring pharmaceuticals on behalf of District Health Boards, and managing the subsidised use of certain pharmaceuticals in particular clinical situations.

In 2010/11, the agency’s spending increased by 7 percent to approximately $706.1 million, which funded 39.7 million prescriptions; thirty-nine new medicines received funding, and eligibility to access forty-three medicines was widened.

Financial performance

In 2010/11, the agency’s total revenue was $28.406 million, an increase of $10.155 million from the previous financial year, with a surplus of $6.365 million. An increase of $9.365 million was received for the establishment of the Discretionary Pharmaceutical Fund. The agency’s community pharmaceutical expenditure was $706.1 million, falling slightly short of the budget of $710 million.

The Office of the Auditor-General issued an unmodified audit opinion on the service, rating its management control environment and financial information systems and controls as “very good”. Its service performance information, and associated systems and controls were assessed as needing improvement. The ratings achieved were the same as those received in 2009/10.

Discretionary Pharmaceutical Fund

In 2010/11, an output agreement between the Minister of Health and Pharmac resulted in the establishment of the Discretionary Pharmaceutical Fund, which is designed to allow flexibility in managing the community pharmaceutical budget. Funding of $10 million was provided to enable Pharmac to take advantage of investment opportunities. The balance of the fund, which was $3.9 million at 30 June 2011 after $6.1 million had been utilised by Pharmac, has been classified as equity in Pharmac’s statement of financial position. Although the fund represents additional available funding, Pharmac is still required to manage strictly within the annual pharmaceutical funding budget cap. The fund allows purchasing to occur during the period from the end of one financial year and the beginning of another in a smooth and practical way.
Blood glucose meters

Pharmac is consulting on a proposal to fund three types of blood glucose meters and associated test strips from a single supplier, whereas the current arrangement funds six different types of meters and strips. We are aware of significant opposition to this proposal. A total of 3,000 public submissions have been received, with the overwhelming majority opposed to the proposal.

We asked why Pharmac is proposing the move to a sole supplier when they have achieved overall savings of nearly $68 million in the 2010/11 financial year. Pharmac reasoned that it is forecasting an increase in volume, and needs to seek value for money to avoid the risk of exceeding the budget in this area. Pharmac said it wants to ensure that people with diabetes have access to accurate meters; and they may be able to do so while saving $10 million per year to invest in other healthcare.

We expressed concern about any reduction in functionality and the limited technological features of the meters proposed for subsidy compared with the six that are currently subsidised. Pharmac emphasised that no decision has yet been reached, and that they will analyse feedback carefully, working through all the issues before deciding whether to proceed with the proposal. Pharmac said that making robust, evidence-based decisions within a capped budget is central to their processes, and decisions are based on open consultation, rigorous assessment, and analysis. Pharmac assured us that these processes have been tested via judicial review, and by the Ombudsmen, in investigations of complaints.

Pharmac said that they have a robust process for monitoring prescribers’ and users’ concerns about proposed medicine substitutions. The Centre for Adverse Reactions Monitoring is responsible for recording adverse reactions and reporting on them to Medsafe. Medsafe then guides Pharmac in assessing the medicine’s safety, and as a result Pharmac may change a listing or criteria for access to a particular medication.

Oxycontin

We were concerned about the increasingly frequent prescribing of Oxycontin, a highly addictive drug used to treat acute pain, and asked what training is being given to general practitioners regarding the appropriate renewal of prescriptions and alternative treatments. Pharmac said that Medsafe is running an education programme on Oxycontin, which has resulted in a large number of prescriptions written at the hospitals being cancelled by patients’ general practitioners. We support Pharmac’s proposal to run education programmes in areas demonstrating a high usage of oxycontin, and we will monitor this situation with interest.

Responsible use of medicines

We were concerned to hear that most people who abuse controlled drugs are receiving them on prescription; we asked what measures are in place for monitoring controlled drugs. Pharmac said this is primarily dealt with by Medsafe, who are notified of the distribution of prescriptions and keep track of their use. However, Pharmac has a responsibility for influencing the use of medicines, which it does through regional consumer forums, and population health programmes and campaigns. We are pleased that Pharmac is improving disclosure of the quality-adjusted life-year gains for people using
funded medicines, and is seeking to minimise the misuse of medicines. However, we would like to see Pharmac work with the appropriate agencies to ensure optimal prescribing. We look forward to being updated in six months on the monitoring of misuse of controlled drug prescriptions and Pharmac’s activities regarding optimal prescribing.

**Prescription volumes**

We are concerned about increases in the volume of and access to prescriptions, and asked about per capita prescription rates compared with other countries. Pharmac said that data was available only on drugs that are publicly funded. However, it suggested that a large proportion of New Zealanders have a quantity of expensive, out-of-date, unused prescriptions in their bathroom cupboards.

Pharmac also attributed the increase in prescription volumes partially to the ageing of the population. It brought to our attention the current trend whereby twenty percent of patients account for eighty-six percent of expenditure on prescriptions.
Appendix

Approach to this financial review

We met on 2 May and 23 May 2012 to consider the financial review of the Pharmaceutical Management Agency. We heard evidence from the Pharmaceutical Management Agency and received advice from the Office of the Auditor-General.

Committee members

Dr Paul Hutchison (Chairperson)
Shane Ardern
Dr Jackie Blue
Dr Cam Calder
Kevin Hague
Iain Lees-Galloway
Andrew Little
Barbara Stewart
Hon Maryan Street
Dr Jian Yang

Evidence and advice received


Pharmaceutical Management Agency, Responses to committee questions, received on 21 May 2012.


Organisation briefing paper, prepared by committee staff, dated 27 April 2012.
2010/11 financial review of the Privacy Commissioner

Report of the Justice and Electoral Committee

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Privacy Commissioner

Recommendation

The Justice and Electoral Committee has conducted the financial review of the 2010/11 performance and current operations of the Privacy Commissioner and recommends that the House take note of its report.

Introduction

The Privacy Commissioner is an independent Crown entity established under the Privacy Act 1993, which it administers. The commissioner has wide-ranging functions, including

- investigating complaints about breaches of privacy
- running privacy education programmes
- examining the privacy implications of bills
- maintaining the Privacy Act’s information privacy principles
- safeguarding human rights
- ensuring New Zealand meets its international privacy obligations and adheres to general international guidelines
- protecting social interests that compete with privacy (such as freedom of information).

Financial and service performance management

In 2010/11, the total revenue of the commissioner was $3.473 million. It spent the same amount, whereas in 2009/10 it had produced a net deficit of $0.098 million.

The Office of the Auditor-General gave the commissioner “good” ratings for its management control environment and financial information systems and controls (it received “very good” ratings for these areas in 2009/10). It received a “needs improvement” rating for its service performance information and associated systems and controls.

Workload and budget

We heard that the commissioner has been operating on a flat, minimal budget for the last seven years, which it has found challenging. Its work has to adapt rapidly to emerging trends and technologies, and demand for it is increasing. We were pleased to hear that, in spite of budgetary constraints and growing demand, the commissioner has improved its productivity and service quality. We also note that the commissioner is concerned that it has not been allocated funding for the additional work that will arise from the implementation of the Privacy (Information Sharing) Bill.
**Media inquiries**

We understand that over the last five years, media inquiries have doubled, and telephone and email inquiries have increased by 50 percent. From 1 July 2011 to 10 May 2012, the commissioner received 252 media inquiries.

There is no minister responsible for privacy issues, so the commissioner is the only legitimate source for media information on matters pertaining to privacy. The commissioner told us that, in spite of its best efforts, the office can no longer cope with the growing volume of media inquiries, and increasingly is providing minimal responses. The commissioner expects the number of inquiries to continue to increase, as privacy accidents are increasing because of the large databases of personal information held by public agencies. We think it is important that the commissioner be adequately funded, and we also consider that some ministerial responsibility for privacy issues would be worthwhile.

**Online privacy**

The commissioner is concerned at evidence that employers in the United States are increasingly requesting access to, or passwords for, prospective employees’ social media accounts. Although there is no evidence this is happening in New Zealand yet, we heard that the commissioner would like the resources to conduct proper research into this matter. We share the commissioner’s concern and think that research would be beneficial.

We were pleased to hear that information kits for teachers on protecting online privacy were distributed to secondary schools several years ago, and that the commissioner has recently received funding from UNESCO for a similar initiative for primary schools. We think that helping teachers provide this information to students is an important role for the commissioner, and that it should be sufficiently funded to do so.

**Consultation with the commissioner**

The commissioner’s governing statute requires that it be consulted on government policy that relates to privacy issues. The commissioner was concerned that government departments are not consulting it sufficiently on bills or policy with privacy implications. Privacy issues arise increasingly often in proposed legislation, and we support the commissioner’s view that consultation on such issues by departments should be undertaken consistently. We also encourage select committees to consider carefully any privacy implications of bills referred to them, and to consult the Privacy Commissioner where appropriate.
Appendix

Approach to this financial review
We met on 10 May and 14 June 2012 to consider the financial review of the Privacy Commissioner. We heard evidence from the Privacy Commissioner and received advice from the Office of the Auditor-General.

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

Evidence and advice received

Privacy Commissioner, Responses to pre-hearing questions, received 8 May 2012.

Office of the Auditor-General, Briefing on the Privacy Commissioner, dated 10 May 2012.

Organisation briefing paper, prepared by committee staff, dated 7 February 2012.
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Quotable Value Limited

Recommendation

The Primary Production Committee has conducted the financial review of the 2010/11 performance and current operations of Quotable Value Limited, and recommends that the House take note of its report.

Introduction

Quotable Value Limited values property and derives value from property-related information. It is New Zealand’s largest valuation and property information company, with 22 offices in New Zealand and a presence in three Australian states.

Quotable Value owns four subsidiary organisations (New Zealand Valuation Limited, Darroch Limited, Quotable Value Australia Pty Limited, and Egan Australasia Pty Limited) and a 50 per cent holding in a joint venture company, PropertyIQ New Zealand Limited.

We heard that Quotable Value has bid for a contract with Christchurch City Council as the valuer of Christchurch land. We look forward to hearing the results of the bidding process.

Financial performance

In 2010/11, Quotable Value (including subsidiaries) had a total revenue of $46.548 million and a total expenditure of $48.74 million, resulting in a deficit, after tax, of $2.198 million.

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance report of Quotable Value Limited, rating its management control environment as “good”, as it did in 2009/10. Quotable Value’s financial information systems and controls were assessed as needing improvement, against its rating of “good” in the previous year.

Industry changes

The industry is changing the way valuations are carried out in New Zealand, and Quotable Value is accordingly implementing a new valuation ordering process, which is intended to assist the mortgage lending process. After a customer registers with the system, a bank will place a valuation order on their behalf. The bank then allocates the request to an approved valuation firm. We were told that the system reduces costs and risk, and increases efficiency and convenience for the customer. We heard that Quotable Value’s liability remains unchanged under the new system. Quotable Value seeks to avoid liability by following good practice, but ultimately it remains as exposed as any other market competitor.

Through its subsidiary Darroch Limited, Quotable Value is increasingly facing competition from multi-national companies. These companies offer a wide range of property-related services such as property management, valuations, and real estate. We heard that Quotable Value is watching this trend to see whether it can survive by specialising in valuations, or
whether it needs to diversify its services to compete. We intend to monitor Quotable Value's decisions in this regard.

**Staff retention**

Quotable Value’s staff are highly skilled and in demand in the sector. We heard that the firm monitors market pay rates closely, as competitors are quick to recruit employees paid below average rates. We also heard that Quotable Value seeks to avoid making good staff redundant only to have to re-hire staff of equivalent skills when the market improves. We were pleased to hear of Quotable Value’s emphasis on staff retention, despite the economic downturn.

**Climate change**

We asked whether Quotable Value accounts for the effects of climate change when valuing properties. We were told that so far it has not considered these effects. In this respect, Quotable Value’s work is purely historical; its valuations determine property value at a certain point in time and do not anticipate possible changes. If natural hazards do develop, Quotable Value informs property owners about what risks may affect their properties, working with GNS Science to ascertain where natural hazards are in relation to nearby properties.

**Consistency of valuations**

Valuations in different parts of the country can vary, as can valuations of the same land by different companies at different times. We were interested in how consistent Quotable Value’s valuations are. We heard that all mass-appraisal valuations completed for local governments are audited by the Valuer-General. There is also a process through which people can object to valuations, providing councils with information that may bear upon their land’s value. We were pleased to hear that Quotable Value has received good results from these audits.
Appendix

Approach to this financial review
We met on 3 May and 24 May 2012 to consider the financial review of Quotable Value Limited. We heard evidence from Quotable Value Limited and received advice 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
Office of the Auditor-General, Briefing on Quotable Value Limited, dated 3 May 2012.

Organisation briefing paper, prepared by committee staff, dated 15 March 2012.


Quotable Value Limited, Responses to questions, dated 21 May 2012.

2010/11 financial review of Radio New Zealand Limited

Report of the Commerce Committee

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Radio New Zealand Limited

Recommendation

The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of Radio New Zealand Limited and recommends that the House take note of its report.

Introduction

Radio New Zealand Limited is a Crown entity company established under the Radio New Zealand Act 1995, and is New Zealand’s only independent, commercial-free public-service broadcaster. Richard Griffin is the chair of the board of governors and Peter Cavanagh is the chief executive. The Minister of Finance and the Minister responsible for Radio New Zealand are the shareholding Ministers.

Financial performance

In 2010/11 total revenue was $38.424 million and total expenditure was $38.489 million, resulting in a before-tax deficit of $65,000. This was primarily due to the cost of news coverage of the Canterbury earthquakes and the Pike River Mine disaster. Shareholding Ministers have waived their right to a dividend. Radio New Zealand currently has a deferred tax liability of $1.179 million, up from $574,000 in 2010, but does not expect to have to meet this liability within the next five years.

Costs

We asked about an increase of $130,000 in property expenses. Radio New Zealand explained that its operations in Wellington had been subject to substantial rent increases, complicated by technical requirements that make it difficult to move its facilities to cheaper premises.

We heard that Radio New Zealand was operating out of inadequate temporary premises in Christchurch, but was looking for suitable longer-term options. Its Christchurch building had been red-zoned, and staff in Christchurch were living in temporary accommodation. Staff from around New Zealand had been relocated to Christchurch to maintain operations there.

We noted a substantial increase in costs relating to travel, from $460,000 in 2009/10 to $672,000 in 2010/11. Radio New Zealand explained that most of that increase was related to the Christchurch earthquakes. Overseas travel has been greatly reduced in favour of agency coverage of large events overseas such as the upcoming 2012 Summer Olympics in London.

We learned that in spite of pressure on staff salaries and financial pressure on Radio New Zealand, the newsroom is fully staffed and vacancies are being filled. Some of us were concerned at the pressure on staff salaries relative to the public sector.
Radio New Zealand’s main revenue comes from Government funding, most of it New Zealand On Air funding, which was frozen in 2009. It attributes its ability to continue functioning on a tight budget to its responsible management team. It has had to reduce some production costs, particularly those relating to work outside the studio.

We were interested to hear whether Radio New Zealand believed it could continue to perform its functions according to its mandate and charter under its current budgetary circumstances, or considered it would need to start cutting services. We also wanted to know about the potential effects of any further funding cuts. It was reported that despite financial constraint, the programmes Radio New Zealand was providing were unaffected and the services it was offering were receiving wider public support. Radio New Zealand emphasised the importance of its charter obligation to provide a certain range and quality of content. It suggested that although it would be obliged under the charter to maintain a wide range of high-quality programming, further funding cuts could result in reduced volumes of programming, particularly high-cost productions such as drama features.

Radio New Zealand explained that the recent sale of some land will ease financial constraints over the next year, and it is confident it will also manage through the following financial year.

We observed that Radio New Zealand owns some rental property in Auckland, and were concerned to note that its income from this property decreased by 6.7 percent in 2010/11. Radio New Zealand said the property has been untenanted for 10 months now, and that although it had reduced its rents, a depression in the commercial rental market had so far prevented it from finding tenants.

During the hearing it was suggested that Radio New Zealand may be legislatively prohibited from charging for its content. We sought clarification on this point, and were told that although there is no specific legislative restriction, charging for content or access would go against the underlying ethos of public service radio.

We asked whether Radio New Zealand’s website brought in revenue. It said that the website generates no revenue at this time. It noted that very large volumes of traffic are needed on a site to generate any revenue from advertising. Radio New Zealand’s traffic is fairly small by global standards, but it would continue to monitor this possibility.

Radio New Zealand’s attempts to sell news to commercial operations have not been successful. Services such as consultancy work and technical services for external customers provide some income. We observed a 20 percent increase in this revenue in 2010/11 but heard that Radio New Zealand believes that this revenue will plateau. We were assured that this work would have no impact on editorial independence.

We wanted to learn more about a charitable trust set up in July 2011. Radio New Zealand explained that the trust is eventually intended to support the Concert programme on revenue from its interest, but is in the early stages. It has only recently appointed a chair, who is yet to set up a board of trustees.
**Listeners**

We commended Radio New Zealand on its importance to New Zealanders, evidenced by the Radio New Zealand Listener Survey, which showed higher public support and satisfaction than any such survey in recent years.

Radio New Zealand observed a significant increase in listeners in spite of the elimination of all external advertising. It suggested that this had been an abnormal year with the Christchurch earthquakes and the Pike River mine disaster, and it had benefited from audiences looking for information on the crises. It had noted a slight decreasing trend and expected its listener base to decrease over the year, though there had been a slight increase in its internet traffic. One quarter of Radio New Zealand’s internet audience is accessing the site from outside New Zealand.

**Crisis management**

The previous committee learned that Radio New Zealand receives no funding for its lifeline utility services in civil emergencies, and discussed the possibility of designated civil defence funding. Radio New Zealand emphasised that it was not asking for extra funding to fulfil its civil defence mandate, although if the Government decided to provide extra funding it would be very welcome.

We asked whether in the event of another disaster on the scale of the Christchurch earthquakes Radio New Zealand would be able to provide its lifeline utility services and continue to perform its other functions. Radio New Zealand responded that it would not fail to deliver on its civil defence mandate, and would make sure its lifeline utility services were available. It suggested that, if necessary, it would compromise its other activities to ensure civil defence coverage. It noted that a disaster in Wellington could be more complicated as the bulk of its operations are located there. It is currently reviewing its disaster recovery planning for Wellington.

Some of us expressed strong concern at Radio New Zealand’s advice to the incoming Minister, which said, “Radio New Zealand receives no specific funding for its statutory obligations under the Civil Defence and Emergency Management Act, and in that context the select committee drew attention to the random impact emergencies can have on Radio New Zealand’s budget”.

**Separation between media and politics**

We sought Radio New Zealand’s views on the separation between media and politics, particularly between the regulatory and media environments, and perceptions of influence. Radio New Zealand assured us that it could maintain neutrality even though most of its revenue came from Government funding. It strongly emphasised its stringent self-imposed editorial standards, and said that very rarely has a complaint not upheld by Radio New Zealand been upheld by the Broadcasting Standards Authority.

We asked Radio New Zealand’s view on the Law Commission’s issues paper on the regulatory framework for news media. It responded that it was still considering the paper in detail and formulating its response, and reiterated the high level of its own editorial standards.
Appendix A

Approach to this financial review

We met on 16 February, 22 March, and 3 May 2012 to consider the financial review of Radio New Zealand Limited. We heard evidence from Radio New Zealand Limited and received advice from the Office of the Auditor-General.

Committee members

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

Evidence and advice received

Office of the Auditor-General, Briefing on Radio New Zealand Limited, dated 16 February 2012.

Organisation briefing paper, prepared by committee staff, dated 13 February 2012.


Radio New Zealand Limited, Responses to additional written questions, received 19 March 2012.

Radio New Zealand Limited, Responses to written questions, received 19 March 2012.

Appendix B

Corrected transcript of hearing of evidence 16 February 2012

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

Witnesses
Richard Griffin, Chair
Peter Cavanagh, Chief Executive Officer
Ken Law, Deputy Chief Executive Officer

McCly Good morning. Welcome to the committee. Can I start by thanking you for coming at what I know probably seems a little bit of short notice. The committee has a very heavy workload ahead of it with financial reviews. I want to recognise the efforts you have been able put in to come along for us, and we appreciate it greatly that you’ve given up the time. Can I perhaps ask you, although we may all know who you are, for others in the room if you could introduce yourselves. You can see who we are here. Then what we will do is ask you to make some opening comments and I’m sure members have questions for you.

Griffin Kia ora. Well, thanks for your welcome, and maybe I’m slightly paranoid, but I was disturbed we only had a week. Given that I’ve been in politics a long time, I thought there was going to be an agenda, but obviously not. Thank you for your welcome. [Introductions] We’re here at your disposal until 11.45—is that the time?

McCly Yeah, we have 45 minutes—that’s right.

Griffin Good, thank you. Is there anything else you require before we go on to—

McCly No, please make your opening comments, if you have some. Otherwise we can go to questions, if you’ve got nothing you want to take us through.
We’ve had a briefing from the Auditor-General, but I’m sure the members are happy to hear a few opening comments from you, if you wish.

Griffin

Good; thank you. I’ve been chair for 9 months. It seems only yesterday I was here, but it was last May. In that time, of course—I’m not preaching to parliamentarians—but it’s been probably one of the most tumultuous years in political life, and certainly in the life of our small country, and Radio New Zealand, as the only real—in my opinion—the only real public service broadcaster, has had to deal with, as we all know—as we all have; as you all have—natural disasters, physical disasters, _Rena_, the Rugby World Cup, and finally a political election that I think we covered enormously well and covered ourselves in glory. Perhaps in terms of the human endeavour, at the end of last year, you may remember one of the staff of Radio New Zealand was leaving the building, going off duty at 6 o’clock on Sunday morning, and was murdered only a few hundred yards away from the building, which of course had a huge impact on the staff too, and obviously on management and everyone concerned. In that sense it’s been a very testing year for Radio New Zealand.

I appreciate this is a financial hearing, but in human endeavour, I think we can be very proud as an organisation—both you and Radio New Zealand itself—we’re very proud of the way they carried the burden of a challenging year and ended the year not just financially together but physically and emotionally together. A lot of very tired people, as Peter’s observed previously, and I think we should be very proud of the fact that they’re able to cope with a shrinking budget. I hate to dwell on the obvious, but the shrinking budget—and, just as importantly, the stresses that brings with it, without walking away from their responsibilities, because, as we all know, radio—as someone observed yesterday; no longer a sunset industry—is a very important facet of all our lives, and the fact that they survived it and organised the technology and the effort accordingly is something that, as I say, we should all be proud of.

The board itself is a very diverse board geographically and in terms of gender, and we do our best to ensure that the mandate that the Government has given us to help the management in its way forward is something we all enjoy carrying out. We all do believe, as I have said to this committee—well, different members of this committee, but the previous committee—we all believe in the ethos of public broadcasting, we want to advance the ethos of public broadcasting, and, just as importantly, we want to do that within the budget that we’ve been allotted by this administration. It’s been made clear to us that this Government doesn’t require a dividend again this year. We’ve had that in writing. We’re very grateful for that, but we’re still living clearly with a shrinking budget in real terms. In that sense Ken and Peter and the whole management team have been extraordinarily disciplined. The management of Radio New Zealand’s—as I’m sure Audit New Zealand’s already told you—the management of Radio New Zealand’s finances are extraordinary. Not a penny is spent without it being accounted for, and the discipline is extraordinary. So firstly, from the board’s point of
view, we’re enormously relieved that we have such a responsible management team and we can still continue to live within what I say in real terms is a shrinking budget.

So thank you, and I’ll open the floor for questions, unless Peter or Ken have anything especially—

Witness No, nothing to add.

McClay Good, thank you very much.

Curran Well, first of all, I would just like to say thank you for coming along and thank you for the work that you do. Radio New Zealand is an extremely important institution in our country. It’s our public radio broadcaster and it holds a very important place in all New Zealanders’ hearts, which is evidenced by the polling work that has been done and the public views of Radio New Zealand, and is also very, very obvious when we have a time of national crisis, when the work done by you is absolutely critical. So I do want to put that on record, because it’s extremely important that we value you and tell you that you’re valued.

Griffin Thank you.

Curran My concern, therefore—particularly in the light of the briefing to the income Minister, which I have read on several occasions—is the clear warning to the new Minister of Radio New Zealand not being able to perform its functions according to its mandate, according to its charter, under its current budgetary circumstances, and it’s certainly with the uncertainty over what happens next year. So I want to drill into some of those issues and ask you some specific questions. Where in the briefing paper to the new Minister it says that Radio New Zealand has pared back its activities to accommodate increases in non-discretionary operating costs of approximately $2 million per year, can you tell me, is that figure cumulative—for example, $2 million each year, amounting to $6 million over 3 years—or is that a one-off?

Griffin It’s cumulative, but I’ll leave that to Peter and Ken to answer, if I may.

Cavanagh That’s the cumulative effect, so by the third year of the funding freeze the increase in our non-discretionary operating costs over the start of the freeze are $2 million.

Curran So it will be $2 million over that 3 years?

Cavanagh In total, yes.

Curran So tell me, what are the main non-discretionary operating costs?

Cavanagh They’re all of those costs, I guess, that anyone in business incurs. We’re talking about the cost of our staff, salary increases—modest though they’ve
been over the last couple of years—increases in things like the rental, because virtually all of our property that we occupy are leased premises. We’re talking about power charges, we’re talking about transmission charges—they’re the major cost to us—increases in the rights payments we pay to organisations that we buy content from—those sorts of things.

Curran So given that those are things that really you can’t control, how are you managing to address existing in the environment, fulfilling your charter responsibilities, with the increases that occurring to you that you can’t find your way around? I suppose the question is, have you pared back to the point where you can’t pare back any more without actually cutting more services?

Cavanagh In the current financial year the financial pressure on the organisation has been eased somewhat by the fortuitous purchase of a small parcel of land adjacent to our main transmitter in Auckland for roadworks. The income from the sale of that parcel of land has eased the burden on the organisation in the current financial year, and because of that I’m confident that we will finish the current financial year within budget. The underlying financial performance of the organisation, if you take that one-off factor out, has been extremely tight. Next year it will again be extremely tight, but we’re confident that we can also get through the following financial year.

Curran Will you get through this financial year without cutting programmes?

Cavanagh I would expect that we would get through without cutting programmes. There may need to be some changes in the way we go about our programme-making activity.

Curran What sort of changes?

Cavanagh Well, things that we’ve been doing already and over the last few years—you know, we travel less than we used to. It means that, in terms, for example, of the regions, we travel less frequently to the regions, we’re doing fewer face-to-face interviews—anything basically that involves getting out of the studio, we’re doing less often. We’ve cut back quite dramatically on the number of outside broadcasts that we would do from regional areas. Overseas travel is now extremely tight. So, for example, when the Prime Minister travels overseas we would now only accompany him on those trips on only a handful of occasions each year. On other occasions we would need to make other arrangements to obtain coverage of those trips. Another example is in the year ahead—in the next financial year—for example, Radio New Zealand won’t be sending a reporter to the London Olympics. It’s those sorts of things.

Curran So what I’m hearing you say is that Radio New Zealand—leaving aside the fact that it is an extremely important organisation in our broadcasting environment and is our only public broadcaster—it can’t fulfil its functions effectively?
Griffin No, we’re not saying that, Clare.

Curran You’re not saying that?

Griffin No, no—we’re not saying that. What we’re saying is like all other Government departments and all other public services, we are cutting costs according to our cloth. Good housekeeping is critical, and of course, long term, it will have an effect on programmes. At the moment it is not having an effect on programmes. You haven’t noticed any effect. It means people are working harder, it means money has to be spent a great deal more wisely, but it is not having an impact on the programmed services you’re getting. In fact, the audiences would suggest—because they’re increasing—that, in fact, what we’re offering to the public is increasingly more acceptable than it has been in yesteryear. So, in a sense, we’re living within our means—that’s what’s happening.

Curran So you also say that staff salaries have been eroded in comparison with the public sector elsewhere—

Griffin That’s been happening for quite some time.

Curran Can you give me an example of that?

Griffin Well, Peter would be able to give you the figures, but I think probably, you’d compare apples with oranges, because in a sense it is. We’re well behind the eight ball when compared to something like Treasury, Foreign Affairs.

Curran Have overall numbers in news been cut?

Griffin No.

Curran Are the newsroom numbers up to full strength?

Griffin As full as they’ve ever been. Obviously every newsroom in the world would like a full newsroom.

Curran No, no—

Griffin No, we haven’t cut newsroom numbers, no.

Curran Are vacancies being filled?

Griffin Yes, they are.

Curran So what you’re saying, though, is that by not sending a reporter—and this is just an example—to the London Olympics, which is one of the big events happening this year in the world, you’re still fulfilling your ability to provide a service to New Zealanders. You say every public sector agency is facing cuts, but if you are thinking about from the perspective of the New Zealander who is listening to Radio New Zealand and, therefore, can’t hear
a voice from Radio New Zealand reporting on one of the major events this year, you say that that’s not an example of a cut in services to the New Zealand public?

Griffin  I’m sure this management is more than capable of ensuring that you hear New Zealand voices reporting New Zealand events. That’s what good management is all about. It’s certainly what Peter and the rest of them have been doing.

Curran  Well, presumably there will be a feed taken from someone else, but it won’t be a Radio New Zealand reporter who’s actually reporting on it?

Griffin  We’ll make those decisions when the time comes. You are not going to hear anything you wouldn’t otherwise hear. It’s a matter of how we cut the cloth.

Cavanagh  I’m going to have to clarify that. I’m not suggesting for a moment that there won’t be comprehensive coverage of the London Olympics. We won’t be sending a reporter there specifically for that; we have other avenues available to us as to how we provide that coverage, including people who work for us on an agency basis that provide agency coverage for us, specifically tailored for us and for New Zealand, at various locations around the world.

Curran  Do you believe that’s satisfactory?

Cavanagh  Look, in an ideal world, you know, we would probably have a small team of people there, but it is not an ideal world.

Lotu-Iiga  I also want to thank you for being here at short notice, and to congratulate you obviously in these tough times on how you’ve managed to, as the chairman said, cut the cloth to fit what you’ve been given. You’ve been given obviously constrained revenues. We did talk about, in previous years, looking at that sort of revenue side and how you might be able to generate some other forms of income. Are you able to elaborate where you’re at with that side of the [inaudible] or the comprehensive income statement that we’ve got in your annual report? You’ve set up a trust, for example.

