Reports of select committees on the 2014/15 annual reviews of Crown entities, Government departments and Offices of Parliament, public organisations, and State enterprises

Fifty-first Parliament
March 2016
I. 20в
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Introduction

This is a compendium of all the select committee reports on the 2014/15 annual reviews of Government departments, Offices of Parliament, Crown entities, public organisations, and State enterprises.

About this compendium

The compendium has been structured to reflect the organisation of the Estimates of appropriations into 10 sector groupings.

Reports on the annual reviews of security agencies, conducted by the Intelligence and Security Committee, are included in the compendium for ease of reference (under the Finance and Government Administration Sector).

The Finance and Expenditure Committee’s report on the annual financial statements of the Government for the year ended 30 June 2015 is debated separately and so is listed separately from the sector groupings.

At the time of producing this compendium, the annual reports of Drug Free Sport New Zealand, Health Benefits Limited, Learning Media Limited, the New Zealand Symphony Orchestra, and Terralink New Zealand have not been presented to the House and so have not been scrutinised as part of the 2014/15 annual review process.

Consideration of reports by the House

The annual review reports are considered in the House during the committee stage of the Appropriation (2014/15 Confirmation and Validation) Bill. The debate also provides an opportunity for debate on the Government’s financial position.
# Financial Statements of the Government of New Zealand for the year ended 30 June 2015

Report of the Finance and Expenditure Committee

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Financial Statements of the Government of New Zealand for the year ended 30 June 2015

Recommendation

The Finance and Expenditure Committee has reviewed the financial statements of the Government for the year ended 30 June 2015 and recommends that the House take note of its report.

Introduction

This report summarises the main points from the Government’s audited financial statements for the year ended 30 June 2015 and from our discussion with the Minister of Finance, who is responsible for the statements, and the Treasury.

Fiscal position for the year ended 30 June 2015

The financial statements of the Government provide a consolidated view of the revenue, expenses, assets, and liabilities of all government entities. The document compares the results for 2015 against those in previous years and against the forecasts prepared by the Treasury for the 2014 and 2015 Budgets.

Surplus achieved for 2014/15

The overall result for 2014/15 was a small surplus—the first since 2008. The Crown’s operating balance before gains and losses (OBEGAL) was $414 million. The Crown’s total net worth increased by $11.5 billion, to $92.236 billion.

The Minister of Finance said that the small surplus achieved for 2014/15 was consistent with the target the Government had set in 2011. The point of the target had been to anchor spending expectations by the public and the public service about what the Government was trying to achieve in its policy decisions. He believes the financial results for the year demonstrate the relative success of the policy approaches the Government has been taking on tax and spending. We discuss those approaches later in this report.

Comparison with forecasts

The 2014/15 results compare favourably with the forecasts prepared by the Treasury in the lead up to Budget 2015, with the exception of gross debt, which was higher than forecast.

Gross debt increased by 5 percent over the previous year’s actual result, to $86.125 billion. Net debt, at $60.631 billion, was about 1.2 percent more than the previous year. It represents 25.2 percent of GDP, compared with a Budget 2015 forecast of 25.7 percent.

Tax revenue ($66.055 billion) was stronger than expected, as the economy grew in nominal terms by 0.4 percent more than forecast. Higher than expected net migration and labour force participation also contributed to this result.

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The outlook for future surpluses

The Minister said that he would not describe the 2014/15 surplus as a one-off. However, he emphasised that economic conditions in New Zealand and the world will make it more challenging to maintain and grow surpluses in the future. “We’ve got to surplus, but it doesn’t mean there’s now lots of money to be throwing around.”

He said that the situation now is not like that of the economic recoveries in 1995–97 or the mid-2000s. Then, high nominal GDP growth was underpinned by rising inflation, interest rates, and wages, which boosted governments’ budgets. Now, however, interest rates and inflation are at record lows, and below what was expected even when the last forecasts were prepared.

The Minister said this means that the Government will not be bouncing off a balanced Budget into rapidly-escalating surpluses. “There will have to be fairly careful management to ensure that there are surpluses when the tax take is growing at a much lower rate than used to be the case.”

He noted also that New Zealand’s population growth of about 2 percent—high for a developed country—will mean continued pressure on government spending, while the tax base will grow more slowly without the “tail wind” of 4 or 5 percent inflation. Nevertheless, he believes that growing confidence in the economy will lead to growth that will help the achievement of surpluses.

Asked what this all means for earlier projections of continuing and growing surpluses through 2019, the Minister pointed out that the Treasury’s latest projections would be available in mid-December. He said that he would not want to predict whether there would be a surplus in 2015/16; nor would he rely on the Treasury’s predictions.

The Minister said that the context is important: this surplus followed a fairly large deficit, so “the direction of travel matters as much as plus or minus a billion around the balance”. He added that “generally, the direction is fine”. In the long run, he said, it needs to be about growing revenue, containing expenditure, and growing surpluses in order to repay debt.

Some of us consider that achieving a surplus in 2014/15 was a political target for the Government rather than a true economic one. Given the economic conditions outlined by the Minister, some of us conclude that the 2014/15 surplus was effectively manufactured, and is unlikely to be sustained.

The labour market and unemployment

Some of us are concerned that the unemployment rate has not dropped below 5 or 6 percent, despite boosts to the economy from reconstruction activity in Canterbury and high dairy prices. Per capita, employment growth was negative in the first 6 months of 2015.

The Minister agreed that the unemployment rate has been disappointingly high. He attributed it in part to historically high participation in the labour force and strong migration flows, particularly with fewer New Zealanders leaving for Australia and more returning. He indicated that the reasons were puzzling, but said it was not hard to imagine

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2 The Treasury’s Half Year Economic and Fiscal Update was released on 15 December 2015. We are reporting separately to the House on it, and on the Minister of Finance’s Budget Policy Statement 2016, which was published on the same date.
the scenario changing. He believes that the unemployment rate will reduce as confidence picks up again.

Some of us questioned whether the Government is doing all it can to reduce unemployment. The Minister rejected any suggestion of complacency, saying that the Government is pulling all the policy levers available. He noted that the measures are listed in detail in the Business Growth Agenda. He added that the Government is working intensively to help people at the margins of the labour force to prepare themselves for work, particularly young people about to enter the workforce, and the 275,000 people who have been on welfare for a long time.

**Recognised seasonal employment scheme**

As an example of current work in this context, the Minister said that the Government has been emphasising to the horticulture industry that it should not become reliant on overseas workers who come in under the recognised seasonal employment scheme, to the exclusion of local labour. The Government intends to have similar discussions with the dairy industry.

Asked whether this meant that the recognised seasonal employment scheme is being reviewed, the Minister said that numbers under the scheme are reviewed regularly. His point was that the Government has been emphasising to industries that it is their job to invest in improving skills and technology to attract the labour they want. It is not the Government’s job to ensure a supply of cheap, skilled labour.

**The Government’s approach to tax and spending**

The Minister said that the Government has stuck with the broad-based, low-rate tax principles that are now quite embedded in New Zealand’s revenue collection system. He said that the various changes made since 2010 have been consistent with those principles. The focus has been on closing loopholes and dealing with tax avoidance. The changes had brought in some extra revenue, but not much. The largest single change had been with the tobacco excise tax, in a series of 10 percent increases over 3–4 years.

The Minister said that the Government has focused even more strongly on controlling spending. It has given only small allowances for new spending, while working with agencies to help them assess the effectiveness of their spending. There have, however, been considerable changes during the past 4–5 years in the way appropriations are arranged. For example, the Ministry of Social Development now has a pool of $500–600 million under a multi-category appropriation, rather than several different programmes, with a stronger focus on how it is used to reduce welfare dependency.

**Recent changes to property tax**

Recent legislation has introduced a 2-year “bright line” test designed to collect tax owed by people trading in residential property. Some of us note that the scheme is expected to bring in about $5 million in tax, but will cost the same amount to implement, and understand that officials had favoured a 5-year test. The Minister said that the Government had considered the options closely; the 2-year test had fitted best with enforcing existing law.

**Directions in social policy**

We discussed the steps the Government is taking to address severe hardship and break the cycle of welfare dependency.
The Minister explained the Government’s social investment approach. He said it effectively looks at a “human capital balance sheet”, and asks what the long-term liability would be of nothing changing. In his view, the approach provides a compelling framework for the Government to make changes to improve the outlook for the most vulnerable 10–15 percent of the population.

The Minister acknowledged that the decision to commit $790 million in Budget 2015 for a child hardship package had entailed a trade-off for the Government’s balance sheet. While it meant more borrowing than would otherwise be needed, the Government had judged this worthwhile to help restore relativity between benefit levels and wages for families facing severe hardship.

Alongside this, the Minister said, the Government has put a lot of work into gathering information to identify the risk factors that lead to welfare dependency, so it can focus spending where it will make the most difference for vulnerable families in the longer term.

**Gathering a range of information**

The Minister said that major IT changes now allow data to be gathered and analysed across a range of government agencies, including the health, education, welfare, housing, and corrections systems. He said this “integrated data infrastructure” is important because it gives a much more in-depth view. For example, data from the health system alone yields little information about the most disadvantaged families and those imposing the highest costs on the Government’s health spending. Data from the corrections and welfare systems can provide a clearer picture of these families, when factors such as a CYFS notification, a long term stay on a benefit, and a corrections sentence are combined. The Minister noted that this integrated data is being made publicly available on the web.

The Minister said that the challenge for the Government now is to improve the way it interacts with such families. Too often, he said, the interactions have been crisis-driven and erratic, whereas the Government aims to develop a more sustained relationship through approaches such as Whānau Ora.

**Managing public assets and investments**

We heard that the Government has also been working to understand better the state of the capital assets the public owns, and what is being spent on them. The Minister stressed that this is important because much capital spending by government agencies (about $5 billion of the $6 billion total each year) is financed from their own balance sheets and from depreciation, and so does not go through the usual Budget scrutiny.

The Minister said that with better systems in place, there is now clearer information about the quality of publicly owned assets and their whole-of-life costs. As an example, he commented that the Ministry of Education has “vastly improved” its understanding and management of its $10 billion of assets over the past 4–5 years.

The Minister pointed out, however, that more knowledge does not guarantee less spending. In some cases, as with schools and social housing, the Government’s approach has led it to spend more to make up for past under-investment. He said he believes that a reasonable amount of the current pressure on operational spending arises from poor capital decisions in the past.

The Minister said that the next step will be an independent assessment of whether agencies have the systems and capacity to manage their assets, and what improvements are needed.
He noted that discussions with agencies about these planned “investor confidence ratings” have already brought about considerable improvement.

We welcome this work, and will follow with interest the progress made in improving government agencies’ accountability for the way they manage their capital assets.

**Scrutinising the management of investment projects**

The Treasury recently published the Government’s first annual report on significant government investment projects. The report covers all 409 projects in the Government’s investment portfolio, which have an estimated whole-of-life cost of $74 billion. A companion report goes into more detail about the biggest investment projects.

The Minister said that the report aims to improve transparency for taxpayers about the $6 billion that government agencies spend on capital each year. He noted that this amount of capital spending has a big effect on economic activity, but has been largely invisible in terms of scrutiny.

By focusing on this capital spending, the Minister said he also hopes to encourage government departments to explain better to the public what they are doing with the funds, and how well they are managing them. He commented that senior managers in departments often focus on getting funding for projects, but not on seeing how the money is spent. This can mean that people in their organisations do not appreciate the importance of their stewardship role in looking after public assets for the future.

We consider these reports very worthwhile additions for transparency and accountability. As the Minister noted, they provide a frank assessment about areas where improvements are needed.

**Social housing assets**

The Minister said that until recently the Housing Corporation was not aware of the full cost of owning and operating $22 billion worth of social housing assets. Its understanding has improved in recent years, but without a monopoly over the supply of social housing it will need to get even better.

The Minister pointed out that official advice in the past was often to value the land at zero, or at a historical valuation, which distorted policy decisions. In some parts of Auckland, he noted, it costs the Government over $1,000 a week to provide another State house, of which the tenant might pay $90 or $100. Understanding how much it really costs to provide a State house would help government agencies to make better policy decisions, both about managing the assets, but also, further up the “supply chain”, about the reasons why people end up on waiting lists for State housing.

**Solid Energy**

We note that the Government’s financial statements are based on the assumption that there is no residual value in Solid Energy New Zealand Limited. The Crown-owned company went into voluntary receivership in August 2015 and is continuing to trade while managing an orderly sale of its assets.

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We sought information about the costs to the Crown entailed in the company’s failure, and the residual liability borne by the Crown. We subsequently received the following information from the Treasury:

- **Equity support:** $25 million in capital was provided under a debt restructuring agreement with the company’s lenders in 2013.

- **Support for environmental rehabilitation liabilities:** an additional $103 million was agreed in 2014 to extend the company’s existing indemnity for rehabilitation liabilities over the period 1987–2014. In 2015 this indemnity was extended to cover any new owner; this did not increase the Crown’s liability. The Crown’s total exposure under the rehabilitation liabilities (for the periods both prior to 1987, and from 1987 to 2014) is valued at $135 million in the Crown accounts at 30 September 2015.

- **Loss of value:** the Crown has lost the full value of its ownership in the company. The recorded book value peaked at $519 million in 2009.

- **Limited tax indemnity:** a limited tax indemnity was provided to support the voluntary administration proposal agreed to by creditors in 2015. The Treasury notes that the value of any tax loss is notional only, because if the indemnity had not been provided the company would have been put into insolvent liquidation, where no tax would have been recoverable.

**Export-led growth**

Some of us raised with the Minister the fact that exports as a percentage of GDP have fallen to their lowest level since 1997. This appeared to suggest that growth is being driven by the housing market, immigration, and consumption, and that the lack of export-led growth could be a problem for New Zealand’s economy longer term.

The Minister said that the present situation simply shows market forces at work. More people want to live and work in New Zealand, so resources are going into meeting that demand for housing and infrastructure. He said it is important that market signals work quickly and effectively, but once supply catches up there will be opportunities for investment to flow elsewhere. In the meantime, he noted, the substantial drop in the exchange rate is helping to increase investment, profitability, and exports, which will support growth in the long run.

**Monetary policy’s focus on inflation**

We asked the Minister whether he is considering any changes to the Government’s policy targets agreement with the Reserve Bank.

Given that the inflation rate has been outside the 1–3 percent target range for eight of the last 16 quarters, some of us consider that monetary policy’s focus on a 2 percent mid-point target for inflation has failed. The New Zealand Institute of Economic Research recently proposed a different approach.

The Minister said that a 2 percent target zone is common among many central banks around the world. He said that everyone has been a bit disoriented by the recent phenomenon of trying to reach the target coming from below. He did not believe this was ever anticipated when inflation targeting was introduced; then, the focus was on getting it down from 15 percent.
The Minister noted that central banks in other countries have been trying a range of approaches to the current circumstances. He said he had not yet seen a convincing case that any of these approaches would be growth-enhancing in New Zealand’s situation. However, he believes that everyone needs to be “intellectually open-minded to the range of propositions”.

**Climate change and the emissions trading scheme**

We discussed the Government’s position regarding climate change and the emissions trading scheme (ETS).

Some of us expressed concern that the Government has not done more to bring about the economic transformations needed to move New Zealand to a lower carbon economy. Recent reports indicate that global emissions have declined slightly for the first time, yet New Zealand’s emissions continue to increase. Moreover, some of us note that a recent climate action tracker report places New Zealand in the bottom five countries in the world.

The Minister said that he does not agree with the climate tracker report, or that New Zealand needs to take faster action. He said that New Zealand’s emissions reflect the low global price of carbon. He noted that the price is the product of policy decisions internationally. The price of carbon has risen following action about cheap Eastern European carbon credits, and it may keep increasing depending on further policy decisions.

The Minister said he believes that the ETS is the best approach to dealing with economic and environmental trade-offs; other measures are generally expensive and create unpredictability in markets. He said he had thought that there was cross-party agreement on it, although he now understood that the Green Party would prefer a carbon tax. He believed this view might change again as the price of carbon looked likely to increase.

As to whether the Government should seek cross-party agreement, as part of the current review of the ETS, about the desired price of carbon, the Minister said he did not think there was substantial disagreement. He believed that New Zealand’s approach gave businesses more predictability than in most countries as they know the terms on which the price can shift.

**Results of the 2014/15 audit**

The Office of the Auditor-General issued an unmodified audit opinion on the Government’s financial statements. In its briefing to us, the office drew attention to four significant matters arising from the audit:

- continuing uncertainties due to the Canterbury earthquakes
- the effects of the changeover to new Public Sector Benefit Entity (PBE) accounting standards, which the Auditor-General says may not yet be fully understood by Tertiary Education Institutions
- policies regarding the recognition of tax revenue, where the Auditor-General recommends some fine-tuning

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• the discount rates used for the Crown’s two major long-term liabilities: the obligations of the Accident Compensation Corporation and the Government Superannuation Fund, which resulted in actuarial losses for the year of $4.7 billion.

The Office of the Auditor-General has recommended that the Treasury ensure that the Ministry of Education build a deeper understanding of the financial reporting of Tertiary Education Institutions. It also recommends that the Treasury work with the Inland Revenue Department as it develops a more refined revenue recognition policy and thus more refined year-end estimates of taxes receivable.

We support the Auditor-General’s recommendations and look forward to hearing about work in these areas.
Appendix A

Committee procedure
We met on 9 December 2015 and 2 March 2016 to consider the Financial Statements of the Government of New Zealand for the year ended 30 June 2015. We heard from the Minister of Finance, the Hon Bill English, and the Treasury.

Committee members
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Julie Anne Genter
Stuart Nash
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour

Evidence and advice received

Organisation briefing paper, prepared by committee staff, dated 18 November 2015.

The Treasury, Responses to committee questions, received on 24 December 2015.
Appendix B

Transcript of hearing on 9 December 2015

Members
David Bennett (Chairperson)
Andrew Bayly
Scott Simpson
Hon Clayton Cosgrove
Eugenie Sage
Stuart Nash
Fletcher Tabuteau
Grant Robertson
Jami-Lee Ross
Alastair Scott
Paul Foster-Bell

Witnesses
Hon Bill English, Minister of Finance
Gabriel Makhlouf, Secretary and Chief Executive of New Zealand Treasury

Bennett  So, good morning and welcome, everybody, to the financial statements of the Government of New Zealand for the year ended 30 June 2015. Welcome to the Hon Bill English, Minister of Finance, and also to the secretary of Treasury. So, Minister, we’re in your hands. We’ve got till about 12.15—12.20 p.m., and if you want to give us a brief introduction, then we’ll have questions from members. Thank you.

English  Well, thank you, Mr Chairman. Thank you for the opportunity to come along to the committee to talk about the financial accounts for the year to 30 June. These are the accounts that, when published, showed a small surplus, which was consistent with the Government’s targets set back in 2011 to reach a surplus. And the point of that target was to provide an anchor for, particularly, spending expectations, both in the public service and in the public, and to provide clarity about what the Government was trying to achieve when it was making quite a wide range of policy decisions. It also—that target—sat alongside targets around net debt, which are well out ahead of us in 2020.

Now, the books, I think, show—this financial result shows, or demonstrates, the relative success of a couple of different approaches with respect to tax and with respect to the spending. On the tax side, in revenue collection, we’ve stuck with the broad-based, low-rate principles that have now become pretty embedded in the New Zealand tax system. Through the years up to these accounts, there’s been, you know, a number of changes at the margin of the tax system after the tax switch in 2010, but they’re all
consistent with those principles, and there’s tended to be a pretty thorough approach of detailed policy, closing up loopholes and dealing with tax avoidance. They’ve brought in some extra revenue, but not large amounts of extra revenue—probably the largest single item would’ve been tobacco excise tax and, you know, a series of increases of 10 percent per year for 3 or 4 years.

We’ve had a much stronger focus on the spending side of the equation, and the framework we’ve used for spending control, essentially, remains in place past the end of last year. That has been to focus, first, on just holding expenditure—essentially, putting a lid on it with quite small allowances, by historical standards, anyway—but, at the same time, working with Government agencies on the tool kit that they can use to assess the effectiveness of that spending.

And in each of the Budgets, there have been quite large amounts of money moved around. If you look at the appropriations, there have been considerable changes in the appropriations, and some of them now are quite different than they were, and are arranged quite differently than they were, say, 4 or 5 years ago. A good example would be the MSD’s multi-category appropriation. So they now have a pool of money of $500-$600 million, which they’re using to reduce the welfare liability. Four or 5 years ago that was a whole lot of different programmes over which there wasn’t really a great deal of oversight. So while the pool’s grown a bit, there’s a much stronger focus on how it’s used.

We follow pretty much the same strategy with capital, because the debt is driven both by growth in the allowances, which have been around a billion a year, but also capital spending, which has been around the same amount. The approach there has been to get a much better understanding of the state of the range of assets the Government owns, to get a much better understanding of what capital spending actually occurs, because the billion or so a year in additional capital spending is only a small part of the total spend by Government agencies in a year, because they have substantial spending, which is financed off their own balance sheet and financed by depreciation. And just to give you a sense of the scale of that, we recently issued a report that showed, I think, in the current financial year about $6 billion of capital spend. It was actually only $1 billion that was filtered through the Budget process. So there’s a big iceberg sitting below the surface. So now Treasury has put in place a systematic way of gathering information about that spending and a much greater ability to report on it.

I have to say, that exercise has, in some respects, pushed us in the direction of spending more. Governments, as a matter of habit, think capital is free and assets are cheap and, on the one hand, can overdo it with gold plating, but just as often underdo it, so I think there have been, you know, various quite large asset categories like schools and houses. Schools and houses have been found, in some respects, to be underserviced and under-invested rather than overinvested. So digging into all this stuff doesn’t guarantee restraint, it doesn’t guarantee less spending, but it does mean much more clarity about the purpose for which you own the assets and the quality of
them and much more clarity about the whole-of-life cost. And I know the committee’s been discussing some of that.

Just one point I would make about the balance sheet is it’s becoming increasingly financialised. So what the model in most peoples’ heads is is the Government owning a property—well, it still owns quite a lot of property, but owns less businesses. In fact, the commercial part of it is now relatively small, but with, I think, close to $70 billion of funds under management, the balance sheet—and that bit’s growing pretty steadily—is going to be much more a financial and significantly less a property-driven balance sheet in the future, and that feeds back into the Government accounts through the way that the returns on those very substantial assets are measured and accounted for. They’re also much more transparent. I mean, if you own property, the Government just owns property and gets the free use of it. When it’s got substantial investments and listed markets across the world, that’s a much more transparent process, and, you know, we’ve seen a period of high returns—we’re bound to have periods of low returns—and it’s pretty important that Treasury, in its long-run stewardship role, understands the boundaries of that—the risk that the Crown’s willing to take—and has ways of monitoring it.

So, pursuant to that, we’re, you know, developing a comprehensive balance sheet and the tool kit for understanding all the exposures on that balance sheet right across all asset types. And that’ll give Governments—I mean, it doesn’t give this Government; it will give future Governments—a much better understanding of what’s driving its operating costs and the spending. And it’s somewhat analogous to the social investment tool kit that’s being developed to look at, particularly, the social spending.

So with respect to the surplus result here, looking out ahead, the conditions—sort of broader global conditions in the economy—are going to make it a bit of a challenge to maintain and grow surpluses. If you look at the last two cycles in New Zealand—the mid-90s and the mid-2000s—as the economy recovered, they generated quite high nominal GDP and, therefore, quite rapid growth in surpluses through, sort of, 1995/96/97 and then again in the mid-2000s, helped by higher inflation rates, higher interest rates, higher growth and wages. Those things are all turning out to be less than expected just at the last Budget—so lower interest rates, lower inflation, a lower exchange rate, and so, in a sense, the Government’s now having to deal in real dollars rather than getting the tail wind of 4 or 5 percent inflation. And so the scenario’s not going to be repeated—that is, the Government sort of bouncing off a balanced Budget into rapidly escalating surpluses. There’ll have to be fairly careful management to ensure that there are surpluses when the tax take is growing at a much lower rate than used to be the case.

And there’s continued pressure on spending. We’ve got population growth of around 2 percent, which, by any developed country’s standard, is very high. So there’s just a lot more people turning up to our schools, to our hospitals—unfortunately, to our prisons as well. And, you know, that kind of spending pressure can easily eat into the revenue that comes off a slower-
growing tax base. But looking—you know, we’ll be talking about the half-year update next week. I think there’s a bit more confidence in the economy now than, say, 6 months ago, but over the next 2 or 3 years there will be something of an uplift in revenue that’ll, on the back of a growing economy rather than significantly higher inflation, help the achievement of surpluses.

Bennett

Thank you, Minister. Grant Robertson.

Robertson

Yeah, thank you, Mr Chair. Just to pick up that last remark, then, so the 2014-15 surplus was a one off?

English

Oh, no, I wouldn’t say that at all. We’ve got to bear in mind the context for the surpluses. So the, you know, direction of travel matters as much as plus or minus a billion around the balance. So it came from a fairly significant deficit. Looking out ahead, you know, there’ll be forecasts out next week, but we’ve already indicated you’re not going to bounce into big surpluses in a hurry.

Robertson

So the projections that were made at the time, that we were going to be moving into a series of surpluses through to 2019 and getting up towards a couple of billion here or there, you don’t believe that’s going to happen now?

English

Well, you know, you will get the latest version of it next week, but, generally, in the last couple of years, the forecast—each time the forecasts are done, the period in which you get, sort of, billion-dollar plus surpluses gets pushed out another year.

Robertson

And so you—I mean, for absolutely clarity—you don’t believe there will be a surplus of any note at all in 2015-16?

English

I wouldn’t want to predict that, and I wouldn’t want to rely on Treasury’s predictions for it.

Robertson

Don’t be offended, secretary.

English

No, well, they’re talking about small differences between very large numbers. So, generally, the direction is fine—that is, we’ve got a Budget, essentially, in balance, and plus or minus, you know—small fluctuations around the balance aren’t that important to us, but, in the long run, the direction needs to be growing revenue, containing expenditure, and growing surpluses so we can repay debt.

Robertson

With respect, Minister, you put as your No. 1 economic goal, right at the top of all the material that went out before the election last year, that there would be surplus in 2014-15. It’s kind of hard to escape, given the comments you’ve made today, that that was a political target rather than a real economic target and that you, in fact, have manufactured the surplus for 2014-15. Because what you’ve just told us—you’ve just described a set of economic conditions that should mean that there won’t be a sustainable surplus this year either.

English

Well, I don’t agree with most of the first bit that you said there. I mean, I’m not trying to back away from achieving what we said we would achieve. I mean, that’s there. It was reasonably—you know, it’s been pretty
challenging. I think just the general point is that the kind of cycle we’re used to seeing isn’t going to eventuate, because we’re in the world of, you know, super-low inflation, record low interest rates, and so getting a surplus is going to be harder. As you’ve probably seen, you have periods of expenditure constraint and everyone thinks “OK, at the end of that period of restraint, we can go and have a bit of a spend up.” but I think everyone can see that that’s not going to happen this time. We’ve got to surplus, but it doesn’t mean there’s now lots of money to be throwing round.

Robertson: Well, yeah. If we look at the kind of growth that’s occurred, you know, you would expect, normally, looking at the figures that are in these accounts, that we would see that growth translating, perhaps, into lower levels of unemployment. Yet unemployment hasn’t fallen below 5.6 percent the whole time you’ve been the Minister. Why is that?

English: I think the main reason—well, one of the main reasons—has been the fact that there’s a very high participation rate—historically high—reasonably strong migration flows, you know, of a reasonably complicated nature: less Kiwis leaving, more coming back, but about the same number of skilled migrants showing up. So that indicates quite high levels of confidence in the labour market by those people showing up for work. You know, there’s different ways you can cut all these numbers, but it’s not hard to imagine a scenario where with a lower participation rate, for instance, you had lower unemployment.

I think the most puzzling bit of it is the net inflow from Australia. Our unemployment numbers are about the same or slightly higher than theirs now, but for some reason Kiwis seem to think it’s much tougher—or tougher getting jobs there—because when they think it’s easier, they go there. One indicator is they have much lower participation rates, so their labour market probably is a bit tougher. But no, the HLFS number, that’s certainly higher than we would like it. That’s bounced up a bit on the back of the softness in the economy in the first half of this year, and, you know, we want to see that coming down again.

Robertson: Well, because, actually, in the first 6 months of the year, you’ve, effectively, had negative per capita growth. I mean, it’s zero or negative, and that’s the worst 6 months since 2010, and it’s translating into 6 percent unemployment. Have you got any plan to do anything about that, or are you just happy that a level of unemployment of 5 or 6 percent is OK?

English: Oh, well, I mean, the Government’s always consistently approached its economic policy as having the objective of getting more investment and more employment. And if there was one big lever for that, well, we’d pull it, but there isn’t, so we pull all the policy levers available, and the levers we’re pulling are all listed out in the Business Growth Agenda in great detail, and the, you know—I think as we see confidence picking up again, we’ll see that number coming back down. Where the Government, I think, can get very much into the nitty gritty here is in two things. One is the pipeline of new, young Kiwis turning up to the labour market, because those—the pipeline there has been pretty buzzy for them, and there’s a whole series of changes...
going on there to make it clearer for them—that they can get to the labour market ready for it and able to be employed. And the other pipeline—well, part of the difficult pipeline we have a lot of interest in—is the, you know, 275,000 people on welfare and our understanding now of the long-term cost of that, which is driving more and more policy about trying to get them into a labour market.

Robertson It just seems very complacent, Minister, that, you know, at a time when we look back on the year that we’re looking at here, we know that in the first half of it the Canterbury rebuild is going gang busters, dairy prices were high, although they came off. You know, at that point unemployment doesn’t go down below 5 percent. It just seems to me that, actually, you’re not pulling all the levers that you could if the priority was to get more Kiwis into work.