Griffin  We have set up a trust, that’s true, and I can tell you we now have a chairman of that trust who is presently in India, but he’s a former deputy chair of New Zealand On Air, a very well-known entrepreneur and someone who we believe will make that trust work. But of course that’s a long-term goal and we don’t expect for a minute the trust will do anything other than ensure that the Concert programme, and particularly the [inaudible] concert will be promoted and there will be money available. But at every board meeting and every meeting we have with management, alternate routes of revenue are discussed. We look at every possible opportunity; we talk to other organisations in terms of selling news service. This is something that is constantly before us and something that we are constantly focused on, because we appreciate, if this circumstance continues—and I have no doubt it will—we are going to have to find ways and means of
ensuring that, one, the programmes don’t suffer and, two, the staff, who are the critical element in any programming, are not affected adversely. They are living on salaries that I’d like to believe could be considerably enhanced, but that’s just not possible at this moment. So the answer is yes. That is an issue that is constantly on our minds. It is something that we work on every month.

Curran I was just going to ask a supp on that—just quickly. With that trust, has there been any attempt to attract donations or sponsorship?

Griffin The controversy of setting the trust up, Clare, was—

Member [inaudible]

Griffin —somewhat difficult. We’ve only just appointed a chair of that trust. In fact, he’s not formally appointed. At the last meeting I had with him was last week, he agreed to do it. There’s no money involved in the trustees. He will set up his own group of trustees. They won’t be paid, and they will work informally to, presumably, get a trust of some millions together, 5 or 6 years down the track it may start paying interest, and we will live off the interest. That’s the plan—I mean, the Concert programme events will live on that interest.

Curran But my question was, has there to date been any attempt to attract donations or sponsorship through that? So the answer is no—is that right?

Griffin Peter will tell you that he’s talked to groups of people who have wanted to put money into a vehicle like this trust and it hasn’t been available previously. It’s only been available as of, I think, July last year.

Curran So has any money gone in?

Griffin No.

Curran So have any other alternative revenue sources been found?

Griffin In short, no. We’ve sold the pianos—as you no doubt will have noticed; we still have one in reserve—but, no. It is an organisation that is essentially a public service, a public broadcaster. We are not in a position to charge for services. Our attempts to forge relationships with commercial operations and sell our news to them have not borne fruit, and the short answer is no.

McClay Just on that on—the Act prohibits you from charging for services within New Zealand.

Griffin Indeed.

McClay I note that you said earlier that listenership patronage has increased significantly, and I’m assuming the internet has a bit to do with that also.
Griffin  Absolutely.

McClay  You’ve actually got quite a good applet that one of my staff members got me to download yesterday. Are there people from all over the world now listening to Radio New Zealand services, or finding content that is available on your site?

Griffin  No, we’re very proud of the website services, and I’m very proud of the fact that the management and the people in the team that are putting it together have been so successful. Peter will give you a rundown. About 75 percent of our website customers and clients are from New Zealand; the rest are from all around the world. Peter will, I’m sure, elaborate for you.

Cavanagh  Yes, I mean, one of the real boons of online broadcasting for us has been that we’re no longer restricted to a terrestrial transmission network, so prior to online broadcasting you had to be physically within New Zealand to listen to the services and available to listen live when a programme was broadcast. So the two benefits to us of online broadcasting—the first huge one is that we can now provide on-demand content, so you can listen to a programme whenever you want to listen to the programme, no matter how long ago it went to air; and the second one, clearly, is that we can now reach New Zealanders anywhere in the world, wherever they happen to be, provided they can get access to the internet, or now through the app that we’ve produced for iPhones and iPads. It’s been very popular in terms of app downloads—I think currently it’s about 18,000—so in relation to the size of our live listening audience, it’s still a very modest figure, but I would expect that figure to continue to grow, and as the word gets around, and as we’re able to promote the fact that these apps exist and as we’re able to extend that offering to android phones—which we can’t currently do but hopefully we will be able to do in a few months—we’d expect that to grow exponentially.

McClay  Because sometimes there’s a feeling that listening to Radio New Zealand is, you know, a little transistor sitting out on the porch. It’s certainly not that any more, and new technologies are changing things. I guess this is a way of saying there was a programme that I read about in a newspaper that I think was from the BBC, and I wanted to go and listen to it. You can find it—I think you had to pay for it—and I think my wife might have forced me to. So the point is that was somewhere else, somewhere elsewhere in the world. Great programme—nowhere near as good as the content that you have at your disposal—it’s very interesting where this stuff might head.

Cavanagh  Yeah, I think the BBC, of course, drives extraordinary amounts of global traffic and a lot of its content, a lot of its programming, is of global relevance and significance. So the BBC certainly made a decision that it will never charge for content for British licence-fee payers, because they still have the licence fee in the UK, so you won’t be charged for anything if you’re living within the UK, and you won’t see any advertising on a BBC-associated site if you’re living within the UK. But for global traffic, of which
there is, for the BBC, a very significant amount—a lot of it from the US—and you visit their website, international visitors will see some advertising. I’m not sure about the charging for podcasts; I wasn’t aware of that.

Cunliffe I hate to be boring, but I’d like to add personal thanks and congratulations for the work you do in these straitened times, but it’s a pleasure to read an annual report which shows you exceeding forecast and improving on past years across a wide range of variables: total listenership, internet uptake, feedback from the public. I think anybody, and I [inaudible] breach confidence; your audit report bears it out—is a glowing report, chairman, to your chief executive across a range of measures. It’s obviously a very well-run organisation, so I’d like to just acknowledge that.

Griffin Thank you very much.

Cunliffe I’m a bit of a bean counter, so I just want to dig in a bit to your financials, against the background that our reviewers, yourself as chair, and the chief executive have all drawn attention to the question of financial sustainability. I believe it’s a shared interest across the table to ensure that you can continue to deliver high-quality services that matter to all New Zealanders going forward. Firstly on the income line, obviously the biggest single income line is the Government funding and fees—as you say, a real-terms cut around the $35 million mark. What are your projections for, say, the next 3 years of your Government income? Obviously that’s subject to change, but what’s your baseline that you’re working off?

Griffin We don’t anticipate any change, David, no.

Cunliffe So you’re anticipating a nominal freeze, chair?

Griffin We are.

Cunliffe A nominal freeze, which means—

Griffin We’re working to exactly that.

Cunliffe Right. So your baseline planning is around a real-terms cut equal to the rate of inflation—probably 3 percent per annum, roughly?

Griffin That’s correct.

Cunliffe And compounding that would be a 10 percent real-terms cut over 3 years. What would be the impact on the service of a 10 percent cut in funding over 3 years?

Griffin Well, Peter and Ken are best equipped to answer that question.

Cavanagh If it extends to that extent, then clearly we have charter obligations we must maintain, so I would expect that we would maintain the range and quality of the content we produce. We may not be able to maintain the same quantity
of that content. We’d have to look at the volumes of each genre of programming that we produce, particularly the more expensive content. That’s the sort of area we would have to look at if that eventuated and there was no offsetting additional income.

Cunliffe So, you know, 10 percent real-terms cut; you want to maintain the volume. What would be some of the higher-quality, more expensive programming that might fall by the wayside?

Cavanagh Across the board, there would be programming that would fit into that sort of category. At the news end of the scale it could be the more time-consuming investigative journalism, or documentary-type production that we might do that is time-consuming and involves people being out of the system for significant periods of time. It could be some of the more expensive features programmes that we look at, drama production that are high-quality, high-cost productions.

Cunliffe You’ve got a $1 billion deferred tax—not $1 billion; $1 million deferred—fortunately, not $1 billion, chairman. You might go white over that, chairman!

Griffin I’m going to have to leave the country over that!

Cunliffe That’s exactly right—anonymous as you are! So you’ve got a $1 million deferred tax liability. That’s on top of the 10 percent real-terms cut. When do those chickens come home to roost, and how do you manage that alongside the sinking lid?

Law Well, that will fluctuate over time with asset re-evaluations and the like, so it may be that it never comes home to rest. As I say, that will depend on asset valuations and future financial performance. But we don’t see it as a liability that we would have to meet within the next 5 years.

Cunliffe So you’re not anticipating any drain on cash for operations from that?

Law No.

Cunliffe On another income line there’s been a significant uptick in the order of about 20 percent in the last 2 years on receipts from customers. What sort of things are those—and presumably there’ll be more pressure to increase receipts from customers, given the sinking lid on funding from the Crown. What sort of items might they be?

Law You’re talking about income here?

Cunliffe Yeah—receipts from income.

Law We’ve done particularly well in terms of consultancy work, co-siting, other technical services.
Cunliffe: And you’d anticipate that that income would continue to increase?

Law: No, I think it will plateau, particularly the consultancy work. The last couple of years we’ve done a lot of consultancy work, particularly in the South Pacific. I don’t know that we can anticipate that that would continue to increase, but then again that may be replaced with other work within New Zealand. Peter might have a better perspective.

Cunliffe: Just checking to get you on the record, but I don’t have any doubt about it—there’s no impact or potential impact on editorial independence from the growing dependence on receipts from customers because it’s not a [inaudible]—it’s not content—

Griffin: No, I can promise you that is not the case.

Cavanagh: Unrelated to editorial.

Griffin: I think there’s a change in new technology too that may assist us, but it’s a moot point and something that I’m certainly not expert at. But if there’s anticipations, it’s that we might be able to save money when new technology becomes more available and, more importantly, less expensive.

Cunliffe: There are a couple of trends around high-quality journalism around the world—you know, the Guardian’s a loss-maker. It’s funded by a trust; you’re funded by the Government. The New York Times is losing money—you know, it’s celebrated company to be in. Do you anticipate the possibility of possibly charging for some premium services at any point—internet services or otherwise?

Griffin: Under the legislation, that’s not a reality.

Cunliffe: That’s not a reality, good. OK—

McClay: David, before you go on, there’s just a supp on one of those from Jonathan.

Young: You’ve just mentioned the possible savings on new technologies. Can you just expand a little bit on that?

Griffin: Well, I’d like to wax lyrical for hours, but I’m of the generation that is somewhat Luddite. But everything I’ve read and everything I’ve been told would suggest that down the track, the new technology, as we move into an even greater digital age—I mean, let’s face it, we’re a digital company—will make gathering of news and delivering of news relatively less expensive. I don’t see any real intention in this country to get rid of terrestrial lines and so on, but everything I’ve read and everything that experts tell me suggests that that’s where we could make some savings. It doesn’t suggest that’s where we could make some more money. In fact, everywhere I look and the board looks and the management look, it is difficult to see just how we can generate funds that in any way make up for the discernable erosion in real terms of our present funding. Then I suppose you get to the marrow of the
case—programmes and, presumably, personnel eventually will have to pay the cost. But that’s not unique to broadcasting.

Lotu-Iiga Just coming back to income, just looking at the rental income from properties. That went down reasonably substantially, I think, going back the years it’s coming down, but is that—can you explain the—I think we’re looking at $170,000?

Law Yes. We own the property in Auckland, and lease out two floors in there. One of our major tenants—also a public sector organisation—moved out towards the beginning of the financial year, so we’ve been without that means of income.

Lotu-Iiga But for how long?

Law Oh, I think it was pretty much towards the beginning of the financial year.

Lotu-Iiga But for how long was it vacant for?

Law Probably 10 months.

Lotu-Iiga Ten months—so that accounts for the $170,000. Is it tenanted today?

Law No, it is not. It’s in Auckland and, as you may be aware, the commercial rental market in Auckland has been somewhat depressed. Rental rates are down. Huge inducements are required to—

Lotu-Iiga OK, but going forward you could expect that line to go back up. I’m just—

Law Well, we were certainly hopeful that we would be able to tenant it in the relatively near future, but as we say, we can only offer inducements. We’ve reduced our rents—rent charges—in an attempt to attract new tenants. It is a difficult market.

Griffin It is something we have taken cognisance of it. We’re determined that we fill that space.

Lotu-Iiga Let’s just turn to the expenses—

Cunliffe Just before you do, I thought that was a supp. I’ve got one final line—

McClay We’ll come back to you. David?

Cunliffe Your other main income stream is New Zealand On Air funding. It’s gone up a few percent—it’s $32.5 million in the last year. Likely to be an ongoing important source of funding for you? Relatively more important in the future?

Griffin Oh, God, yes—I’m sure that’s true. But I’ll leave that to Peter, but I’d love to see some of the money that goes to TVNZ diverted to a far more important broadcaster, but—
Cavanagh: This is New Zealand On Air funding?
Cunliffe: Yes.
Cavanagh: Effectively, New Zealand On Air funding is our appropriation from Government.
Griffin: That’s it, really.
Cunliffe: And so you’re assuming, flat, nominal for that?
Cavanagh: Absolutely.
Cunliffe: Forgive me, but I am sure you would—correct me if I’m wrong—uphold the principle of absolute neutrality in terms of the allocation of that funding?
Griffin: Yep, absolutely. I know particularly Clare is very conscious of any contravening of those particular lines, and ethically we’re very conscious of it. Peter particularly has made an absolute discipline of it within Radio New Zealand over the last 8, 9 years.
Cunliffe: We would love to change your name away from National Radio, but I guess we’ve given up on that!
Cavanagh: Radio New Zealand National.
McClay: All right, but I think we accept that there’s absolute independence there.
Lotu-Iiga: Coming back to the operating expenses, we accept that you’re covering staff salaries, so let’s put that side of the income statement aside. Let’s just come down to where to where have been savings. I know you’ve mentioned travel. I see on the travel item, it’s actually gone up almost a quarter of a million dollars, so maybe there’s more travel in other areas where you’ve maybe cut back in some of the other travel expenses. So that’s gone up. In terms of—
Griffin: It has been an extraordinary year, though.
Cavanagh: I think you’ll find the bulk of that increase would be directly associated with the Christchurch earthquakes.
Lotu-Iiga: And maybe we should come back to that, because the work you did there I think everyone acknowledges was fantastic, and to a large extent unfunded, I believe. I have a question around how you deal with that, because these disasters will occur in future. But if I could come back to that—just putting aside the travel component—and then property expense went up sort of $130,000-odd. Again, just looking from a more dynamic sense, is that likely to go up again in future? Is it something you’re monitoring in terms of your—
Cavanagh We monitor it very, very closely.

Lotu-Iiga What’s your sense on that item?

Cavanagh Well, part of the difficulty is that we are in effect a captive tenant. As I said, we lease most of our premises. If you look at our main operations here in Wellington, we have an incredibly extensive technical fit-out for studios and production facilities there, which means that unlike perhaps other Government departments, who can pick up and move into alternative office accommodation, it’s not really an option for us, and in the past we’ve had substantial rent increases here in Wellington. Looking ahead we would be hopeful that we might be able to keep those increases at a minimum, or eliminate further increases because there has been a softening of the market here in Wellington, as well. So that’s something we’re working on at the moment.

Lotu-Iiga OK, thanks. One more on just the expense side. The advertising and publicity—what’s incorporated in that part of it? Because you’ve actually cut that by almost, what, 40-odd percent.

Cavanagh Effectively, in terms of any external advertising the organisation might do, we’ve eliminated it in the last couple of years. There was a time a few years back when we did have a modest external advertising budget which we used for some, you know, print advertising. We did do a very modest television campaign a couple of years ago. That’s all gone, so we don’t do any external advertising at all any more.

Lotu-Iiga So that was done through external agencies that you’ve—

Cavanagh That’s buying advertising space.

Lotu-Iiga Media buying?

Cavanagh Yeah, media buying on television—TVNZ, TV3—the Listener, wherever it might be.

Young So at this point in time, you’ve decreased that; you’ve actually increased your listenership?

Curran Listenership has increased.

Young Yeah.

Lotu-Iiga It hasn’t affected your ability to expand the operations and your listener base.

Cavanagh I suspect we’ll need the passage of some more time to know what the long-term effect is. I think at the moment what we are seeing is, as we often say, in times of crisis people turn to their public service broadcaster, you know, for the trustworthy, reliable, accurate information that they need to get
through that crisis. That certainly happened last year with the earthquakes, and it’s been one of those years where I think the afterglow, if you like, of people turning to us because they needed that information has continued on even though the crisis itself has now passed, or largely passed. So it hasn’t been a normal operating period in terms of listenership. We’ve certainly benefited from the fact that more people have looked to us when they needed that sort of information.

Lotu-Iiga But it’s been almost a year since that earthquake. What are you seeing—are your listenership numbers still being maintained?

Cavanagh It’s easing off since the beginning of last year. And because we operate on a listener measurement system where we do rolling measurements of survey, the effect of the Christchurch earthquake will stay with us until probably the first couple of surveys of this year before the effect goes out the other end. We’ll have a better indication then of what the ongoing audience levels are going to be.

Griffin Could I just tell you the demand on the website seems to be slightly increasing, as far as I can read it, which is I suppose a phenomenon of our time rather than any new audiences, but there we are.

Curran Just on the Christchurch earthquake issue—and I note that you talk about this as well in the briefing to the incoming Minister—do you believe that if there is another disaster such as on that sort of level, Radio New Zealand will be able to function to the level that it has and still perform its other functions?

Griffin Of course, that’s what we’re here for. And that’s what everyone in the place believes they are there for.

Curran But what I read in here is that you won’t. So you—

Griffin I don’t know how you extricated that from what’s written on that, but I’m telling you without any equivocation that we will, largely because I know how the staff, I know how the management, and I know how the board would react. That would be our primary focus, and we’ll be able to continue other programming, also. There may come a time, but not in my time.

Cavanagh Could I just add to that, there are probably two aspects of that. If a major disaster or crisis occurred in the country outside of Wellington, we would simply marshal our resources, as we did with Christchurch, to make sure the essential coverage—as a lifeline utility and as a public service broadcaster—that the essential coverage that New Zealanders needed, we would provide it. And if it meant compromising some other of our activities to do that, we would do that. If it affected Wellington, that is a different issue, because the bulk of our operations are here in Wellington, but we are currently reviewing our disaster recovery planning to look at that. I think the one thing that Christchurch has done is it’s driven home to us how important the service is that we provide and how important it is that, whatever
happens, wherever it happens in the country, that we are able to continue to provide that service. So we’re looking now particularly at Wellington and looking at how we might improve our resources elsewhere in the country so that, you know—pray God it never happens—but if something did happen of a major extent in Wellington, that we would also be able to continue to operate.

Curran Well, let me read this paragraph in the briefing, which said that “Radio New Zealand receives no specific funding for its statutory obligations under the Civil Defence and Emergency Management Act, and in that context”—in referring to the select committee discussion last year, I think it was—“the Select Committee drew attention to the random impact emergencies can have on Radio New Zealand’s budget.” You also note that you’re “currently operating out of temporary premises which are inadequate for our current and future needs however investigations are underway to identify more suitable longer-term options.” I mean, it does appear to me that Radio New Zealand has been significantly affected in terms of how it operates by—

Griffin We were significantly affected, obviously, by the earthquake in Christchurch. Our building is red-zoned; it’s never going to be tenanted again. We’ve had to move staff from all over the country to Christchurch to pick up the slack. The staff in Christchurch are living in accommodation that probably is not adequate in the long term—in fact, it’s certainly not adequate in the long term—but a lot of other people in Christchurch have been far worse affected. Our reference to the select committee recommendation is just that—a reference to the chair’s suggestion that the committee would take this up with the Government. We’re stating the facts; we weren’t trying to draw any inferences.

Curran But what you’re saying is you don’t receive specific funding for—

Griffin That’s correct. We don’t.

Curran —and what you’re saying—

Griffin Lianne Dalziel said at the last—when she was chairing this committee—she said she would take that up with the Government. We were simply making that point.

Curran Yes, so would you be reiterating that to us again today—that this may be something that seriously does need to be looked at, in terms of the important functions of Radio New Zealand—

Griffin We’re very aware of the pressures that the earthquake has caused the whole country, not just the Government. Of course, any opportunity to pick up some of that sort of slack—but that comes within our mandate. We’re not asking for any special favours. We know what our mandate is; we know what’s expected of us. If the Government had a mind to do something about it, that would be very welcome, but we don’t anticipate that happening.
Bakshi  You just mentioned that there is also increase in your web page traffic. Do you make any revenue out of it?

Griffin  No, we don’t. We don’t get any revenue from the website. It’s a subject of continuing discussion within the board and the management. I suppose it could be suggested that there’s templates elsewhere in the world that suggest we could raise revenue from our web traffic. I think management’s of the opinion that it doesn’t have enough oomph, it doesn’t have enough traction, to generate the sort of income that would be worth the effort. But it’s something that, once again, we discuss on a regular basis. Is that a fair comment from your perspective?

Cavanagh  Yes, I mean, when you look at the revenue generated from, say, website advertising, you do need extraordinarily large volumes of traffic at a very small unit cost of advertising to generate any significant revenue from that. While our volumes of traffic are, I think, very significant for a public service broadcaster in a country of 4 million people, by global standards it’s a fairly small level of traffic, and probably beyond the viability threshold for advertising.

Bakshi  Still, you have got 15 million people visiting your website.

Cavanagh  I’m sorry?

Bakshi  Fifteen million—you’ve got statistics that 15 million people are already visiting your website.

Cavanagh  That would be page impressions a year, is it?

Griffin  Page impressions, yes. Look, the traffic is increasing and, as I say, it’s a debate and a focus we’ll continue to have. At this stage anyway, it is not generating any income. I’d like to think—I think all of us would like to think that down the track it’s a potential revenue gleaner, but there are difficulties, including legislation.

Curran  There was a flurry of publicity last year about a proposal by John Barnett of South Pacific Pictures to trial a radio with pictures TV channel with Radio New Zealand. Where is that at? Is that proposal still on the table?

Griffin  There’s no TV7, there’s no radio with pictures, there’s no point in continuing—

Curran  Are there discussions still occurring with John Barnett with regard to any proposals around looking at how to—

Griffin  John has made his proposals. We indicated as a board that we’d be interested to see what it might look like. That’s all we said.

Curran  And have further proposals been put to you?
Griffin Well, there’s no point in seeing what it would look like if it’s never going to happen.

Curran But have further proposals been put to you?

Griffin No. No, they have not.

Curran Has the board had a discussion about what that might look like?

Griffin We have a discussion about it on a regular basis, but, as I say, there is no vehicle from June this year to carry such a concept, so it’s no longer feasible or viable.

Curran Have any other proposals been put to you about how a television channel and Radio New Zealand might work together?

Griffin No, neither formally or informally.

Curran Just one more, and that is the question that basically related to the previous discussion we had with the Broadcasting Standards Authority, which is the regulator in your area. I’m interested to know what your views are as a board on the, I guess, the separation between media and politics, and whether you believe that the perception of lack of neutrality, political interference—whatever you want to call it—is there and whether or not the relationship, that there is a clear enough separation between the regulatory environment and the media environment and politics, and whether you—

Griffin As far as Radio New Zealand’s concerned, absolutely. I can’t comment on any other media or any other organisation.

Curran Well, given that you are subject to the Broadcasting Standards Authority, which is the regulator in the environment—

Griffin Quite so.

Curran —and given that the Law Commission has come out with a fairly substantial report on this issue, what is your view with regards to a new regulator in that environment? Do you think one should exist that encompasses the whole of the media spectrum, as is being proposed between press, broadcasting, and the internet, and do you think it should be more arm’s length from Government than it currently is?

McClay Just on that, in as far as a financial review of this year looking backwards suggests that you have some challenges with the question Clare has asked would assist with, please answer.

Griffin It’s not a question I’m prepared to climb into, but Peter may.

Cavanagh Could I just say that the organisation is still formulating its response to the Law Commission report. We’re still looking at it in detail. All I could add to
the discussion in relation to the current regulatory regime with the Broadcasting Standards Authority is that we operate under very, very stringent editorial standards ourselves that are self-imposed. We set ourselves a higher standard of ethical and editorial behaviour than is required of us under that regulatory regime, and when on those rare occasions that we do have complaints about our content, the first thing we do is measure them against our own editorial policies and standards. If they fail to reach those standards, then we act on that ourselves, without it going to the BSA. Very rarely has anything that we have not upheld gone on to the BSA and been upheld by them.

Griffin All I can say as a former journalist is that the editorial standards at Radio New Zealand outstrip and outflank virtually every other organisation in this country, and probably Australia too, largely because Peter put them into effect 5 years ago after a great deal of work. So you can rest assured that those standards are as stringent as any I've ever known.

McClay Good. Look, thank you. That's slightly more than our 45 minutes. Can I thank you for your time. I think it’s been informative. Even though we asked you to come along at short notice—

Griffin No, no, it’s no problem.

McClay —I think if we’d given you much more time we would have had to find some more questions, so thanks a lot for that.

Griffin Thank you for your courtesy and thank you for your time.

Cunliffe Again, congratulations, and the importance of sound public broadcasting can’t be overstated.

Griffin Thank you very much indeed, David. That’s very well taken.

McClay Thank you.

**conclusion of evidence**
The Finance and Expenditure Committee has conducted the financial review of the 2010/11 performance and current operations of the Reserve Bank of 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.

Simon Bridges
Chairperson
2010/11 financial review of the Retirement Commissioner

Report of the Social Services Committee

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Retirement Commissioner

Recommendation

The Social Services Committee has conducted the financial review of the 2010/11 performance and current operations of the Retirement Commissioner and recommends that the House take note of its report.

Introduction

The Retirement Commissioner is a statutory role created under section 82 of the New Zealand Superannuation and Retirement Income Act 2001; the commission itself was established in 1993. The commissioner seeks to improve financial literacy, contribute to stable, effective retirement income policy, and ensure that the financial services sector is trustworthy, so that New Zealanders are provided for adequately in retirement.

The commissioner is supported by the Retirement Commission, which is now called the Commission for Financial Literacy and Retirement Income to reflect its goals more accurately. The Office of the Auditor-General audited the commission under the new name, although the name change has not been enacted in legislation as yet. The financial review continues to examine the Retirement Commissioner, which remains the title of the head of the commission. There has also been a change in departmental responsibility for the Retirement Commissioner, from the Ministry of Social Development to the Ministry of Economic Development. The commission's statement of intent noted that this was to reflect “the economic significance of financial literacy to the nation, and the closer alignment this brings to other organisations with allied concerns that are also in the MED sphere, such as the Financial Markets Authority (FMA).”

In 2010/11 the Retirement Commissioner’s total revenue was $5.969 million and its total expenditure was $5.174 million, resulting in a net surplus of $795,423. The Office of the Auditor-General gave the commission “very good” ratings for its management control environment and its financial systems and controls. However, it received a “needs improvement” rating for service performance information and associated systems and controls, as it did in 2009/10. The Retirement Commissioner has discussed remedial measures with the Office of the Auditor-General and has altered its strategic framework and statement of intent to reflect more precisely its work, priorities, and performance measures.

Canterbury earthquakes

The commission developed and published a decision-making booklet for residents of the red zone in Canterbury to help them to work through offers from the Canterbury Earthquake Recovery Authority to buy their houses and land, and to decide what to do with settlement payments. The commission also set up a financial advice service to give

residential red zone property owners free individual consultations with qualified professional advisers. The commission has submitted a proposal to the Christchurch Earthquake Appeal Trust for funding for a guide to insurance and for extending the advice offered to red zone residents to all residents affected by the earthquakes. We commend the commission for its work in the Canterbury region.

**Education and information**

The commission recently redeveloped its Sorted website. The commissioner noted that 35 percent of the population uses the website, but those who do are people who are motivated to make decisions about their financial situations. The commission wants to target the next 5 to 10 percent of potential users who are procrastinating about those decisions. The commission distributes a series of booklets—for example, to Work and Income and to everyone who signs up for New Zealand Superannuation—and offers free seminars to organisations and community groups. One initiative the commission has taken to reach a larger audience is a stand in a supermarket, offering shoppers its booklets. The commission is also working with several iwi to incorporate financial literacy into their long-term strategies.

The commission’s last user survey in July 2011 found that as a result of using the Sorted website, 54 percent of users assessed their financial situation, 43 percent increased their savings, and 25 percent increased their mortgage repayments. It also found that 92 percent of users indicated that they would recommend the website to others. The commission has extended its evaluation of Sorted to consider the impact of individual marketing campaigns, such as the recent “dumb debt” campaign. The evaluation involves market research undertaken before and after advertising campaigns, and analysis of user engagement with the campaigns’ “landing pages” on Sorted. The commission found that 48 percent of those aware of its retirement planning campaign were more likely to be planning financially for their retirement, and that 26 percent of its target audience were aware of the term “dumb debt” after the campaign. The commission intends to take a longer-term approach to evaluating its campaigns to better match its new marketing activity. It also carries out a four-yearly Financial Knowledge and Behaviour Survey.

Some of us were concerned that the commission was not reaching minority groups or those with English as a second language. The commissioner said that when the commission translated one of its brochures into six different languages, Māori proved by far the most popular after English. The commissioner agreed that more could be done to target Pacific Island communities, however, and said it would follow this up with the Ministry of Pacific Island Affairs; but she noted that the commission’s role is that of a facilitator, not provider, of financial education.

**Research initiatives**

A number of current research initiatives are examining financial literacy and retirement incomes. The commission is sponsoring a project with the Treasury, the Ministry of Economic Development, Statistics New Zealand, and the Reserve Bank of New Zealand on the economic importance of financial literacy. The project aims to determine the relationships between financial education programmes and participant’s financial behaviours, the effects of their behaviour on financial wellbeing, and on national economic growth. The commission is also working with the Ministry of Women’s Affairs and the
Treasury to test its hypothesis that 10 particular factors represent most risk for women’s financial wellbeing in retirement. The New Zealand Centre for Personal Financial Education is also researching the real costs current retirees incur, with the aim of producing expenditure data for “modest” and “comfortable” retirement lifestyles; the initial research findings will be released in August 2012.

Financial Markets Authority

The commission is working with the Financial Markets Authority on improving investors’ literacy. Several workshops have been held with representatives of the financial sector to develop a public-private partnership and long-term strategy. The commission and the Financial Markets Authority have been working on investment resources for Sorted and on investing principles and messages for use in customer communication.

National Strategy for Financial Literacy

The Retirement Commissioner is proud of the National Strategy for Financial Literacy, which drew upon input from individuals and organisations in the private and public sectors. It was launched in 2008, and has been revised to ensure it remains relevant in the current economic climate. One of the initiatives that came out of the review was a five-year action plan, to be implemented by stakeholders in the strategy. The strategy included the Ministry of Education and others providing professional development for teachers delivering financial education in schools, but the commission observed that thus far there has been “little demand from schools for professional development in financial literacy.” The commissioner hopes to see this improve.
Appendix

Approach to financial review
We met on 21 March and 9 May 2012 to consider the financial review of the Retirement Commissioner. Evidence was heard from the Retirement Commissioner and advice received from the Office of the Auditor-General.

Committee members
Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Jo Goodhew
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

Evidence and advice received
Commission for Financial Literacy and Retirement Income, Response to written questions, received 5 April 2012.


Organisation briefing paper, prepared by committee staff, dated 21 March 2012.
2010/11 financial review of the Social Workers Registration Board

Report of the Social Services Committee

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Appendix 4
The Social Services Committee has conducted the financial review of the 2010/11 performance and current operations of the Social Workers Registration Board and recommends that the House take note of its report.