English Yeah, well, I’d disagree with that. There’s certainly no complacency; in fact, there’s more focus and probably more cost on a very active programme for those at the margins of the labour market, and some reasonably difficult trade-offs. You know, a scheme that the last Government put in place, which met a real need, was the regional employment scheme that enabled people from Pacific Islands to come and pick fruit, and they’re coming into areas where unemployment is 7 percent. You know, we’re in an ongoing discussion with the horticulture industry, and there’ll be others with the dairy industry and so on, about ensuring that they don’t become reliant on that kind of labour to the exclusion of opportunities for the domestic supply. You know that they are pretty tricky discussions, because it’s a lot about expectations about whether people who are on welfare are ready for work or not. You can imagine how all that works.

Robertson Just a couple of quick questions. In the period that we’re looking at, exports as a percentage of GDP fell to their lowest level since 1997. It’s not hard to escape the conclusion that the growth that we’ve got really is about housing, migration, and consumption, rather than export-led growth. Isn’t that a problem for the New Zealand economy long term?

English Well, it’s not a problem long term if these things correct themselves, so—

Robertson Well, clearly, but that’s the trend we’ve got at the moment, isn’t it?

English Yeah, well, if you need more housing supply, there’s not much point in saying “Well, actually, we’d prefer exports, so we’re not going to have houses.”

Robertson It’s the trade of housing, but yeah—

English So, you know, there’s only so much resource. Economics is about scarcity. Resource is going in to dealing with the fact that more people want to live here and work here, and the supply side of housing and so on is reacting to that. It’s important those signals work effectively in reasonably short time periods, and once supply—for instance, housing and infrastructure—is meeting demand, then there’ll be opportunities for investment to flow elsewhere. In the meantime, I think, with a significant drop in the exchange rate, you are seeing investment and profitability and exports that’s going to
help in the long run, because it’ll be easier than when the dollar was 88 cents US.

Robertson I’m only allowed one more, so I just want to ask you briefly about monetary policy and whether you consider that the policy targets agreement is actually functioning properly. I mean, you’re the one who stuck a mid-point target of 2 percent into the range. We’ve had it outside the target range for 8 of the last 16 quarters. Are you looking at moving in any way to try and address the fact that maybe the focus of monetary policy is wrong? We had NZIER come out recently with a proposal for a different method. Are you actually actively considering that, or are you satisfied that not meeting the targets is OK?

English Well, I think we’re all a bit disorientated by this recent phenomenon of central banks trying to reach the 2 percent target zone, which is pretty similar around the world—trying to reach that target coming from below. I don’t think that was ever anticipated when inflation targeting was brought in; it was all about getting it down from 15 percent. So in that sense, I think everyone’s got to be intellectually open-minded to the range of propositions and actions that you see around the world, from printing money flat out to the European Central Bank saying again it’ll do whatever it takes to get to 2 percent and people talking about nominal GDP. We haven’t yet seen a convincing case that any of those things, in New Zealand’s situation, would be growth enhancing, but I think you’ve got to keep an open mind about it.

Robertson Open-minded, but not actively doing anything.

English No.

Robertson No, OK. Good on you.

Bennett OK, that’s enough. Jami-Lee Ross.

Ross Morning, Minister. One of your announcements from the Budget was the $790 million child hardship package. I’ve seen you do a range of presentations since the Budget and there’s a lot of data that I’ve seen that sits behind that decision. Can you talk to us about the investment that the Government’s made in greater data and information and how that has informed the decisions you’ve made around child hardship and social investment?

English Well, think of it as—there’s two legs to the Government’s approach to the pressures of welfare dependency and low income. So the child hardship package was a recognition that for a proportion of families—according to the MSD measures, which have been running for some time—there was what they call severe hardship and that the quickest way to alleviate that is to put some more cash into those households. And that’s a different definition than the sort of income-driven definitions of poverty. So on 1 April that $25 will turn up.

Alongside that, we want to ensure that Government is more effective in its actions to break cycles of dependency. So a lot of the work that has been done has been around identifying those risk factors, because they’re a bit different, probably, than people expected, and then focusing our spending
on whether we’re having any impact on those families. So the techniques of big data changes in IT mean that we can get a much more in-depth view about which families, where. We need a better view about what relationship Government has with them. In some cases, we know a bit about them; in a lot of cases we don’t, and we need to develop further our ability to understand whether we’re making an impact. Our traditional ways of seeing that don’t tell us much.

So, for instance, if you take the health system, actually, its interaction with the most disadvantaged and the highest-cost families we deal with—its interaction with them is pretty marginal. You don’t find out much about these families by looking at them through the health system; you find a lot more about them by looking at them through the corrections system and the welfare system. So Government’s orientated around schools and hospitals, but, actually, most of the action for this 10 percent of families is outside of that context, and now we’ve got a much better view of it, but there’s a long way to go. Increasingly, the data we’re using will be data everyone can use.

So, in fact, today I’m speaking at a hui, which is a big group of people outside of Government saying: “Well, where is this stuff? Because we want to know about our community.” So I’ll release some more information today, and by early next year, a lot of it’ll be on the web and anyone will be able to look at it.

Ross

So with the child hardship package, what specifically do you see as the net gains for families, from that package, and, using the data that you have, how do you see the Government’s approach to social investment changing in the next 3 to 4 years?

English

The hardship package has got a very simple—very simple—objective, and that is just to relieve severe hardship, and I think we presented information at the time that showed that the gap between benefit levels and wages is the greatest it’s been, going back 20 to 25 years. So that sort of relativity needs to be somewhat restored.

But alongside that, in our view, that will only work in the long run—and certainly any other increases in income—if the wider public can see and if Government can see that it’s having an impact on other factors besides hardship that lock people in. And we, through the integrated data infrastructure, we’ve got, as I said, a pretty good idea of them—in fact, they’re pretty basic: long-term on benefit, CYFS notification, and a corrections sentence. And those three factors can define our most challenging families.

There’s a whole lot of other things that happen with them, but those are the three that give you the strongest predictability of ongoing interaction with the Government system. Now, you can’t address those through schools; you can’t address them through hospitals. You can address it, to some extent, through the police, but a lot of it has to be addressed in their home much more directly.
So now we’ve got the data, the big challenge is improving and further changing our models at the way we interact with these families, which is too often crisis-driven, unpredictable for them and for Government. Which is why the appeal of notions like whānau ora, which are much more about a sort of sustained, ongoing relationship.

Scott  
Thanks, Minister. We talked quite a bit about the income statement, if you like, and, supplementary to Jami-Lee’s question, can you explain what effect the investment in $25 a week and so on will have on the balance sheet—the liability side of the Government’s books?

English  
Well, we’re looking at this thing called the comprehensive balance sheet, and it’s a bit experimental. So—I mean there’s just the straight expenditure, which means that we spend the $700 million and if we hadn’t spent it, then we wouldn’t be borrowing as much. But our debt levels are relatively low, need to be lower, but given the trade-off—alleviating severe hardship, a bit of a lift in debt—then we’ve gone for alleviating the hardship.

But alongside that, we’ve got these, essentially, like a human capital balance sheet, and what is the long-term—it’s expressed negatively, but you could express it positively—the long-term liability? And so it’s taking a long-term view that says “Well, over a longer period of time, if we understand the costs of nothing changing, then how do we think about—with this family that’s getting the $25 a week—what are the other things we need to do so that in 2, 3, 5 years’ time neither they nor their children are in the position where they’re going to be in severe hardship.”, defined at whatever it is in 4 or 5 years’ time.

And actually showing that future liability on this notion of a comprehensive balance sheet is pretty telling, because it tells us it’s really large, and over the next few months, we’ll be able to add other components besides welfare: corrections, housing—housing will be quite large. And, in my view, it creates a framework that’s pretty compelling for Government to alter, for 10 to 15 percent of the population, to alter the way that it deals with them, and be able to see whether you’re actually impacting on what is a pretty negative outlook for this group of citizens.

Scott  
And on the other side of the balance sheet—so I want to focus more on the balance-sheet side—you talked quite a lot about the assets and the state of the assets that the Government owns. How are you compelling the agencies to concentrate and focus on the asset side of the balance sheet?

English  
Well, the working assumption here is that a lot of today’s operational spending pressure arises from poor capital decisions in the past and today’s capital pressure. So if we haven’t, for instance, monitored the conditions of our schools, we end up with a significant number of them that need substantially rebuilt—some of them only 15 years old. So that’s a pretty compelling reason. That’s the connection. If we’ve got pressures today on the spending, how much of that is driven by mismanagement of the capital? In my view, a reasonable amount. So that’s why we bother with it.
There’s been a lot of work done on, as I said, finding out what’s actually happening, because a lot of agencies haven’t been sure. They respond to pressures at the margin and at the time, but they’re not that sure about the rest of the assets they own. So the next step in all that, which I think may have been discussed here, is the investor confidence rating.

So that is an assessment, independent of the agency, of whether they’ve got the systems and capacities to actually manage their assets. Now, this is building on a lot of work that’s been done. By way of example, the Ministry of Education has, in the last 4 or 5 years, vastly improved its understanding of, and management of, what is actually $10 billion of assets. Housing Corp. has got a lot better, with $22 billion of assets, but that’s been in a world where it’s a monopoly supplier with no capital scarcity, and that’s going to change, so they’re going to have to get even better. You know, the improvements will need to continue.

So the investor confidence rating will show where that’s soft—where the capacity’s not there. What we’re seeing in response to just the discussion about putting that in place is significant improvements.

Cosgrove Just a couple of quick ones, which I presume will get sort of short and straight answers. What’s the total cost to the Crown of the Solid Energy failure to date?

English Well, I can’t—I mean, we could go and look at a number. It’ll depend a bit on where your starting point is, because the valuation of that company has fluctuated substantially. So there’ll be the operating cost for Treasury and everyone else, which has probably been reasonably substantial going through the whole process—2 or 3 years of intensive management, intensive involvement with the company—but the loss of wealth will depend on your starting point.

Cosgrove Could you come back to us with some figures, because we struggle to sort of get a handle on those. It’s a bit like nailing a jelly to a wall. I think the taxpayer may want to know. Could you then tell us what is the total residual exposure, or current exposure, in monetary terms for the Crown in respect of Solid Energy?

English Well, the residual—I mean, again, you might be best to address the detail to Treasury, but from what I’ve seen, it’s the liabilities around restoring the mining sites, and there’s been extensive discussion about that among the different parties.

Cosgrove Does that also include the indemnity?

English Well, yeah, it’s exactly that issue—how it’s distributed and who faces it in the event of sale of residual assets.

Cosgrove Can Treasury offer any figures?

Makhlouf We can send you a note that covers your total cost question to the best that we can answer it, including numbers on the indemnity. I mean—

Cosgrove You don’t have any—I mean, I would have thought it’s a reasonable number to have a handle on. I would have thought as Minister of Finance
you’d be topping up with the abacus the total exposures, the total cost, the
total losses, and the exposures going forward. I’m just surprised you don’t
have an idea.

English I wouldn’t say I have no idea. I just don’t want to be inaccurate about the
numbers.

Cosgrove Can you give us a best guess?

Bennett They’re going to provide that, Clayton.

Makhlouf We’ve definitely got an idea but I’d be guessing now and I wouldn’t want to
do that.

Cosgrove Could you provide that idea to us in writing?

Makhlouf Yes.

Sage There was a report out yesterday which showed that for the first time global
emissions had reduced, admittedly only by 0.6 percent, while GDP was
increasing, and New Zealand’s emissions continue to increase while Canada,
Australia, the European Union are declining. Why in over 7 years of your
economic management aren’t we seeing the major transformations that we
need in the economy to move to a lower carbon economy?

English I think probably for the reason that you might agree with—well, we
mightn’t see it as the same thing—and that is a low carbon price.

Sage So in terms of the ETS review, then, are you pushing for a higher carbon
price?

English The price is a product of policy decisions, and there may be disagreement
about some of the policy decisions, so the review will—well, we’re yet to
see exactly where the review will go, but it’s put up, for instance, the 2-for-1
decision, which was intended to be a transitional one when it was made, and
there’s already been action taken about the cheap sort of East European
credits. So the price is rising and, subject to further policy decisions, may
keep rising.

Sage Given that there was a climate action tracker report out overnight, which
showed that New Zealand’s overall climate policy is now in the bottom five
of the world, don’t we need faster action?

English I just don’t agree with that. We have—and, basically, this policy was the one
put in place by the Labour-Green Government, and they did a good job of
thinking through the ETS. It’s a sensible economic and environmental way
of getting those trade-offs. In fact, it’s the best one you can have. So we do
have a few less of other measures, and one of the reasons we don’t have the
other measures is because generally per tonne of carbon they’re very
expensive. They create all sorts of unpredictability in markets, like, as you’ve
seen in, say, the Australian and German energy markets—Spain. And we
think there’s pretty high costs to all that and prefer to use the mechanism
we’ve got. Happy to have the debate about how the ETS is structured but
it’s still by far our—and I just don’t agree with that climate tracker stuff.
Sage: Would you agree with the call by New Zealand’s 80 biggest businesses and the Sustainable Business Council that businesses want in climate policy long-term clarity, stability, and predictability?

English: Yes, we do, although our experience is that they want it until they get it. What I mean by that is they want it as long as it doesn’t affect them.

Sage: Why, then, if you’re agreeing with it initially, hasn’t the Government implemented moves, a cross-party agreement—the way that was done with superannuation—to provide that stability over the longer term?

English: Because we have cross-party agreement—well, I thought we did.

Sage: On climate policy?

English: Yeah, the ETS, as far as I know—well, until recently—was supported by everybody. I understand the Greens prefer now a carbon tax, which was, essentially, a fixed price. And, you know, that’s—but everyone else seems to be happy enough with the ETS, and I suspect, as the price rises, which it looks like it’s going to do, the Greens will be happier the more pressure it puts on everyone to change. So that feels pretty multi-party to me.

Sage: In terms of the price on carbon, there’s not agreement, but would you then consider, then, in terms of the ETS review, actually consulting other Opposition parties and getting an agreement?

English: Well, as I said, we don’t think there’s substantial disagreement. There’s bound to be—there may be discussion about aspects of the review, and some of those will have to be legislated, and they’ll be able to be debated. I think, from the point of view of—I mean, New Zealand business is, I think, in a fairly fortunate position in that respect. They want predictability; they’ve got more predictability than most countries have. In fact—

Sage: The price of carbon is very low.

English: Eh?

Sage: The price of carbon is very low.

English: Yeah, but they know the terms on which that price can shift, and that’s as much as business can often expect. So we’ll go through the review. Everyone will debate it. Ideally, you get a position out of it that is broadly supported.

Nash: Minister, did I hear you right when you said you were reviewing the registered seasonal employment scheme; if so, have you sought advice from Mr Foss on it?

English: Oh, the RSC scheme—it comes up pretty regularly for review about the numbers of people. What I am saying is that—the point I was simply making is that we are concerned about higher levels of unemployment, particularly in some regions, and there’s pretty obvious trade-offs, I suppose, or contending pressures between—and I’m just using it as an example, because it’s 9,000 people in an economy with a million-plus workforce. There’s pretty obvious discussion to be had within industry about whether they’re relying on that workforce, for instance, to pick their
fruit or whether they’re investing a bit more, or a bit more smartly or whatever, in the local one. And we find there’s a lot of goodwill around those discussions.

Nash But do you think they are reliant on the overseas [Inaudible]?