Introduction

The Social Workers Registration Board is a Crown entity established in 2003 to manage the voluntary registration of social workers in New Zealand. The board’s primary purpose is to protect the safety of the public by operating a registration system to ensure that social workers are competent to practise and accountable for the way they do so.

In the 2010/11 financial year the board’s total income was $996,000 and its total expenditure was $984,000, resulting in a net surplus of $12,000. The board’s income comes mainly from fees and levies; it does not receive any public funding. The Office of the Auditor-General assessed the board’s management control environment as “good”; a monthly review of the board’s creditor masterfile and a periodic review of transactions and activities that may be susceptible to fraud were recommended.

The board’s financial information systems and controls were assessed as “very good”, but it received a “needs improvement” rating for its service performance information and associated systems and controls. The board must develop main measures for its impacts, in order to comply with section 141(1)(f) of the Crown Entities Act 2004. The board also needs to consider the appropriateness of performance measures, providing contextual information for targets and more explanation of demand-driven measures. The Office of the Auditor-General also recommended disclosure of expected revenue for each class of outputs and details of the board’s health and safety capability.

Registration

Under the Social Workers Registration Act 2003, it is not mandatory for social workers to be registered with the board to practice in New Zealand. In the 2006 census, 13,170 people identified their occupation as social work; to date, there are 2,942 registered social workers, compared with 2,485 in June 2010. The board’s registration fee for a year is $368 including GST, and a full competency assessment costs $255.55 including GST. The board thinks that the cost of registration would drop by about a third if registration were mandatory.

There are several criteria for registration as a social worker. An applicant must have a recognised social work qualification or enough practical experience to compensate for lack of one; be a fit and proper person; display competence to practise social work, and specifically in regard to Māori, Pacific, and other ethnic and cultural groups; and have practical experience. The board noted that there has been a “significant increase” in the number of registered social workers holding an annual practising certificate, and that this is because registration has been accepted as the professional standard for social workers.
are pleased that the board has been working with the Office of the Auditor-General on its upcoming statement of intent.

**Discussion document**

The board’s five-yearly review of the Social Workers Registration Act is in progress and is expected to be completed in the 2011/12 year. As part of this review, in 2011 the board sought submissions on a discussion document on mandatory registration. It received 422 submissions from organisations—including district health boards, Child, Youth and Family, and non-governmental organisations—and individuals; 95 percent were in favour of mandatory registration. The discussion document also asked about the implementation of mandatory registration. Of those who responded, 66 percent favoured a transitional period and 18 percent supported immediate implementation of mandatory registration.

**Current obstacles to mandatory registration**

The board estimates that over half of the practising social workers who are not registered would meet the board’s minimum registration criteria. The main obstacles to mandatory registration are the costs to employers and social workers; the impact on good social workers who do not have a qualification; social worker job titles being changed to avoid registration costs; and a shortage of qualified social workers, particularly in rural areas. The board presented a plan for a staged implementation in its response to post-hearing questions; however, as far as we are aware no concrete implementation plan has been consulted on and presented to the Minister for Social Development. We encourage the board to remedy this.

**Caseload**

Some of us raised the issue of increasing notifications to Child, Youth and Family in particular, and the pressure this placed on social workers. We asked if this was of concern to the board. The board agreed it was an issue and noted that if registered social workers were under pressure, then unregistered social workers were even more likely to be.
Appendix

**Approach to this financial review**
We met on 2 and 13 June 2012 to consider the financial review of the Social Workers Registration Board. We heard evidence from the Social Workers Registration Board and received advice from the Office of the Auditor-General.

**Committee members**
Peseta Sam Lotu-Iiga (Chairperson)
Jacinda Ardern
Hon Jo Goodhew
Melissa Lee
Jan Logie
Le’aufa’amulia Asenati Lole-Taylor
Tim Macindoe
Alfred Ngaro
Dr Rajen Prasad
Mike Sabin
Su’a William Sio

**Evidence and advice received**
Office of the Auditor-General, Briefing on Social Workers Registration Board, dated 2 May 2012.

Organisation briefing paper, prepared by committee staff, dated 16 March 2012.


Social Workers Registration Board, Response to pre-hearing questions, received 30 March 2012.

Social Workers Registration Board, Response to post-hearing questions, received 14 May 2012.

2010/11 financial review of Solid Energy New Zealand Limited

Report of the Commerce Committee

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Solid Energy New Zealand Limited

Recommendation

The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of Solid Energy New Zealand Limited and recommends that the House take note of its report.

Introduction

Solid Energy New Zealand Limited is a state enterprise under the State-Owned Enterprises Act 1986 and is New Zealand’s largest coal mining company. It mines hard coking coal primarily for export to steel mills in Asia, and thermal coal for the Huntly power station and the steel, dairy, and cement industries. Solid Energy also invests in research into and commercialisation of sustainable power generation using coal, coal-seam gas, biomass, biodiesel, and solar energy.

Dr Don Elder is the chief executive and John Palmer is the chairman of the board.

Financial performance

In 2010/11 Solid Energy generated total revenue of $828.662 million and recorded a net after-tax profit of $87.2 million, an increase of almost $20 million on its 2009/10 result.

Future revenue

We noted that Solid Energy projected $1 trillion in potential earnings from a predicted 10 billion tonnes of coal. Solid Energy said this estimate represented the potential revenue from all coal-based products, such as fertiliser, and that it might prove to be conservative. We asked what coal price it used in this calculation. We noted that predicted returns assumed that the current price of fossil fuels would be maintained or increase. Solid Energy said returns were calculated on prices from the last several years; it believed they were very unlikely to fall, and were very likely to rise substantially.

Partial privatisation of Solid Energy

We asked whether Solid Energy was being run as efficiently as a privately listed company, and whether it believed partial privatisation would change its performance. Solid Energy said it held itself to the same standards as privately listed companies in investments, operations, and corporate social responsibility within the “natural limitations of an SOE”. The chair assured us that as with other energy state-owned enterprises, Solid Energy was operating to the highest possible private sector standards. He noted that Solid Energy had a higher export orientation than other energy state-owned enterprises. He told us that the State-Owned Enterprises Act imposed “natural bounds” that affected its appetite for risk, access to risk-based capital, and additional market scrutiny.
High-value projects

We noted that Solid Energy has a large number of potentially highly valuable projects in various stages of development. We asked how its current sale valuation could fully reflect the future value of its project pipeline, given that a large number of high-value projects had yet to reach the development or commercialisation phase. Some of us suggested that it might not make sense to sell shares in the company—if these were to be sold—before some of the high-value projects had been further developed or completed, in order to maximise the profit from the sale of shares. Solid Energy argued that private investors would have more appetite for risk than Government owners, which would allow it to develop high-value projects more quickly.

Some of us note that the removal of State Owned Enterprise Act “constraints” such as Treaty or consultation obligations, including on projects that would have environmental implications, would be of huge concern to the New Zealand public. In our view, that is precisely one of the reasons that the state-owned enterprise model exists, and why full public ownership and control is essential.

Minority shareholders

We asked what might happen if Solid Energy had the opportunity to proceed with a highly profitable project that required further investment, and minority shareholders were willing to contribute but the Crown majority shareholder felt it did not have capital to invest. Solid Energy said that people would invest in the company with full understanding that the Crown was the majority shareholder. It said a partial sell-down might allow access to other forms of capital. We asked whether the appetite for external capital would continue to be a constraint with a 51 percent Crown ownership limit. The chair confirmed that it was “self-evident” that if any additional capital were raised it would “dilute the Crown”. The chair added that there would be structural opportunities to ensure that the Crown’s holding did not fall below 51 percent while accessing capital.

The chair suggested that specific projects could be separated out for fully private funding. We asked whether the Crown’s 51 percent shareholding would be diluted if a project was floated as a 100 percent subsidiary. He confirmed that “a project could be floated in its entirety by a series of arrangements”. The chair said that if a subsidiary were consolidated, it would become a part of the company’s equity. The chair confirmed, however, that an initial public offering could be undertaken on 100 percent basis, and that would not be consolidated.

We asked whether minority shareholders might be able to insist that a profitable project go ahead despite the Crown majority shareholder being unwilling to invest. Solid Energy said it could not, and pointed out that project decisions are made by its board, not by shareholders.

Environment

We heard that Solid Energy’s potential adverse effect on New Zealand’s environment had grown by approximately 60 percent in proportion to its business, but its actual effect had shrunk by almost 30 percent and was decreasing substantially each year. Solid Energy told us that in 2002/03 the company acknowledged that coal mining over the past century had had a disastrous effect on the New Zealand environment, and had since worked to
We noted that the Parliamentary Commissioner for the Environment had suggested that Solid Energy was carrying out work that would result in the single biggest increase in carbon emissions in New Zealand’s history. We asked whether it had undertaken any internal or legal analysis of that matter, and whether it was consistent with its social responsibility requirements. Solid Energy said that it had recognised the need to reach certain standards relating to carbon emissions and costs before it could proceed with its work, though the details of those standards had not been clearly delineated yet. It had not obtained legal advice on the matter.

Public opinion survey
We asked whether the results of a survey cited by Solid Energy suggested that New Zealanders were coming to the understanding that the country’s natural resources could be developed in an environmentally responsible way. Solid Energy said that the survey indicated among New Zealanders a new level of understanding of a controversial topic, and respondents in the survey had been very specific about which kinds of developments they would support. It therefore believed that a sophisticated discussion on the issue would be possible.

Renewable fuels
We asked about Solid Energy’s strategy regarding renewable fuels. It told us that the renewable energy sector is facing major economic challenges. Solid Energy had invested substantially in developing good new biofuel and biomass products, but the global financial crisis had reduced uptake of such alternatives. It hoped to expand these sectors soon.

Health and safety
We asked whether under a partially privatised model Solid Energy would continue to prioritise health and safety. Some of us expressed concern that partial privatisation of Solid Energy might impact on its prioritisation of health and safety. It told us that it had spent more time in the past year discussing health and safety than ever before, and took health and safety seriously because it worked in a dangerous environment. It was dissatisfied with its health and safety record, and had made marked improvements. It was prepared to close its operations on safety grounds if necessary, and did not think that being privately owned would change how seriously it took health and safety.

Mine check inspectors
We asked whether Solid Energy opposed the use of check inspectors for mines. It said that although it agreed that its standards should be externally reviewed, it believed that mandating external inspectors allowed people working in mines to leave their safety in the hands of others. It believed that health and safety was best served by involving workers fully in their own safety, for example through safety meetings and committees. It believed the Pike River mine tragedy would not have been prevented by the use of check inspectors.

We asked who would oversee the adequacy of health and safety provisions on behalf of workers, and suggested that independence was important. We heard there were several
levels of oversight, starting with employees looking after each other. The chief executive receives a telephone call at the end of each working day from health and safety compliance inspectors, who acted independently of management, reporting the result of the day’s compliance inspection.

Solid Energy also told us that in its submission to the Royal Commission on the Pike River Coal Mine Tragedy it had suggested that the Department of Labour did not have the powers or resources to provide appropriate oversight, and had recommended that New Zealand work with the Queensland mines inspectorate in overseeing New Zealand mines, as the New Zealand industry was too small to afford a fully resourced inspectorate.

**Pike River mine recovery**

We asked whether if Solid Energy were to complete the purchase of the Pike River mine it would recover the bodies of the 29 miners who were killed in the explosion in 2010. It told us that any purchaser of the mine would have obligations relating to recovering the bodies. Solid Energy could not estimate how long recovery of the bodies might take.
Appendix A

Approach to this financial review
We met on 5 April and 3 May 2012 to consider the financial review of Solid Energy New Zealand Limited. We heard evidence from Solid Energy New Zealand Limited and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Office of the Auditor-General, Briefing on Solid Energy New Zealand Limited, dated 5 April 2012.

Organisation briefing paper, prepared by committee staff, dated 28 February 2012.


Solid Energy New Zealand Limited, Responses to additional written questions, received 5 April 2012.

Solid Energy New Zealand Limited, Responses to further written questions, received 20 April 2012.

Solid Energy New Zealand Limited, Responses to written questions, received 15 March 2012.

Corrected transcript of hearing of evidence 5 April 2012

Members
Jonathan Young (Chairperson)
Kanwaljit Singh Bakshi
Hon Clayton Cosgrove
Hon David Cunliffe
Clare Curran
Gareth Hughes
Todd McClay
Mark Mitchell
Mike Sabin

Witnesses
John Palmer, Chair
Don Elder, Chief Executive Officer
Bill Luff, Group Manager
Anthony Burg, Chief Financial Officer

Young Thank you very much for coming. It’s good to have you here. Thank you Mr Palmer, Mr Elder.

Palmer Our chief financial officer, Anthony Burg

Young Thank you. It’s very good to see you here too. We’ve got an hour. I invite you now to bring a presentation and then we’ll have some questions and answers.

Palmer Thank you, Mr Chairman. I think the slide presentation has been circulated, but I think it’s in a hard copy, I think it’s been unable to get into an electronic version so we’ll just refer to the slides as we go through. I’ll make a few opening remarks and then hand over to Dr Elder, who will deal with more of the operational issues.

If we perhaps just focus on the first slide headed “A toughening market”. The last 18 months have certainly been incredibly challenging for the business. The after-tax profit in the year under review of $87 million was a very good result. It was boosted by strong global coal prices and good production at Stockton mine. It was achieved in a very, very demanding environment, particularly in Christchurch and the Port of Lyttelton, and some outstanding work by the people at KiwiRail, by the people at the Port of Lyttelton, and our own people to ensure that in fact we kept that line alive. Our results for the first months of this financial year, which is a profit
of $70 million after tax, was boosted, in fact, by some of the carry-over coal volumes that we couldn’t get away in the previous financial year, and strong coal prices.

But the volatile global economic environment has certainly put both volumes, and especially coal prices, under increasing pressure, and certainly under quite considerable pressure at the moment. The international hard coking coal demand has plummeted, and since mid-last year, prices have dropped about 30% percent from US$300 a tonne down to US$210. Coupled with the high New Zealand dollar, this means we’re now about 35% down in revenue terms, and no short-term prospect, at least, of that situation reversing.

We have some expectation that there could possibly be some further weakening of international coal prices, and so profitability in the second half of the current financial year, which is unknown at this stage, will be substantially down on the first half. In the following year, the 2013 year, we face a potential reduction in export revenue of circa $200 million.

So the short-term economic environment certainly is going to be characterised by volatility in international coal markets. We do, however, remain very confident in the long-term demand for, particularly, our types of coal, for which we see the long-term demand is both strong and unchanged.

The company paid a $30 million dividend in September 2011. Given the economic situation that I’ve just described and the effect on the company, we haven’t declared a further dividend since then. We are actively managing the business and the cost line of the business in the light of those events, but I just want to perhaps turn to the next slide, because we are continuing to focus on a number of our long-term growth strategy projects and our new development projects. You’ll see four of them there on that slide.

We do expect to commission the domestic-scale briquetting plant in Southland at an expected cost of around $29 million. The production of the first of the syngas at the $22 million underground coal gasification pilot plant in the Waikato is due very shortly. The production and export of electricity into the national grid from our coal-seam gas $27 million demonstration plant at Huntly and then in the conventional coal business, the $30 million ventilation shaft, which is the one in the bottom right-hand corner—it doesn’t look like a lot above the ground but believe me, there’s a lot of expenditure going into that for that $30 million development in order that we can continue to use our Huntly East underground mine in a way that we think makes the best of that coal resource.

We have announced that we have a conditional agreement to buy the assets of Pike River. That is conditional, it is subject to due diligence. We are bound by a confidentiality agreement and I’m unable to make any further comments on that at this time.
I’m now going to hand over to Dr Elder to talk in more detail about some of the projects and some of the detail behind that.

Elder

Thank you, John. If we just look at the second slide on the second page, just making the note that we’ve talked widely about before: on a per capita basis, New Zealand is, if you like, the Saudi Arabia of natural resources. Our resources are significant on an absolute basis, but very, very significant on a per capita basis. That represents an opportunity for New Zealand.

If we move to coal, and top of page 3, slide 5, globally though, there is a lot of coal, but coal is getting harder. The good coal, high-quality, mineable depth, is being depleted and is getting scarcer. But that only represents, globally, 5 to 10 percent of the total. There’s 10 or 20 percent that is shallow and lesser quality, and 80 to 90 percent that’s deep, but good quality.

If you look at New Zealand’s situation, New Zealand has more than 10 billion tonnes of coal, but most of it’s very shallow lignite, so you can’t transport it far, although you can dig it up at a low cost; or it’s high-quality but it’s too deep to be mineable using conventional economics.

If you turn to the next slide, slide seven. The strategy for Solid Energy is to create value for New Zealand from all of that resource, not just from the 5 or 10 percent that’s conventionally mineable. The in-ground value of that if you look at the value of the products or the coal that can come from that today is substantially over a trillion dollars, even at today’s prices. It’s probably $2 trillion, $3 trillion, or $5 trillion dollars at today’s prices. That requires the middle coal, at mineable depth and good quality, to be able to be mined conventionally; the low-quality coal, lignites, to be converted to higher-value products; and the higher-quality deep coal to be mined using unconventional means such as conversion to gas before you bring it up from underground.

The key thing of course in New Zealand is the licence to operate to do that. No natural resource company, especially not in New Zealand, considers economics alone determine the right to operate in the natural resources sector. The results at the bottom of slide 8, page 4, are hot off the press, and the results from our latest public opinion survey that we’ve carried out every year for a number of years are very notable. Eighty-one percent of New Zealanders believe that the development of our natural resources is important in improving our economic prosperity and standard of living. New Zealanders say that we should develop our coal and other natural resources if the environment’s protected—79 percent, or including the neutrals 86 percent. Going on through there, all the numbers are in the mid to upper 80s, or even in the 90 percent range. People support development of coal and natural resources, provided that conditions are met. Those are the licence to operate conditions. Even converting coal to fertiliser, 75 percent of New Zealanders think that would be a good thing if that could be done, and if you include the neutrals that goes over 80 percent.
So that’s a very positive indication for Solid Energy of where we should be going, but also of the conditions that New Zealanders expect us to meet. Slide 9, top of page 5, simply indicates that like all companies in our sector, we recognise that our resources continually have to be rolled over. We have to move projects from the project phase to the operational phase on a continuing basis. So yes, it sounds like we’ve got a lot of things on the go—and we do—but they’re at various different stages. Some are at early concept stage, some are moving through feasibility studies, some are at the commissioning stage, and some are already in operations. Any resources company has that pipeline. We are no different from others.

Slide 10, bottom of page 5, simply confirms that to have a pipeline like that, you need also a pipeline of resources. You’re taking large quantities of resources, and in Solid Energy’s case it’s 1.5 billion to 2 billion tonnes, and you’re moving those resources through a pipeline of knowledge and certainty, starting off with an inferred resource in the ground and moving it right through to an economic, proven reserve, at which point you are actually able to extract it and do something with it.

To move from the strategy, then, to the operations, over the page, people are well aware of where our sites are. Just to note, we have seven open-cut mines in the country at present, two underground mines, two coal-to-gas projects or operations, and three renewable fuel production locations. We export around the world to China, India, Japan, South Africa, and Europe. In general, our customers are the blue-chip customers for the resources industry around the world, such as the premier steel makers around the world.

Moving on to slide 12, as the Chairman noted our key projects are on track and progressing well. Our Huntly East mine vent shaft is needed to provide substantial additional air for safety reasons to extend the Huntly East mine for another 10 to 15 years, which provides coal to New Zealand Steel Ltd and makes that operation viable as well.

Slide 13, top of page 7. Back in 2009 at the depth of the global financial crisis, the board approved a $130 million coal processing plant at Stockton. Now this is a major coal conversion project. This is equivalent to other types of coal upgrading or conversion projects. That conversion plant was completed on schedule, under budget. It’s been processing coal, exceeding plan, for the last year and a half. That’s coal that was previously going to waste, and is now going overseas as premium export hard coking coal. That $130 million investment has already achieved payback of the capital cost. Moving down below, New Zealand lignites are much misunderstood, and that’s partly because of the information. So that’s what lignite looks like. It looks like coal, it feels like coal, it’s a huge resource worth substantially over a trillion dollars, many trillions of dollars if it can be converted to valuable products, which we believe it can. Mining today, that
mine you see there, our New Vale open-cast mine, is our third-biggest operation in the company in terms of coal production—about the same size as our two underground mines.

After mining of the lignites, the land is returned to become some of the most productive, valuable farmland in Southland. At any given time going forwards, the sort of mine you might require for a fertiliser project would be of the order of about one dairy farm, so not that large in a national scale at all.

Over the page then, you see our first lignite conversion project, which is well advanced in the construction stage. That’s a briquetting plant. It’s worth noting that, as a part of our pipeline, we researched about 30 to 35 lignite and coal upgrading technologies around the world. We chose this one. This plant will convert about 150,000 tonnes of lignite into about 100,000 tonnes per annum of coal-like briquettes. That will be of export thermal coal quality—at the lower end of that grade, but of that grade. It’s interesting to note that in China last week I was talking to the president of what was, until recently, the world’s largest public coal company. They did the same technology process selection as us, researched 30-odd technologies, picked a different technology that they thought was superior, and he noted that that technology had just blown up on them in their pilot in Indonesia, and they walked away from it. He noted that he thinks we got our technology selection right.

At the bottom of page 8, slide 16, you see our underground coal gasification plant, which is on the verge of starting up. This is, perhaps, the biggest energy technology breakthrough in terms of available energy in the last 50 years. It leads to energy from previously unmineable coal resources, without mining them; very high recovery rates from resources, so that doesn’t waste coal resources in the ground; and costs that will be at the bottom end of the cost-curve for energy and for coal. We are completing pre-start tests at the moment and when we start up, it will be one of only three in the world, and unquestionably it’ll be the most advanced in understanding of the technology, in environmental protection and monitoring, and in science and engineering design generally. So this will be the state-of-the-art world facility in that regard.

Over the page to top of page 9, slide 17. We’re very pleased to be able to say that since 2004 our business has grown very substantially and our footprint on the landscape has grown substantially as a result of that. Our potential negative effect on New Zealand’s environment, shown by the red area there, has grown by about 60 percent as our business has grown. But in fact our net effect on the New Zealand environment shown by the green zone there has decreased in that same time by almost 30 percent. After 110 years of coal mining by Solid Energy and our predecessors, our net effect now on New Zealand’s environment is probably lower than it has been since some time in the middle of last century and it’s decreasing substantially at a very strong rate every year.
Slide 18, the bottom of page 9. We think it’s worth noting that from every viewpoint, New Zealand’s natural resources really are, and should be, a fundamental pillar of New Zealand’s economic future, provided that the conditions that New Zealanders expect are met. Far from being an old industry, this slide—which was produced by the MED in January this year, it’s not ours—shows that mining is one of New Zealand’s highest-productivity sectors, it is one of New Zealand’s highest growth-rate sectors, it’s one of the highest sectors in terms of value to the economy, and, as we’ve said, it can be done in ways that enhance the New Zealand environment.

So to the last slide, then, I simply conclude by saying Solid Energy is a growth company in a strong growth phase, with a strategy that’s very clearly linked to New Zealand’s competitive advantages. We are extremely mindful of the expectations we need to meet, to meet New Zealanders’ expectations for our licence to operate, and we are at a key stage in our growth and our evolution. Thank you very much.

Young Thank you very much, Dr Elder. We’ll open for questions now. Thanks very much for your good presentation.

Cosgrove I’m not sure whether you were here for Dame Jenny Shipley’s presentation, were you? OK. In her presentation, she made it very clear that the board and the chief executive were effectively, to choose her words “running the company as a listed company”, to best commercial private sector practice. Are you gentlemen doing the same thing?

Palmer Certainly the standards that we expect of ourselves in investment, in operations, and in the whole sort of corporate social responsibility, we set ourselves the same standards, I think, as a listed company would. That’s quite a deliberate strategy. We set out to operate in much the same way, but we have the natural limitations of an SOE as opposed to a listed company.

Cosgrove I suppose if I could check, what Jenny was pointing to was her view that Genesis was operating as an SOE to the highest possible private sector standard, given that her board of directors, like yours, are private sector folk, with private sector experience. My question is, presumably if that board is operating to that private sector standard, even though it is an SOE, are we right to assume that your board are doing the same?

Palmer Within the limitations of an SOE, I think we are, yes.

Cosgrove Would you then agree with Dame Jenny’s assessment—I wrote her words down carefully—that whether her SOE in this case, was partially privatised or not, it would not change the performance of that SOE?

Palmer If that’s a yes/no answer, my answer is, and I hope this answers the question, my answer is the limitations that I think—the natural bounds of the SOE Act and the 100 percent Crown ownership will necessarily limit the opportunities for this company commercially, which are much greater in
a listed company, and the access to capital markets and the capital scrutiny, and therefore the adjustment of appetite for risk.

Cosgrove

Sure. I may or may not have said that, but that’s moving ahead of us. The proposition that I’m putting to you, which Mrs Shipley has affirmed, is that given that I believe all your board members have vast commercial experience and operate both in this environment, SOE, and the private sector environment, in the same way as Mrs Shipley’s do, I would have thought like was with like.

If you’re bringing private sector commercial disciplines and expertise, obviously you must be because you’re performing well, to the table, a partial privatised float—we’re not talking about opportunities here, we’re talking about the nature of the business—would not alter the performance, I’m not talking about capital raisings, would not alter your performance, to quote Mrs Shipley, of your company. Or is there something different with Solid Energy that you’re doing differently from the other energy companies here?

Palmer

Well I think there is a very significant difference. We are an export company—we have a number of large domestic customers—but we are an export-orientated company and our revenue line, even domestically, is predicated on an export market, so that we operate in a much more volatile sector, for example, than the other energy companies that are part of the potential partial privatisation.

That in itself means that the risk profile of the company is different, and therefore the issues around the attraction, for example—even the attraction of people to the company, where we are in strong competition with the Australian mining industry—puts us in a very different competitive position, I think, from the other generator-retailers. The impact for us, as an SOE, is that even with the very best of intentions, it prescribes some of the risk appetite for the company that are different from what you would get in a listed environment.

Cosgrove

But how would that change if your cornerstone shareholder holds the bulk of shareholding, 51 percent or more?

Palmer

Because I think that, firstly, the simple question of access to capital is the first of those, and that the way that the company deals in the market means that the market appetite and the market reaction are the things that you are required to do, and that the market can react to, and start to then prescribe the environment in which you can operate and in which you can invest.

Cosgrove

Are you speaking about scrutiny, here, external scrutiny?

Palmer

Well I’m talking about not only just scrutiny but appetite for risk, because for SOEs, if you adopt a continuous disclosure, a policy consistent with a listed company, and that’s certainly our aim, for an SOE, the response to that is interesting for the markets, but not material, because they have no investment. For a listed company, the response is sometimes immediate.
Cosgrove  I’m interested in your comments on risk. So you’re saying that obviously, private sector shareholders will be, I presume you’re saying, far more willing to engage in higher-risk ventures—I’m not using that as a negative—as their appetite for risk will be greater than the Crown’s; is that what you’re proposing?

Palmer  I think that that is generally true, yes.

Cosgrove  My next question on that, then, is how do you balance that appetite and the appetite for capital expansion, with the Crown’s stated position that the primary reason for selling SOEs, potentially to themselves, is that they want you to grow, and to do that you require capital as you’ve said, but the Crown has no money to put in. If you’re in a capital raising, is the Crown in danger of dilution?

Palmer  If you were raising external capital in your listed company where the Crown was at 51 percent, it is self-evident that any additional capital would dilute the Crown.

Cosgrove  So isn’t that a risk in itself, because the Crown, apparently, has got no money, but on the other hand the Minister for SOEs has said if money’s required, we will ante up with it. Does that a sort of inconsistency in the Government’s strategy in terms of capital injection or lack of a proposal provide a risk for you folk?

Palmer  No, not particularly. One of the things the markets like, and certainly boards like, is to understand the environment you’re working in. If one of the conditions of the Crown sell-down is that the Crown is going to maintain a 51 percent holding, then you will manage the capital appetite and access within that. Now one of the issues that I think has already been flagged by the Minister of Finance is that maybe a sell-down to less than 49 percent, in other words a partial sell-down, which would allow access to other forms of capital, might be part of the solution.

Cunliffe  What rights would a minority shareholder have to insist that a highly profitable future investment project, which it was prepared to contribute investment capital to and which exceeded your hurdle rate targets, what right would it have to insist, and if the board knew this was a good project, that such a project went ahead in conditions where the majority shareholder felt capital constrained, and did not wish to proceed for that reason alone?

Palmer  I just want to make sure I understand the question. The question is that if there is a project that the board wants to proceed with, and that shareholders approve of, that was constrained, I think the inference is it was constrained by the Crown’s shareholding?

Cunliffe  The project, let’s say it’s a new technology that you’ve developed, leveraging a resource that you’ve got; the company and the management team is recommending very strongly that it is highly profitable, it exceeds WAC, it exceeds hurdle rate; the minority shareholders think it’s a great project, they
want it to proceed, they’re prepared to invest; the board recommends that it proceeds, but the majority shareholder, the Crown, says “We’re at our 51 percent limit and we don’t want to put more capital in, because we’re running a budget deficit.” Does the minority shareholder have any comeback at all, in law or practice under those circumstances?

Palmer Well if the company constitution makes it clear about the Crown’s holding, then public investors will invest on that basis. One of the issues, for example, if you’re a private shareholder or a member of the public listing in Air New Zealand, you know that the Crown is a major shareholder and you invest knowing that—that that is the position of the Crown. So that’s the first thing: that investors will know that that is the case. Secondly, there’s probably nothing to prevent projects themselves being IPO-ed where the Crown, as the core asset holder, can maintain its position about the custodian of the asset that allows these developments to take place, either where risk appetite for capital or availability of capital needs to come in a different form.

Cunliffe The solution might be just to draw this out to you, because this might be new information, that if a project could be floated, perhaps as a subsidiary, that would provide an opportunity for further direct investment without diluting the Crown’s 51 percent.

Palmer It could be, a project could potentially be floated in its entirety by a series of arrangements.

Cunliffe That’s very, very interesting. So if you took a value of the group, I mean let’s just say that happened, if it was a major project, and it was floated as a 100 percent private subsidiary—and as my colleague notes, there is some precedent in that—the Crown’s investment in the parent was legally limited to 51 percent no less. Wouldn’t the aggregate Crown shareholding potentially fall below 50 percent if you included the value of the subsidiary? Wouldn’t it?

Palmer No, I don’t think so.

Cunliffe Or do you think 51 percent would, sorry to be technical here, it would apply on a consolidated basis, including the value of any of the other subsidiary?