English Well, I don’t think they’re reliant, because they do use a whole lot of other people, but we would expect—you can get industry having a view that it’s the Government’s job to ensure they’ve got a supply of cheap, skilled labour; and, actually, that’s their job. It’s not our job. It’s not our job to make their beds in hotels. It’s not our job to pick the fruit. It’s their job, and they should invest suitably in technology and upskilling to attract the kind of labour that they want.

Nash The IRD were in here a couple of weeks ago, and they said they’d collected around $65 million from people who were deemed to be trading property but hadn’t paid their tax. These are the ones they’ve caught up with, and we all understand the scale is substantially larger. Yet the 2-year brightline scheme that’s just come in is expected to cost about $5 million to implement. It’s only supposed to bring in about $5 million. And I know the IRD investigated a 5-year time frame. Were you ever tempted to advise Minister McClay to actually push for the 5-year time frame as opposed to the 2-year time frame?

English There was a lot of discussion on it about—

Cosgrove There was Treasury advice, wasn’t there?

English I can’t recall—

Cosgrove There was.

English —whose advice was what, but there was a lot of discussion about the appropriate time frame.

Nash Were you tempted—I mean, considering the amount of revenue it could potentially bring in and the scale of the problem and the fact that Treasury did recommend this is probably a better way to address the issue?

English Were we tempted? Well, in the end, we made a decision, having looked at all the options.

Nash What was it based on?

English Just that we thought that it was the time period most consistent with enforcing the existing law.

Bayly Minister, first of all, congratulations on achieving a surplus and getting us to a point—

Robertson They did the reshuffle. They’ve already done the reshuffle, Andrew. You can’t get in now.

Bayly —where our debt is very modest by international standards. But the point I just wanted to turn to is one around capital spend, and you mentioned it earlier in your report. You issued that report just recently, Managing Government Investment Projects, which has some risk around going down that
route. I'm just really keen to understand what you're trying to achieve around—given that greater transparency, but also what assurance you can give us around making sure that the level of capital expenditure that the Government undertakes is of good standard and quality.

Well, the point of the report is simply to provide transparency for two reasons. One is accountability to taxpayers, which they haven't had before, around what is very substantial spending. I mean, $6 billion of capital spending is a much greater dollar amount in a year than what we do in additional operating spending. So it's a big driver of activity in the economy, it's a big driver of what Government does, and it's been almost publicly invisible. So that was one reason. The other reason is we found that that kind of transparency has a positive and encouraging effect on Government departments' being able to explain what they're doing and how they're doing it, because you've got to remember in the Public Service capital is free stuff that drops out of the sky, and even when there's been a lot of focus on operating spending, often capital is sort of treated as a late addition to the process and something you kind of—you can easily put it off, so you don't look at it too hard, and you can just draw a line wherever your limit is and it's not that well scrutinised.

So there are two reports. One covers all—one refers to the process that applies to all 409 projects and has a pretty honest assessment about where it's weak. For instance, a lot of senior leadership in Government departments doesn't get that involved with their capital projects, for some reason. They get involved with extracting the money but not with actually seeing it happen, and that can mean that in an organisation people think it's not that important that it's done well, because the senior leadership's not paying that much attention to it—you know, where it's not done well. So we're pretty happy with that.

With Government, it's always hard to know whether you've got the right level of capital spending, but what you do know is that if you, for whatever reason, own a bunch of assets, then you're the stewards of those assets and they should be properly invested and not do what Governments habitually do, and that's try to make them look cheap. The best example of that is State housing, where we don't—until recently, haven't even been aware of the full cost of owning and operating $22 billion worth of houses. I mean, who are the proud owners of one in every 16 houses in Auckland? Now, at the margin, to get another house in Auckland to rent is, in some parts of Auckland, for a State house, now over $1,000 a week. When you think about that, it does change the policy a bit.

So we spent a couple of years digging out the averaging across the State housing so that we can see the true cost of the next decision to purchase another house, or lease it, or build it. And, you know, these are, I think, much more transparent and honest ways of assessing whether we're getting taxpayer value for money. So if you're thinking about a thousand dollars a week, of which the tenant might be paying $90 or $100, then you might think about “How did that person end up on the waiting list?”, whereas if you think it's only costing you $300 a week, you don't worry about it too
much. So why are these people on waiting lists? What’s going on further up the chain—the supply chain—that means they’re here? And we need Government agencies looking at all that stuff. And politicians, when they can see the true cost, then they look a lot harder. And it’s the same for all our assets; if you do it properly and understand the real cost, as you should as a steward of the assets, it’ll also affect your policy decisions.

So I don’t get too concerned about people coming along and saying: “Oh, but that would show us it costs a lot.” Great—and that has actually been a vein of official advice. You know, let’s value the land at zero. Let’s pretend we’re getting this at whatever the historical valuation is instead of the current one. Fortunately, Treasury has got pretty robust accounting processes, which we don’t like sometimes, but they do force us in that direction.

Bennett Thank you very much, Minister, and thank you very much to Treasury. We appreciate your time today.

**conclusion of evidence**
2014/15 Annual review of the Accident Compensation Corporation and FairWay Resolution Limited

Report of the Transport and Industrial Relations Committee

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Accident Compensation Corporation and FairWay Resolution Limited

Recommendation

The Transport and Industrial Relations Committee has conducted the annual review of the 2014/15 performance and current operations of the Accident Compensation Corporation and FairWay Resolution Limited, and recommends that the House take note of its report.

Introduction

We held a joint hearing with the two entities but have divided our report into two parts to reflect their separate operations. Part A covers the performance of the Accident Compensation Corporation (ACC), and Part B focuses on the performance of FairWay Resolution Limited.

Part A: Accident Compensation Corporation

ACC is a Crown-owned entity set up under the Accident Compensation Act 2001 to deliver New Zealand’s accident insurance scheme, which provides no-fault personal injury cover for everyone in New Zealand.

Financial and investment performance

In 2014/15, ACC achieved a financial surplus of $1.6 billion, which is $0.7 billion more than forecast. This was because of higher than anticipated investment earnings. ACC’s investment returns exceeded market expectations for the 23rd year, putting the investment team among the best in the world. We congratulate ACC on this.

We heard that 2014/15 was significant because ACC became fully funded. This is where ACC has $1 in reserves or investments to cover $1 of future claims. ACC’s assets and investments were $31.8 billion, against liabilities of $30.3 billion. This equates to 105 percent funding against a target of 103.4 percent. The Earners, Workers, and Motor Vehicle accounts have all exceeded the target to be fully funded.

Increase in claims

Total future claims were $30.3 billion as at 30 June 2015. This is a $2.6 billion (8.6 percent) increase on 30 June 2014. ACC has net investments of $31.7 billion to cover future claims. We heard that ACC is still working on why future claims have increased. ACC told us that “when you see labour market growth like we have had, you tend to see an increase in claims and a slight shift to more risky industries”.

We heard that ACC is looking at reactivated long-standing claims much more closely than before. Although these are a small proportion of claims, they can be very costly.

We asked whether increased immigration is one reason claims are increasing. We heard that ACC looks at claims by industry, not by migrant status, so it does not currently collect this data. ACC told us that it still needs to do much more work to better understand why claims have increased and what effect changing demographics are having.
Increase in treatment injuries

We asked what is continuing to drive the increase in injuries caused by medical treatment. We heard that this is a very complex area and that ACC will need to provide us with information at a later date.

ACC says it is continuing to work on understanding the cause of the increase and on strengthening partnerships, which will help. For example, ACC is partnering with DHBs and medical practitioners to better understand why site wound infections are increasing. They told us there is growth in low consequence areas.

Some of us are concerned that ACC do not know why treatment injuries are increasing despite being raised previously.

Investment in Transmission Gully

We were interested to hear about ACC taking a stake in Transmission Gully under the public–private partnership model. We heard that, because public–private partnerships are long-term investments, they are a very good match to ACC’s liabilities. ACC’s involvement with Transmission Gully allows it to use its skills in, and knowledge about, road accidents and bringing down the road toll. We heard that the investment was originally 1 percent of ACC’s total funds but has increased significantly.

Customer experience, trust, and confidence

We heard that public trust and confidence in ACC increased from 54 percent in 2014 to 60 percent in 2015. We also heard that customer satisfaction increased slightly from 75 percent to 76 percent. ACC’s Board and executive team recognise that these need to continue to improve and are committed to that.

In 2014/15, ACC began the first phase of its long-term strategy, Shaping our Future. The strategy’s aim is to improve customers’ experience and increase public confidence and trust. We heard that, although the program is in its infancy, it is progressing well. The strategy requires ACC to integrate its people, processes, technology, and information.

We heard that ACC no longer has a target of reducing customer complaints. Instead, it now focuses on customer feedback and is doing work to develop new measures to better understand its effectiveness in responding to customer feedback.

Motor vehicle levies and risk ratings

We asked about the problems with the new motor vehicle levies and what lessons ACC learnt from these issues. In 2015, vehicle levies were changed to reflect the risk of motor vehicles, with the vehicle performance in an accident and injuries to people both inside and outside the vehicle influencing a vehicles risk rating. We heard that the first model ACC used had errors. Once it had identified these errors, ACC corrected them and refunded as appropriate. Because the approach was new, it was very difficult to have anticipated the issues. We were told that if vehicle models were subsequently reclassified there would be no refund where higher levies had been charged. Some of us believe this is unfair.

The New Zealand fleet of cars is complex, and no existing database identifies when changes were made to safety technologies in cars. ACC says it has worked extensively with the motor vehicle industry to develop a database. ACC expects to have to review and revisit future cases, but it is better positioned to do this now.
Decline in privacy breaches

We heard that ACC’s breaches of customers’ privacy have declined from 68 per month in 2012 to 13 per month in 2014. Although this did not meet the target of 12 per month, KPMG’s follow-up review to 2012 noted that ACC has made good progress. Control over emails has strengthened, and there is a continued focus on training to protect customer’s information.

Injury prevention

Injury prevention is a core function of ACC and an area the Board and the executive team are very focused on. ACC invested $30 million in this area in 2014/15, and the return on investment has grown from $1.34 for every dollar invested to $1.46 currently.

We asked why ACC only spent $30 million of a budgeted $50 million on injury prevention. We heard that, although the amount invested was below budget, it was very important to put in place an investment model that helped support the delivery and distribution of programmes. ACC expects to complete the $50 million investment for injury prevention in the current financial year.

We asked for more information on injury prevention, specifically what ACC is doing and how it is assessing its effectiveness. We heard that ACC is taking a longer-term view on injury prevention instead of 12 months. Previously, ACC may have invested in areas that would give a quick return. However, these were not necessarily the things that would return the largest amount in terms of prevention to clients.

We heard that ACC is committed to developing stronger partnerships. It now has 108 partnership programmes, up from 53 at the beginning of the financial year. Some examples include working with WorkSafe New Zealand, Safetree, New Zealand Rugby League, and DHBs. ACC is investing $8 million into programmes targeting young drivers aged between 16 and 24, and is also focusing on motorcyclists.

We heard that, in the area of preventing family and sexual violence, ACC is leading reviews of primary prevention programmes in schools. These programmes aim to encourage healthy, respectful, and safe relationships. The Mates and Dates programme is now being used in 90 schools after a successful pilot.

Part B: FairWay Resolution Limited

A brief history

FairWay Resolution Limited is an independent Crown-owned professional services company that provides expertise in the areas of conflict management and dispute resolution.

FairWay started off as Disputes Resolution Services Limited (DRSL), which ACC set up in 1999 to offer dispute resolution services to the wider public and the private sector. In 2011, DRSL was separated from ACC into an independent Crown-owned company. In 2013, DRSL changed its business model and rebranded itself as FairWay Resolution Limited. It now employs 100 staff in the main centres and 150 contractors throughout the country.

FairWay’s competitive advantage comes from its extensive experience in dispute resolution, its systems, and its processes for managing disputes.
Financial performance

In 2014/15, FairWay posted a profit before tax of $458,000, down from $1.02 million in 2013/14. Total revenue grew by $676,000 to $16.940 million. Total expenditure increased by $1.238 million to $16.480 million. FairWay paid a dividend to the Crown of $200,000, the same as in 2013/14. Return on shareholders’ equity was 7.1 percent.

FairWay fully funded all capital requirements, with no additional borrowing or money from the Government.

Mixed performance against targets

We asked why FairWay did not meet some of its targets and why it had such a drop in surplus. We heard that these were both because of the difficulty of preparing forecasts for the new entity, challenges with FairWay’s new business model of 2013, and being a relatively new stand-alone Crown-owned company. Some of us are concerned that despite this the CEO had been paid a bonus in the 2014/5 year and a further subsequent bonus.

Effect of Ministry of Justice reforms on financial performance

This was the first year of FairWay implementing the family dispute reforms with the Ministry of Justice. The reforms are to provide alternative support for parents to reach out of court agreements about care arrangements for their children.

We asked why FairWay got its forecasts so wrong. We heard that while growing and diversifying its customer base and revenue, there were some growing pains with forecasting. Uncertainty about how many cases would come out of court processes and multiple applications relating to one family made forecasting very difficult. FairWay estimated that it would receive about 4,000 cases out of court processes but only received 2,000. We heard that, with one year’s worth of data and a better understanding of the processes, FairWay’s forecasting should be more accurate in the future.

Increased diversification

Because ACC accounts for 68 percent of FairWay’s revenue, it is committed to diversifying its revenue streams. We were told that some early results from its efforts in generating new revenue streams have been encouraging. They include the new family dispute reforms and additional business from local authorities.

We discussed progress with the dispute resolution service for local authorities. We heard that the service is growing and FairWay is getting positive feedback from clients. Revenue was $102,000 in 2014/15 and is growing in the current financial year. Expenditure was $270,000, but this included set-up costs for its building dispute resolution services.

Workplace conflict mediation and resolution

We are interested in the services FairWay offers for workplace conflict mediation and resolution. We asked why FairWay has embarked on this avenue, when there is already a ministry, such as MBIE, mandated to carry out that work. We heard that FairWay offers different services. FairWay’s focus is on getting involved in disputes in the workplace early and in conflict coaching. Clients are approaching FairWay for these specialised services.
Appendix A

Committee procedure
We met on 18 February and 10 March 2016 to consider the annual review of the Accident Compensation Corporation and of FairWay Resolution Limited. We heard evidence from the Accident Compensation Corporation and FairWay Resolution Limited and received advice from the Office of the Auditor-General.

The advice, evidence, and transcript of the hearing are available on the Parliament website www.parliament.nz

Committee members
Jonathan Young (Chairperson)
Alastair Scott
Andrew Bayly
Sarah Dowie
Peeni Henare
Ian Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Hon Maurice Williamson

Evidence and advice received
Office of the Auditor-General, Briefing on ACC, dated 18 February 2016.
Organisation briefing paper on ACC, prepared by committee staff, dated 18 February 2016.
FairWay Resolution Limited, Responses to pre-hearing questions dated 26 January 2016 received.
ACC, Responses to pre-hearing questions received 26 January 2016.
ACC, Post-hearing responses, received 3 March 2016.
Appendix B

Transcript of hearing

Members
Jonathan Young (Chairperson)
Andrew Bayly
Sarah Dowie
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Alastair Scott
Hon Maurice Williamson

Witnesses

Accident Compensation Corporation
Dame Paula Rebstock, Chair
Scott Pickering, Chief Executive
Mark Dossor, Chief Financial Officer
Jim Stabback, Chief Operating Officer
Gaye Searancke, Chief Governance and Strategy Officer
Herwig Raubal, Chief Risk and Actuarial Officer

FairWay Resolution Ltd
Peter Blades, Chairperson
Greg Pollock, Chief Executive
Ray Lala, Strategy and Finance
Kristine Brown, GM Corporate & Governance
Welcome, everybody. Now, what we’d like you to do is present to us. We’ll start with ACC and then we’ll give some time, as well, to FairWay. We’ll hand over to you, thank you very much.