Palmer As you well know from other experiences, there are plenty of structural opportunities to ensure that the Crown’s holding doesn’t fall below the 51 percent while you get access to capital.

Cunliffe So let me be very clear. Would the IPO subsidiary be counted as part of that 51 percent, or not, if it was IPO-ed, 100 percent private?

Palmer Would the IPO subsidiary count as part of the 51 percent?

Cunliffe Would it be included within that calculation?
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Palmer Well clearly if it was consolidated it would form part of the consolidated statement and hence fall into the equity line in some form. The question then is the shareholding of the company is unchanged, so presumably what it does, it actually improves the value of the Crown’s holding while maintaining its 51 percent, which would seem to me to be quite an advantageous situation.

Cunliffe Why did you say then that, I’m just genuinely confused here, in the earlier question when we were running the scenario with the hard limit of 51 percent and a frustrated minority shareholder, and you said yes, but it could always IPO it—that that’s a solution to the 51 percent bar? Presumably there is some potential—

Palmer Well that’s one solution.

Cunliffe Sure, that’s one solution. Is it possible to IPO it on a non-consolidated basis?

Palmer I’m trying to think. You could IPO a project at 100 percent private ownership.

Cunliffe It wouldn’t be consolidated.

Palmer Wouldn’t be consolidated.

Cunliffe Well that’s really interesting, because that’s new information. A slightly different scenario. Let’s say the Crown didn’t want to dilute below 51 percent and sold its initial stake down to, I don’t know, 40 or 45 percent. In those circumstances where the 51 percent line was not reached, would the Crown be required to make a future investment on a very positive, profitable investment proposal by the minority shareholder, even if it didn’t want to make that capital investment at that time, it felt capital constraint? Does the minority shareholder have a right, at less than a 49 percent holding, to insist upon the majority shareholder further investment if all the conditions were positive?

Palmer Absolutely not. These are decisions for the board. The shareholders do not make project decisions. These are issues for the board. If the board is clear about the bounds within which it works, then all of us in different companies have exactly those bounds whether we’re SOEs or fully public listed companies, and you know that your responsibility as a director is to work within those bounds accordingly.

Cunliffe And the directors have a legal obligation to treat all shareholders equally?

Palmer Yes.

Cunliffe As a matter of experience, and you are, of course, chair also of Air New Zealand, how does a prudent director balance the needs of an expansive minority shareholder with a potentially profitable investment, and a capital-
constrained or cash-strapped majority shareholder who doesn’t want to put any more money in? How do you arbitrate? And are there echoes of Air New Zealand in earlier days?

Palmer It is a fairly constant theme of some discussions about what is our obligation. Our obligation is to run the company profitably to create shareholder wealth, and to be a good corporate citizen. But again, we are conscious—I can say quite openly—we are conscious at Air New Zealand, that the Crown is the majority owner, the majority owner for good and certainly at the time of the Crown becoming the majority owner, a reason for its investment. And other public shareholders are investors on that basis and knowledge.

Hughes Thanks very much for coming in, and your presentation. John, I’m intrigued by this graph that you’ve got here. You can turn 10 billion tonnes of coal into $1 trillion. What’s the price of coal you’re assuming there? Given that you’ve got to take out the cost of accessing it, producing it, carbon costs, taxes—what’s the price of a tonne of coal you’re calculating there?

Elder That $1 trillion—and the number is much greater—that represents the potential revenue for products that could be based on that coal. That could be low-grade coal, it could be high-grade coal, it could be oil, or it could be fertiliser. But if I were to run the numbers through for fertiliser, just to give you the revenue terms, because I do understand your question, fertiliser is ranged between $500 and $1000 a tonne, or thereabouts, over the last 3 or 4 years. You take 10 billion tonnes and you multiply it by 500, you get something like $5 trillion. The answer is that the lignite is convertible to very high revenues, of which most is value in the New Zealand economy. There is another question, what’s the bottom-line profit out of that, and that number is still a very large number that might be of the order of $1 trillion. But the starting point is, that the economic value of that resource potentially is of that order.

Hughes I’m just intrigued that you’re talking about coal at $250 a tonne, given I’m looking at the US Energy Information Administration’s weekly coal price, and for lignite coal, which you say is going to be 70 to 80 percent of that 10 billion tonnes of coal, we’re looking at coal equivalent with a BTU of lignite, you know 8,000 BTU, only $11. This is quite a lot smaller than $250 a tonne.

Elder Yes, there’s quite a big difference there. That would be Powder River Basin in the US, which is mined in hundreds of millions of tonnes at a time, stranded market, only available for local power stations. That’s not the value of coal lignite in Southland, and it’s not the value of lignite in Australia. That’s the Energy Administration’s number for, I would expect, Powder River Basin coal, which is a stranded asset.

Hughes Have you got business cases for the three proposals for lignite?
When you ask about business cases, any projects of any kind have staged development, from concept stage; through pre-feasibility, feasibility; advancing on through eventually to final investment decisions, construction; and at all of those stages the business cases advance. These are projects at various stages of project development, and those business cases are prepared at all those stages.

Why won’t you release them to the committee?

Because they are highly commercial and sensitive

Thank you very much for your presentation. I’m the member of Parliament for Northland and obviously our mineral profile is something of quite some topic of conversation. I’m very interested in the comments that you made in the briefing around the impact to the environment and in actual fact enhancing the environment. Can you just expand on that in practical terms for a region such as mine, which obviously will be looking at striking that balance?

Yes, this is a discussion that the company had back in about 2002-2003 when we looked at where we were. We looked at the fact that we had survived the Asian crisis of 1998-2000, and we were coming out with opportunities ahead. But we also looked around and said “Actually, the legacy of coalmining in New Zealand in the last 100 years is disastrous. We’ve actually wrecked the environment and everybody should be hanging their heads in shame.” We said that very publicly. We said we have two requirements, environmentally, going forwards. One is that we clean up that mess from the past, and we embarked on a process to do that, and we have been doing that for the last 9 years. The second is that we will never let ourselves get in that position again.

We said: every year from now on, rather than going backwards, we’re going to go forwards; we’re going to improve the situation from the past, and the net effect of everything we do will be positive. So we have to minimise the effects of what we do; we can’t eliminate them as we’re expanding our footprint. Where we’ve minimised them, we have to do other work, including very substantial offsets. We have to measure that, and we have done that, and report it publicly. Every year since 2004 we’ve either stayed steady or created that substantial improvement we’ve talked about.

If I could continue, if I may, Mr Chair. To go back to the business case, which you won’t release and you’re throwing around these figures of $1 trillion to $5 trillion; what are the assumptions of the price of carbon, the price of coal, the price of oil, that you are making, just to break even?

The numbers I gave you were based on the prices that have been in place in the last 2, 3, or 4 years. So if I were to pick, for example, public numbers that we have talked about to summarise everything in a business case in one, the approximate cost—because these are international, public
numbers—of producing fertiliser from coal is about $400 a tonne of urea. If you fully deal with the carbon on top of that, and there are a range of ways of doing that, you might add $30 to $60. So you’re talking of the order of $450 a tonne. As I said, in the last 3 or 4 years the price of urea in the world market has been between $400 and $900. So you actually don’t need our business case to appreciate that on average, in the last 3 or 4 years these are projects that if you snap your fingers, would be economic today. We of course don’t advance them on that basis, because there are many other factors to consider on the way.

Hughes But given that we’re talking about such a significant capital investment, you know, you came to this committee last year and talked about $10 billion in capital investment—you would need those prices to stay as they are for an awful long time, wouldn’t you?

Elder Yes, and I’m sure most people would agree with me that the likelihood of the prices of commodities in the world in future, whether it be coal, oil, urea, or anything else, are unlikely to fall far from where they are, and in fact more likely to rise. So a business case that is wildly good today, as I just demonstrated, is probably only going to get better, and it is unlikely to crash so badly that you’d be out the back door. That’s part of working through our projects, to continue to test those assumptions. It’s a fair point.

Hughes Don, you’ve currently got a statutory social responsibility provision in the Act. Have you done any internal analysis or taken legal advice on your impact on climate change, because given the Parliamentary Commissioner for the Environment’s report, what you’re embarking on is going to be the biggest single increase in emissions in our country’s history. Is that consistent with social responsibility?

Palmer The attitude the company is taking is to say, and the board is quite specific about this, in the development of these projects we must meet certain standards, and one of those is around carbon, carbon costs, and carbon emissions, which is at the core of your question. That will be one of the tests as to whether some of these projects advance to certain stages, and certainly to final stage.

Hughes Are you saying that you’ve taken legal advice, or got internal analysis that says if you’re going to proceed with these high-emitting projects you need to take into account the carbon emissions, and you know, actually store and sequester all the carbon—is that what you’re saying?

Palmer We’re saying that there are a number of things we’ve got to do to deal with those issues. There are a number of tests; they will be preconditions of those projects proceeding. Have we taken legal advice? No, we haven’t. I don’t think we need any legal advice. The issue here is that if these are high-generating carbon projects, there are both costs and responsibilities associated with that. They are some distance yet from delineating exactly what those are, but we know what the responsibility looks like.
Hughes Would you be comfortable if our Parliament initiated what the U.S. Government’s just done through their EPA, which is regulating an emission standard, which means no new coal plants will go ahead without full carbon-capturing sequestration? Would you be comfortable if we did that—we said: you can’t proceed unless you have this cap on, and it works?

Palmer Well I’m unfamiliar with exactly what has been passed, so I can’t comment.

Bakshi What do see in the future of renewable fuel, and how are you planning your strategy on that?

Elder I’m sure everybody would agree that there is a time in the future where renewable fuels are going to dominate over fossil fuels that have been used for the last 150 years, and many of us would probably, say in a perfect world, that would be today. I can absolutely tell you in the renewable fuels business that despite all the optimism, renewable fuels and the renewables energy business is very challenging economically in most parts of the sector. We saw the opportunity to be a part of a transition that was eventually going to occur. We saw the opportunity to invest, based on our core capabilities, starting with solid fuels and then moving to liquid fuels. We invested on that basis and unfortunately the GFC resulted in the international markets progressing much more slowly in their take-up of renewable fuels than we had hoped, and therefore it’s been a slow growth period for us and the justification for continuing to invest has been much more limited than we would like. But nevertheless, we have created options in New Zealand, both in the biofuels sector and in the biomass sector that didn’t previously exist. They’re good options. The case for expanding those and taking them forwards will come one day, and we’re hoping it’ll be sooner rather than later.

Curran Thank you. You’ve come before the select committee in the last couple of years making some very strong statements about health and safety, and in fact you’ve prefaced all your other comments with strong statements about health and safety. You haven’t done that today. In the current environment, especially with the partial privatisation being considered before Parliament right now, and the fact that you’re in the process of purchasing the Pike River mine, which is under enormous scrutiny around health and safety practices, what guarantees can this committee and the people of New Zealand have that in a partially privatised state Solid Energy will continue to put health and safety at the very top of its agenda, which is what you said last year when you came before this committee? And how can we be assured that you take that seriously?

Palmer I’ll answer, because I think there are two sets of answers that are important. One is at the board level, the other is at the management level. I’ll get Dr Elder to talk about the management level. It’s not a significant omission or alteration that we didn’t start with a health and safety message, given the number of messages that we can get across. I’ve been the chairman of Solid Energy I think for about 6 years. In the last 12 months, and probably in the
preceding period starting before the Pike River explosion—so I want to
stress this was before the Pike River explosion—the company has spent
more time at every level, including at board discussion, at Solid Energy than
I suspect at any time in its history as a company. It is taken serious not
because we’re an SOE, but because we are an operating business in what is
a naturally quite dangerous environment, and because we’ve had some
performance issues as a company that at every level of senior management
and around the board table we have been dissatisfied with. We have made
marked improvements in our health and safety performance in that period
of time. We have been prepared to close our mining operations voluntarily
in that time, to meet our own operating standards. It wouldn’t make any
difference as far as I’m concerned as the chairman of the board whether we
were 100 percent Government-owned, whether we were an incorporated
society, or whether we were fully publicly listed, as to the approach that we
would take.

Curran  Do you still oppose the use of check inspectors?

Palmer  I’m going to get Dr Elder, who’s probably closer to the detail, but the issue
of check inspectors, of having an imposed regime on the company, and
implying that check inspectors are the answer, I think is not the right
answer. Firstly, the company itself has to actually own the health and safety
and be serious about it, and that’s what we’re doing as a company. Do we
need external views about whether our standards are appropriate and
whether we’ve missed something? Absolutely. And that’s why our
submission to the royal commission has said that.

Elder  If I could just emphasise the chairman’s comments. In internal discussions,
the fact that we’re an SOE doesn’t have just a little bearing on safety
discussions—it has zero bearing. Safety is simply one of those things that’s
non-negotiable, and our licence to operate going forwards, we regard safety
as the first and foremost thing. If we don’t get over that hurdle, we don’t
have a business, which is why, as the chairman said, we have closed
operations, and we will close operations if we have to, on safety grounds.
Coming to check inspectors, which is the question I know, we have looked
at it carefully. It’s not black and white either way. But on balance, we think
while there could be some small benefits of the check inspectors, there are
many dis-benefits, disadvantages, and the simplest way to put it is we have,
in an underground mine, 150 check inspectors. Everybody has pretty much
the power that a check inspector has. The much more important initiative
for safety is worker full involvement in health and safety committees, health
and safety meetings, and health and safety empowerment. We believe that
check inspectors would lead to many people saying that somebody else
looks after that problem. That would be contrary to good health and safety
practice.

Curran  I put it to you that that was the argument that you ran last time that you
were before this committee; since then, there has been a royal commission
into the Pike River mine disaster that has clearly shown that there were not
adequate health and safety provisions happening in that mine. The issue of check inspectors has been considered in that commission of inquiry, and the importance of having independence from the company. You argued that you’ve got “x” number of check inspectors because everyone’s a check inspector. I put it to you that that is not the argument that has been run, and that it is vitally important for a mine’s safety for there to be an independence from the company in terms of the safety provisions that are happening below the ground. Given the Pike River disaster, are you still maintaining the position you took last time you appeared before this committee, is that correct?

Elder  We’ve looked at it closely, and we believe the same argument applies. In our submission this week, we’ve said that’s not our position. We recognise that others would have different views. I have great confidence the royal commission will weigh all that up and certainly will conclude that Pike River would not have been saved by having check inspectors.

Cosgrove  Dr Elder, a simply question based on that interaction: who, though, watches the watchers? I accept your point to some extent, that a person empowered, involved, can act appropriately. But that’s also predicated on a company acting appropriately, and you would accept that there have been examples where, particularly Pike River, the company didn’t act appropriately. Then, if you don’t have some sort of independent mechanism, where does an employee go?

Elder  That’s an excellent question, and it is key, because assurance and “who watches the watchers” is a key part of health and safety. The first measure is that everybody has to look after each other and that’s not just a trite statement. That has to apply. If you haven’t got that culture, you shouldn’t be mining at all anyway. After that, you have to have a mechanism that if somebody’s not happy, they can go to somebody else. If you haven’t got that, you shouldn’t be mining. Then, you’ve got assurance that’s provided—and I get a phone call at 6 o’clock every day from the compliance inspectors, who are independent of my management, that tells me what was the result of the compliance order from the mine that day. I get that phone call 6 o’clock every day and have for 12 months. Finally, you’ve got the Department of Labour. Our submission this week said that the old Department of Labour did not have anywhere near the power, the authority, or the capability to do what was required. We’ve recommended something that goes far beyond what I’m sure anybody thought we would, which is in fact we doubt you will ever have that capability in the underground mines inspectorate and the Department of Labour, because we don’t have the critical mass in New Zealand. We’ve actually recommended that the Government should enter discussions with Queensland, and have the Queensland mines inspectorate have a direct role in our mines, because we think the answer to “who watches the watchers”, who provides the assurance, who does the oversight, and who can you go to if you’ve got an issue, is that important.
Cosgrove Do you believe the Department of Labour was derelict in its duties, based on that remark?

Elder We wouldn’t have an answer to that question; we’ve expressed the need for the capability in the future.

Cosgrove But surely if your proposition is that in no way did they have the capability to do the job they were mandated for, then they were derelict in their duty?

Elder Our submissions over a time have pointed out what’s required. We’ll leave it to the commission to determine what the reasons were for whatever’s happened in the past.

Cunliffe Supplementary to the chair—thanks Dr Elder for what’s clearly pretty heartfelt commitment there—to the chair, subject to matters that I recognise are confidential in respect of the arrangements with Pike River, I am going to seek from you a statement of intention. Were those discussions to be successfully concluded, would it be the board’s intention to recover, or seek to recover, the bodies of the 29 dead miners in the Pike River mine? I’m not asking for any disclosure or comment on negotiations, which are confidential, and I respect that, I’m asking for a broad statement of intent from the board.

Palmer I think it’s fair to assume that any potential purchaser for Pike River—Solid Energy or anybody else—will have obligations around that.

Cunliffe Following from that, hypothetically were Solid Energy to be in that position, how and roughly when would it seek to implement that intention?

McClay Just on that, when you say “hypothetically”—you are actually asking to go on record as to what you might or might or not do, it’s not really hypothetical. The question could be, but I’m not sure the answer would be.

Palmer I understand the rules of engagement with the select committee, but I just don’t think I can answer that question.

Cunliffe We’ll respect your decision on that.

Mitchell I would just like to refer to a couple of the slides in your presentation, slide 8. I think that all of us in this room, as Kiwis, like to think that the preservation and protection of our environment was pretty important. But I note that in slide 8, 81 percent of those surveyed believe that the development of New Zealand’s natural resources is important to improving New Zealand’s economy, prosperity, and standards of living. If we then go back to slide 17, the cumulative net environmental effects study. Are you seeing that within us as Kiwis, within the country now, there’s a general understanding that actually we can dip into our natural resources and be responsible in terms of how we do that around the environment as well?
Elder With regard to the results of the survey, we were pleasantly surprised, because what that indicates is a level of understanding of a discussion that’s been quite hard in the last couple of years. We were also pleased that New Zealanders were so specific about the conditions under which that support would exist or not exist. I think it, to us, was an endorsement of a position we took, what is now 9 years ago, expecting that that’s where New Zealanders, as opposed to sloganeering, which often occurs around this subject. We say actually New Zealanders, and we, want to have a more sophisticated discussion than that about what that means.

Hughes Dr Elder, you’ve refused to release the details of that poll, because of commercial sensitivity; will you release, essentially, the questions you asked?

Elder I think the question that came through was to provide the questions, rather than to provide the answers. Those questions we do regard as commercially sensitive but we do need to note that at this stage we are also bound by our contract with the provider there, so we would have to work through all that.

Hughes Surely you can be transparent and release the questions. I mean most political polls and other polls release it. We can’t really take it seriously if we don’t know what questions you’re asking.

Cunliffe Mr Chairman, the company has voluntarily provided both the question and answer to one question. I think the committee is entitled to know the context within which that question has been asked. That goes to the questions around it. Frankly, it could be seen to be just somewhat disingenuous to give selective information to the committee, rather than a more general feedback on public views. This is a matter that the company has voluntarily omitted it, not the committee.

Elder So you’ll appreciate my answer; it wasn’t a “No,” it was that there are commercially sensitive issues here, and contractual issues, and when we got the questions—I think a couple of days ago—we said we can’t immediately give an answer to those, we need to go away and have a look at that, but we do understand the committee’s position. We certainly understand that it’s in no one’s interest to have somebody who says we can’t take this credibly.

Cosgrove Just a point of clarification—it may actually help the debate, Dr Elder. Without going beyond the bounds that you can, could you just illustrate for us, or perhaps go a bit deeper as to why a poll on perceptions of an industry may be so commercially sensitive that they can’t be released? Because in the normal course of events, a poll around perceptions of the companies—I find it interesting that you claim commercial sensitivity.

Elder Yes, there are degrees of commercial sensitivity, and quite clearly there are a thousand-plus people who received these questions to whom it is no longer confidential. So our statement isn’t that we cannot release this, it’s that we simply need to work through, under our commercial contract, for example, and the clauses under that.
Cosgrove  Is this with the polling company?

Elder  Yes. I think the answer is—

Cunliffe  You’ve released part of it already

Elder  Absolutely we have.

Hughes  Did you get permission from the company to do?

Cunliffe  Will you seek permission from the company?

Elder  We have permission to do certain things with it, use it for our own use. I think the answer here is we can move forwards here. We need to go away, have a look at this, and understand the request. I think we can probably meet it, but we need to work through that.

Cosgrove  Sorry, just some clarification again, though. I think some of the questions might be around that normally when you conduct a poll, I presume Solid Energy paid for all of it, or part of it, or the part that you’re illustrating to us. The ownership of that is yours. We’re not asking you to release the names of the people in the poll, but you would understand that to release an answer, or a partial answer, without the question, is quite odd. It could lead—I’m not saying it is, but it could lead—to a perception of dealing off the bottom of the deck, shall we say.

Elder  Absolutely. We’ll go away and have a look at this. I think we probably should be able to meet your expectations regarding all the context around these questions.

Cunliffe  This is a line that’s been waiting for a while, Mr Chair, but no offence. I’m really impressed with slide 9, which is also in your annual report, which is the Solid Energy value pipeline. No doubt there is a lot of data sitting in behind it. But just a layperson’s view would indicate that there are an enormous number of potentially highly valuable projects which you have in various stages of development, not yet final execution and certainly not final production—i.e. there is a steep curve in that pipeline, which obviously shows there is lots of hard work going on in the company, and the future’s pretty bright. I guess my question is—it’s probably best directed to the chairman—if the board could choose an ideal time to make a partial sell-down of its shares, what would be the commercially optimal timing in relation to that value pipeline?

Palmer  I’ll answer it truthfully, and you’ll then, I expect, have a follow-up question. About the middle of last year.

Cunliffe  Why is that, when in the future, and there isn’t a precise timing put on this, but clearly the value of the projects yet to come into production, by the look of the bubble sizes in the pipeline, significantly exceeds the value of projects currently in production, and that appears, from what we can tell, to
be more true in the medium term rather than the short term. Would it not be commercially prudent to maximise the value of the sale price, assuming one wanted to sell, by not undertaking that sale until there was a higher degree of certainty and greater commercial value around those projects currently under early-stage development?

Palmer That would be correct on the assumption that you had access to sufficient capital in sufficient forms to be able to progress those as fast as you’d like. Our view is that that is currently a constraint.

Cunliffe So are you saying that your current shareholder is deliberately—that sounds pejorative—is in some way directing the company not to access the capital it needs to optimise the profitability of its project line?

Palmer I’ll take the operative words out of the question—no.

Cunliffe So far we’ve heard that the chief executive has confirmed that there are a lot of valuable projects that haven’t yet come to pass. That the future value of Solid Energy would be much higher than the current value, provided there was sufficient capital development. This is, frankly, a no-brainer. Environmental constraints, which are real, aside. Would it therefore not be prudent governance not to attempt a sell-down of a current shareholding until that profit-maximising position had been reached?

Palmer Given the specific conditions of the company, my answer to that is no.

Cunliffe Why is that?

Palmer Because if we think about the nature of these projects; the time for the delivery; and the obvious risk appetite for investors in a mining company, as opposed to investors, say, in a utility, then I think getting greater observability of capital or capital usage is critically important to actually getting up that curve as fast as you can, and hence releasing value.

Cunliffe I know we’re out of time. So what you’re essentially saying is that new private investors would have a higher tolerance for risk than the Government would have as owner, and that therefore the behaviour of the company would be significantly different under a mixed-ownership model.

Palmer I think it’s correct to say that the sorts of investors that a mining company will attract are likely to have a higher risk profile than the Crown as an owner. Therefore, in a partially listed company, how it proceeds with projects is likely to be different.

Cunliffe Very interesting in relation to the earlier questions about balancing the interests

Young Thank you very much for your time.

**conclusion of evidence**
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Southern District Health Board

Recommendation

The Health Committee has conducted the financial review of the 2010/11 performance and current operations of the Southern District Health Board, and recommends that the House take note of its report.

Introduction

The Southern District Health Board was formed from the merger of the Otago and Southland District Health Boards on 1 May 2010. It is the largest DHB in terms of geographical area, and has a population of 306,000 people.

Financial and service performance

In 2010/11, the DHB had a total income of $814.423 million, with a total expenditure of $814.193 million, resulting in a surplus of $230,000. The predecessor Otago and Southland DHBs had a 10- to 15-year history of deficits, which the Southern DHB has inherited. The surplus was achieved only after $10 million was received from the Crown for deficit support. The DHB is on the Ministry of Health’s intensive monitoring regime, and a Crown monitor is overseeing its performance.

Despite assurances that over the next three years the DHB will receive an extra $8.3 million more than its usual population-based funding, the DHB is forecasting deficits over the next three years of $10.6 million, $8.7 million, and $6.4 million respectively. It will therefore require a total of $24 million in deficit support from the Crown, and will also need to deliver financial efficiencies; we will monitor this situation closely. The DHB believes that it is unlikely to be able to achieve a surplus without additional support unless the population-based funding model is modified.

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance report of the service, rating its management control environment, and financial information systems and controls as “good”. Both results were consistent with those of the previous financial year. Its service performance information and associated systems and controls were assessed as “good”, an improvement from the previous rating of “poor”.

Capital expenditure and asset management

The DHB is facing challenges in capital and infrastructure development as the hospital in Invercargill needs a $3.4 million redevelopment to make its administration buildings code-compliant. We understand that approximately $150 million is needed to upgrade the mental health and neo-natal units, which are under acute pressure. A $24.4-million refurbishment of Dunedin Hospital is also needed, among other infrastructure upgrades.
Clinical sustainability

We understand that the greatest challenge for the DHB will be maintaining levels of service within the available resources. The DHB is struggling to secure access to health services in some of its rural centres, while there is strong pressure for local provision of services. Locums have been used heavily in the Southland district, and there is doubt whether the DHB is large enough to sustain some specialist services in certain areas, including some tertiary services in Dunedin. The DHB said that it is capable of delivering savings without compromising service delivery, by “working smarter” and implementing new initiatives.

One of the reasons for the merger was clinical integration, and we note a recent proposal by the DHB to restructure its executive team. The intention is to unify the management of patient services, create a single chief medical officer, and provide a more strategic approach to finance and funding. We support this proposal, and if it goes ahead we will monitor the progress of the restructuring against these performance goals.

We asked about the quality of service delivery in rural hospitals and were informed that the DHB carried out a consultation on service delivery in Wakatipu and took subsequent action taken to ensure its quality. The health campus there, which provides integrated services for the community, bringing together a maternity service, St John’s ambulance, mental health and rest home facilities, and elderly care; and consideration is being given to adding a dental clinic.

Staff recruitment and retention

We are aware that 58 percent of the Southern DHB’s population live in Dunedin and Invercargill, and asked how the DHB is ensuring clinical sustainability and service delivery across such a vast geographical area. The DHB told us they are facing challenges recruiting and retaining senior clinical staff, and are currently working on regional recruitment and retention initiatives.

The DHB is aware that its relationship with Otago University is critical in attracting high-calibre specialists and academic staff, and that it needs to capitalise on it. It is considering introducing staff rotation between Dunedin and Invercargill to attract more staff.

Staff remuneration

We asked why a part-time clinician was paid approximately $820,000–$830,000; we were told that this unusually high salary was legitimate as the clinician was working long hours. The original part-time contract was for about $400,000, and as the clinician’s workload doubled so did the remuneration. The DHB assured us that they are seeking to provide a healthier work-life balance for staff. The DHB was determined to avoid a recurrence of such expenditure on one clinician in the future.

Results of merger

We are not yet persuaded that financial benefits have resulted from the merger; however, we recognise that the ageing population and limited funding are putting additional cost pressure on the health sector. Costs of wages and supplies are being exacerbated by inflation pressures and, growing on average at 9 percent in 2010/11. We recognise that
health services around the world are struggling with these same pressures, but consider that the DHB needs to work on becoming more productive and efficient.

We understand that the DHB has been seeking clinical integration since 2007 and is making slow progress. We asked what the DHB is doing to hasten the merger. The DHB has been undergoing a consultation process with its entire staff, aiming to change the culture from the top down. We were pleased to hear that it has had overwhelming support from staff.

The chief executive believes that the current structure perpetuates the separateness of the merged DHBs, and this is contributing to cumbersome decision-making processes. Before the merger the DHBs had very distinct cultures, and much work will be needed to bring about consistency and avoid fragmentation. We were pleased to hear that the information technology, human resources, and finance systems have been successfully integrated.

**Bowel cancer**

We note that there is a high incidence of bowel cancer in the DHB’s population, and would like to see the DHB conduct research into this, and seek ways of lowering the rates among the community.

**Adverse events**

We noted that the Southern DHB is rated among the four highest DHBs in terms of adverse events. Of the 40 that occurred in 2010/11, 16 involved clinical management issues and 10 were falls. The DHB informed us that they are changing their clinical governance model to focus on the root cause of the problem. There has also been a push on reporting, and the DHB is planning to improve its patient safety framework. We expect to see progress as a result of these initiatives.

**Oral health**

The DHB has opened a number of additional oral health clinics for children and adolescents aged up to seventeen years, and an oral health care centre catering for all ages has opened in Gore. We were informed that following changes to oral health clinics, the number of children receiving treatment has increased on average by 9.98 percent, with the biggest increase in those aged 13 to 17 years, with a small decline in those aged 5 to 12 years.

**Dental graduates**

We asked how dental graduates were being managed to ensure they provided safe, high-quality service. The DHB said that graduates are mentored by senior therapists, and are provided with dental assistants, and a supportive team environment to enable their ongoing success.

**Theatre capacity**

The DHB confirmed that it is operating at capacity and needs more theatres; a potential solution is to use theatres in other DHBs such as Canterbury, if patients are willing to travel.
Elderly care

We were pleased to hear that the DHB has been planning to ensure quality support for those suffering from dementia who wish to remain in their own homes.

Immunisation rates

We congratulated the DHB on achieving the best immunisation rate statistics for two-year-olds. The DHB said its success was due to understanding which children are hard to reach, and involving primary care and well-child nurses.
Appendix

Approach to this financial review
We met on 9 May and 30 May 2012 to consider the financial review of the Southern District Health Board. We heard evidence from the Southern District Health Board and received advice from the Office of the Auditor-General.

Committee members
Dr Paul Hutchison (Chairperson)
Shane Ardern
Dr Jackie Blue
Dr Cam Calder
Kevin Hague
Iain Lees-Galloway
Andrew Little
Barbara Stewart
Hon Maryan Street
Dr Jian Yang

Evidence and advice received
Southern District Health Board, Annual Report 2010/11.

Southern District Health Board, Responses to committee questions, received 9 May and 5 June 2012.

Office of the Auditor-General, Briefing on Southern District Health Board, dated 9 May 2012.

Organisation briefing paper, on the Southern District Health Board, prepared by committee staff, dated 7 May 2012.
2010/11 financial review of Sport and Recreation New Zealand

Report of the Government Administration Committee

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Sport and Recreation New Zealand

Recommendation

The Government Administration Committee has conducted the financial review of the 2010/11 performance and current operations of Sport and Recreation New Zealand and recommends that the House take note of its report.

Introduction

Sport and Recreation New Zealand (SPARC) is a Crown entity established under the Sport and Recreation New Zealand Act 2002. Its purpose is to promote, encourage and support physical recreation and sport in New Zealand. On 8 August 2011 a new entity, High Performance Sport New Zealand, was established as a subsidiary of SPARC, by merging SPARC’s High Performance unit with the Academies of Sport North and South. On 1 February 2012 SPARC was renamed Sport New Zealand (Sport NZ). In 2010/11 SPARC’s total revenue was $111.025 million and total operating expenditure was $107.938 million, resulting in a net $3.082 million surplus.

Health and education

In 2008/09 SPARC produced a new strategic plan, which moved the organisation out of the “health and wider activity-related areas”\(^1\) back into sport and recreation. We are concerned that health and education seem to have been accorded a lower priority since this change.

Sport NZ said that it had struggled to connect effectively with the Ministry of Education, and was still concerned about the place of sport in the school curriculum, and the amount of physical education training given to primary school teachers; it wanted to do more in this area. We share this concern, and encourage Sport NZ and the Ministry of Education to work together to provide high-quality sport and recreational activities and education to school students.

Sport NZ works with regional sports trusts to promote sport in low-income communities and to combat obesity, particularly among children. We heard that some regional sports trusts also contribute to delivering on district health board outcomes. Nonetheless, we believe that Sport NZ could do more to promote healthy lifestyles, and we urge it to work more closely with the health sector to realise this goal.

Community sport and recreation

Sport NZ and regional gaming trusts, among other groups, invest in community sport and recreation. Sport NZ aims to increase the number of participants in sport and recreation, and to this end it invests in and supports national sporting organisations and regional

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\(^1\) SPARC, Annual Report for the year ended 30 June 2009, p. 3.
sports trusts, and works with gaming trusts and other groups. In 2010/11, 44 percent of SPARC’s spending went into community sport and recreation programmes.

National sport and recreation organisations are now accountable for community sport and recreation outcomes as well as for high-performance outcomes. Sport NZ told us that it is seeing a change in attitudes among these organisations, many of which are changing their constitutional structure for this reason. Football New Zealand, for example, has formulated a Whole of Football Plan, which Sport NZ commended. But other organisations are finding it difficult to change their orientation. We encourage Sport NZ to continue to work with these organisations to make the requisite changes.

**Children and young people**

One of Sport NZ’s priorities is to increase participation in sport and recreation by children and young people. Through the Kiwisport programme, Sport NZ grants money to regional sports trusts, which invest in their communities to raise participation. Kiwisport has been operating for two years, and appears to have been running well, which we were pleased to hear.

Sport NZ recently conducted a research project on children and young people’s sports. Among other things, this research examined how children want to pursue sport, what sports they are participating in, why only some children play sport, and regional differences in participation levels. We are interested in the results of the project, which are expected soon.

**Disabled sports**

Sport NZ is charged with enabling disabled people to participate in sport and recreation. It expects national sports organisations to promote the inclusion of disabled athletes; some sports do so well, while others lack the means to do so. Sport NZ invests in the Halberg Trust to promote the inclusion of disabled athletes.

However, we are concerned that Sport NZ is giving insufficient priority to this aspect of its work. We note that SPARC previously employed people to promote inclusion, but no longer does so. We believe that Sport NZ should be doing more to promote the inclusion of disabled athletes, and will follow this matter with interest.

**High-performance sport**

Sport NZ provides funding and support for high-performance sport. In 2010/11, 51 percent of SPARC’s total investment went into this sector. Investment is targeted at the sports that Sport NZ believes are likely to be successful on the world stage—currently six Olympic and three non-Olympic sports. These sports receive about 70 percent of Sport NZ’s high-performance funding. The other 30 percent forms a contestable fund, for which national sports bodies bid.

We know that New Zealand sportspeople do very well on the international stage relative to the funding they receive. Sport NZ does not benchmark performance against richer nations’ successes. It noted that many countries are fascinated that one with comparatively little high-performance funding could produce successful athletes in a wide array of disciplines.
We note that the previous Government Administration Committee wanted to see more done to recognise and develop emerging athletes. Sport NZ agreed that it needed to do more to find, support, and advance emerging talent, and we echo this sentiment.

Olympic Games
We asked about the probable effects of recent structural changes to the organisation on New Zealand’s success at this year’s London Olympic Games. We heard that the changes were unlikely to have any such effect, but the additional funding for high-performance sport received by SPARC in the last couple of years should be reflected in the success of New Zealand athletes at the games. In the long term, structural changes should improve chances of success at the 2016 Olympics in Rio de Janeiro. We note that Sport NZ said that its goal for the 2012 Olympics was 10 or more medals, but that the chair of Sport NZ indicated that he expected a more positive result.

Paralympics and Special Olympics
Sport NZ invests in and supports New Zealand Paralympic and the Special Olympic athletes. In 2010/11 SPARC invested $1.5 million in Paralympics New Zealand. We heard that this year Sport NZ doubled its funding for Paralympics athletes. In 2010/11 it invested $554,600 in Special Olympics New Zealand. We asked for a comparison of funding for Olympic athletes with that for special Olympians and Paralympians, but were told that this was not possible because Sport NZ supports high-performance athletes through “many different channels”.

We note that the Wheel Blacks, who were gold-medal winners at the 2004 Paralympics, did not qualify for this year’s games, and that they have not received high-performance investment from Paralympics New Zealand since 2009 because of their mediocre results at more recent international tournaments. We asked whether a lack of investment had contributed to this decline in performance; Sport NZ thought that it had played a part, but that the retirement of key players and stronger competition from other wheelchair rugby nations were bigger factors.

Rugby
We are concerned about the recent financial problems of a number of provincial rugby unions, particularly the Otago Rugby Football Union. Sport NZ works with the New Zealand Rugby Union at a national level to ensure the health of the game, but does not get involved in the financial issues of individual unions. It believes that the NZRU can deal with the problems facing provincial unions. It also suggested that structural changes made recently by the NZRU should help to rectify these issues.

Competitive shooting
We asked how much investment and support the New Zealand Shooting Federation receives from Sport NZ, given that New Zealand shooters have won more medals than other New Zealand athletes. We heard that most of the medals won by our shooters are Commonwealth Games medals, so Sport NZ will invest extra money in shooting for the Commonwealth Games, but not for the Olympic Games.
Sport NZ does not have confidence in the organisation and structure of the New Zealand Shooting Federation, and will not invest substantially in the sport until the federation makes structural changes to bring all of the various shooting disciplines into a single organisation. We encourage Sport NZ to continue its work with the New Zealand Shooting Federation to make the changes needed.
Appendix

Approach to this financial review

We met on 28 March and 2 May 2012 to consider the financial review of Sport and Recreation New Zealand. We heard evidence from Sport New Zealand and received advice from the Office of the Auditor-General.

Committee members

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

Evidence and advice received

Sport and Recreation New Zealand, Annual Report for the year ended 30 June 2011.

Sport and Recreation New Zealand, Annual Report for the year ended 30 June 2009.


Sport and Recreation New Zealand, Answers to written questions, received 20 March 2012.

Sport and Recreation New Zealand, Answers to additional questions, received 23 April 2012.

Office of the Auditor-General, Briefing on Sport and Recreation New Zealand, dated 28 March 2012.

Organisation briefing paper, prepared by committee staff, dated 19 March 2012.
2010/11 financial review of Te Reo Whakapuaki Irirangi (the Māori Broadcasting Agency)

Report of the Māori Affairs Committee

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Te Reo Whakapuaki Irirangi (the Māori Broadcasting Agency)

Recommendation

The Māori Affairs Committee has conducted the financial review of the 2010/11 performance and current operations of Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency) and recommends that the House take note of its report.

Introduction

Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency) was established under the Broadcasting Amendment Act 1993. Operating under the name Te Māngai Pāho, the agency’s responsibility is to promote the Māori language by funding the broadcasting, production, and archiving of radio and television programmes.

In 2010/11 its total operating revenue was $54.638 million, and total expenditure was $55.731 million. This resulted in a net deficit of $1.093 million, less than the forecast deficit of $1.349 million.

Television broadcasts

In 2010/11 Te Māngai Pāho funded 1,452 hours of television broadcasts costing $40.971 million. This exceeded the target number of hours, using less funding than was needed last year.

The agency told us that the prospects for the survival of te reo have improved, but that a “critical mass” of fluent speakers of all ages is urgently needed; it argued that broadcasting is the best means for delivering certain outcomes sought by Government and Māori.

When making television funding decisions, Te Māngai Pāho has to balance programming for fluent speakers and those who are still developing their language skills. The audience for exclusively Māori content is small compared with that for bilingual programming. There is a desire to develop more content delivered exclusively in te reo, but the agency is also wary of deterring new learners. Similar balancing is required between information, such as news and documentaries, and entertainment programmes. Te Māngai Pāho must decide the funding mix according to what it believes is best for the growth of te reo Māori.

Impact survey

We note that Te Māngai Pāho commissioned an impact survey in conjunction with the Ministry of Maori Development (Te Puni Kōkiri), the Māori Television Service, and Te Taura Whiri i te Reo Māori (the Maori Language Commission) that measured the impact of the Māori Television channels on the Māori language. We are pleased the findings indicate that Māori are highly aware of the channels, and there is a correlation between viewing them and learning te reo Māori. The survey also showed a correlation between viewing the
channels and improving and maintaining language proficiency. The survey results show that Māori Television makes a marked contribution to Māori language revitalisation.

**Viewer demographics**

We asked if Te Māngai Pāho was concerned that more Pākehā than Māori were watching Māori Television. The agency acknowledges the interest from Pākehā towards te reo Māori, and their support for Māori Television. Te Māngai Pāho feels the language should be for everyone who is interested, Māori or Pākehā. It assesses the quality of proposals to ensure that programmes are appealing to viewers.

**Interagency relations**

Questions were raised whether too many agencies might be involved in Māori language revitalisation, including Te Taura Whiri, Te Puni Kōkiri and others. According to Te Māngai Pāho, each organisation has a distinct role, and all are focused on kaupapa Māori and the goal of supporting and enhancing Māori culture and language. The leaders of the various agencies and stakeholders meet regularly to keep each other informed and ensure a common direction. The agency said that good relationships with stakeholders are vital, and it has strategies to ensure them, including regular meetings with heads of boards and chief executives.

**Relationship with Television New Zealand**

We asked if Te Māngai Pāho was happy with Television New Zealand’s contribution to enhancing and growing te reo. The agency believes it is important to fund programmes that can reach the largest possible audience and it appreciates the wide reach of Television New Zealand. Television New Zealand also provides online viewing options and infrastructure that other broadcasters can not offer.

**Radio**

In 2010/11, Te Māngai Pāho funded 2,700 hours of radio programming on 21 iwi radio stations.

We note that because of financial restrictions, there is a shortage of original content, and Maori language broadcasts on iwi radio are often repeated. We expressed concern that repetition of content could bore listeners and lead some to switch off. The agency argued that iwi radio stations have the important role of holding archival content in perpetuity. It regards archival content as a taonga and believes it is good to record and broadcast the voices of fluent older speakers, who are decreasing in number, so that the young may hear them and language revitalisation is encouraged, so it sees some value in repeating content.

Te Māngai Pāho said if too much new content is produced the old voices may not be heard. It has met its targets for iwi radio and is pleased with its achievements over the last year. The agency believes iwi radio is an important contributor to language revitalisation.

We note that Te Māngai Pāho’s funding for music has focused more on singles than albums, in response to feedback from the industry. Funding was distributed to a mixture of new and established producers. Five albums and 40 singles were produced.
The SMART Plan
This year Te Māngai Pāho completed its SMART Plan, a major project to enhance the capabilities of iwi radio stations. Stations received $50,000 (GST exclusive) per annum for two years for operational expenditure. According to the agency, stations are now thinking more strategically, and we look forward to seeing the results of the project in coming years.

Digital formats
We heard that Te Māngai Pāho has offered a small amount of contestable funding for digital productions in recent years, but that there has been very little interest from the market. The agency said that most online Māori language productions are independently produced now, without funding or oversight from Te Māngai Pāho. The agency suggested that in this area the free market was doing very well without its intervention. It said that television is still the primary means by which New Zealanders consume media content, and its funding will continue to be focussed on television for the foreseeable future.

We heard that Te Māngai Pāho was beginning to consider developing applications for smartphone devices or taking advantage of the popularity of social networking services.

Māori language quality assessment framework
External consultants have developed a standardised framework for assessing the language quality of applications for production funding. It is being rolled out in the current financial year and we look forward to seeing the results.
Appendix

Approach to financial review

We met on 21 March, 2, and 9 May 2012 to consider the financial review of Te Reo Whakapuaki Irirangi. Evidence was heard from the Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency) and advice received from the Office of the Auditor-General.

Committee members

Hon Tau Henare (Chairperson)
Te Ururoa Flavell
Hone Harawira
Brendan Horan
Hon Parekura Horomia
Katrina Shanks
Rino Tirikātēne
Metiria Turei
Louise Upston
Nicky Wagner
Louisa Wall
Jonathan Young

Evidence and advice received


——2010 Self-assessment review final draft, received 16 March 2012

——Channel Audience: 4 Week Cumes, received 16 March 2012

——Iwi radio achievements, received 22 March 2012

——Lead Māori Language Strategy, received 16 March 2012

——Ngā Whetu Kapokapo, received 16 March 2012

——Programmes Report 26 June 2011, received 16 March 2012

——Response to pre-hearing questions, received 16 March 2012.

——Review of Te Reo Mauriora, received 16 March 2012

——TNS market research survey, received 16 March 2012

——Impact of Māori Television on the Māori Language, received 22 March 2012
2010/11 FINANCIAL REVIEW OF TE REO WHAKAPUAKI IRIRANGI

Office of the Auditor-General, Briefing on Te Reo Whakapuaki Irirangi (the Māori Broadcasting Agency), dated 21 March 2012.

Organisation briefing paper, prepared by committee staff, dated 20 March 2012.
**Te arotake pūtea o Te Reo Whakapuaki Irirangi o te tau 2010/11**

Te pūrongo o te Komiti Whiriwhiri Take Māori

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Te Reo Whakapuaki Irirangi

Tūtohutanga

Kua oti i te Komiti Whiriwhiri Take Māori te arotake pūtea o te tau 2010/11 mō ngā whakaturutukinga me ngā mahi o te wā nei a Te Reo Whakapuaki Irirangi, ā, ka tūtohu kia aronga e te Whare tāna pūrongo.

Kupu Whakataki

I whakatūria Te Reo Whakapuaki Irirangi i raro i te Ture Whakatikatika Pāhotanga 1993. I raro i tōna ingoa a Te Māngai Pāho, ko te haepapa o te pokapū, he whakatairanga i Te Reo Māori mā te tohatoha pūtea mō ngā mahi pāhotanga, whakatakinga, ā, whakapūranga hōtaka reo irirangi, me te whakapūranga hōtaka whakatauka hoki.

I te tau 2010/11, e $54.638 miriona te katoa o tana whiwhinga, ā, e $55.731 miriona te katoa o te whakapaunga. I te mutunga mai, e $1.093 miriona te tarepa more, ā, iti iho i te tarepa matapae e $1.349 miriona.

Pāhotanga whakaata

I te tau 2010/11, e 1,452 ngā hāora whakataa nā Te Māngai Pāho te pūtea āwhina, ā, e $55.731 miriona tērā. Nā te iti iho o te pūtea āwhina i whakamahia i te tau nei ki tērā i hiahiatia i te tau kua hipa te take, i neke atu ai tēnei i ngāhāora āonga.

I roto i āna whakataunga pūtea āwhina mō te whakataa, me tautika tonu te whakarite a Te Māngai Pāho i ngā hōtaka mā te hunga e matatua ana ki te kōrero Māori, ā, ko tāna ka tohe mai, ko te pāhotanga te huara hi pai rawa atu mō te hōmai otinga kei te rapuhia nei e te Kāwanatanga, e ngā Māori hoki.

I roto i āna whakataunga pūtea āwhina mō te whakataa, me tautika tonu te whakarite a Te Māngai Pāho i ngā hōtaka mā te hunga e matatua ana ki te kōrero Māori, ki te hunga mātakitaki hōtaka kei roto katoa i Te Reo Māori, ki te hunga mātakitaki hōtaka reorua. Ahakoa he hiahi kia reira kia rahi kē atu ngā mea o roto i Te Reo Māori anake, ka whakatūpato tonu hoki te pokapū i a ia, kia kore ngā ākonga hou e mataku ka raru rātou. Ka pēra anō hoki te tautika ka hiahiatia i waenganui i te pārongo, pēra i ngā hōtaka mō ngā rongo kōrero me ngā pakipāme, ā, mō ngā mahi whakangahau hoki. Me whakataua Te Māngai Pāho i te poke mō te pūtea āwhina e ai ki tāna ka whakapono, he aha te mea pāi mō te tipuranga o Te Reo Māori.

Tirohanga whānui o te popānga

Ko tā mātou kua kite, nā Te Māngai Pāho tētahi tirohanga whānui o te popānga i komihanatia i te taha o Te Puni Kōkiri, Te Aratuku Whakaata Irirangi Māori, me Te Taura Whiri i Te Reo Māori, hei ine i te papānga ki Te Reo Māori a ngā hongere o Whakaata Māori. E harikoa ana mātou ki ngā whakakitenga e tohu ana i te mārama rawa atu a ngāi
Māori ki ngā hongere, ā, he whanaungatanga hoki kei reira i waenganui i te mātakitaki hongere noa, me te ako i Te Reo Māori. Ka whakaatu mai hoki te tirohanga whānui i te whanaungatanga i waenganui mātakitaki hongore, me te whakapai ake, tiaki hoki i te matatau ki Te Reo. Ka whakaatu ngā hua o te tirohanga whānui i te tino wāhi o Whakaata Māori i te whakaoranga o Te Reo Māori.

Tatauranga taupori mō te kaimātakitaki
I pātai mātou mehemea he māharahara tā Te Māngai Pāho ki te nui ake o ngā Pākehā i te iwi Māori e mātakitaki ana i a Whakaata Māori. Ka mihī te pokapū ki te hiahia mai o te hunga Pākehā ki Te Reo Māori, ā, ki tō rātou tautoko hoki mō Whakaata Māori. Ki Te Māngai Pāho, mō tēnā, mō tēnā ake e hiahia ana i Te Reo, Māori mai, Pākehā mai. Ko tāna mahi kē, he aromatawai i te kounga o ngā whakatakotoranga me te āta titiro kei te reka ngā hōtaka, ki te hunga mātakitaki.

Hononga i waenganui pokapū
I whakaraarata ake ngā pātai mehemea he tino maha rawa pea ngā pokapū kei roto i te mahi whakaora ake i Te Reo Māori, tae atu ki Te Taura Whiri i Te Reo Māori, Te Puni Kōkiri me ētahi atu hoki. E aki ki Te Māngai Pāho, he tino mahi tā ia rōpū whakahaere, ā, arotahi ai rātou katoa i te kaupapa Māori me te whānau e tautoko anā, e whakaniko ana hoki i te ahurea, me Te Reo Māori. He rite tonu te wā e hui ai ngā kaiarataki o ngā mōno pokapū, mōno kaipupuri pānga ki te whakamōhi o ngā nekenekē ki a ia o rātou, ā, me te āta titiro hoki kei te ahu rātou ki te wāhi kotahi. Ki te pokapū, ko te pai o ngā hononga ki ngā kaipupuri pānga te mea whakaraharahara rawa atu, ā, he rautaki anō hoki āna hei whakatutuki i ēnei, tae atu ki te riterite tonu o ngā wā e hui ai i te taha o ngā āpoko o ngā poari, me ngā kaiwhakahaire matua hoki.

Hononga me Te Reo Tātaki o Aotearoa
I pātai mātou mehemea i te koa Te Māngai Pāho ki te wāhi kei Te Reo Tātaki o Aotearoa, mō te whakaniko me te whakatipu i Te Reo. Ki tō pokapū, he mea nui te hoatu pūtea mō ngā hōtaka ka tae ki te maha kē atu o te hunga mātakitaki, ā, me tāna mihī anō hoki ki te whānuitanga o tē motu, ka kapi i Te Reo Tātaki o Aotearoa. Ka hōmai hoki e Te Reo Tātaki o Aotearoa, he kōwhiringa mātakitaki ā-tuhihono, me ētahi atu pūnaha pāhotanga e kore e taea e ētahi atu kaipāhotanga.

Reo Irirangi
I te tau 2010/11, ni Te Māngai Pāho te pūtea mō ngā hāora hōtaka reo irirangi e 2,700 i pāhotia i runga i ngā teihana reo irirangi e 21.

Kua kite mātou nā ngā kōtēngā pūtea ngā mea taketake o roto ka poto, ā, nā runga i tērā ka tāruarutia ngā pāhotanga Reo Māori i runga reo irirangi iwi i te nuianga o te wā. Ko tō mātou māharahara, kei takeo ngā kaiwhakarongo nā te tāruatanga o ngā mea o roto, ā, tērā hoki pea ka whakawetoa ngā reo irirangi e ētahi o te hunga whakarongo. Ka tohe mai te pokapū, he kawenga nui tā ngā teihana reo irirangi e pā ana ki te pupuri mea pūranga o roto, mō ake tonu atu. He taonga ki a ia ngā mea pūranga o roto pūranga, ā, whakapono ai hoki, he pai te hopu me te pāho reo o ngā kaihōrero pakeke e matatau ana ki te kōrero Māori, otiātā, rātou mā kua ititiiti haere te kītea o tō rātou tokomaha, kia rangonatia ai e te
hunga rangatahi, ā, me te āki kia ora ake anō Te Reo. Nā runga i tērā, he uara toni ki a ia te whakatāruarua mea o roto.

Ka mea anō hoki Te Māngai Pāho, ki te nui rawa ngā mea hou o roto ka whakatakinga, kua kore pea ngā reo o te ao tawhito e rangoatia. Kua tutuki i a ia āna ūnga mō ngā reo irirangi iwi, ā, kei te harikoa anō hoki ki ngā āhuatanga i tutuki i a ia, i te huringa o te tau kua hipa. Ki te pokapū, he kaihōmai whakahararahara te reo irirangi iwi mō te whakahaora i Te Reo.

Ko tērā i kīte mātou mō te pūtea āwhina a Te Māngai Pāho, kua kaha kē atu tōna arotahi i ngā kōpae pūoru takitahi, i ngā kōpae pūoru whakaemī. Ko tāna whakautu tērā ki te urupare, mai i te ahumahi pūoru. I tohaina te pūtea āwhina ki tētahi pokenga kaiwhakatakinga hōu, kaiwhakatanga hoki, kua roa kē e tū ana. E rima ngā kōpae pūoru whakaemi i takinga, ā, e 40 ngā kōpae pūoru takitahi.

**Pūtere SMART plan**

I oti i te tau nei e Te Māngai Pāho tāna pūtere SMART Plan, he pūtere whakahararahara mō te whakanihia maiātanga teihana reo irirangi iwi. E $50,000 (kāore he Tāke Hokohoko i roto) i whiwhi e ngā teihana ia tau mō ngā tau e rua, mō ngā whakapaunga e pā ana ki ngā mahi. E a āki te pokapū, kua rautaki ake ngā whakaaro o ngā teihana i nāiane, ā, kei te titiro whakamua atu mātou ki te wā e kīte hua a mai i te pūtere i ngā tau kei mua i te aroaro.

**Whakatakotoranga ā-mamati**

I rongo mātou, nā Te Māngai Pāho tētahi wāhi paku o te pūtea āwhina kairapū, mō ngā whakatakinga ā-mamati i ngā tau tata kua hipa ēngari, tino itiiti nei te hiahia mai a te wāhi mākete. Ka ki mai te pokapū, whakataki a ā, whengia a ā te nuinga o ngā whakatakinga Reo Māori ā-tuihono i nāiane, me te kore pūtea āwhina, kore tiro tiro whānui hoki a Te Māngai Pāho rānei. Ka mea ake te pokapū, i tēnei takiwā e pai rawa atu ana te mahi o te mākete kore utu me ōna wawaonga kore. I ē kā anō hoki, ko te whakaata āhuatanga matua tonu i te wā nei mō ngā tāngata o Aotearoa e kai mea ana i roto pāhotanga, ā, hāngai tonu ai hoki te aro o āna pūtea āwhina whakataua i te wā nei, kei mua i te aroaro.

I rongo mātou kua tīmata te huri o ngā whakao o Te Māngai Pāho ki te whakawhanake taupānga, e pā ana ki ngā pūreure smartphone me te whai huanga rānei kei roto ratonga kōtuitui e tino rawe nei ki te haperi hangarau o ngā wā nei.

**Pou tarāwaho aromatawai i te kounga o Te Reo Māori**

Kua whanakehia e ngā mātanga hāpai ō-waho tētahi pou tarāwaho kua oti nei te whakatau he taumata aromatawai i te kounga o Te Reo, e pā ana ki ngā tono pūtea āwhina whakatakinga, ā, te tau pūtea nei ka whakaputaina nā reira, kei te titiro whakamua atu mātou ki te wā e kīte hua aī.
AROTAKE PŪTEA O TE REO WHAKAPUAKI IRIRANGI O TE TAU 2010/11

Tāpiritanga

Ara ki te arotake pūtea

I hui mātou i te 21 o Poutū-te-rangi, te 2 me te 9 hoki o Haratua 2012, ki te whakaaroaro i te arotake pūtea o Te Reo Whakapuaki Irirangi. I rongo taunakitanga mai i Te Reo Whakapuaki Irirangi, 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
Brendan Horan
Hōnore Parekura Horomia
Katrina Shanks
Rino Tirikatene
Mētiria Tūrei
Louise Upston
Nicky Wagner
Louisa Wall
Jonathan Young

Taunakitanga me te whakamaherehere i whiwhi

Pūrongo ā-Tau 2010 o Te Reo Whakapuaki Irirangi.

—— Tauāki Whakamaunga Atu 2011-2016

—— Tōna-arotake aromatawai i a ia anō i te tau 2010, hukihuki whakamutunga, i whiwhi i te 16 o Poutū-te-rangi, 2012

—— 4 Week Cumes Channel Audience, i whiwhi i te 16 o Poutū-te-rangi 2012

—— Ngā whakatutukinga reo irirangi iwi, i whiwhi i te 22 o Poutū-te-rangi, 2012

—— Rautaki Ārahi Reo Māori i whiwhi i te 16 o Poutū-te-rangi, 2012

—— Ngā Whetū Kapokapo i whiwhi i te 16 o Poutū-te-rangi, 2012

—— Pūrongo mō ngā Hōtaka o te 26 o Pipiri 2011, i whiwhi i te 16 o Poutū-te-rangi, 2012

—— Urupare ki ngā pātai whakawātanga-mua atu, i whiwhi i te 16 o Poutū-te-rangi, 2012

—— Arotakenga o Te Reo Mauriora, i whiwhi i te 16 o Poutū-te-rangi, 2012

—— Tirohanga whānui o te mākete rangahau a TNS, i whiwhi i te 16 o Poutū-te-rangi, 2012
AROTAKE PŪTEA O TE REO WHAKAPUAKI IRIRANGI O TE TAU 2010/11

—— Tirohanga whānui o te papānga ki Te Reo Māori a Whakaata Māori, i whihi i te 22 o Poutū-te-rangi, 2012

Whakatakoto tohutohu mō Te Reo Whakapuaki Irirangi, a Te Tari o te Tumuaki o Te Mana Arotake, i whihi i te 21 o Poutū-te-rangi, 2012.

Pepa whakatakoto tohutohu nā ngā kaimahi o te komiti i takatū i te 20 o Poutū-te-rangi, 2012.
# 2010/11 financial review of Te Taura Whiri I Te Reo Māori (Māori Language Commission)

Report of the Māori Affairs Committee

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Te Taura Whiri I Te Reo Māori (Māori Language Commission)

Recommendation

The Māori Affairs Committee has conducted the financial review of the 2010/11 performance and current operations of Te Taura Whiri I Te Reo Māori (Māori Language Commission) and recommends that the House take note of its report.

Introduction

Te Taura Whiri I Te Reo Māori was established under the Māori Language Act 1987 to promote the use of Māori as a living language and ordinary means of communication. It is an autonomous Crown entity with a board of five members. The commission is funded through Vote Māori Affairs with a small amount of revenue from other sources, such as contract income. In 2010/11 its total revenue was $5.107 million and its total expenditure was $5.102 million, resulting in a small net surplus of about $5,000.1

The chair is Erima Henare, and the chief executive is Glenis Philip-Barbara. The commission has one output class, Promotion of Māori Language, which includes

- promoting the Māori language and, in particular, its use as a living language and as an ordinary means of communication
- granting certificates of competency in te reo
- developing and implementing policies and practices to give effect to the declaration in the Māori Language Act that the Māori language is an official language of New Zealand
- carrying out activities necessary to pursue the outcomes in the 2010/11 Statement of Intent.2

Strategic direction

The Māori Language Act gives the commission a strategic role, with functions including leading the Government’s Māori language strategy, and advising the Minister of Māori Affairs. In recent times, these functions have instead been undertaken by the Ministry of Maori Development (Te Puni Kōkiri).

The Government’s Māori Language Strategy, developed jointly by Te Puni Kōkiri and the commission in 2003, was recently considered in the Waitangi Tribunal’s Wai 262 inquiry and by an independent panel which issued the Te Reo Mauriora report. In response to these reports, we heard, the Minister of Māori Affairs has adopted a new direction, putting more resources into the hands of the Māori language community itself, instead of the state being

2 Annual Report, p. 15
The commission is directly responsible for the growth and development of te reo. The commission is realigning its focus and moving away from practical service provision, to recapture the strategic and advisory functions set out in the Act.

**Financial and service performance management**

For the 2010/11 financial year the commission received an unmodified audit opinion on its financial statements. As in the previous year, its management control environment and its service performance information and associated systems and controls were rated as needing improvement by the Office of the Auditor-General. The audit report specifies issues that need to be addressed, and we encourage the commission to make the recommended improvements.

The commission was pleased to receive a rating of “good” for its financial information systems and controls, an improvement from the previous financial year’s result. We are pleased that the deficiencies in its financial information systems and controls found in 2009/10 have been largely resolved, but again we encourage the commission to make the necessary improvements to procedures relating to discretionary expenditure and the reviewing of supplier details.