All right, thank you, Chairman. I think we had some handouts—I don’t know if they were provided. Were they, or not?

Can’t see them, sorry.

No, apparently not, sorry—my apologies. I’ll just start by saying that 2014/15 was a really strong year for the corporation. It had its challenges, but I believe we’ve had a tremendous year. It was an important year for us because it was the year in which we did achieve full funding.

We did see, in 2014/15, a 2.8 percent increase in claims, which grew to 1.84 million. We’ve seen that growth in claims now over a number of years, and what it meant, compared to the previous year, was 35,000 more clients visiting GPs; 2,000 more having surgery; 27,000 more receiving physiotherapy services; 12,000 more receiving rehab services; and, of course, 9,000 more receiving vocational rehabilitation services.

In terms of the overall financial performance, we did have a net surplus of $1.6 billion, which was $700 million above budget. This was largely due to stronger investment earnings, particularly in the international markets. As you will be aware, when we make a surplus it’s not a profit in the normal sense. That is reinvested back in the scheme and, in fact, helps us reduce levies in the future. The surplus in this particular year helped to see the funding ratio go to 105 percent against a target of 103.4 percent. This has meant that we have been able to consult on further levy reductions. In the year under consultation, 2016, much of that will come, probably, again in terms of vehicle registration, so we’d expect to see further reductions there.

As I said, the result was very dependent on the investment team’s outstanding year. We are pleased to say that they have beat market benchmarks now for the 20th year in a row. It is a remarkable achievement by global standards. To give you a sense of what has happened there, for every $100 that we invested 23 years ago, it is now worth $934. There’s no doubt that that’s keeping the cost of ACC levies down, and we hope that continues. In fact, since the end of the year we’ve seen further growth in the fund—to the end of the year it was slightly over $31 billion, and it’s now over $33 billion, despite volatility in markets in recent times. I haven’t heard this week, but I’m assuming that we’re surviving! It’s not without concern, I’m sure you can appreciate that, but the performance continues to be extremely strong.

As I said, we did see further claims growth and, as a result, we saw that the percentage of the population who received compensation from the corporation was about 30.5 percent, which was slightly ahead of what we projected, at 30 percent. A larger proportion of the claims are converting to entitlement claims. New weekly compensation claims grew by 13.3 percent on a rolling 12-month average. The number of new entitlement claims per
1,000 people in the population was 27, against a projection of 25. So we have, I will say, looked at that pretty carefully, because we want to understand that. We've looked at growth in various industries and general economic growth, and we think that the growth we are seeing is consistent with those economic drivers, but, obviously, we're keeping a close eye on that.

We did do several surveys to look at public trust and confidence. I'm pleased to say that public trust and confidence improved from 54 percent to 60 percent at June 2015. It increased again to 62 percent in September 2015, which is just 1 percentage off the previous high. We've seen that come back from 47 percent. We're not satisfied with that—we're taking initiatives to see that continue to improve—but we are pleased to see the progress. In addition, levy payer satisfaction grew from 59 percent to 69 percent, which I was relieved to see. It's gone up further in the September period to 74 percent. If we can't get that in periods of large levy reductions, we're in trouble. But we're really, nevertheless, pleased to see that. It's a good result. Client satisfaction also improved to 76 percent, and I'll come back to some of the initiatives we're undertaking to address that further.

I wanted to comment briefly on injury prevention, because this has been a focus for the board and the executive. We invested $30 million in that area in 2014/15. We also revisited what we were doing in that space, put in place a new strategy, and, as a consequence, we have seen the return on investment in that area go up as we have invested more, which is really great, because sometimes as you invest more you actually see your return fall, but we've seen it increase. It went up to $1.34 for every dollar spent at June 2015, and we've seen that increase even further since then to $1.46 for every dollar invested. So we're really confident that the strategy of investing in prevention is helping us manage the forward liability, but, more importantly, it means that our clients and our customers are saved the harm that comes from injuries that would have otherwise occurred.

We have taken on board the feedback from a performance-improvement review that was done in the corporation that we should be developing stronger partnerships. In terms of improving the injury prevention outcomes, we have worked with WorkSafe New Zealand on a joint 3-year action plan.

And the other area of focus that I would like to draw your attention to, because the board has made a big commitment to improving performance in this area, is prevention activity around family and sexual violence. ACC is leading reviews of primary prevention programmes in schools, counselling services for victims, and wider follow-up of long-term recovery responses for victims. We're also supporting initiatives to increase reporting, reduce the time between incidents and people seeking help, reducing rates of re-victimisation, and encouraging healthy, respectful, and safe relationships. A major part of this initiative has been the expansion of the Mates and Dates programme in secondary schools. Some of the change in what we're doing in the sensitive claims area, I'll just note, has seen an increase in the number
of claims—a substantial increase in what we’re spending in this area. We see this as a sign of success—that we are getting claimants to come forward earlier. We know this is important for recovery and rehabilitation, so we think that’s a good result.

I’ll briefly comment on privacy. We saw the number of privacy breaches drop to an average of 13 per month by the end of June. That’s down from 68 in 2012. We’ve seen it consistently fall; it had been 19 the previous year. I’ll just put that in perspective, because we do send out 750,000 letters and 1 million emails a month, so we are into very ambitious areas right now. We look at those breaches closely to understand root cause. We assess them according to new standards that are being developed about the severity. We have a high degree of confidence in what we’re doing, but, you know, it is—we know keeping that average below about 20 per month is going to be challenging for the corporation, and we’ve got new initiatives in place to continue our focus.

I just want to also draw to your attention—I’ve mentioned the lift in claims, but the lift in entitlement claims where there’s been moderate or serious injuries has grown quite steeply over the period. We see that those claims now are 116,000 for the year, which was up from 103,000 the previous year.

I’ve mentioned that we’re working on improving trust and confidence, and a focus on our customers. We’re doing that through a 5-year business transformation programme, which we’ve spoken to you about in the past. It does require changes in ACC’s people, processes, technology, and information, and I’m really happy to take any additional questions. We’ve just recently made board decisions on the way forward there, and Scott, of course, can speak to that as well. I know that you have limited time, so I’ll hold off on that. I had some examples.

Young I’m sure some of those will come out in the questions, and you can find opportunity during that time.

Rebstock OK. That’s good. Thank you, Chair.

Young We’ll come to FairWay. We’d like you to make some comments, as well.

Blades You’d like that now?

Young What’s that?

Blades You want me to do that now?

Young Yes, thanks.

Blades Last year our profit was—whilst there was a reduced profit of $334,000, it was a significant year; it was the year we helped the Ministry of Justice set up the new family dispute reforms. We became their major supplier there—provider. And that’s now having operating about 18 months—I think is operating well, and not only from an operational point of view, but financially. This particular year we’re in now, the contract is more akin to what is happening in the market, and so we’re pretty happy with the profitability as it’s going in this current year.
But last year was a significant year in terms of a lot of time and effort was put into helping set up new systems, helping the reforms take place, and so on. There was a lot of unknown factors, in terms of volumes and so on, and we’re much better prepared now, and things are going quite sort of satisfactorily in the family dispute resolution. So whilst profit was depressed from the previous year, diversification has always been, and still is, our main ambition.

We continue to help ACC take down their numbers and improve their—improve our cost of service and our service. And so we’ve always had that in mind, and that’s part of the brief we had when we were separated from ACC, is that we would have to stand on our own feet. And we’re quite satisfied with some of the progress we’re currently doing. And Greg can maybe talk about some of the current initiatives we have, for example in the education field and so on.

We’re having a very satisfactory year at the moment, and all of our capital investments have been done through our own balance sheet, in terms of when we separated from ACC 3 or 4 years ago, so we haven’t had to borrow. We have replaced all of our systems. The infrastructure—things were initially done, we’ve now developed intellectual property around our case management systems, and they’re working well. We’ve tailored those for each of the schemes, like family law court thing, and we’ve found ourselves in quite a good position there.

I think, in terms of privacy and any issues, there have been a few, but no major ones. We spend a lot of time and attention to that—you’ll have seen the responses we’ve got on the question there. Yeah, so that’s about what I’d like to say at this stage. Do you want to add anything, Greg?

Young

We will come to give Greg an opportunity through our questioning. And I think this is—I’d like to welcome FairWay, for a start. This is the first time you’ve appeared before our committee, and I hope you’ll find us to be responsive to you, and we’ll certainly ask questions. And because this is the first time we’ve had both entities together, we’ve given you a bit more time at the very beginning. We have allocated 50 minutes for questions, which we are going to stick to—so we give each of the committee members a fair opportunity.

Moroney

Welcome, to both entities. Can I start with FairWay. It’s your first time before the committee. I just want to explore the year that you’ve had that you’ve just talked about. You had set yourselves a target of having net surplus of 4.4 percent, but your annual report records that what you achieved was a negative 57.6 percent result for net surplus. I think that’s more than an interesting year; I think that would be a year where you didn’t meet a number of your financial targets, according to your annual report. By my assessment, over the course of the 2014/15 year, you spent $1.2 million to generate $676,000 additional income; that’s spending $1.23 in expenditure—in the year that we’re reviewing—to get 67 cents more
income. That is a very difficult result. Can you explain how you got into that situation?

Pollock It was a difficult year, last year, for FairWay. But I want to emphasise that the company did make a profit, so it made a net return of about $334,000 for the year. So we did not achieve our profit target, which was $780,000; we were behind that, which is obviously very disappointing. The primary driver for our result last year was that we were establishing the new FDR service for the Ministry of Justice, and our forecasts were based on some assumptions around the number of cases that we would receive from that new reform. And, simply, our forecasts were higher than anyone—our forecasts were around 4,000 cases per year that we would be dealing with, and—

Blades We combined the forecast with the Ministry of Justice. Neither party knew what the market was. And also the $1.2 million, a lot of that—about 80 percent of it—was for investing in the FDR systems.

Moroney Let’s talk about the FDR then, because that’s really where the problem largely seems to exist. So the forecast was for 4,000 cases. How many cases did you end up doing?

Pollock Just over 2,000.

Moroney OK. And what went wrong, in terms of the forecasting? In your view.

Pollock Well, in my view, this was a significant reform—the first reform in, I think, approximately 30 years of the Family Court. And so there is a lot of uncertainty as to exactly how cases would come through the out-of-court process, I think. So, you know, it takes some time to understand those forecasts. And certainly this financial year we’ve got a much better handle on how those cases flow through to us. I think the thing that we’re focused on are the 2,000-plus families who we’ve helped to resolve their child custody issues, far more effectively than—they took a long time through the courts.

Moroney I’m a little focused on the 2,000 families that probably didn’t get any support through that process—

Pollock Well, no, we—

Moroney —through that reform, actually.

Pollock We don’t know that there are 2,000 families that didn’t get support. That was based on an estimate of what was happening through the courts. What we saw through the courts is that, actually, oftentimes there are multiple applications relating to one family being dealt with through the court. And as those forecast numbers—as we looked at them, we underestimated that fact that we could get one family in a room to resolve many more issues in one mediation session than perhaps has previously been the case. So for the family concerned it’s a far better service than, perhaps, previously—having to go through multiple rounds of dealing with the Family Court and all that that involves.
Moroney: So you spent quite a lot of money investing in setting up that system. It didn’t deliver the volumes that you had anticipated. You also spent, during the course of the year—I don’t know how much money, but you could tell me—on pursuing trying to get a dispute resolution system with the local councils set up. Where’s that at?

Pollock: That’s going well. I think, you know, the challenge for our organisation is that—because this is the first time we’ve appeared in front of you, it might be useful just to give a very, 2 minute potted history. So FairWay was a subsidiary of ACC for 15 years, and its entire reason for being at that time was to do ACC reviews. The Government separated—as it was then—Dispute Resolution Services in 2011; we rebranded as the FairWay in 2013. The primary driver for our rebranding was that, as an organisation, we have to diversify our business; we have to invest in new areas and new opportunities.

We have—ACC is our main client, and they’re doing an excellent job of improving their customer service and improving their processes, which, in the end, means that the very small fraction of ACC cases that come through to review has been declining, quite significantly, over the last 3 to 4 years or so. So we have to diversify—

Moroney: Yep, got all that. I’m interested what’s happening with the local council project.

Pollock: It’s working well. We’ve been raising our profile in the market. I mean, this is a market where we believe there is opportunity for dispute resolution to improve the way that local authorities engage with their communities, with their stakeholders. We’ve been working with Local Government New Zealand; that’s been a really positive partnership.

Moroney: So do you have any contracts with any councils to deliver this service?

Pollock: Yeah, we’ve got a number of contracts with councils. Often they’re a case-by-case basis, so when an issue arises the council will make a decision: how do we resolve this dispute? Do we go for our lawyers and down a process looking for court? Or do we try and sit round a table and resolve, with the stakeholders that they’re interested in dealing with?

Moroney: So what’s the level of revenue coming from that programme?

Pollock: I think last year it was around just over $100,000, which is our first year operating the service—yeah, $102,000. And we expect to see that growing this financial year, and it is growing. Yeah, so it’s a new service, clearly, and it takes some time and effort and money to invest in that, but we are getting great feedback from the clients we’re working with.

Moroney: So what was the expenditure over the year that we’re reviewing of that programme?

Pollock: The expenditure was $270,000. That’s not just local government, that’s also setting up services in the building dispute resolution.
And Jenny Rowan was originally appointed to spearhead the programme, but she didn’t stay very long. What was that about?

I’m not sure if I want to sort of communicate Jenny’s personal issues here. She basically had some health issues and she decided to step down. She’s still working for us on contract. There’s a very good relationship with Jenny, and she’s doing some contract work for us. She’s been recently working in Christchurch and Nelson, so she continues to be an integral part of our team.

Thank you. So you’ve had this year where your targets—your financial targets—weren’t met. There was some forecasting that didn’t go right. There’s a lot of expense loaded into this year and not a lot of return to show for it yet. And yet I think—and this is probably a question for you, Mr Blades—from what I can work out on page 36 of your annual report, the board in that year where things haven’t gone very well—the CEO has had a pay increase in that year.

He’s had, sorry—he’s had a what?

A pay increase in that year. I presume that that’s the CEO’s $330,000 to $340,000 bracket?

That would have been set at the beginning of that year. I don’t agree that we had a bad year. We have a balance sheet that we’ve actually financed all—if you look at the capital expenditure over the years, we have not borrowed or asked for any money from Government. We have actually done it of our own balance sheet. We undertook a programme of reform last year on the basis of a contract with the Ministry of Justice that had to be initiated, otherwise the reforms would not have gone ahead.

There’s ample correspondence to show at that time for both myself and the Deputy Secretary of Ministry of Justice we didn’t understand the volumes, so we needed to basically run with the contract and review it at an appropriate later date. We have done that, and if you have a look at the significant difference in what the contract is now with what—probably we lost a million dollars in the first year on FDR, but we have still made a profit and paid a dividend. So I do not agree with what you say.

So there was a pay increase for the CEO during that year? You said it happened at the beginning of the year. Has there been a subsequent one?

Beginning of this year? So the pay increases continue despite the poor performance.

There was also a bonus element, and that goes through a proper remuneration policy, and it’s matched against the performance indicators that we have from the Minister. There are some of them we couldn’t meet, and they’ve been appropriately adjusted.

What’s the turnover in your senior management team been in the year that we are reviewing? Do you know what’s been?
Pollock The 2014/15 year?

Moroney Yep.

Pollock There was one person in the senior management team who left in the 2014/15 year.

Moroney So your senior management team is how many people?

Pollock It was in 2014, 5; it is now 6.

Moroney OK. I guess I’m thinking about something a little broader than that—anyone earning about $140,000 or more. I would like an answer to that.

Young All right. We’ll come back to that later. Thanks.

Can I come to ACC. Thank you, Ms Rebstock. You made a comment around injury prevention and return on investment. I think you said $1.46 for $1 invested. Can you unpack that a little bit for us in terms of what you’re doing, how you are able to assess that, and the sort of work that you are doing in injury prevention? Thank you.

Rebstock Under our legislation, we invest levy payers’ money in activity. We need to show that it makes a contribution to our levy payers in terms of reduced injury or other activity. We have taken that to mean that we need to show at least a $1 return through time for each $1 invested. In the past the corporation had interpreted that to mean that we had to show that return within 1 year, yet for some activities we know that there’s a longer—we normally look over a lifetime when we look our own liabilities.

So we’ve taken a longer view and we’ve used that now to say: “Well, if we accept that for some claims we must invest now to save money, more than just in the current year but in years out, we might do a different investment profile.” So we did do that, and we revisited what we were investing in, because I think it had gotten skewed towards things that would show a quick return, not necessarily the things that would return the largest amount in terms of injury prevention to clients.

So we have seen quite a change in what we invest in. It did require us being prepared to learn about some areas that we knew very little and there’s very little evidence on what works. So traditionally there’s a lot of evidence about what works in terms of injury prevention in the area of motor vehicles, sports injury, and workplace. But some of the other areas that we were responsible for, there isn’t a lot of evidence—for instance, in the area I highlighted, which is family violence and sexual violence.

I had a view, and the board shared it, that we needed to think about longer-term investing upfront to improve outcomes through time and that under the legislation there was nothing to prevent us from doing that as long as we could track what the return was. And just because there wasn’t any evidence because we hadn’t done anything in the past shouldn’t prevent us from investing now and figuring out through time what works and following that up.
The other area that we probably had under-invested in in the past is what we call community, and things like falls are covered by that. If you look at our forward liability, well, those are not necessarily serious claims that result in high payments. Overall, falls actually contribute the most to our forward liability, and yet we were under-investing in that. And yet we know if we invest in the prevention of falls—and I don’t mean from height; most of the falls are actually not from height and many affect the elderly—that we can have a very significant impact. And that’s been a priority for us to look at that and to work with a number of players on reducing falls, particularly amongst the elderly. It has a big impact on their health and well-being. It also has a big impact on the ACC scheme’s forward liability.

So we’ve tried to expand out our focus into cover all of the areas—not just the ones where we traditionally invested, where we largely knew what would have a higher return—and, in doing that, we have actually seen that our return has increased. So I’m really satisfied with that. I think it’s a good outcome. The board is interested to continue to invest and make further increases in investment in that area, and, on the back of some of the results we’re getting, I would expect to see that happen.

Young

Yeah, because we notice that the money that had been invested was less than what was budgeted for. Any reason for that?

Pickering

If I may, Mr Chair—last year when we appeared before the committee we talked about the fact that we were putting in place an investment model. We’ve also looked at our resourcing around the team, but, importantly, the big progress for us as an organisation over these 12 months has really been establishing and re-establishing our partnership model to help support the delivery and distribution programmes. And to give, I guess, the committee an idea of the momentum that we have within the organisation, it’s quite correct to say that you’ve seen a bit of a flattening in terms of investments in that injury prevention area. For the year in question it’s approximately $30 million. At that end point we had 53 programmes that were either in the pipeline or coming to delivery.

As it stands today we have 108 programmes in the pipeline and coming to delivery. Our expectation—our forecast investment during the current financial year—is approximately $50 million. So you can see a significant increase in the investments that we’re making.

The momentum that we’re actually seeing through the organisation—importantly, as the chair has mentioned, that investment is not just in areas such as road, although that’s a very important area. We’re investing approximately $8 million in road during the course of this year, focusing on young drivers who are between 16 and 24—young driver programmes. We’re also focusing on motorcyclists. It’s 3 percent of the New Zealand fleet, but it’s approximately 80 percent of our claims in the road area.

We’re also enhancing our Mates and Dates programme. We’ve seen that go through 14 schools, 2,200 students. By the end of this calendar year we
think that’ll be up to 80 schools. Importantly, we’re also looking to invest in specific falls programmes, particularly around falls to the elderly.

And we have a continuum of the important programmes that we are also doing in the sport space. Sport represents 25 percent of the total claims that we have, in terms of our area. What we are doing is partnering with those organisations—key sports: netball, rugby league, rugby, and soccer. Our SportSmart programme and our RugbySmart programme are tremendously successful. We are very proud of the fact that in the last 2 years we haven’t seen any serious neck or spinal injuries. Clearly, there are emerging risks such as concussion, and that’s why we’re working collaboratively with those bodies to ensure that we’re going to have effective programmes which can be implemented and ultimately drive prevention in those areas. So there’s real momentum in the corporation in the area of injury prevention.

Young

So just one further question. In terms of—this committee was involved in the health and safety reform bill that went through last year. Your interactions with WorkSafe in terms of that piece of legislation—a little bit of information about that, please?

Pickering

Yes, certainly. So we continue to work very closely with WorkSafe as a partner to deliver programmes of prevention in the workplace. We have worked with WorkSafe over the past 12 months putting together a 3-year action plan for specific programmes at work in that space, and there will be the transition of the health and safety programme, the training programme, which will transition next month to WorkSafe from ACC. So we’ve worked very closely, and we continue to work closely, obviously, against the Government directives in that area.

Moroney

Does ACC consider agriculture a high-risk industry in terms of where your levy-setting is for agriculture?

Pickering

Yes.

Parmar

I’m just keen to know about medical treatment injury and how is prevention looking like in that area? How big is medical treatment injury?

Rebstock

I don’t have the exact numbers, but we can get those for you. We are focusing on that, and right now we’re focusing on some joint projects with the DHBs in particular around treatment injury prevention. There’s four in particular, and I might just let Scott speak to those.

Pickering

The area of treatment injury, again we’ve seen an increase in the claims that we’ve seen and accepted claims in the area of treatment injury. Between 2009 and 2015 we saw a 30 percent increase in claims in that area. Some of the programmes that we’re currently looking at around treatment injury is working very closely, for example, with the Auckland medical school with simulation training for medical staff. It’s an initiative that, again, has been implemented in the last several months. It’s something that we’re excited about, and I think it’s a real opportunity to be rolled out further across the country.
We’re working with HQSC on surgical site infection, and again that’s another very important area. We’re also in the process of implementing a task force chaired by a QC around hypoxic birth injuries. So again for us, whilst the numbers are small, the potential long-term liability in that space is very significant. And, importantly, we’re also continuing to work with DHBs around the sharing of data so that they can focus on the areas—you know, the treatment injury area.

So we have a number of programmes in place but, again, what I think is really important is that we have to work in partnership, whether that be with other agencies or DHBs in this particular area.

Scott To ACC: Madam Chair, you mentioned that we sort of gave a heads-up on the balance sheet side, the asset side, that was looking positive, and you referred that maybe you hadn’t checked today, and you had a good year last year because of the strong markets. This year we’ve had weak equity markets. How have you managed to—you’ve given us a heads-up that you’re having a strong year in those markets. How have you managed to do that?

Rebstock It would be the investment team that have managed it. I mean, one thing to understand about ACC’s investments is, because our liabilities are long in nature, we try to match them with long-lived assets, and by their nature they tend not to be as volatile. So while we do invest in equity markets here and overseas, the majority of our investments are in long-lived assets, which tend to be less volatile that also have lower returns, but nevertheless that’s worked well for ACC.

So, you know, this is a risk for us right now, we’re really aware that—I mean, last year our return was 14.5 percent, which was outstanding in that year. We’re estimating that it’ll be a fraction of that going forward, even if we beat the benchmark, so maybe a third of that; two-thirds lower. We’re really seeing those come down, and you expect that in the current market. Nevertheless, I’ve certainly followed closely what was happening over the Christmas period and into the New Year. It varies hugely week to week, I can tell you, and more than normal, given the current environment.

However, we have, since the end of last year, seen our total assets increase from just over $31 billion to $33 billion, I think, at the end of the second week of February. So we are holding up well but, nevertheless, it’s a high-risk environment right now, and we’re very aware of that. We think our heavy weighting towards long-held bonds probably helps us a lot, as well as some of our other long investment, but it’s something we’re keeping a close eye on.

Scott Tell us about the investment in the Transmission Gully consortium. Why were you the funder and not a bank or any other equity provider? What made you the best provider of that capital, and why did you choose to invest in that?
Rebstock We have more recently looked at investments outside the equity and bond space, simply because we are currently one of the—if not the—largest holder of Government bonds in New Zealand, and we are one of the largest holders of New Zealand equities for the sheer reason of needing to diversify and the amount of money we have to invest. We’ve looked at private markets, including PPPs. They’re a very good match to our liabilities because they’re longer-term investments.

We felt we were well-placed to take the risk on that particular investment because it is a roading project and we understand the risks around roads and what can be done to mitigate that. The most significant issue always to mitigate risk of accidents on motorways is design, so we have a clear interest in that. But that’s a very good investment for us. It’s of a size—at the time we went into it, it was about 1 percent of our fund. It’s no longer anywhere near that; the fund has gotten much bigger now, but it was a significant investment and that investment’s gone really well for us so far. We bid in a consortium against other consortiums and, you know, it was a combination of factors that led to the success of the bid, not just our part in it. Probably the main part was around road design and what was offered. And there are penalties in that going forward, if accident rates are above a certain level, and ACC, for many reasons, has an interest in ensuring that that road is really state-of-the-art.

Young That’s actually a very interesting level of involvement you have there.

Scott A natural edge, almost. If you can get the road straight it’ll save your investment, and then you’re saving lives.

Rebstock We’ve always had an interest, for instance, in speed cameras and other things that we know have an impact on driver behaviour, and the interests are very aligned in this case.

Mitchell Thank you, Madam Rebstock, for coming in today for the presentation. My question—the couple that I’ve got—is really around what work has been done or considerations given to the huge numbers of immigration migrants coming into New Zealand, and is that having a large impact on ACC with claims, etc.? I notice there’s a 2.8 percent increase—has that been factored in as to why that increase in claims?

Rebstock When we looked at the increase in claims, we look at it by industry, but I don’t know if we know by migrant status—do we know that? No. Well, it’s an interesting question; it would be interesting to look at it. If they’re coming into these high-risk industries then—and that’s where we’ve seen some of the growth, right? So if you look at labour market growth it is happening; there’s a slight shift to more risky industry. You could see that that might be the case.

Pickering I think what is important is the sense that we obviously need to react to our different customer groups and the change in some of the demographics. We do have a cultural services team, so we are able to engage with a number of different cultures in their native language, which is really important because
for a lot of those migrants, ACC as a scheme, as a philosophy, is quite, obviously, very foreign. So access to the scheme and understanding the scheme is something that we are supporting from a customer service point of view as well, so whilst we can’t give details in terms of number of numbers of people, but we’re mindful of the changing face of New Zealand.

Mitchell: So you don’t collect that data at all, or is it something that you’d consider collecting if you don’t?

Pickering: I think I would have to check. I mean, obviously, the key thing for us is it’s a no-fault scheme so the information contained within our claim forms I don’t necessarily think it picks up—if I’m wrong; I don’t think it picks up—a person’s nationality.

Scott: We’re all Kiwis; that’s why.

Mitchell: With regards to corruption and fraudulent claims, what sort of work’s been done in regards to how many claims are actually fraudulent and what’s the nature or background of some of those stories? Have you got some data for that? And what’s the cost to ACC?

Unidentified: Sorry, could I ask you to repeat the question?

Mitchell: Just in relation to fraudulent claims, what’s the cost to ACC for that? What work’s been done around that, and, yeah, just give us a bit of an overview, if you may.

Stabback: So Jim Stabback, I’m the chief operating officer for ACC. A very small proportion, we suspect, of the 1.8 or so million claims that we receive and process every year result in some level of fraudulent behaviour or require investigation; 92 percent of the 1.8 million claims are pretty straightforward. They’re typically what we refer to as claims that require the rebate of medical fees for pretty straightforward injuries. About 5 percent of our total claim volume are declined and about 5 percent are on a continuum of some level of seriousness that require a level of case management, and, in some cases, compensation for people who are unable to return to work. It’s in that area where we need to be quite focused on an even smaller proportion of those claims that might lead to some level of fraud of the system. We think it’s in the hundreds or thousands, but I don’t have a precise number that I could give you.

Mitchell: Or a cost?

Stabback: Or a cost that I have today, but we do have a team who are dedicated to identifying and investigating claims that we think are suspicious or require investigation.

Rebstock: We can come back with the cost later, if you’d like to know that.

Mitchell: That’s be really, really good. Part of the, you know, I think, the consideration to that, as well, is you mention that a lot of these people that come from overseas don’t have the ACC scheme, so to them it’s quite unique and, potentially, you know, there’s some holes in our system that we
need to be aware of because like water it’ll find its way to zero, and I guess we’ve got to be mindful that we could be under attack for fraudulent corruption within a system that has been working very, very well.

Rebstock I think the other side of that, to be fair, is lack of awareness means lack of claiming, and in our case what we know about accidents is we do prefer people to claim as soon as possible because there’s much greater chance of getting a good outcome in terms of rehabilitation if we get the claim.

So I think we do have some information by subgroups and we know that the Asian New Zealanders are less likely to claim for a similar situation. So there is some balance there. I think we have to remember on this that we’re very mindful of the risk around fraud, but we also are mindful of the need to ensure people new to the country do get the services they need when they need them, because it costs us more in the long term and certainly has poor outcomes for them if they don’t.

Mitchell So when you say the Asians are less likely to claim for an accident than a Kiwi or a European or another ethnic background might do, is that just a cultural thing, do you think, or has there been some studies done on, you know—

Rebstock I don’t know. It’s a common thing you see across almost all Government services. And, in fact, you see, possibly, under-claiming amongst Māori and Pacific Island people as well. So we’re really aware of that.

Mitchell Thank you.