**Demand for funding**

The commission told us that interest in Māori language programmes, from both Māori and the wider community, has increased. We heard that demand for funding has challenged Te Taura Whiri, as baseline funding has not increased in real terms since the commission was established in 1987, effectively falling in terms of buying power. The commission also told us that about two-thirds of its resources go directly to the community to support Māori language initiatives, rather than into back-office administration—according to the commission, the highest ratio of any Government department.

**Mā Te Reo Fund**

The Mā Te Reo Fund was established by the Government in 1999 with a one-off $15 million for the promotion of opportunities for Māori development through language. The balance of the fund at year end was $2,104,635. The objective of the fund is to provide financial assistance to whānau, hapū, iwi, and other Māori organisations for activities that contribute to language revitalisation. In the financial year under review, 79 fund applications were approved, committing a total of $1.7 million. The Mā Te Reo fund was almost exhausted, but was bolstered by additional funding of $2 million announced in Budget 2011. We were told that this appropriation is invested, and the capital plus interest dictates the amount eventually to be spent on Māori language community initiatives.

We note that the Mā Te Reo fund is heavily oversubscribed, with 215 funding applications received to the value of $6.5 million. The commission can fund about a quarter of the applications it receives each year. Te Taura Whiri told us it did not collect information about alternative funding for declined applicants, but we heard that the only other major funder of te reo programmes is the Ministry of Education, via its Community Base

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4 *Annual Report*, p. 42.
Language Initiative. According to the commission, some iwi fund language programmes but others view language revitalisation as a Government responsibility. The commission told us that it does attempt to match the funds put in by iwi boards.

**Underexpenditure**

We noted that the commission’s concerns about underfunding were at odds with reported underspending on Maori language regeneration. We were told that this was due to the termination of contracts and withdrawn or declined offers of funding, which resulted in some funds not being disbursed. We heard that from time to time a community group may no longer find itself able to honour its contract, and the funds are not paid out. The unspent funds are generally carried forward to the next year.

**Te reo standards in the media**

We asked the commission if it monitored the standard of spoken te reo Māori in television and broadcast media. Although the commission is unable to do so at present, it believed such monitoring would be desirable. Anecdotally, the commission observed that currently the standard of spoken te reo Māori across media is said to be variable at best. We would like to be kept informed about developments in this area.
Appendix

Approach to financial review

We met on 28 March, 2, and 9 May 2012 to consider the financial review of the Te Taura Whiri I Te Reo Māori (Maori Language Commission). Evidence was heard from Te Taura Whiri I Te Reo Māori and advice received from the Office of the Auditor-General.

Committee members

Hon Tau Henare (Chairperson)
Te Ururoa Flavell
Hone Harawira
Brendan Horan
Hon Parekura Horomia
Katrina Shanks
Rino Tirikatene
Metiria Turei
Nicky Wagner
Louisa Wall
Louise Upston
Jonathan Young

Evidence and advice received

Te Taura Whiri I Te Reo Māori, Annual Report 2011.

Te Taura Whiri I Te Reo Māori, Statement of Intent 2011–2014

Te Taura Whiri I Te Reo Māori, Response to pre-hearing questions, dated 28 March 2012.

Te Taura Whiri I Te Reo Māori, Response to post-hearing questions, dated 1 May 2012.

Office of the Auditor-General, Briefing on Te Taura Whiri I Te Reo Māori, dated 21 March 2012.

Organisation briefing paper, prepared by committee staff, dated 23 March 2012.
Te arotake pūtea o Te Taura Whiri I Te Reo Māori o te tau 2010/11

Te pūrongo o te Komiti Whiriwhiri Take Māori

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Te Taura Whiri I Te Reo Māori

Tūtohutanga

Kua oti i te Komiti Whiriwhiri Take Māori te arotake pūtea o te tau 2010/11 mō ngā whakaturukinga me ngā mahi o te wā nei o Te Taura Whiri I Te Reo Māori, ā, ka tūrohu kia arongia e te Whare tāna pūrongo.

Kupu Whakataki

I whakatūria Te Taura Whiri I Te Reo Māori i raro i te Ture Reo Māori 1987, ki te whakatairanga i Te Reo Māori hei reo ora, hei reo whakawhitihiti kōrero noa nei hoki. He hinonga Karauna tū motuhake hoki me tētahi poari, tokorima nei ngā mema. Nā te Pōti Take Māori tāna pūtea, ā, nō wāhi kē ātā hoki tētahi pupūtanga paku o te moni, pērā i te whiwhinga mai i tētahi kirimana. I te tau 2010/11 e $5.107 miriona te katoa o tāna whakapaunga, ā, e $5,005 tata atu pea, te mutunga mai o tētahi more tarepa pakupaku.

Ko Ėrima Hēnare te heamana, ā, ko Glenis Philip-Barbara te kaiwhakahaere matua. Kotahi te wehenga putanga a te kōmihana, ko te Whakatairanga i Te Reo Māori tērā. Kei roto hoki

- te whakatairanga i Te Reo Māori, otiūrā, tōna whakamahinga hei reo ora, hei reo whakawhitihiti kōrero noa nei hoki
- te whakahaia tiwhikete tohungatanga ki Te Reo
- te whakahiato me te whakatinana i ngā kaupapa here, me ngā mahinga kia mana ai te whakapuakanga o te Ture Reo Māori, tērā e mea ana, he reo whaimana o Aotearoa Te Reo Māori
- te kawe ngohe e tika ana hei whai otinga kei roto i te Tauāki Whakamaunga Atu o te tau, 2010/11. 6

Ahunga rautaki

Ka hoatu e te Ture Reo Māori he tūranga rautaki mā te kōmihana, me ngā mahi matua māna, tae atu ki te arataki i te rautaki Reo Māori a te Kāwanatanga, ā, me te hoatu whakamaherehere hoki ki te Minita mō ngā Take Māori. I ngā tau tata nei, ko Te Puni Kōkiri kē kei te kawe mahi matua i nāianei. Koinā te kōrero.

Nō nā tata tonu nei te Rautaki Reo Māori a te Kāwanatanga, tērā i whakahiatoitia tahitia rā e Te Puni Kōkiri, e te kōmihana hoki i te tau 2003, ka whakaaroarahia i te pakirehua Wai 262 a te Rōpū Whakamana i te Tirito i Waitangi, ā, e tētahi rōpū whiriwhiri tū motuhake hoki nāna nei te pūrongo Te Reo Mauriora i whakaputa. Hei urupare i ngā pūrongo nei, ka rongo mātou, kua whai kē kei te Minita mō ngā Take Māori i tētahi ahunga hou, mā te puru i te hia kē

5 Pūrongo ā-Tau mō te Tau ka Matu 30 o Pipirī 2010, whārangi 26 a Te Taura Whiri i Te Reo Māori.
6 Pūrongo ā-Tau, whārangi 15
Whakahaerenga whakatutukinga ratonga me te pūtea

Mō te tau pūtea 2010/11, i whiwhi i te kōmihana tētahi whakaarao tātari kaute mō āna tauāki pūtea, kāore i whakarerekēngā. Rite anō ki tō te tau tōmua, ko te whakamātau a te Tari o te Tumuaki o Te Mana Arotake, me whakapainga ake e te kōmihana tōna whakahaerenga wāhi māhi, te pārongo mō tōna whakatutukinga ratonga me ngā whakahare, ngā pūnaha hoki e hāngai ana. Ka āta whakahuatia ake e te pūrongo tātari kaute ngā take me tino whatia ake, ā, ka ākina mātou i te kōmihana ki te whai ake i ngā whakapaipaitanga kua tūtohungia.

I koa te kōmihana te ki whiwhi i tētahi whakamātau “pāi” mō tōna pārongo pūtea e pā ana ki ngā pūnaha me ngā whakahare, he paitanga ake ki ngā hua o te tau pūtea tōmua. E koa ana hoki mātou kua tata kītea he rongoā mō ngā hohoretagata i roto i tōna pārongo pūtea e pā ana ki ngā pūnaha me ngā whakahae i puta ake i te tau 2009/10 ēngari, ka āki anō mātou i te kōmihana, kia whakaurua mai ngā whakapaipaitanga ki ngā huarahi ka hiahiatia mō te whakapaunganga matawhāiti, ā, me te mahi arotake hoki i ngā mokamoka kōrero mō te kaiwhakarato.

Piki o te tono mō te pūtea āwhina

I ki mai te kōmihana ki a mātou, kua piki te hiahia mai a ngāi Māorī me te hapirom whānui ki ngā hōtaka Reo Māori. Ka rongo hoki, nā te piki o te tono kua wherohe Te Taura Whiri I Te Reo Māori nā te mea, mai anō i te tau 1987 i whakatūria ai te kōmihana, kihai anō te papa tūmata o te pūtea āwhina kia whakapikia, kia whai kiko ai hoki. Nā tērā, ka taka te mana hoko o te pūtea ki raro. Ka mea mai hoki te kōmihana ki a mātou, hau rua toru, tata atu peā, o āna rauemi ka haere hāngai tonu atu ki te hapirom, hea mea tautoko kōkiringa hou e pā ana ki Te Reo Māori, ka mahara te puru ki roto whakahaerenga tari ō-muri – ā, e ai ki te kōmihana, he taupāpātanga teitei rawa atu mō tētahi tari Kāwanatanga.

Tahua Mā Te Reo

I whakatūria te Tahua Mā Te Reo e te Kāwanatanga i te tau 1999, me tētahi miriona e 15 taara wā-kotahi, mō te whakatairanga mea angitu e pā ana ki te whanaketanga i a ngāi Māori mā roto i Te Reo. E $2,104,6353 miriona te pūtea i te mutunga o te tau. Ko te whainga o te tahua, he hoatu āwhinatanga pūtea mā ngā whānau, hapū, iwi, ā, me tētahi atu rōpū whakahae Māori mō ngā ngoho whai wāhi ai i te whakotanga o Te Reo. I roto i te tau pūtea e arotakengia ake nei e, 79 ngā tono i whakahetaetia, ā, e $1.7 miriona4 katoa i herea. I tata pau te Tahua Mā Te Reo ēngari, ka rahi ake anō nā tētahi pūtea āwhina e $2 miriona i pānuitia i roto i te Tahua Nui o te tau 2011. I kōrerohia mai ki a mātou, i haumitia te wāwāhanga moni nei, ā, i te mutunga mai, ka riro mā te hua me te huumoni i whakahau, he aha te moni ki whakapaua ki ngā kōkiringa hou a te hapirom, mō Te Reo Māori.

3 Pārongo ā-Tau ka Matu 30 o Pīpīrī 2010 a Te Taura Whiri i Te Reo Māori, whārangi 11.
4 Pārongo ā-Tau whārangi 42
Kua kite mātou, i kaha kē te taumaha o ngā tono mō te Tahua Mā Te Reo, e 215 kē ngā tono i whiwhi mō tētahi wārū tā $6.5 miriona. E hau whā tata atu pea o ngā tono ka whiwhi e te kōmihana ia tau, ka taea e ia te hoatu tahua. I kī mai anō hoki Te Taura Whiri I Te Reo Māori ki a mātou, kīhai ia e whakaemi pārongo mō te hunga kaitono ka whakapehia tā rātou tono, ā, me haere rātou ki hea mō tētahi pūtea āwhina ēngari, i rongo mātou he kaituku matua anake Te Tāhuhu o te Mātauranga mō ngā hōtaka Te Reo Māori mā tāna Community Base Language Initiative. E ai ki te kōmihana, hōmai pūtea āwhina ai ētahi iwi mō ngā hōtaka ē pā ana ki Te Reo, ā, ki ētahi atu, nā te Kāwanatanga kē tērā mahi. I kī ake anō te kōmihana, kore rawa atu a ia e whakapipīti pūtea āwhina nā ngā poari o te iwi i hōmai.

**Taka o te whakapaunga ki raro rawa**

Kua kite mātou, i rerekē te mahara o te kōmihana mō te taka o te whakapaunga ki raro rawa i te taha o te kore nui rawa o te whakapaunga mō te whakaoranga o Te Reo Māori i whakapūrongohia. Ko te kōrero ki a mātou, i pēnei ai tēnei nā te whakamutunga o ngā kirimana, nā te kume pūtea āwhina ki waho, nā te whakapeka atu rānei, i te mutunga mai, kīhai ētahi tahuia i tohaina. He wā anō, ka rongo mātou kua kore pea ētahi kohinga hapori e kaha ki te whakahōnore i tana kirimana, ā, nā te pērātanga, kua kore he tahuia e utua. Ko te tikanga, ka kawea whakamutia ngā tahuia kīhai i whakapaua ki te tau kei te tū mai.

**Paerewa o Te Reo waenganui i te hunga pāpāho**

Ka pātai mātou ki te kōmihana mehemea, ka aroturukingia e ia te paerewa o Te Reo Māori ka kōrero toa waenganui i te hunga pāpāho i runga whakaata, i roto pāhotanga. Ahakoa te kore kaha o te kōmihana ki te aroturuki i te wā nei, ki tōna whakapono, ko tērā tonu tōna awhero. Nā ngā kōrero kei te rongohia, kua kite te kōmihana he nanakia tonu te pai o Te Reo Māori kei te puta noa waenganui i te hunga pāpāho. Ko tā mātou e hiahia nei kia tukua tonutia mai he kōrero kia noho mārama ai mātou ki ngā whanaketanga i tēnei takiwā.
Tāpiritanga

Ara ki te arotake pūtea
I hui mātou i te 28 o Poutū-te-rangi, te 2 me te 9 hoki o Haratua 2012, ki te whakaaroaro i te arotake pūtea o Te Taura Whiri I Te Reo Māori. I rongo taunakitanga mai i Te Taura Whiri I Te Reo Māori, 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
Brendan Horan
Hōnore Parekura Horomia
Katrina Shanks
Rino Tirikātene
Mētāria Tūrei
Nicky Wagner
Louisa Wall
Louise Upston
Jonathan Young

Taunakitanga me te whakamaherehere i whiwhi
Pārongo ā-Tau 2011 a Te Taura Whiri I Te Reo Māori
Tanāki Whakamaunga Atu 2011-2014 a Te Taura Whiri I Te Reo Māori

Urupare ki ngā pātai whakawātanga-mua atu a Te Taura Whiri I Te Reo Māori, i te 28 o Poutū-te-rangi, 2012.

Urupare ki ngā pātai whakawātanga-whai muri a Te Taura Whiri I Te Reo Māori, i te 1 o Haratua, 2012.

Pepa whakatakoto tohutohu mō Te Taura Whiri I Te Reo Māori a Te Tari o te Tumuaki o Te Mana Arotake, i te 21 o Poutū-te-rangi, 2012.

Pepa whakatakoto tohutohu nā ngā kaimahi o te komiti i takatū, i te 23 o Poutū-te-rangi, 2012.
2010/11 financial review of Television New Zealand Limited

Report of the Commerce Committee

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Television New Zealand Limited

Recommendation

The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of Television New Zealand Limited and recommends that the House take note of its report.

Introduction

Television New Zealand (TVNZ) is a Crown entity company and is subject to provisions of the Crown Entities Act 2004, the Companies Act 1993, and the Television New Zealand Act 2003. The shareholding Ministers of TVNZ are the Minister of Finance and the Minister of Broadcasting.

TVNZ is governed by a board of directors, with Sir John Anderson as chair. The acting chief executive is Rodney Parker, following the resignation of Rick Ellis in November 2011.

Financial performance

TVNZ delivered a net profit after tax of $2.1 million, compared with an after-tax loss of $26 million in 2010, equal to the profit in 2009. TVNZ has impaired its investment in Hybrid Television Services (ANZ) Pty Limited, recognised a share of operating losses, and made provision for the future operating costs of the company. This has resulted in a one-off charge of $17.7 million against this year’s operating results. Excluding this one-off adjustment, the normalised after-tax profit was $19.7 million.

New Zealand On Air funding

We noted that in its statement of intent TVNZ expressed concern that its mandate to produce commercially attractive programmes potentially was not aligned with New Zealand On Air’s programming objectives.

Some of us noted that TVNZ’s statement of intent talked about the risk of potential misalignment between the programming objectives of New Zealand On Air with the commercial objectives of TVNZ, which could result in the inability of TVNZ to attract New Zealand On Air funding for commercially attractive local programming.

We asked whether it had engaged with New Zealand On Air to ensure that it would receive funding. TVNZ told us that it has met executives and board members several times over the past year to discuss these issues. It believes New Zealand On Air treats it equitably in relation to other broadcasters.
Programming

TVNZ 7

We asked TVNZ about its intentions regarding TVNZ 7. It explained that funding for TVNZ 7 will be terminated in June 2012, and the Government has signalled that it would not fund the channel beyond that point. It had not received and did not expect to receive any proposals for continuing TVNZ 7, and had no indication that the Government might reconsider its position. It is therefore making plans to close down the channel. We asked whether TVNZ thought the channel should be continued in some way. We recognised that the contract was for a five-year period. However, we were told that TVNZ held discussions with the Government for two to three years to form alternative scenarios for the ongoing funding for TVNZ 7. It is of the view that the decision was up to the Government. TVNZ also pointed out that TVNZ 7 was part of a scheme to facilitate the uptake of digital television, to which 83 percent of households had now switched, so it had made good progress towards fulfilling its purpose.

We observed that TVNZ 7 provides a public television service that is otherwise unavailable in New Zealand, and asked whether TVNZ believed such a need should continue to be met. TVNZ again said that that decision was for the Government to make.

We noted that TVNZ 7 had provided programming for young people, and asked whether TVNZ would continue to cater to this specific demographic. It told us that its youth-focused channel TVNZ U has been well received by the intended audience. It also provides KidZone24 on a pay service, and other programming through its TVNZ Ondemand online services. TVNZ is currently discussing with New Zealand On Air whether some TVNZ 7 programming might be accommodated on the TV1 or TV2 channels.

News

We heard that TVNZ places a high value on the integrity and quality of its news programmes. It ensures fairness in reporting by various means, including guidelines, training manuals, and guidance for reporters. Although the editor-in-chief holds primary responsibility, the head of news and current affairs is charged with ensuring that news and current affairs programmes follow TVNZ’s practice expectations.

Fair Go

Some of us were concerned about reports of a meeting in which TVNZ executives had reportedly instructed the staff of the Fair Go programme against creating programme content that would upset its advertisers. TVNZ told us that executives were invited to a meeting; staff had been told that their stories needed to be balanced and show both sides of a story, that TVNZ operates in a commercial environment and that Fair Go, like all its programmes, needs to exercise care in terms of the way it handles stories. It needs to make sure that they are always balanced, because in a commercial environment a story that is not a balanced story could be something that is not really what it would want to run on its network.

In response to a question as to whether staff were instructed, we were told that it was not an instruction, per se. TVNZ asked staff to contemplate and to think about when they
were looking at stories, as it was very important that stories were balanced and actually showed both sides of the story. It believed *Fair Go* did.

We asked whether it would expect these standards from its programmers as a matter of course, and were assured it did. It stressed that its board was very firm on values, and integrity was necessary to maintain credibility and reputation in providing a service to the public.

**Representation of cultural groups**

We are pleased to hear that TVNZ intends to continue its Māori and Pacific Island programmes. It noted that it was proud of the 26-year history of *Waka Huia* and *Te Karere*, 20 years of *Marae*, and 25 years of *Tagata Pasifika*. It planned to continue producing these shows and to make them available online. We asked if a wider representation of ethnicities was planned, and heard that TVNZ had New Zealand On Air funding for a show called *Neighbourhoods*, which will focus on different cultural groups living in New Zealand.

**Technological developments**

We asked whether TVNZ was aware of the costs or benefits of switching to digital broadcasting. For five years TVNZ has been paying for analogue broadcasting as well as Freeview digital broadcasting. Completing the switch to digital will remove the costs of maintaining analogue broadcasting.

TVNZ said that people are increasingly using means other than television sets for accessing content, with multiple online content providers using technology such as tablet computers and smart phones. It suggested that content providers similar to Hulu and Netflix in the United States might enter the market in New Zealand in future. TVNZ observed a significant increase in viewers of their TVNZ Ondemand online content, and believes it is at the forefront of technological developments in this area.

**Land and facilities**

Some of us were concerned that drawings of the new SkyCity national convention centre showed the proposed centre partly encroaching on TVNZ’s land. TVNZ said that it had discussed the land with SkyCity over the past 10 years, but had not done so with the Government. The land is currently needed for TVNZ’s operational purposes, and it emphasised that moving its production facilities would be very expensive. It explained that there are two pieces of land in question, one of which is fully occupied by TVNZ, and one it described as less critical. The less critical land has been the subject of the discussions with SkyCity.

**Regulatory environment**

We wanted to know whether TVNZ’s views on the broadcasting regulatory environment had changed since it made two deals with Sky Television. TVNZ told us that it has not made exclusive arrangements with any party, and does not see the need for further regulation in broadcasting.
Appendix A

Approach to this financial review
We met on 1 March and 22 March 2012 to consider the financial review of Television New Zealand Limited. We heard evidence from Television New Zealand and received advice 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

Television New Zealand Limited, Responses to written questions, received 13 March 2012.


Office of the Auditor-General, Briefing on Television New Zealand Limited, dated 1 March 2012.

Organisation briefing paper, prepared by committee staff, dated 27 February 2012.
Appendix B

Corrected transcript of hearing of evidence 1 March 2012

Members
Todd McClay (Chairperson)
Kanwaljit Singh Bakshi
Hon David Cunliffe
Clare Curran
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell
Jonathan Young

Witnesses
Sir John Anderson, Chair
Rodney Parker, Chief Financial Officer and Acting Chief Executive Officer
Jeff Latch, Head of TV One and TV2

McClay Sir John, welcome to our committee. Grateful that you’re giving us the time to come before the committee for the financial review of Television New Zealand. You can see who we are there, they name us, but could I ask you perhaps to introduce your colleagues and then ask you to make some introductory comments. I’m sure my colleagues after that will have a number of questions for you, but welcome to the committee.

Anderson Thank you very much Mr Chairman and committee members. Thank you for the opportunity to appear before you today. The members of the team today are firstly Rodney Parker who’s the–

McClay Could you just pull the microphone towards you perhaps there, it’s a bit echoey.

Anderson Yeah sure. The two executives I have today are Rodney Parker who’s Chief Financial Officer of TVNZ and he’s acting chief executive at the moment while we’re going through the recruitment process for a new chief executive. Next to Rodney is Jeff Latch who’s the head of TV One and TV2.

TVNZ had a successful financial year to June 2011 and produced an annual operating result in what has become an extremely competitive market. We took also the write down of the hybrid TIVO system, which was a
partnership with Channel 7 and we took the opportunity to properly provide for that in the year, but still ended in a surplus overall.

Technology in New Zealand is changing the lives of a lot of people and at a pace never seen before. Undoubtedly, the board and management have been ensuring that TVNZ’s well placed to continue to play its role as a major free-to-air organisation for the New Zealand public. I’ll hand over to Rodney Parker to give further details on that.

McCay Thank you.

Parker Thank you Sir John. Since we last appeared before the committee TVNZ has taken great strides in diversifying our business to ensure that we continue to deliver the content New Zealanders want on a growing number of devices Kiwis are now using in every day life, where choice is only a click away. To be successful TVNZ must deliver the content that is accessible, relevant, and interesting in both form and delivery. From your traditional analogue television, free-to-air digital and pay television, through computers, tablets, mobile phones and our on demand and online offering.

Those channels New Zealanders know and love, TV One and TV2, that deliver great local and international programming, have gone strength to strength. Our new free-to-air youth orientated channel, TVNZ U, has gained international interest for both its format and its use in the ground breaking live interaction with Facebook. In addition we’re providing more viewing opportunities through our pay TV channels, TVNZ Heartland and Kidzone24. A soon-to-launch joint venture pay television service, Igloo, will provide consumers with more options to receive digital television.

TVNZ reported a positive performance for the 2011 financial year, delivering underlying earnings of $31.8 million. It is one of the strongest operating results in recent years, and given the tightening and the overall market in which we operate, one which we can be proud of. As a result of the disciplined cost management and ongoing programme of business diversification and transformation, increased advertising our market share, and successful programming TVNZ was able to declare a dividend to the Government of $13.8 million, which was a significant increase over prior years.

With reference to our programming, while you no doubt will hear the odd complaint about the number of cooking shows on air, the fact is among all New Zealanders aged over 5 years TVNZ all of the top 20 programmes for the year.

The first half of the current financial year has been challenging largely due to the impact of the Rugby World Cup followed by the general election on the audiences for TV One. We will shortly be releasing a satisfactory half-year result comparable to the previous year but without the impact of the prior year write-down of our hybrid investment.
In the past year there has, of course, been the disaster of the February 2011 Christchurch earthquake and the first year’s anniversary of the loss of life was recognised last week by comprehensive coverage on TV One. People have come to expect the best of us in times of national distress, and I believe we have delivered. It is always a delicate thing to praise the effort that arises from disaster, but One News record breaking run of best news at the annual AFTA television awards for 4 years in a row is testament to the service that TVNZ provides, bringing the very dreadful experience to the rest of the country. While this may have been the most publicly observable aspect of our work, there is more.

With funding support from New Zealand On Air we have significantly increased our provision of access services for the deaf and the blind. We have launched Australasia’s first televised audio description service for the blind and continue to increase our captioning levels on TV One and TV2. We have been providing captioning services for over 20 years, firstly on the analogue television service and more recently on the Freeview digital platforms. TVNZ has also established an in house creative unit, The Creative Hub, to bring together our people and our people’s incredible talent and creative work to the forefront of our business. The Hub has consolidated our creative efforts to deliver integrated marketing campaigns for our clients, customers, and viewers. Bringing together our digital commissioning, news, sales, creative, and production facility teams into closer alignment enables the organisation to respond with greater agility to market demands.

Our hard work over the last year has really paid off. Our commercial strategy is working and we’re delivering strongly to our clients and our viewers. The latest UMR independent research shows that nearly nine out of 10 kiwis, 87 per cent, have a favourable opinion of TVNZ, which is very gratifying. There are enormous challenges facing the industry, and TVNZ is well positioned to respond to the challenges and opportunities they present. Thank you.

McClay
Thank you. Good, colleagues questions, Clare I’m sure has few.

Curran
Thank you for your presentation today. I’d like to first go to your statement of intent where you talked about the risk of potential misalignment between the programming objectives of New Zealand On Air with the commercial objectives of TVNZ, which could result in the inability of TVNZ to attract New Zealand On Air funding for commercially attractive local programming. Since you’ve written that what steps have you taken to engage with New Zealand On Air on a realignment funding criteria to ensure that you do receive funding for more commercially attractive programming.

Parker
Mr Chairman, I’ll ask Jeff Latch to respond to this question.
Latch First off I’d like to say we’ve got an excellent relationship with New Zealand On Air. I think to answer your question over the last 12 months we’ve spent a lot of time with their key television executives, the CEO Jane Wrightson and also with Glenn Usmar their executive in charge of television. We’ve also met with the NZ On Air board on two or three times over the last sort of 12 months to discuss issues in terms of NZ On Air funding and their views in terms of the market, I guess, and local television, and similarly to share with them an understanding and appreciation of TV One and TV2 and where we’re going with those particular channels.

Curran Have any commercial attractive programme proposals from TVNZ been rejected by NZ On Air?

Latch I think many proposals have been rejected from us and from a number of other broadcasters. Essentially whenever there’s a funding round that comes around NZ On Air get hit with a whole number of proposals and they have limited funds and so there are always some that will get funded and some that won’t.

McClay Just on that, can I ask you what your thoughts on commercially attractive are? I’m curious about that one.

Latch Sorry? Sorry Mr Chairman?

McClay Commercially attractive programmes. What’s a commercially attractive programme, do you think?

Latch A commercially attractive programme is one that attracts a large audience and which also delivers a positive yield to our network.

McClay Right.

Curran When you’ve appeared before us before and in previous submissions that you’ve made, particularly to the digital broadcasting review, I think it was, in 2008, you’ve talked about the importance of the regulatory environment in broadcasting and the broadcasting sector. I’m interested to know whether your views have changed on that and whether you believe that TVNZ considers itself disadvantaged in the current environment, or have your views changed?

Parker I don’t believe we consider ourselves disadvantaged. I believe that TVNZ feels that particularly in respect of applications for funding to NZ On Air that they treat proposals from TVNZ fairly and equitably in relation to funding proposals from any other broadcaster. So in the current environment no I don’t believe we’re feeling–

Curran No, I’m not just referring to NZ On Air. I’m referring to basically TVNZ’s place within the regulatory environment in the broadcasting sector generally and what I’m going to is that since TVNZ is engaged in two deals with Sky have your views changed?
Parker   Well, views change over time I guess would be the first point that I would make. So have our views changed from our views 5 years ago? Inevitably views have changed as the environment in which we’re operating has evolved and changed as well. While we do have deals with Sky we also have deals with multiple other parties as well. We don’t work exclusively with any one other party.

Curran   Do you still believe that there is a need for regulation in broadcasting?

Parker   No. As our submission to the UFB study around the supply-side study that the Commerce Commission recently conducted on the UFB uptake of demand, we are satisfied with the environment within which we’re working, the regulatory within which we’re working.

Curran   Given the Government’s directives to TVNZ to become commercial, which was the subject of our discussion when you were here before us last year, and to return a dividend to Government, does TVNZ continue to stand firm on the principles of high-quality, balanced journalism with the integrity that goes with that?

Parker   Yes, we do.

Curran   How do you ensure fairness in reporting?

Parker   We have a range of processes that are in our news and current affairs function and department. It can range from either training manuals and guidance for people as they join our organisation in terms of the development of them as journalists. We have editorial guidelines. We have a range of other guidelines which we ensure that our news and current affairs people and organisation observe, and we monitor our observation against those.

Curran   Who has primary responsibility for this at TVNZ?

Parker   So the chief executive is the editor-in-chief, so I guess in that respect the primary responsibility ultimately shifts through to the chief executive. But clearly on a day-to-day basis the head of news and current affairs is the one who is charged with ensuring that the programmes, the news and current affairs programmes, are in compliance with all of the good practice and the best practice that we expect to follow in relation to balance and fairness.

Curran   My question, then, I suppose is to Sir John. While board stays out of operational decisions how does it ensure that those processes are in place and what is its role?

Anderson   Well, we review the manuals. We approve delegations, we approve the demotions down. Secondly the board cannot interfere in editorial content. But we can suggest to management if there’s a reputational issue that management should reflect on what they’re doing, because if our reputation
is damaged then our commercial revenues will be damaged. We’ve had a couple of instances over that in the last 24 months.

McClay Just before you go on Clare, Kanwaljit has a supplementary then I’ll come straight back to you.

Bakshi Regarding your news and current affairs, have you conducted any survey and what’s the report on how people like your news and programmes like that?