Moroney Thank you. Some questions for ACC now. I just want to just carry on with the questioning around treatment injuries, because this is the third financial review in a row now that I’ve raised the issue of the exponential growth in treatment injuries. At the last annual review you told us that you had a—you called it a review or a process in place to find out what was driving that increase, that sharp increase in treatment injuries, and yet by December last year your Minister was saying she still had no idea of what was driving the exponential increase in treatment injuries. So what’s going on?

Rebstock We’re certainly focusing on treatment injury at the corporation. It is growing, and in response to that we are using what information we have about that growth to inform the prevention strategies and also to—

Moroney What’s causing it, I guess, is really my question. What’s causing that big increase?

Rebstock Have we got a sense of—can we provide that today, or do we want to follow up on that?

Unidentified We can’t do it today but [Inaudible]

Moroney You see, that concerns me, because you told us a year ago that you were going to get to the bottom of this and you were going to discover what was driving it, and you still can’t answer it today.
Rebstock: I think we can provide you with that information. I think it’s a complex story. I don’t think it’s a short story, though. Some of the areas that we’re focused on in those injury prevention, wound site infections, those are areas where there’s a lot of growth. There is a lot of growth in some sort of low-consequence area, but there’s also growth in areas where it’s not a large issue, but when it happens it has very high consequence for the person and for ACC. We’re focusing on both, but we can give you that. We have no difficulty giving you more information.

Moroney: So in your considerations of what’s driving this, I mean, this year, this week, we’ve had announcements of further health cuts to funding. Is that part of your consideration, about the impact of funding cuts on that increase—in health, sorry, funding cuts in health, that leads to an increase in treatment injuries? Is that part of your consideration?

Rebstock: That wouldn’t be part of our consideration.

Moroney: It should be. Can you not see the link between, for example, the Waikato DHB this week saying that they are not replacing staff, that when staff leave, they leave those vacancies open, and therefore an increase in the infection rates coming from hospitals?

Rebstock: I don’t know if there’s evidence of a connection there, but, clearly, we are interested in partnering with them to invest in prevention, and we are willing to invest to do that. I would be concerned if we weren’t getting a response from the DHBs, but they are responding well to us. As we have seen in other areas of prevention, we know if we invest, the return on investment will be warranted, and I expect it will be the same here.

Moroney: So the return on investment—if the return on investment that’s going to fix this increase, which is largely driven by infection rates, is more staffing, will that be discussed by ACC? Is that going to be something that ACC would make commentary on?

Rebstock: What we will do is look at some of the root causes for some of the increases, which is why we focused on the surgical simulation, the site wound infection, some of the issues around birth injuries. So we will pursue responses that address the root cause. I have not seen anything yet that suggests that’s a root cause, but, you know, I wouldn’t—if it’s an issue, then we would certainly be prepared to look at those things. But right now that’s not what the evidence is suggesting to us.

Moroney: So what is the evidence suggesting?

Rebstock: Well, the evidence is suggesting that we have serious issues around some things that can be readily addressed, like site wound infection, and that’s about what happens in a surgical environment, and some of that is well known what needs to be done to address those issues. And we will work with the DHBs, as we are doing, to address it, and right now this is early days working with them, but we are getting a very good response from them, you know, to the extent that we can do the root-cause analysis, understand what’s driving the result, and help them invest in prevention.
activity. That’s a good outcome. My concern would be if they didn’t respond, but that’s not, in fact, what’s happening.

Moroney What we’ve got, though, since 2010, when there were 2,720 medical injury claims at the scene of medical treatment to ACC, that’s gone up to 5,274. It’s 93 percent increase nationwide in that period of time. You’re suggesting that’s because of the practice of the individual practitioners—that that’s what needs addressing?

Rebstock I’m not suggesting that. I’m suggesting that it has to do with a number of factors, and we are very focused on it because we are very concerned about it.

Moroney OK. Have you seen reports of DHBs employing more people to go around patients and encourage them to fill out ACC claims for their treatment injuries?

Rebstock We hear all sorts of stories. You know, you do hear these stories, but we work with the medical practitioners and the DHBs all the time. There is one issue here that I think we are mindful of and we don’t understand, and that is in the past was there under-claiming for ACC, some cases that might have been a treatment injury and should have been an ACC claim and it hasn’t been put through, and are what we’re seeing now. Some of the growth is about it being properly attributed to ACC, and we simply don’t know. It’s really hard to get a handle on that. For us it’s really important to understand that, because we want to understand what’s driven the increase to date and what we can expect in the future.

Moroney Would you be surprised to know that DHBs have in their efficiency plans that part of the way that they’re going to improve efficiency—that is, make up for the shortfall in funding—is to maximise their ACC revenue—that that’s a strategy that DHBs are putting into their programmes?

Rebstock I don’t have a problem with it. If it is truly an ACC claim, then it should be an impost against us, and that gives us the ability to respond appropriately. I would have concern about it if it was just a general thing to transfer costs to us that really sit in the health system; we would be concerned about that. But you can rest assured that we are keeping very close tabs on this area, and trying to understand it. But right now, for us, it’s working with—we have to work with the DHBs. ACC doesn’t see these clients itself, we work through our providers. In this area, as well as any other area, we have to work with them to find solutions to this.

Lees-Galloway My questions are to FairWay. I see from your website that you’ve been doing a lot of work in the area of workplace conflict mediation and resolution. You’ve carried out a lot of research, and you provide that as one of your services. My first question is: why have you embarked on that line of work when we already have a ministry that is mandated to carry out that work?

Pollock The reason that we’re providing slightly a different range of services—and the reason, simply, is that we were finding clients approaching us and asking
us to get involved in workplace conflict. And so we’ve been providing that as a [Inaudible] service for those clients who are willing to pay for it.

Lees-Galloway So what is the difference between what you provide and MBIE provides?

Pollock What we’re focused on is getting involved early in disputes that are happening in the workplace to try and maintain relationships between work colleagues, whether it’s management, employees, what have you. We’re also focused on prevention, so we’ve got services like conflict coaching, for example, helping people in the workplace understand how to better resolve conflict before it becomes sort of an unresolvable issue.

Lees-Galloway So is that something that MBIE isn’t interested in?

Pollock They certainly are interested in doing it. And we’re simply saying there are some clients approaching us to deliver those services, and they have a choice. They’ve got a service with MBIE, which they can choose, or they can choose us, or there are many other private providers who provide—

Lees-Galloway Does it not seem unusual to you that we have a Crown-owned company and a ministry—so, essentially, two Crown agencies—competing with each other for this type of work, and doubling up this type of work?

Pollock Well, I think it’s—the opportunity is—it’s an open and free market, and clients are coming to us and willing to pay for a different type of service, and so we’re providing that service.

Lees-Galloway So the open market involves the Government competing with itself?

Pollock I don’t think we’re competing with MBIE, no.

Lees-Galloway Have you submitted on MBIE’s review of mediation services?

Pollock No, we have not.

Lees-Galloway Have you got any interest—should MBIE open up mediation for contracting out, would you have an interest in picking up some of those contracts?

Pollock If, in the event that MBIE went to the market to look for service providers to deliver employment mediation services, then we would have a look at the tender and the requirements and make a judgment as to whether or not we could add value to that process, and if the answer was yes, then, yes, we would tender.

Lees-Galloway Has anybody from FairWay had any conversations with any Minister of the Crown about that matter?

Pollock Not as far as I’m aware. We’ve had some discussions—

Blades It is fair to say we have talked with MBIE and our Minister about overlapping services, and those discussions have been positive because there are areas where we can do things better and cheaper, and there are other areas where we don’t compete, and so on. So at the same time, any discussions that have been had have been had on the basis that if anything is tendered out, it’s an open tender, we’d have to win it.
Lees-Galloway So you’ve spoken with the ACC Minister.

Blades Yes.

Lees-Galloway Have you spoken with any other Ministers about this?

Blades No.

Bayly Thank you very much, outstanding result, particularly around the investment. To get $33 billion is fantastic in this environment. What I just wanted to just pick up on is around that claims management. We had a bit of a brief conversation around it, but, obviously, that claims management has gone up—you mentioned $35,000 or 2.8 percent—to 1.84 million claims. I was just trying to understand that, because the percentage of the population who sought claims is basically static.

So Mr Mitchell talked about migration and de-migration. It assumes that everyone, basically—even though we’ve got a rising population, we’re pretty well in line with the number of claims per person. What one assumes is—are we getting more claims per people? Is that what’s happening? Does that explain why the claims are increasing? Or maybe even just answer the question—why do you think the number of claims that you’ve accepted has increased? Or does it go back to changing the level of—reducing levels of declining applications?

Rebstock We’ve done quite a bit of work on what drives the growth or decline in claims, and it is driven very much by economic conditions and where the growth of employment is happening. The board was concerned to understand whether what we’ve seen would be consistent with the growth in the economy and the sectors in which you see employment growth. And it is. It’s not to say, however, we’re not concerned about it and we’re not following it.

There’s one small area that I think we’re looking at more closely, and that’s around reactivation of long-standing claims. So people who were in receipt of ACC, went off ACC, and have come back. So we’re looking—it’s a small proportion of it, but it is a proportion we want to understand better, because long-standing claims are costly. But we also want to understand why has that shown up in some of the work. It’s not a strong factor, but it is one of the factors that—of the bit we can’t explain. It’s there and we’re doing further work to understand it.

So this is an area, I would say, looking at the year under review—the board’s greatest concern is that we can do all kinds of great things in injury prevention, we have a great investment team, we can do lots of great things with Shaping our Future and the investment we’re making there, but our core business is rehabilitation, and we’ve got to do well on that. And right now, you know, we are holding it, but just, and we are investing a lot in improvements in claims management to hold it. But I think, to be perfectly open with you, it is probably our biggest priority, is to stay focused on our core business, which is rehabilitation and make sure that we maintain our performance in that area.
Two areas of further inquiry. Motor vehicle levies is the first one. The system that you brought in, with the differentiated risk ratings, was a shambles. You had to immediately reclassify—I can’t remember how many vehicles, now, how many models—17 models, I think from memory, against what the data said. You’ve had a further 66 models being taken for review. What did you learn through that exercise?

Well, I think that—I mean, we certainly regret any situation where we have to review. However, it is a new area and some of it I don’t think we could have anticipated. Where we could have anticipated, we should have, and we certainly have reviewed it and looked at it.

We do think we will continue to see cases that we have to review and revisit, but we’re certainly better positioned to do that now, in terms of responding quickly.

Can I just say that out of the 66 models that went to review, and there were some 114 reviews, only three of those were accepted, largely because people are told at review “you’re not on the schedule.” Sorry, “your model is on the schedule at this band, so it cannot be wrong.”, and they have not had the opportunity to have that reassessed.

So the original, I can’t remember—23 models I think it was—the original 23 models were wrong. That brought into question the whole data set. That was amended. It was taken through Cabinet to amend the regulation in order to get it right. But subsequent to then, anyone who’s come forward and has a very legitimate case, just like those first 23 models, has completely been unable to get that remedied. How are we going to fix that?

Can I just—I would just like Herwig to come up, because he’s overseen this bit of work. So Herwig is our Chief Actuary at ACC.

The first models that were identified were, in fact, errors in the way we applied the rules that were approved by the Government. They were corrected and we refunded, as appropriate. The models that were identified later, that you query, they actually were applied correctly under the rules.

So a model that’s exactly the same specification on band 4 as one that is on band 3 but it happens to have a different name applied to it here in New Zealand than it does in Australia—that is correct, in your view.

It was certainly correct under the rules. What we’ve done, in response—what’s important to remember is that the New Zealand fleet is very complex. There was no existing database identifying when specific changes were made to safety technology in cars. That has been—we’ve worked with the motor vehicle industry to develop that database, and that is the basis on which we’ve just completed consultation on the rule changes. That will deal with the issues that you noted.

OK, so if that does—let’s assume it does; I’ve got no confidence that it will, but let’s assume that it does deal with those issues—will those people get refunds for the 2014/15 levy year?
Raubal  There’s no basis for that, because, as noted, the rules were applied correctly. We applied the rules. We rated those cars correctly under the rules that were approved by the Government.

Moroney  So the data has already been found to be faulty by the 23 models. Is that the number? However many models you originally reclassified.

Raubal  It’s 24.

Moroney  Twenty-four. Doesn’t that call into question the legitimate claims that other people have, on exactly the same grounds, actually, that it’s the same model but it’s called a different name?

Raubal  It actually wasn’t the same type of claim, so for those 24 models, we did apply the rules incorrectly. So it was a situation where essentially the software that we used to allocate cars did contain an error in the rules and cars were applied incorrectly under the rules. Those ones were adjusted. The others were applied correctly under the rules.

Moroney  So what you’re telling me is that if—

Young  Last question, because we’re over time.

Moroney  Oh, I’ve got another area of inquiry still. I thought we had 50 minutes for questions. We did, and we’ve gone over.

Moroney  OK, we’ll talk about that later. So what you’re telling me is that even if some of these other vehicles are reclassified subsequently, the people who own those vehicles will never get a refund for the levies that they were charged in the 2014/15 year.

Raubal  No, they won’t, because they were applied correctly under the rules for that year.

Moroney  OK. I’ve got a very quick question on sensitive claims that I would like to put to the ACC. Your Minister tells us that you have no way of identifying when people have done their pre-claim sessions for a sensitive claim, after they’ve completed that, whether their claim gets denied or whether they voluntarily don’t continue with their treatment. Is that correct? Your systems can’t tell you the difference between those two events?

Stabback  Yes, at the moment when a claim is lodged the client is entitled to a quantity of free services or counselling services, up to 16. The client then has the choice as to whether to proceed with consideration for cover. If the client decides not to proceed with consideration for cover, that registered claim is categorised at the moment as declined. Of course, we have a conversation with the client at the time to ensure that they know that they can access our services as and when they need to. However, it is a limitation in our system, or it has been, and it is something that we are in the process of resolving by way of creating another category that we can use to properly define that particular circumstance, and we expect to implement that in about the middle of this year.
Young: Thank you very much indeed for appearing before us. All the very best, and congratulations. Good to see you, Chair.

**conclusion of evidence**
2014/15 Annual review of Air New Zealand Limited

Report of the Finance and Expenditure Committee

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The Finance and Expenditure Committee has conducted the annual review of the 2014/15 performance and current operations of Air New Zealand Limited and recommends that the House take note of its report.

Introduction

Air New Zealand is the national airline, and operates passenger and air cargo services domestically and internationally. The Air New Zealand Group in New Zealand consists primarily of Air New Zealand Limited, Air Nelson Limited, Mt Cook Airlines Limited, and Eagle Air Limited. In 2015, Air New Zealand celebrated its 75th year of operations as the national carrier.

Air New Zealand is a public company listed on the New Zealand and Australian stock exchanges. The Crown is a 52 percent shareholder and is also holder of the Kiwi Share. This is a single share that does not carry general voting rights but requires the Crown’s consent for certain actions. This is designed to maintain Air New Zealand’s status as a substantially New Zealand-owned and -controlled company.

An independent seven-member Board governs Air New Zealand. The chairman is Tony Carter. Christopher Luxon has been the Chief Executive Officer since December 2012.

Financial position

Air New Zealand recorded a net profit of $327 million for 2014/15, which is a 24 percent increase from the previous year. Air New Zealand attributed its strong financial performance to increased customer demand, additional capacity, lower fuel prices, and successful initiatives to reduce costs.