Latch We periodically conduct research surveys with AC Neilsen in terms of the performance of news and current affairs. As well as that we have overnight ratings data available on a daily basis so you’d probably say there we’re the most researched business and industry probably in New Zealand. There’s extensive research in terms in what people feel about our news and current affairs programmes, whether they say them as objective and unbiased. As well as that we’ve got a lot of other performance metrics available.

Bakshi So how do you stand in comparison to other broadcasters?

Latch At the moment we certainly stand very well in regard to other broadcasters. I think Rodney mentioned earlier that for the fourth year in a row independently judged, we’ve been judged as having the best news in New Zealand television, which is very gratifying. So I think we get a lot of positive feedback and in terms of ratings and audience we’re also the No. 1 news service in the country.

Curran So you place a high value on integrity of your news?

Latch That is correct.

Curran How then can you explain reports that the TVNZ head of programming called a meeting of *Fair Go* staff, including all the reporters together, within the last couple of weeks and instructed them not to produce programmes that would upset their advertisers?

Latch Can I talk to that? We had a meeting with the *Fair Go* team. I was invited along as a guest to share my views in terms of the essence of that programme going forward and what would make it successful. I think the key points that I made at that meeting were the fact that the heart of *Fair Go* for the last 20-plus years that it’s been on New Zealand television is that it represents the underdog and the small guy and stands up for them. That’s what’s made it a special programme for New Zealanders for a large period of time. I also made the observation that we operate in a commercial environment and that *Fair Go*, like all our programmes, need to exercise care in terms of the way they handle stories. They need to make sure that they’re always balanced, because in a commercial environment a story that is not a balanced story could be something that is not really what we would want to run on this network.
Curran Was that instruction given?

Latch No, it wasn’t an instruction, per se. I asked them to contemplate and to think about when you’re looking at stories it’s very important that they’re balanced and we actually show both sides of the story and I think *Fair Go* do.

Curran What was the response?

Latch There was nodding and acceptance around the room that that made sense.

Curran How can *Fair Go* be trusted to provide New Zealanders with information they can trust if they are producing programmes where they are taking into account how advertisers might view those programmes if a potential advertiser was part of a programme and part of an investigation by *Fair Go*?

Latch Look, I think advertisers will always be part of some of the stories which we run on *Fair Go*. That is inevitable. I think the key thing, which goes back to your earlier question is about balance, and I encourage the team to make sure that they are very balanced in terms of their approach to stories. There will still be stories on *Fair Go* that involve advertisers—that’s inevitable—but the question is that they’ve got to be balanced stories, not that we won’t run them at all.

Curran Well, I would contend to you that *Fair Go* has, I think, been running for 35 years. It would one of the most, if not the most, highly rated programmes on TVNZ and is one of the most respected programmes in New Zealand. Its reputation is based on its high investigative journalism ethos and its fearless attempts to undergo investigations. It describes itself as a mixture of hard-nosed investigative reporting with light-hearted stories related to consumer affairs—if you’ve been ripped off, short changed, or given the run around and no one wants to know. That is how it’s maintained its reputation.

Latch Yes, I agree.

Curran Under such circumstances, how can such a programme continue to have that reputation if it’s compromised by taking into account the views of advertisers it’s investigating?

Latch I think I’ve answered. Just to reiterate what I said earlier, it’s a question of balance. I think as long as the story is a balanced one then—

McClay And it does lead to natural justice. Give an example of what you expect balance to be. Would it be that if somebody’s been accused of something by consumers that the party that has been accused has a right of reply and to, you know, talk about their side, but—

Latch Absolutely Mr Chairman.
I do not mean to lead you because I want balance here.

Yup.

Well, can I ask, what is the test of balance in this situation? How are the staff, who are the journalists undertaking these investigations, meant to interpret that instruction to have balance?

I think most of them, I assume, which would be our normal practice, would be to express and to cover both sides of a particular story and if they weren’t sure whether or not they had done that then they would talk to the executive producer of the programme.

So would you say that the meeting that took place was not called by you, it was meeting that you attended? Is that correct?

Correct.

That this was not a new instruction?

Absolutely not.

And you just basically think it’s business as usual?

I do.

Would the board have any concerns if the integrity of a programme, such as Fair Go, in terms of its ability to undertake fair investigative reporting in the highest ethos of journalism was compromised in any way?

Well, the board is very firm on values, and integrity is one of the highest values which we believe our credibility and reputation as an organisation providing a service to the public. Rick Ellis, a former CEO, was relentless on making sure that we did have integrity in what we show.

A quick supplementary if I could Mr Chair. So Chairman you would expect those standards of integrity and balance in a normal course of events to be the way that TVNZ works in all cases and on all programmes with the news content, would you not?

We would expect integrity would occur.

Which begs the question of why it was appropriate for executives to spell it out in relation to this programme and specifically in relation to advertisers and whether they have left themselves open to misinterpretation by singling this out when you would expect the same standards of behaviour routinely.

This meeting which was held and what you’re covering is news to me today. What Jeff has said is what would be our board’s policy, that if we’re showing anything, any sort of investigative programme which is produced
by us, we would want and have a balanced view, so people do have the right to give their side of the case and it’s the public to judge.

Cunliffe So there’s no problem then, Chairman, with journalists in Fair Go being extremely critical of an advertiser provided the advertiser’s had the opportunity to put their side of the story?

Anderson That’s right. That’s natural justice.

Curran So why (inaudible)?

Latch Well, I was invited to speak, and I was asked a range of questions by the people within the Fair Go team, in terms of my views on various things in the show and why I thought the show was successful, which I shared with them.

Curran So, just for the clarity of the record in the select committee, you did not go to that meeting with the intention of delivering a specific message to the staff at Fair Go about how they should handle programming?

Latch No. I went there to actually, once I was invited, to share my views on the programme and what would make that show successful going forward.

McClay Now, I’m going to come to Kanwaljit, but before I do—do you have a lot of meetings that are based upon shows that are successful within TVNZ?

Latch I have many meetings. Look, I—

McClay In a week how many would you have—a lot of meetings?

Latch Oh, I would probably say 5 or 6 a week with various programmes, internal and external, in terms of my views and feedback in terms of how shows work.

Bakshi It was mentioned that the technology is changing every day. We started with analogue TV, then to digital, and now it is mobile. What is TVNZ doing to, first of all, help the digital switchover, and what are the benefits, and how much investment are you putting in to keep you updated with the technology?

Parker Thank you. Yes, the broadcasting world is, in some respects, suffering challenges of two forms of fragmentation: first of all, the fragmentation of audiences moving to multiple different sources of content and information; and, secondly, the fragmentation of distribution platforms. So, the first example of that is the analogue transmission network, which has been closed down through DSO, and is being replaced by digital television platforms.

But that is not the only way consumers wish to enjoy and access content. So they wish to have access to content on their tablets, on their computers, on
their mobile phones, over various networks when and where they want to actually see it. But for DSO, in terms of TVNZ’s perspective, TVNZ is fully supportive of all of the initiatives around ensuring that we can achieve a smooth and orderly digital switch-on process as soon as possible. The benefit for TVNZ in doing so is that, at the moment, or for the last 5 years, we have effectively been paying for the transmission of over 3 linear television transmission platforms: the analogue, the Freeview digital satellite platform, and the Freeview digital terrestrial platform. At DSO we start making cost savings, because we no longer have to pay for the transmission on the analogue platform, which is very expensive for us.

So there is an economic benefit to TVNZ in an orderly and prompt digital switch-on process. Plus, going to your second point, then, in terms of the technology advances, consumers globally are looking for access to content. Where, as I say, whether it is on mobile phones, on the move, on tablets, in a convenient way to them, which is making it available for them. So it is up to TVNZ to be at the forefront, and we are in terms of exploring our opportunities to make that content available and accessible to consumers when are where they wish to see it.

Bakshi So what sort of response are you getting from the consumers? Are they using your platforms?

Parker Absolutely. Well, if you first of all look at the digital switch-on and the uptake of digital television, the recent tracker, the digital tracker, results, which are undertaken on a quarterly basis by the Ministry for Culture and Heritage under their go-digital programme, shows that digital television is now in 83 percent of New Zealand homes. So then, extending it from there in terms of the conversion to digital television, it’s high. In terms of then, consumers wishing to access their content, whether it is through mobile phones, or iPads, or tablets, we have had significant uptake in those users who are accessing TVNZ on demand, whether it is through their iPad device and their iPhone, when we launched those applications, probably 18 months ago. We are in the process of refreshing those and we are due to relaunch those in the September quarter of this year.

Bakshi So is it just from within New Zealand, or from overseas also? Is there a demand from overseas also?

Parker So I guess if we think from a competitive perspective in the New Zealand market, in terms of consumers accessing content, the boundaries around access to content, which 10 years or even 20 years ago may well have been regional, or territorial, a lot of those boundaries are disappearing. So consumers can access content from multiple content providers over the internet, over, dare I say, BitTorrent sites. So they are having more and more access to content, and they are not constrained to just supplies in New Zealand. So we see that situation continuing. So in the US you have large organisations like Hulu and Netflix that started in a US market but, of
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course, are now expanding into other territories, and may well in due course expand into this territory as well.

Curran I would like to turn attention to TVNZ 7, and ask whether or not the board and management has given up on trying to save TVNZ 7.

Parker Approximately this time last year the Government made a decision around the ongoing funding of TVNZ 7 when the contract that was in place, the 5 year contract from 2007, expires, and the funding expires in June this year. Prior to those decision being made, yes we had had extensive engagement with the Government around the opportunities and the ability of TVNZ to continue to operate that channel, but, clearly, it was dependant on ongoing funding. Unfortunately, the reality is—it is not that we have given up. It is a situation that we have accepted that the Government’s priorities and direction around broadcasting won’t avail us to ongoing funding for TVNZ 7, and so we need to make appropriate arrangements for the closure of those channels.

Curran Have you received proposals about keeping TVNZ 7 going?

Parker Received proposals? No, we haven’t received proposals.

Curran Have you developed any proposals about keeping TVNZ 7 going?

Parker Well, we engaged with the Government over the last 24 months, really, because clearly when we originally entered into that contract with the Government back in 2007, there was always going to be a point in time. So for, you know, the 2 to 3 years prior to the conclusion of those contracts we had been engaging with the Government around options to try to—alternative scenarios for the on going funding of TVNZ 7.

Curran When did you last discuss the matter with the Government?

Parker We had discussions during the last calendar year, but again it was in a context where the decision had been made as to whether there was any opportunity for that decision to be revisited, so we had discussions around that—

Curran Are you able to say what month that was?

Parker I would have to go back and check. Sorry, I don’t have that information. I would have to give you a response.

Curran Are you expecting to either receive any new proposals on saving television on options for saving Television 7 or are you proposing to develop a new proposal to the Government before June this year?

Parker No we aren’t expecting to receive alternative proposals and no we are not preparing alternative proposals for the ongoing funding of TVNZ 7. We are
making plans for the closure of that channel, and what we will use that
frequency for following the closure of that channel.

Curran Are there any indications that have been given to you by the Minister on the
likelihood of the Government changing its mind about Television NZ 7? Is
that on the table?

Parker No, there is not.

Curran Do you believe that Television New Zealand 7 should have a future?

Parker TVNZ 7 along with the other channel was part of a programme of work
under the previous Labour Government to facilitate the uptake of digital
television, and to achieve the timely and efficient and smooth digital switch-over
programme. In some respects, the objectives of funding those
channels have in part been achieved. As I stated earlier, the uptake of digital
television is already sitting at 83 percent, and we are running into this next
18 months in terms of achieving an orderly and smooth digital switchover
programme. So in terms of the original objectives under the contract to
operate those channels, in part those objectives have been achieved.

Curran In part?

Parker Well, in part in terms of we are not at 100 percent of digital switch-on, but,
clearly, we are well on the way to doing so.

Curran Well, I suppose the question was—which kind of worked it around—was
do you believe that it should continue to have a future. You say those
objectives have been achieved. Television NZ 7 has been occupying a space
and has proved to have some popularity and has proved to have a certain
following, and fulfils an objective in the digital environment but also
provides a public television service that does not exist anywhere else in New
Zealand. Do you believe that such a need should continue to be met?

Parker The difficulty is that we have a statutory mandate and an expectation from
the Government around the commercial performance of TVNZ and
delivering against out statutory remit. Whether or not we believe there
should be a public service channel is not for TVNZ to decide. It’s for the
Government to decide.

Lutu-Iiga Just a quick supplementary on that. It is not about—I agree with your
answer; it is not about your beliefs. But the question is, I suppose, and I
think this is where my colleague here may be going, is, in terms of one of
the things about TVNZ 7 was diversity, young people—how can that be
catered for, I suppose, with your current menu of programming? Will that
be catered for? Because, clearly, there has been an indication that funding
has ceased, but it is how you transfer some of those, I suppose, objectives
into what you are doing now, or what you plan to do in future.
Parker Well, in some respects we are delivering a diversity of programming and options to viewers in relation to the channel offering that we will have post the closing of TVNZ 7. So we have the youth channel, in terms of TVNZ U, which has been extremely well received by the youth audience, and it is a point of differentiation to us. TV1 and TV2 obviously, as we stated earlier, the top 20 programmes of programmes that New Zealanders watch are on TV1 and TV2. So we are delivering the programmes to the audiences that the audiences watch. We then in addition to that obviously have the Heartland and the KidZone 24 channels, providing viewer options on the pay platforms and those channels will also be available on the Igloo platform. Plus we also have options for opportunities for viewers through our on demand and through our online services. So while there may be an aspect of the programming that currently appears on TVNZ 7 that TVNZ may not be delivering in the future, that is not to say that we won’t be delivering a very broad and diverse content offering to consumers.

Curran Are you proposing to absorb any of the programming currently showing on TVNZ 7 into TVNZ when it ceases to exist?

Parker No, we are not proposing to absorb any programming.

Latch We are looking at some go the TVNZ 7 shows currently, because there are some fine shows that play on TVNZ 7, to see whether or not they could be accommodated on TV1 or TV2, and we are having some conversations with New Zealand On Air about that at the moment.

Bakshi Continuing on on the contents on TVNZ, what are you plans for the Māori and Pacific Island programmes?

Latch I guess we are very proud of our history with Māori programmes in the last 25 years-plus. We have got shows like Waka Huia and Te Karere, which are now into their 26th year. Marae is now into its 20th year. If we look at Polynesian perspectives as well, in terms of Tangata Pasifika, that show has now been with us for 25 years. They are all great shows, and they are strong shows, and the content strategy we have just signed off recently, we are incredibly keen for those shows to continue as part of a library of shows that we play on TV1 and TV2.

We are also aiming to improve the accessibility, so you’ll see there is a lot more online available in terms of our Māori content and our Pacific Island content, so that is an area of focus for us. So I think at the moment we are also looking in terms of te reo for our presenters and reporters, in terms of improving the te reo, so we have a range of different initiatives that we are embracing at the moment in terms of Māori content.

Bakshi Looking at the changes coming to the New Zealand population, there is much more wider representation of different ethnicities. Are there any plans for those diverse ethnicities?
Latch Yes, there are. We have got a new series, which is being funded by New Zealand On Air, called Neighbourhoods, and which is going to focus on a range of different cultural groups that are living in New Zealand now; a broad range of stories to bring to New Zealanders.

Curran A couple more. Just on—I actually want to change tack slightly and ask you about the proposed new Sky City national convention centre, which one might ask, what has that got to do with TVNZ.

McClay I was thinking that, but carry on.

Curran But my understanding is that the drawings of the proposed new centre that have been published on the New Zealand Herald website encroach on some TVNZ land. Is that true?

Parker Yes, the illustrations that have been published in the New Zealand Herald do appear to encroach on some land and buildings owned and in operational use by TVNZ.

Curran Has TVNZ done a deal with the Government to give up that land to the new convention centre?

Parker No, we have had no discussions with the Government in relation to that.

McClay Have you had discussion with anybody?

Parker We have, actually; over the last 10 years I have had discussions with Sky City, who have been expressing interest in access to that land and buildings for many, many years. They have slowly built up in that block of land; they have slowly acquired more and more parcels of land in that block, and they have had discussions with TVNZ over the last 10 years expressing interest in acquiring those pieces of land.

Curran Is the Government requiring you to give up that land?

McClay Well, they haven’t had any discussions.

Parker We haven’t had any discussions with the Government.

Curran There have been no discussion at all?

Parker No.

Curran So you have had—you have initiated some discussions? Is that what I heard?

Parker No, I haven’t. We haven’t had any discussions with the Government, either initiated by us or by them.

McClay So over 10 years of discussions off and on, I assume, with Sky City, no conclusion has been drawn about the land that you have?
No. I guess the only point is that that land and building is in operational use. It is part of, you know, TVNZ’s operational requirements both now and potentially for any future expansion.

How much land is it?

I think to clarify, there’s two pieces of land, which we call B Block and C Block, for want of a better description. B Block is very fully occupied. and that is really expansion for the future. It is very expensive for us to move different products out of TVNZ, what with the fibre optic cable costs, or whatever, but C has been the focus of discussion in the past, where that could fit into Sky City situation, and whatever. They have not wanted to proceed with anything because, of course, there are a number of convention centres that have been looked at, and I think they want— well I know they want to clarify just where things were before they moved any further on that.

So it is land that TVNZ has got plans for?

B Block, definitely, but C Block is not quite so critical.

I’ve just got a couple of others. Changing tack again, I am not sure whether you will be willing to answer this, but I am interested to know what TVNZ’s view is about MediaWorks getting a cheap loan to pay for their radio licences, whether TVNZ has a view.

You only have to give you view if you want to on this, it is not necessarily part of the financial review in the past, but it is entirely up to you if you want to. I won’t rule it out.

We don’t know the full details of that. We have read what we have read in the news, and really we have got no comment.

What about the other issue around KiwiFM licensing, and changing the terms of its licence? Do you have a view on that?

No. And again, we only know what we read in the paper and it’s not our position to comment on that.

Were those issues reported by your news services last year, and, if so, were the stories fair and balanced?

Absolutely.

Well, just going to that, Mr Chair. Given your stated commitment to neutrality and independence and integrity of journalistic ethics, do you have a view, and are you concerned, about the politicisation of New Zealand On Air, given that is the broadcasting funding agency with which you have the closest working relationship?
Parker  We have no view on that.

McClay  So again, that is an opinion, so I mean if you feel you can answer them do so, but, actually, otherwise we are looking to review this financial year, going backwards.

Parker  We have no view.

McClay  Colleagues, any other questions? Well, thank you for your time. It has been useful and enjoyable. Thank you for the very fair and balanced programming that I watch on TV.

Parker  Thank you.

*conclusion of evidence*
# 2010/11 financial review of the Tertiary Education Commission

Report of the Education and Science Committee

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Tertiary Education Commission

Recommendation

The Education and Science Committee has conducted the financial review of the 2010/11 performance and current operations of the Tertiary Education Commission, and recommends that the House take note of its report.

Introduction

The Tertiary Education Commission was established on 1 January 2003. Members of the Board of Commissioners are appointed by, and responsible to, the Minister for Tertiary Education. The commission’s principal role is to give effect to the Government’s Tertiary Education Strategy. It does this by allocating Government funds to tertiary education organisations and monitoring their performance, and by providing advice to Government on the tertiary education sector.

Students

International students

We were informed that the international student enrolment market is generally growing. We were told that New Zealand seeks to have its brand identified with a high quality of education services to international students, and the country as a desirable destination. The commission’s strategy is to improve the position of universities as the highest-profile part of the education system for international students, and to ensure that the actions of private providers do not damage New Zealand’s reputation. We heard that competition for students between countries and perceptions of the effects of the Canterbury earthquakes had more influence on the number of students choosing New Zealand than the global financial crisis.

We asked about the Government’s targets for revenue from international students. The commission contributes to efforts to reach this target by including international education in its discussions with providers. The commission also noted that a new Crown agency, Education NZ, had been established on 1 September 2011 with the specific aim of increasing revenue to New Zealand from international students. The new agency delivers Government-funded representation and promotion efforts previously undertaken by the Ministry of Education, Education New Zealand Trust, the Ministry of Foreign Affairs and Trade, and New Zealand Trade and Enterprise. The commission said that institutions that have lost revenue from international students as a result of the reaction to the Canterbury earthquakes would have to adapt by reducing their expenditure. The commission emphasised that there was no evidence of international students displacing domestic students at New Zealand institutions.

Funding

The commission believes that in the current economic climate it is likely that demand for places in tertiary education will increase without any matching increase in Government
funding. The commission is following a policy of incrementally redirecting funding to the better-performing institutions, so that over time poorer-performing institutions will either improve or form a smaller part of the sector. We heard that the commission no longer administers separate equity funding; each institution is expected to meet the needs of all the students on its roll from its allocated funding.

**Pastoral care**

In November 2010, the commission held four regional best practice workshops for Youth Guarantee providers. One issue covered by the workshops was the impact on educational achievement of the amount of pastoral care needed by some students. The commission naturally agreed that good leadership, good management, and high-quality teaching are important in achieving good outcomes, but considers its work with providers to help them ensure their programmes include a full range of support is also important, as a wide range of factors can affect a student’s capacity to learn.

**Canterbury earthquakes**

We heard that in the immediate aftermath of the February earthquake, while institutions were still closed, the commission moved personnel into Christchurch to help each institution manage the process of reopening, and to provide a direct link to Government. While international enrolments in Christchurch since institutions reopened were down significantly, domestic enrolments had shown only a moderate reduction. We were assured that the recently announced discontinuation of certain courses in Canterbury University’s Arts faculty was a result of many years of low enrolment.

The commission has had discussions with the three major tertiary education institutions in Canterbury about collaboration in such areas as aligning educational pathways, improving the portability of courses between them, and sharing corporate services. However it has not discussed any merger proposals. We asked whether students from the Canterbury region were still relocated elsewhere, and heard that Lincoln University is up to 97 percent of its expected roll, Canterbury University is at 94 percent, and the Christchurch Polytechnic Institute of Technology is at 84 percent.

**Universities**

We asked if there was any substance to anecdotal reports of institutions manipulating staff numbers to improve results under the Performance-Based Research Fund. We heard that each part of the process is subject to an independent audit; the commission was still discussing the report of the first audit, which examined the preparedness of organisations to participate, including their application of eligibility guidelines. The commission will be better able to comment on these issues when the next stage of the process is audited in July. We emphasise the importance of ensuring that universities do not manipulate their results to improve their ranking, and look forward to seeing measures established to prevent this.

**Private training establishments**

We noted that training opportunities programmes for 16- and 17-year-olds, which the commission purchases from private training establishments on behalf of the Ministry of Social Development, were originally funded as full-year programmes but are now 26-week
Foundation Focussed Training Opportunities programmes. We asked whether any adverse effects from the reduction in funding had been reported. We heard that the funding which was no longer going to private training establishments was now used by the Ministry of Social Development to help people find jobs. We were told that a target of 70 percent of learners moving on to employment or further tertiary training within two months of leaving the programme was being achieved.

**Industry training organisations**

We asked how the commission audits the way industry training organisations manage their trainees. The commission measures the performance of industry training organisations by monitoring the qualifications attained by trainees in each intake. The conduct of their financial affairs is also audited. The commission believes that a consolidated industry training sector (with fewer organisations) will produce better results, but told us that it is for the sector to decide what the optimum number of institutions is. We heard that merger activities are already taking place in the sector.

**Literacy programmes**

The commission supports literacy programmes in several ways. One approach is to embed literacy in existing formal qualifications; another is to support workplace literacy programmes; and another is to support provision through schools and community organisations. Standalone literacy programmes at polytechnics and private training establishments are funded separately. The commission has funded a specialist literacy unit at Waikato University. We heard that the range of adult and community education programmes has narrowed; most courses now come under Te Reo, English as a second language, literacy, or foundation skills. About $4 million is now being spent on adult and community education programmes, delivered through 50 schools.

**Vocational pathways**

In its annual report for the year under review, the commission stated that it is moving towards measuring the relationship between tertiary education qualifications and subsequent income. We heard that measurements are being developed with Statistics New Zealand and will be implemented over the next two years. It will be possible to analyse information in terms of the priority groups identified in the Tertiary Education Strategy (Māori, Pacific, second-chance learners, those with English language needs, and learners with no formal qualifications). This work is being undertaken in order to provide students with better information about possible career paths. We raised a concern that information presented in this way might tend to undervalue the worth of some traditionally low-paid jobs, particularly in the caring professions. The commission explained that it seeks to help provide a smorgasbord of information so that people can make an informed choice.

We asked about the commission’s role in overseeing the transition from school to such programmes as Youth Guarantee or the trades academies, and then to other tertiary programmes. The commission believes that the recent reduction in the variety of programmes available has helped the various agencies involved to focus on seeking the best pathway for each young person. We heard that Career Services is very involved in this area; the commission’s primary role is to fund tertiary institutions in such a way as to facilitate the progress of each student into the tertiary system. Much of the work in this area is
concerned with addressing the expectations of students and their families, and making sure they are aware of all the options available.

**Reporting clusters**

We were interested in the commission’s relationship to the proposed Ministry of Business, Innovation and Employment. The commission did not believe the new ministry would have a significant effect on the way it works with other agencies. It is a member of a grouping of education agencies convened by the Secretary for Education, and more recently it has been part of two special-purpose clusters of agencies. We heard that the commission’s contribution to the education, skills and development cluster, which reports to Hon Steven Joyce as Minister of Tertiary Education, Skills and Employment, was to do with matching labour market skills shortages to education, while its contribution to the economic development cluster, which reports to Hon Steven Joyce as Minister of Economic Development, was to do with innovation and research.

We were interested to hear that the commission’s work with the Department of Labour in the education, skills and development cluster provided it with a useful perspective on labour market needs, particularly in terms of regional variation, to supplement the information it gains from talking with employers.
Appendix

Approach to this financial review
We met on 28 March and 9 May 2012 to consider the financial review of the Tertiary Education Commission. We heard evidence from the Tertiary Education Commission and received advice from the Office of the Auditor-General.

Committee members
Nikki Kaye (Chairperson)
Hon Simon Bridges
Catherine Delahunty
Colin King
Hon Nanaia Mahuta
Tracey Martin
Sue Moroney
Simon O’Connor
Scott Simpson
Dr Megan Woods

Evidence and advice received

Tertiary Education Commission, responses to written questions, received 9 March and 16 and 27 April 2012.

2010/11 financial review of Transpower New Zealand Limited

Report of the Commerce Committee

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Recommendation

The Commerce Committee has conducted the financial review of the 2010/11 performance and current operations of Transpower New Zealand Limited and recommends that the House take note of its report.

Introduction

Transpower is a state enterprise which plans, builds, maintains, and operates New Zealand’s high-voltage electricity transmission network—the national grid. Its chief executive is Patrick Strange, and Mark Verbiest is chairperson of the board.

Transpower is primarily responsible for transporting bulk electricity from generation sites to population centres and some major industrial users, and connecting with lines companies which deliver power to New Zealand homes and businesses.

Financial performance

In 2010/11 Transpower generated total revenue of $737.2 million. Transmission revenue increased by 3 percent from 2009/10, after the commissioning of new investments in the grid, but fell below forecast because the Commerce Commission fixed a lower regulated return. Total operating expenditure increased by 6 percent to $279.2 million, principally because of a planned increase in maintenance. Net profit after tax for 2010/11 was $78.5 million, up from $65 million in 2009/10.

We observed that Transpower’s expenses had risen by 6 percent. It said that this was mainly because it was spending more on maintaining the grid, partly to ensure its reliability, and partly because not enough had been spent in the past. Transpower also said it was working on ensuring operational efficiency. We noted that it had not met its target for added economic value. It told us it was slightly behind because of high depreciation charges following a review of the forecast lives of assets.

We asked why Transpower was paying a dividend when it needed to raise prices to cover capital expenditure. It told us it was expected under its legislation to operate commercially, and paying the dividend had been the board’s decision. Some of us considered that explanation to be inadequate, given the company’s massive capital investment programme.

We heard that Transpower’s current debt to debt-plus-equity ratio\(^1\) was around 60 percent, which it believed to be on the low side for a transmission company with a guaranteed revenue stream. We asked whether it had considered paying down debt rather than paying a dividend. It told us that it took a balanced approach, and expected debt markets to

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\(^1\) The ratio of finance debt (borrowings plus obligations under finance leases) to shareholders’ interest.
remained at prudent levels. We observed that Transpower’s interest coverage ratio² exceeded its target for the year; it considered this acceptable within its debt profile.

**Price increases**

We asked for an estimate of the likely increase in the cost per kilowatt hour for households over the next financial year. Transpower said the current cost for a household using the average 8,000 kilowatts per year was $144 per year, or $12 per month. In 2012/13 this is forecast to rise 20 percent to $172.80 per year, or $14.40 per month.

**Grid constraints**

We asked whether Transpower knew of any instances of generators using the limitations of the electricity grid as an excuse for raising prices. It said it had no evidence of this practice. It explained, however, that line capacity and voltage stability cause problems, and increased thermal generation in the North Island had been required to compensate.

We asked whether it was technologically possible from a physical or engineering perspective for a generator to impede the flow of power into Auckland in order to increase prices. Some of us noted the presence of the Whakamaru constraint in the upper North Island could potentially allow generators north of the constraint to bid into the Auckland market at inflated prices. Transpower told us it would be possible but unlikely. Some of us considered that industry speculation on this matter indicates that grid constraints are sometimes binding, and may well impact on retail pricing, particularly in Auckland.

**Capital expenditure**

Transpower was committed to a capital expenditure programme of $5 billion over the next 10 years. We asked whether it foresaw any difficulty in obtaining a return on its investments. It said that regulations guaranteed a return. We asked for an overview of its capital expenditure programme, and heard that three major projects had accounted for a large proportion of its spending:

- **North Island grid upgrade**: Transpower told us it was upgrading transmission lines between Whakamaru and Pakuranga, which would cost $824 million. The project was to build capacity for the forecast increase in the proportion of New Zealand’s power supply used by Auckland from 28 to 32 percent.

- **High-voltage direct-current pole installation**: Transpower had $673 million approved for replacing a 46-year-old high-voltage direct-current pole, and installing another new one, on the link between the North and South Islands.

- **Auckland transmission ring**: Transpower was spending $473 million building a transmission ring in and around Auckland to reinforce the security of supply through Auckland to Northland. It explained that all electricity north of Henderson was currently supplied through a single overhead line over the water by the Māngere Bridge, which was not sustainable as the sole line supplying the area. It said the cost of putting the line underground would be prohibitive, possibly as much as $2 billion.

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² A measure of the number of times a company could make the interest payments on its debt with its earnings before interest and taxes.
Safety

We offered our condolences on the death of a Transpower employee, and asked what the organisation had learned from the accident. Transpower acknowledged that it had made some mistakes in terms of training and equipment. An internal investigation and an investigation by the Department of Labour had resulted in the introduction of new controls.

Transpower did not accept that it provided a dangerous workplace, and said that appropriate planning and a better culture could make it one of the safest workplaces in the country. It suggested that workplaces needed to work with employees and employers to change New Zealand’s “no. 8 wire” culture, which sometimes undermined safety. Transpower had been working to change its culture, and believed it had made progress. It had set very stringent safety targets and introduced random drug and alcohol testing for all employees, including management and board members.

Electromagnetic fields

We heard that guidelines for safe electromagnetic fields around high-voltage power lines had been reduced in the United Kingdom and the United States, and wondered if there were any intention to review permissible levels in New Zealand. Transpower told us that world standards had been tightened on the basis of medical evidence, but that its own electromagnetic radiation levels were only 10 percent of what was permissible under world standards. We discussed with Transpower its choice of route for the grid upgrade through Auckland. It confirmed that the central route following the northern motorway had been selected, and thus there had been no need to increase the voltage on the Western Ring lines.
Appendix A

Approach to this financial review

We met on 8 March and 29 March 2012 to consider the financial review of Transpower New Zealand Limited. We heard evidence from Transpower New Zealand Limited and received advice 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

Office of the Auditor-General, Briefing on Transpower New Zealand Limited, dated 8 March 2012.

Organisation briefing paper, prepared by committee staff, dated 28 February 2012.


Transpower New Zealand Limited, Responses to written questions, dated 15 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
Peseta Sam Lotu-Iiga
Mojo Mathers
Mark Mitchell
Jonathan Young

Witnesses
Mark Verbiest, Chairman
Patrick Strange, Chief Executive
John Coulter, Finance Manager

McClay Good morning. Welcome to the committee. Thank you for coming and giving us your time this morning. You can see who we are. We have 45 minutes for this hearing, and we invite you to maybe make some opening comments, and I and my colleagues will have some questions of you. The floor is yours.

Verbiest I’m Mark Verbiest, the Chairman; Patrick Strange, CEO; and John Coulter, Chief Financial Controller. Thank you for your time this morning. We did prepare some brief slides. We’re conscious that you won’t want to spend too much time on them, but we just thought we’d give you a bit of context, particularly around our results.

A couple of things that we really want to highlight: first is that when viewing our financial results some people find it a little bit confusing because under IFRS we have to report, as you’ll be aware, it shows figures that in cash terms are somewhat distortionary in the sense that we are required to mark to market our currency and our interest rate hedges, but we don’t trade in these instruments. We see them through to maturity, so whilst they have an effect on any given day, when we’re required to report, it’s actually not reflecting the underlying financial performance.

So if we turn to the first slide, this reflects a statement around our economic value as against targets that we’ve set under our SCI. The slide basically records the reasons for the diversion away from our targets. Particularly
notable, we took final—well, what we are hoping is a final impairment on
the purchase of land properties in the Waikato over 2006-07, which was
pre-GFC, and it was very important for us in terms of our North Island
upgrade project. The second is that in our budgeting we had assumed a
higher weighted average cost of capital than in effect was determined by the
Commerce Commission during the year. So it ended up being slightly lower.

Cunliffe Just out of interest, Chairman, what were the two WACCs—the ones that
you worked with and the ones the Commerce Commission determined?

Verbiest Our WACC we worked to was 7.7, which was just one notch below what
had been agreed in the administrative settlement between the Commerce
Commission a few years earlier, and 7.06 was the outcome.

Then we record, on the following slide, slide 3, our financial performance
for the year. We’ve added a slide at the end, because we’re conscious that
was some time ago. We’ve also given you the updated figures for our 6
months to the end of December, which is the last slide, because we thought
you might find that somewhat helpful. Key things to note are that
transmission revenue has gone up. That is largely a feature of the fact that
we have been, as you’ll be aware, under a substantial build programme to
upgrade the grid. So that revenue reflects the fact that we are gradually
bringing those assets into commission, into service, and therefore our
revenue is going up.

As I mentioned, you’ll see the effect of the changes in fair value and
financial instruments is quite substantial, and, as I say, I think it’s important
that you, I would suggest, not spend too much time thinking about that,
because it actually doesn’t reflect the reality or the way that we run the
business. If, for example, you were to look at our 6-month results, it would
suggest, as a result of those changes, we’ve made a $51 million loss. Well, I
can tell you since that the recovery in the debt markets and the changes in
the credit spreads has meant that as we sit today that number has probably
changed $20 million to $30 million to the positive. So it shows you how
much it fluctuates, and, as I say, in terms of the underlying operating
business, it’s not useful.

I think, in the interests of time, if we move on to the operational
performance slide, which is slide 5. We’ve updated that to 31 December,
and these are, if you like, the physical performance measures and some of
the non-financial measures that we are subject to under our SCI, and
generally our performance is pretty strong. We have a high focus of safety,
which doesn’t just relate to Transpower’s own staff; this goes right through
to our contractors. Patrick himself spends a lot of time around this. We’ve
set ourselves some incredibly stringent targets around safety, which are
pretty difficult to achieve when you consider the ramp-up in work as a
result of these major projects that we’ve got under way and really won’t
drop off until 2015. But nevertheless we as a board and a management team
have committed to these because we think it’s seriously important that our people and the public are safe.

Slide 6 around CAPEX delivery is there for no other reason than to try and illustrate that in years gone by, whilst when the major upgrade programme started in 2006-07 Transpower wasn’t in a fantastic position to be able to actually scale up—and, in fact, had trouble spending its CAPEX budget, not in a bad way, just in terms of project delivery—we’re now in a position where the organisation in a project sense is fully scaled up, and if you note the increase in CAPEX and just think about in people terms what that would require, that’s no mean feat. And obviously we’re very focused now on making sure that the two numbers in terms of actual and planned very much correlate, because it’s something that the Commerce Commission in particular keeps a very wary eye on.

Slide 7 you may have seen before. That’s just to re-illustrate the bubble, if you like, of the major project work that we’ve got under way through to 2015, and then you’ll see that in terms of our longer-term planning we expect our run rate on CAPEX to settle around $400 million a year. But I think what you should bear in mind is that that CAPEX bubble means that you will continue to see some price rises, which will level off until 2015, roughly, and then settle at a level that we think will still stay below 10 percent of an end consumer’s final bill. So transmission making up 10 percent or less of a final consumer’s bill.

We’ve got a slide there on slide 8 in terms of project status. This is just to give you a snapshot of where we are at the moment in terms of delivery of these major projects, which are the critical ones in terms of reinforcing and strengthening the grid. The key one that’s slipped out is the HVDC link project. That has slipped to February 2013. That’s had a financial impact as well. It will mean that some revenue that we were previously budgeting we would start to receive earlier has been slightly pushed back. We’re very focused on that project, and delivering to that revised time line, because we recognise its import to New Zealand and to the market and expectations.

The next few slides are really to reinforce the point around the increases in our transmission charges. We’re conscious that energy companies are starting to hit their customers with increases, and Transpower is part of that charge. As we say, you need to keep that in context. It’s less than 10 percent of a consumer’s charge, and in real terms—that is, when you take account of inflation—in fact, we’re only just getting back to the level of transmission charges that were charged in the 1990s. So, as I say, discounting for inflation. We’re endeavouring to keep the charges as low as we can, also bearing in mind that, in fact, those charges are regulated through the Commerce Commission setting our revenue, which is, in effect, 90 percent of our revenue.

I don’t think there’s anything else I particularly wanted to highlight.
Chairman, just in terms of the timing and composition of those CAPEX flows—through you, Mr Chair, if I could—would it be possible to get a version of slide 8, which perhaps coloured the bars by the projects (inaudible)?

Verbiest Sure. So, Patrick, was there anything you wanted to add in terms of—

Strange No, I think—I mean, we’ve obviously got a lot on, but generally things are good. We’ve just reviewed the reliability over the last 3 or 4 years, which is our big worry—what we do for customers—and, touch wood, the trends are all in the right direction. We had a peak with big outages in Auckland as things got stressed, and about 3 years ago—and I do touch wood—but even with the Canterbury earthquakes we came through extremely well. All the trends are quietly back to where reliability should be, and it’s reassuring to get through a weekend where the weather in the lower North Island was pretty robust, and you’ll note transmission had zero outages. So I think we’re getting things back on track, really, but still a fair way to go.

Chair, if I might—slide 10, the impact on cost to the consumer is expressed in cents per kilowatt hour. What is the average kilowatt hours per household per month or per annum?

Strange I should know that off the top of my head.

Cunliffe I have a funny feeling it’s about 8,000 per annum.

Strange Yes, 8,000 is sort of the low-user number.

Cunliffe But I don’t know whether that was kilowatts or gigawatts.

Strange No, that’s kilowatt hours; yeah, you’re right.

Cunliffe So if it’s about 8,000 per annum—a bit of back of the envelope maths here—and it’s going up from $1.80 to $2.50, that’s about a 30 percent increase. Have you got any calculations of the monthly or annual impact on the average bill in nominal terms, say 2011 to 2015?

Strange Yes, we do. If you go over to slide 11—

Cunliffe Yes. I hate it when it’s on the next slide, but I didn’t look.

Strange We can get you some actually hard numbers on it, but we’ve actually run them all the way out to about 2018.

Cunliffe Yes, that’s still cents per kilowatt hour, so—

Strange Yes, we can turn it in—we can multiply it by 8,000 or whatever the average number is and turn it into what it is for the typical resident, if you like.
Cunliffe  Would it be possible to do that in real time? It’s a pretty specific request. Would your organisation have the capacity to just run that number and get back to us during this session?

Lotu-Iiga  You can do it now.

Strange  Do you want me to do it? It’s about 75 cents.

Cunliffe  It’s about 75 cents on 8,000.

Lotu-Iiga (?)  You can work it out yourself.

Cunliffe  But it’s better if it comes from you. But I’m just not wanting to defer it 2 weeks until after—

Strange  Probably, if you give us a few—I’d rather sort of say we’ll get it back to you within 24 hours. I hate asking the guys to do something on their calculator and later find we’ve given you a bum steer.

Cunliffe  That was my hesitation too, Dr Strange. Thank you.

Strange  So if you can give us 24 hours, we’ll flick it back to you.

McClay  Within a time frame you can do it comfortably would be good.

Strange  Well, we can know it’s right.

Cunliffe  We can probably hire Dr Lotu-Iiga to do it quite quickly, by the sound of it.

Lotu-Iiga  Thank you for that.

McClay  They’d need to go to competitive tender to make you happy.

Cunliffe  We probably would, yeah, but I understand that he’s not terribly expensive. It may be a de minimis contract but anyway, look, I’m here to look after your interests. In terms of grid, obviously you’re going through—big picture—a major grid upgrade, spreading it over 6 or 8 years, smoothing the cost, forgone dividends, price increases to consumers, which you’re doing your best to contain. I mean, it might be helpful—there’s no politics in this—if the chief executive would just give this committee, first off, a bit of a snapshot of what are some of the more acute constraints and risks in the grid as it currently stands so that we can understand some of the drivers of that very large CAPEX, because it is a large amount of capital, and capital is scarce. So that’s a bit of an open invitation to give us the why.

Strange  Yes, and if we go back to—I’ll find the slide—probably slide 8, is it? I’ve got an old version—slide 7. Of the sort of $2 billion or $3 billion that we’re spending in a hurry, a huge amount of that’s in about three projects: first of all, the line through the Waikato from Whakamaru up to Auckland is $824 million. Started in about the middle of the decade, I guess—
Eight hundred and twenty-four. And that’s actually many things. It starts at Pakuranga, the biggest growth area of Auckland—a new substation where we’re basically just running out of capacity with 110 kV—all the way back to beefing up Whakamaru at the other end. But, basically, if you look at growth in New Zealand, Auckland’s getting bigger. With you guys, it’s preaching to the—you already know this, but I think Auckland’s going from something like 28 percent of our use to 32 percent of our power consumption. So more and more demand out of Auckland. Even if demand growth stays low, Auckland just goes up and up as people shift there. And all our projections about where generation’s going to come from, renewable generation, it’s Taupō or south. At the moment there’s a big push in lower North Island wind, but probably the biggest push is renewables around Taupō, geothermal, Te Mihi, etc. So, basically, as of about 2005 we’d run out of capacity to transport that. So that’s a massive project, which will probably set us up for a good 30 or 40 years in terms of capacity, from the middle of the North Island up.

The other two big projects were the DC replacement. Pole 1, the original DC system—and we sort of have two in parallel—was built in 1965, I think, one of the world’s first mercury arc valves, and we still run it north under sort of very constrained conditions. But basically it’s at end of life, and it’s actually either the last or the second to last one operating in the world. So that’s a pure replacement. Pole 3 is really—I mean, it’s got a whole lot more bells and whistles, but a like for like $600 million replacement of a key link.

It’s about $600 million on the HVDC.

It’s $673 million approved but the forecast end-cost is about $600 million. Then the third very big one was a project started in 2001 or 2002 in Auckland, and it’s basically putting a transmission ring through Auckland. North of Henderson, everything up to Cape Reinga is actually supplied through one overhead line with two circuits on it, and when you drive home and over the Māngere Bridge, it’s the big one there, it goes through the water. The risk of carrying about 800 or 900 megawatts on a single line is just well past its use-by date.

Not to mention the EMF concerns, as well.

Yes. It’s a highly loaded line, and we’re going to have to maintain it in years to come, and you can’t do that when it’s—

Forgive the blank space in my memory, but there was some debate, including with Vector, if I recall, about whether the upgrade would lead to increased loadings on the western ring or whether there’d be new tunnel capacity put through the centre of Auckland up to the North Shore. Is that the same project, and if so, which route was chosen?
Strange  Yes. It will reduce the loadings going through Henderson. Basically it’s a
link from Pakuranga in the south, where our NIGU line comes in, the
Waikato one. It’s a buried cable to Penrose, up Te Rakau Drive, and things.
Then through the Vector tunnel to Hobson, across the Harbour Bridge,
and what it does is it goes up the motorway busway, and in about 2002
Vector and Transpower buried ducts when they built the motorway busway
up there, so we don’t have to dig it up. We can (inaudible) this cable, which is
about this big and very expensive, and there are three of them. So it’s big
stuff. Then it ducks across into Albany, so basically it’s a ring. It’ll carry,
steady state, about 600 or 700 megawatts, whereas we’re carrying up to
1,000 megawatts around the existing stuff through Henderson.

Lotu-Iiga  Just a quick supplementary on that. You talk about the dangers of that line
across Manukau Harbour. Is there any plans for that to be, as David sort of
said, put underground, and what are the costings around that? Is it quite an
expensive process? Because I know it’s been done before, but just in quite
densely populated urban areas it’s—

Strange  I’d estimate—that line’s perfectly safe and everything, but it has what we
call under-build, which we—we had a period through the 1970s and 1980s
where developers were allowed to put houses under transmission lines. I’ll
give you an order of the cost off the top of my head. That line’s about,
maximum capacity, probably about 1,200 megawatts, I think. The new one’s
about 600 megawatts, and the new one will cost about $500 million, if you
ran it equivalent, so it would cost over $1 billion or more to underground
that existing one. So very unlikely in our lifetimes that we will see it
underground. It’s a good line. We run it safely. Just the economic, you
know, what New Zealand can afford to put its money towards.

Lotu-Iiga  Sorry, $500 million over what distance?

Strange  Well, I’m saying $1 billion probably, because it’s two circuits, and that
would probably underground it to Henderson. And that’s really off the top
of my head. It may be more. It may be closer to $2 billion, because you’d be
driving tunnels and things. So it really is uneconomic.

Lotu-Iiga  I was just thinking what David was saying about State highway 20, you’ve
got these transport routes now that you can follow.

Strange  We do small amounts of—we haven’t built an overhead line in a city for a
good 30 or 40 years, and we actually are pulling one down at the moment in
Pakuranga.

Cunliffe  What’s the voltage loading on that western ring route?

Strange  It’s 220 kV.

Cunliffe  In the UK I understand—and, I think, also in the US—the guidelines for
safe levels of EMF off high-voltage power lines have been reduced. What
are they now, and is there any move that you’re aware of to review the
guidelines in New Zealand?

Strange: There’s two things. There’s the magnetic field and the electric field, and I
always get them mixed up. One of them’s—

Cunliffe: You’re ahead of me, because I conflated the two right from the get-go.

Strange: OK, and we are way within any safe limits—like, factors of 4 or 5. Actually,
I think it’s EMF, one of them—are any of my engineers here? The world
standards, which we follow, have actually been increased. They’ve gone the
other way, so they’ve actually gone from 100 to 200 based on all the medical
evidence, etc. So we’re pretty passionate about—

Cunliffe: So you’d be what—20, 30, or—

Strange: Most of our lines, less than 10 percent of what’s allowed.

Cunliffe: I think that’s probably not an issue, given the decision to use the Vector
tunnel, but it would have potentially been an issue had you had to up the
loading on the western ring. So I think that that’s probably off the table.

Strange: I think it’s probably not an issue, given the decision to use the Vector
tunnel, but it would have potentially been an issue had you had to up the
loading on the western ring. So I think that that’s probably off the table.

Just ducking back—I’m doing the Sam Lotu-liga quick and dirty calculation.

Strange: Am I wrong in thinking if it’s a 75 percent nominal increase on 8,000
kilowatt hours a year, that’s an average household cost of $6,000 a year
extra?

Cunliffe: That’s why I want to quietly get the numbers right.

Strange: I’m glad I’m wrong on that.

Cunliffe: I think it’s something like for the average—it might be $70 or $80, but we
will get back to you with the right number.

Strange: If you would, that’s great. Coming back to the grid, you know there have
been for a long time, as I’m sure you know much better than we do, urban
legends around the gaming of grid constraints by those naughty generators,
Genesis being the alleged worst offender, around Whakamaru. There may
be limits to what you can say, but to what extent will the grid upgrade
remove the possibility of future gaming on the grid? And without
mentioning any names, which of course you can’t, do you have any
evidence that any of that has ever occurred in the past to your knowledge?

Strange: Well, we are also the system operator. No, we have no real evidence of
gaming. We’ve had real constraints where we often—sometimes just the
capacity of the lines or sometimes it’s a voltage stability problem. We’re
transferring from Wellington and parts south a lot of electricity, and the
further you send it, it sort of gets out of kilter and you get into a situation
where you get voltage instability. So if we have a major event, everything
collapses. So often the constraints around that, and it means we have to run
more thermal in the north to hold it steady.
Picking up on that, is it technically possible for someone running thermals in the north, north of the Whakamaru constraint, to induce the constraint to the point where it begins to apply to restrict the flow of power from south of the constraint into the Auckland market? Is it possible to do that?

Strange Well, it’s a market, so they can all bid as they see fit, but on the whole you look at what’s economic dispatch, like what’s the least cost for the nation, and I have to say on the whole you end up with the least cost for the nation. The market works it through.

Cunliffe That’s an excellent answer, but it’s an answer to a different question, with respect. So it is technically possible from a physical or engineering perspective for the sequencing of dispatch north of the Whakamaru constraint to impede the flow of power from south of the constraint into the Auckland market.

Strange The answer would have to be yes. I mean, if people don’t offer their thermal plant north of it you’ll create a constraint, and then you’ll end up with high prices north of the constraint. So if I’m sitting on—absolutely can, but what I’m saying, though, is it doesn’t seem to happen, because it’s not economically sustainable, because to create the constraint you’ve got to turn some of your plant off.

Cunliffe So what would be the price response in the Auckland market if the constraint started to come into force? Let’s say someone turned off Huntly when it was otherwise needed to supply the Auckland load; a constraint started to bite. What would be the price response in Auckland roughly?

Strange The spot price—

Cunliffe The spot price, yes.

Strange —can go very high. It can go to $600 or $1,000. But what you actually have is someone like a—Genesis, say, run a reasonably balanced book, so they are sitting selling to you and your neighbours, and they are generating to balance that. The market actually sorts itself out so if they withhold—

Cunliffe So because they’ve got a natural hedge, they would be sure of their own supply.

Strange So if they withhold generation, they’ve actually got to go in turn and buy on the spot market. So the market actually does—

Cunliffe So it’s technically possible, it may have occurred, but the fact that generators are now so hedged with their own customers reduces the economic incentive for that to occur.

Strange They by and large pretty much work out that the best outcome for them all is economic dispatch, so, sure, there are edges around the market—
We don’t want to get too Voltaire on each other about the best of all possible worlds, but if it was so perfect why are we spending so much money upgrading the grid? I’m trying to give you a platform here for demonstrating the value of your CAPEX.

Strange  No, absolutely. Where we get a true physical constraint, so we’ve got water in the South Island, and we basically can’t use as much as we like, because we can’t just get it north for one of two reasons: one, because we’ve got voltage instability, or the lines are just choked. We end up conceptually, possibly, having to spill water in the South Island and run Huntly or Southdown as a result, and that’s what we would call an economic constraint.

Our Wairakei ring project, which is a new line replacing an old line between Wairakei and Whakamaru, about 100 kilometres—bulldozers going on site now—is purely an economic investment. Contact are building Te Mihi. Doug Heffernan and Mighty River are building Ngatamariki—a whole lot of new baseload geothermal. If we don’t invest in this line, at times that line will constrain and so you’ll have wind or water or geothermal which is having to be throttled back and running, say, gas at Huntly. Basically the business case which goes to the Commerce Commission and is reviewed by the industry runs out the economics and says: “Look, it is economic to build a new line to remove the constraint.”, so quite a few of our investments are purely for that.

The other investments are for reliability. The one through Auckland is not an economic investment; it’s pure reliability, and it basically says that the cost once in every 10 years of having everything north of Henderson, including the refinery, lose supply—and you only have 2 days of gasoline in New Zealand—you value that at a value of lost load. It’s more economic to go and spend $473 million in putting a new line through Auckland.

Just exactly on that point—you’ve anticipated my next question, which is, is Transpower anticipating any issues in securing a return on the increased cost of investment in the North Island grid upgrade? Because the trouble with security is that people aren’t always focused on it and therefore don’t want to pay extra for it even though it matters.

Strange  It’s a good question, and basically as the regulation is set up and as Parliament’s set up, once our investment is approved by the Commerce Commission—so we put up a case, and it gets consulted on by the industry, and everybody has a crack at it, and they approve it—we are guaranteed our return. So our bills will be paid.

First, thank you for your presentation. As an Aucklander it’s great to see the capital investment going on. I was here 3 years ago, and I know it was a different crew but they were talking about the future investment, and we said we would be monitoring that and looking as to how this would go about. I think the level of CAPEX is a good thing. After years of under-
investment I think this is good for security of supply, good for the country that you can have that comfort. Obviously you’ll regulate, as you said.

I do want to ask some questions around—you said that once your revenue’s fixed, fine—but look at the expense side. It did go up 6 percent. I know you said there’s some revenue forgone. I’ve just sort of been digging into your annual report around where the expenses are at in terms of—they’ve gone up 6 percent, I think transmission’s gone up. So areas of concern in that, and how is it going to project out, or what does your 6-month figures look like?

Verbiest Well, there’s two things going on internally. The first is that—and we make no apology for—we’re spending more on grid maintenance, which is the key reason why that expense line is going up. And we think that’s a good thing. It’s about reliability, and it’s again a situation recovering from quite a lengthy period where maybe more could have been spent in this area to make sure we’re in a strong position. If you like, on the core, or the corporate OPEX side, there’s been some increase in that, but most of it’s actually project related, so the board and Patrick’s team are pretty focused on thinking about, well, when this CAPEX bubble is over, how do we—we’ve got to make sure that we get the organisation into a position where it’s performing efficiently and in fact we’re not overspending in terms of our expenditure. So that work is under way now and the board, even though in overall terms it may not appear significant, we are still very focused on trying to obtain operational efficiencies, nevertheless. And we’ve set some internal targets around it—incentives for staff around that.

Lotu-Iiga In terms of the economic value added, you didn’t meet your target. How are you tracking up to this sort of 6-month period? Are you comfortable where you’re at?

Strange We’re slightly behind due to depreciation, but we do expect, because we refund customers from previous years, to make a small loss, but it’ll be slightly behind that due to high depreciation charges, which are non-cash. That aside, we’re there or thereabouts.

Lotu-Iiga Can we just move to safety in terms of—I know you touched on it, and I know your first line in your annual report actually referred to the sad death, and condolences to your organisation for that. Any learnings from what happened in terms of that fatality? I mean, you’re never going to (inaudible) proof these things, because as you’ve already pointed out this morning, it can be quite dangerous, the occupational hazards. But have you put in place measures that you’ve learnt from the experience?

Strange Yeah, first of all, they’re all avoidable, and I would not accept that it’s a dangerous workplace. We just won’t accept that. Our performance benchmarking against others is better than most in New Zealand industry, but, yeah, we made some mistakes on that one outfit, Oteranga Bay. We were using the wrong equipment. There were probably some things around
training. The guys were trying to do the right thing, but there’s been a massive—we did our own investigation. The Department of Labour’s done their investigation, and there’s been quite a lot of controls put in since that event. But, you know, it’s a constantly moving feast.

I think we’re lifting our game all the time, but we get reminders. We had a car accident yesterday—nobody hurt. For instance, I think on the Waikato job we drive something like 8,000 or 9,000 kilometres a day, so the guys are tired at the end of the day. They get into their vehicle, you know, four of them, to drive back to Hamilton and three of them fall asleep. So it’s just a constant, constant worry, but we won’t accept that it’s a dangerous workplace. We’ll have the safest workplaces in the country. It’s all just planning and, really, culture in the guys’ heads. We do struggle in New Zealand that we have a workforce that’s a bit No. 8 wire and can-do, so changing that culture. So they tend to sort of act then think. I think we’re making big progress on that, but I’m speaking as a New Zealand farmer! We’re not as good as, say, England, as a workforce—way behind. That’s a struggle for us.

Lotu-Iiga If you’re way behind, what sort of measures are you taking on board in terms of implementing some programmes of improvement?

Strange Huge cultural stuff, getting in the guys’ heads. And we’ve probably got half of them who are absolutely there. They go home and put on the earmuffs when they’re mowing the lawn—that’s always a good test. They live and die it, but every day we’re getting new people in, big civil projects. You get a whole lot of staff from Hirepool or something and they’ll come in with that old habit of, you know, a bit of rip, shit, and bust is OK. So I think our biggest focus, and our contractors, who are really on board, is about that cultural thing.

And we still push, if I can get on a soapbox for a minute, drug and alcohol. We went to random testing across the whole workforce a couple of years ago, and the guys now buy it. You go and talk to the big burly bloke and say: “What do you think about it?”, and he says: “Oh, absolutely.” And we now screen anybody coming into our workforce—like a subcontractor or something. We still get positives, and that’s a real problem for New Zealand, that guys are prepared to turn up for work. And some of the positives on some of the civil sites have been P—meth. It just blows your mind.

Cunliffe A quick financial question—my last question. Why on earth are you paying a dividend when you are having to raise your pricing very significantly to cover what everybody agrees is necessary CAPEX, recalling that in most SOEs the Crown has been happy to forgo dividends in the face of worthwhile major CAPEX projects? It seems like it’s going to be loading additional weight on the consumer, when they are already going to go through a pretty significant price impact.
Verbiest  I don’t believe we’re loading things at all. The Crown’s forgone a dividend since 2004-05.

Cunliffe You're scheduling $110 million in December 2011. Your NPAT for 2011 was only 78.5, so it’s roughly a year and a half worth of NPAT at a time when you’re having to borrow significant levels of debt for investment. Surely this was a good time not to pay a dividend.

Verbiest Well, the expectations on us from the Crown are that we do act commercially. Last year we undertook a capital review in terms of what our balance sheet looked like, a mix between debt and equity.

Cunliffe What is the debt to debt plus equity ratio, current and target?

Verbiest John? Getting up towards 60?

Coulter Yeah.

Strange It will peak in the high 60s, which for transmission companies with a guaranteed revenue stream is probably on the low side.

Cunliffe Certainly light years different from when I was Associate Minister of SOEs, going back into the dim dark ages when it was hard to get a SOE to get a 10 percent debt, plus equity loading. So times have changed, but was it, let me put it in process terms—was it the board’s recommendation to the Crown that it should pay a substantial dividend in December 2011, or was it the Crown’s expectation to the board that a dividend of that nature should be—

Verbiest It was the board. We had no requests from our shareholder.

McClay We’ve got a supplementary here, and then after we’re going to have to go across to—

Cunliffe I’m just curious about the rationale, Chair. Did you consider the alternative of reducing your debt cover cost by retaining the equity on the balance sheet rather than paying it out as a dividend?

Verbiest Yes, we did, and we think we’ve come up with a sensible, balanced approach, and ensuring, first and foremost, that we would continue to have access to the debt markets at prudent levels, and also at reasonable funding costs.

Cunliffe Final question: do you see Transpower as a possible future candidate for the “mixed-ownership model”?

McClay That’s not within the scope of—

Verbiest We don’t have a view on that.
Lotu-Iiga  I'll just do a quick supplementary on that. Your target for interest cover was 3.4 for the financial year that we're covering in this review. You actually had an actual interest cover ratio of 3.6. You actually exceeded your coverage. That seems to me quite comfortable within your debt profile that you could pay out a dividend, based on that. Would that be fair to say?

Verbiest  Yes.

Lotu-Iiga  OK. We'll leave it at that.

Curran  Just going back to your soapbox, and a cheeky question, I suppose. Does the drug and alcohol testing include management?

Strange  Yes. I've been tested.

Curran  That's good!

Coulter  It's random.

Verbiest  The board has been warned as well.

Strange  And if you come up to visit the Haywards site, I warn you that you're fair game if you're caught randomly. You could get tested.

Curran  With regards to the health and safety, I found it curious your comments about the No. 8 wire mentality being a problem. Is that the fault of the— I mean, presumably the workforce coming in in with that mentality, but they've been trained. So what is happening there? Is the health and safety training not adequate at the apprenticeship level, at the training—where is the issue there?

Strange  It's a bit of the chicken and the egg. Partly it's New Zealand culture. We are a sort of “We'll do it and then we'll think about it.” It's really ingrained in the guys when they first go into a workforce. You go somewhere like Taranaki, where the oil industry has really pushed safety for a long time, and you'll find the culture is different. So I think as you get critical mass in companies like New Zealand Refining, Tiwai, which is a leader, as we all just demand a higher standard. So the kids as they're coming into the workforce and the supervisors they're working for, safety is No. 1, I think you'll just see the culture shift. So it's not so much a training, it's just shifting a whole country's culture—workforce culture.

Curran  Presumably that culture isn't just the employees; that's the employer culture as well.

Strange  Very much so—very much so. We have a responsibility to lead it.

McClay  Good. Well, thank you very much. We're out of time. Can I thank you for your presentation and for the answers to the questions you gave us today, and I just say that we think you're doing good job, and keep it up.
conclusion of evidence