In 2014/15, Air New Zealand generated operating revenue of $4.925 billion. Significant revenue includes a 6.8 percent increase in passenger revenue from the previous year, to $4.1 billion, and a 10.5 percent increase in cargo revenue from the previous year, to $317 million.

Operating expenditure increased by 3.2 percent to $3.764 billion in 2014/15. Sales and marketing costs increased by 8.2 percent to $303 million, as a result of marketing new routes. Aircraft maintenance and overhaul costs increased by 12.3 percent to $320 million, largely because of an increased fleet size. There was also a 3.6 percent increase in labour costs, to $1.2 billion, reflecting increased capacity.

Audit report

The Office of the Auditor-General issued an unmodified audit opinion on Air New Zealand’s financial statements, grading its management control environment and financial information systems and controls as “very good”.

Regional coverage

Air New Zealand operates flights to 42 towns and cities throughout New Zealand. We asked what factors drive decisions about what destinations Air New Zealand services and how Air New Zealand balances its obligations as the national carrier with its profitability.

Air New Zealand noted that it has maintained its services in some regions at considerable cost. Over the last three years, Air New Zealand estimates that it lost $1 million a month servicing 15 towns.

Air New Zealand said that it has had to withdraw its services from some places, such as Westport and Kaitaia, where the population is too small to sustain the cost of its services. Air New Zealand reported that it is too soon to assess how its withdrawal has affected tourism in these regions. We indicated that we are interested in monitoring this.

As the national carrier, Air New Zealand said it works hard to improve the sustainability of its regional network. It does this by investing in better aircraft that are cheaper to fly and so reduce the cost per seat to the customer.

Air New Zealand also works with communities that it does not service to promote them as tourist destinations. It hopes that this will create an economic platform to which it can link its services.

Although it observed disappointment from communities it had withdrawn from, Air New Zealand believes that it has the best regional network of any country. Air New Zealand services 100 percent of towns with populations of 20,000 people or more. In contrast, Australia runs scheduled air services in only 56 percent of its towns with 20,000 people or more.

Coordination with other airlines to boost regional coverage

Air New Zealand said that it works with other regional airlines to provide services to communities it has withdrawn from. For example, Air New Zealand said it had gifted its ground-handling equipment to the airline now servicing Westport. It also shares its data with the airlines and provides a commitment that it will not compete in the ports it withdraws from.

Contributing to New Zealand’s economy through tourism

Air New Zealand described itself as “a good corporate citizen” in how it contributes to New Zealand’s economy. Air New Zealand provides employment to about 11,200 people and contributes to trade and enterprise through its exports and cargo services. Air New Zealand said it also drives a lot of economic value through tourism, accounting for about 40 percent of visitors to New Zealand.

Through “mayoral forums”, Air New Zealand works with communities to develop visitor platforms. Visitor platforms cover a community’s unique selling points that can be marketed throughout Air New Zealand’s network to attract tourists. For example, Rotorua’s visitor platforms include contemporary Māori culture, spas and wellbeing, and mountain-biking.

As well as promoting existing tourism experiences, Air New Zealand works with regions to develop new visitor platforms. In Queenstown, Air New Zealand created a marathon event designed to drive tourism during the off-season. It estimated that the Queenstown Marathon generated an additional $9 million in tourism revenue.
Reducing airfares

Several factors are contributing to decreasing airfares, including the recent rapidly falling price of fuel and oil. Air New Zealand observed that fuel prices have been unpredictable during the last five years and that it does not speculate on the oil market. Instead, it buys a certain quantity of what it needs at fixed prices, six months out. It said that this policy has served it well.

Air New Zealand observed that a bigger reason for decreasing fares is the growth of the company. A 12 percent increase in capacity, largely because of fleet upgrades and an increase in services, has put more seats on the market. To create demand for these seats, Air New Zealand has discounted fares.

Competition with other airlines is also a significant driver in decreasing fares, and Air New Zealand acknowledged that it acts responsively to the promotional pricing of other airlines. Air New Zealand noted that it is competing with seven international airlines as well as several regional operators within its markets. It welcomes competition from other airlines, because competition forces it to innovate and improve its services. We expressed concern that the high cost of flights in some regions without competition could be perceived as monopolistic behaviour.

We expressed concern that the cost of flights in some regions in New Zealand is still too high and obstructs business growth. Air New Zealand said that it typically used turboprop aircraft to service regional ports. These aircraft are less fuel-efficient and have less seating, which increases the price of the flight.

Air New Zealand said that it is working to replace these turboprop aircraft with larger, more efficient, aircraft to reduce the cost per seat. Additionally, where customers are obliged to purchase last-minute fares between regions, Air New Zealand has introduced capped “Gotta Go” fares to reduce the expense for these customers.

Reinvestment of revenue

As Air New Zealand's revenue grows, it has to determine what proportion of that growth it passes on to the customers, uses to repay debt, passes to the shareholders, and reinvests back into the company.

Air New Zealand said that it has recently focused on improving its profitability through reinvesting its revenue. This includes $2.6 billion worth of new aircraft, $100 million on lounges, investment in new routes, investment in its people, and investment in improving its customer experience. Air New Zealand said that it expects, as its investment plan nears completion, to be able to reprioritise its revenue to pay off debt and increase dividends to shareholders.

Asian market

The number of visitors from China to New Zealand grew by 138 percent between 2011 and 2015. However, we noted that the revenue Air New Zealand derives from Asia has dropped from 22 percent of revenue generated overseas in 2010/11 to 19 percent in 2014/15. We asked Air New Zealand how it could sustainably capitalise on this growing Chinese market.

Air New Zealand noted that it faces stiff competition from Chinese airlines. However, it is working closely with Tourism New Zealand to attract Chinese demographics that would add better value to New Zealand tourism. By marketing New Zealand as a romance
destination and as a place for a great family holiday, Air New Zealand attracts wealthier visitors who stay longer, spend more, and travel throughout the country. Air New Zealand estimates that Chinese visitor numbers are up 30 percent but that their spending is up 60 percent. It also said that it has discontinued some of the business it was doing with travel agents in China that attracted visitors for only a few days and added little economic value.

Air New Zealand is confident that it will see more growth from the Asian market as tourism operators continue to improve their collaboration. For example, Air New Zealand has a joint venture marketing fund with Tourism New Zealand. The marketing venture aims to find people’s triggers and barriers for choosing New Zealand as their next holiday destination.

**Sustainability framework**

In the past year, Air New Zealand established a Sustainability Advisory Panel. The panel develops the company’s sustainability strategy and works to anticipate and overcome sustainability challenges. Air New Zealand publishes a sustainability report annually.

Focusing on sustainability has encouraged Air New Zealand to be innovative, driving cost savings that it reinvests back into the company. Air New Zealand hopes to share its innovations with other communities and businesses.

Air New Zealand said that the success of its own sustainability programme is linked to overcoming the sustainability challenges of New Zealand and the wider world. It works to recognise and respond to these challenges in whatever form they take. This means that its sustainability strategy is not just environmental, but also includes social and economic development issues. For example, Air New Zealand seeks suppliers with ethical codes of conduct, such as adherence to the United Nations global compact.¹

**Environmental sustainability**

Air New Zealand acknowledged that the aviation industry is a big hydrocarbon consumer and polluter. Air New Zealand tries to mitigate its environmental effects in several ways. It has explored using alternative fuels but says that no commercially usable alternative exists. However, it has committed to moving its company car and ground fleets to electric vehicles.

Although it could buy cheaper carbon credits from other countries, Air New Zealand said it prefers to invest in New Zealand’s carbon-offsetting infrastructure. For example, it is collaborating with iwi to regenerate their land as a carbon offset.

Air New Zealand says it encourages New Zealand’s “100 percent pure” image in its collaborative partnership with the Department of Conservation. Since the partnership, the number of people doing the Great Walks of New Zealand has increased by 31 percent. The department is able to invest the profit from this in biodiversity projects.

**Virgin Australia alliance**

Air New Zealand holds a 25.9 percent share ownership in Virgin Australia. It coordinates operations with Virgin Australia through the Australasian Airline Alliance Agreement. The Chief Executive of Air New Zealand, Christopher Luxon, is also a member of Virgin

¹ United Nations global compact: A corporate sustainability initiative that calls companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals. [www.unglobalcompact.org](http://www.unglobalcompact.org)
Australia’s Board of Directors. As an alliance, Air New Zealand and Virgin Australia hold about 51 percent of the market share across the Tasman.

Air New Zealand said that its alliance with Virgin Australia is beneficial because it improves connectivity for its customers. The sales and distribution reach of Air New Zealand is also greatly improved because Virgin Australia staff are able to build Air New Zealand’s presence in Australia and market its services using their own infrastructure.

**Services out of Wellington**

Air New Zealand does not support extending Wellington airport’s runway to accommodate long-haul services. Although it actively drives tourism in Wellington through its involvement with tourist events such as the World of Wearable Arts competition and its marketing of Wellington as a holiday destination, Air New Zealand considers that extending the runway would not be profitable.

Air New Zealand said that introducing long-haul services to Wellington would require about $150 million in operating costs, and 200,000 seats to fill, each year. To cover the cost of the flight, Air New Zealand would have to fill about 80 percent of those seats. However, demand from the Wellington population is not large enough to do this. Air New Zealand also believed that Wellington airport would seek to recoup the costs of extending the runway by imposing additional landing charges and passenger fees.

Wellington has good connectivity with Auckland, Air New Zealand reported, so Wellington consumers have ready access to long-haul flights that operate from there. Air New Zealand said that it continues to market Wellington as a regional platform to increase demand for its services.

**Future growth**

We congratulated Air New Zealand on its strong performance, and asked about its plans for continued growth. Air New Zealand said that it plans to expand services in the Pacific Rim. It noted that economic shifts in the Pacific and a growing middle class of consumers will provide opportunities to capitalise on connections to Pacific Rim cities. Through these tourist connections, Air New Zealand also hopes to open up opportunities for trade and exports.

As well as advancing commercial opportunities in the Pacific, Air New Zealand strives to keep on improving its world-class reputation through enhancing its customers’ experience and building the culture of the company. For its customers, Air New Zealand is continuing to improve its loyalty programmes. It has also investing in leadership programmes to develop capability within the organisation.
Appendix A

Committee procedure
We met on 26 January and 9 March 2016 to consider the annual review of Air New Zealand. We heard evidence from Air New Zealand and received advice from the Office of the Auditor-General.

Committee members
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Julie Anne Genter
Stuart Nash
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour

Evidence and advice received
Office of the Auditor-General, Briefing on Air New Zealand, dated 26 January 2016.
Organisation briefing paper, prepared by committee staff, dated 18 January 2016.
Air New Zealand, Responses to written questions, received 19 January and 26 February 2016.
Transcript of hearing 26 January 2016

Members
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Matt Doocey
Julie Anne Genter
Stuart Nash
Grant Robertson
Paul Foster-Bell

Witnesses
Christopher Luxon, Chief Executive, Air New Zealand
Tony Carter, Chairperson
Rob McDonald, Chief Financial Officer

Bennett Good afternoon and welcome to the Finance and Expenditure Committee. Thank you very much chairperson, Tony, for bringing your team along and Chris and Rob for coming. We’ve got till about 3 o’clock—we probably won’t need all that time. So welcome to Parliament for 2016, and if you want to give us a brief introduction, then we can open up with questions from members.

Carter Thank you, Mr Chair. It’s certainly our pleasure to be able to appear before the select committee today. [Introductions] I will handle questions on governance. They will obviously handle questions on operational matters, and Rob will handle any detailed financial questions you have. I am pleased to report that both Christopher and Rob were recognised at the Deloitte Top 200 awards late last year, as CEO of the year and CFO of the year.

As you will see from our annual report, 2015 was a very successful one for the airline. We aspire to be a great New Zealand company that creates value for our shareholders while improving the experience for our customers and contributing to the fabric of New Zealand. I am happy to say that I think we continue to do that. We carried 14.2 million passengers this year, including 9.2 million passengers on our domestic network. We earned $4.9 billion in revenue and $474 million profit before taxation. We’ve paid $89 million in dividends to the New Zealand Government and as well we paid $147 million in company tax to the Government as shareholder. I’m also pleased to say that as part of the improved financial performance, we are able to share a portion of that with all staff who aren’t on individual bonuses, and all full-time staff received $1,400 as an ex gratia payment in...
reflection of the improved financial performance of the airline, and I
certainly, as chairman, am very proud of that.

We continue to invest in our domestic and international fleet. We have
improved our customer aircraft and we continue to maintain a wide
network throughout New Zealand. For the first time we introduced our
sustainability framework, a conscious effort by the business to positively
contribute to the economic, social, and environmental well-being of New
Zealand. That framework is part of our ongoing commitment to use our
airline to supercharge New Zealand’s success. I am proud of the growth of
the airline and its contribution to New Zealand, and we will welcome any
questions from the committee. Thank you.

Bennett Thank you very much, Tony. Grant.

Robertson Thank you, and thanks for coming along today, and obviously it is worth
noting the strong performance of the airline, and congratulations for that. A
couple of questions. The first is, you mentioned in your introduction that
you want to be a great New Zealand company, that you want to contribute
to the fabric of New Zealand. I wonder, do you consider yourself the
national airline of New Zealand, and what does that mean to the business?
And I think you know what I’m alluding to in terms of regional coverage
and so on. To what extent is that idea changing—of what it means to be the
national airline, and do you still feel that obligation to the service right
across New Zealand, to the regions as well?

Luxon Yes, absolutely—that’s the answer. We do pride ourselves on being New
Zealand’s national carrier and the obligation that we feel to be able to serve
New Zealand the best that we possibly can. I think we actually are a really
good corporate citizen here in New Zealand and we contribute to New
Zealand on many different levels. So, yes, we have a network of services
that runs to 42 different towns and cities across New Zealand, but,
importantly, we also drive a lot of the economic value in this country in
terms of tourism, through to trade and enterprise through exports, and
cargo in bulk-bay aircraft. Socially, we’re running a company of 11,200
people. We try and run a really great, world-class organisation, and that’s
evidenced by our culture and turnover scores and engagement scores and a
bunch of things like that.

We are a part of communities, and we feel very serious about wanting to
contribute to those communities, and we do that in a number of different
ways. We get a lot of [Inaudible] detail on the regions, I suspect. And the
third area is we want to help supercharge New Zealand environmentally.
We’re really invested in making sure our natural environment is as good as it
can be, and that we can play a role in that, because it’s a tourism asset that
we think is in our interest to make sure it’s protected. So economically,
socially, and environmentally there’s a contribution that we make that
makes us feel like we are part of the fabric of New Zealand life.

Robertson Yes, and I acknowledge the sustainable development strategy and the group
that you’ve brought together on that. But to go back to the regional point,
what are the principles that drive decisions about what destinations are being kept and what aren’t?

Luxon I’ve been quite transparent about that since the middle of 2014, about our decisions around different regional ports we’re going to or not going to as the case may be. The situation is this: we fly to 22 towns, and 15 towns, we flew our smallest, highest-cost aircraft into those towns, and we lost a million dollars a month for 3 years in a row servicing 15 towns across New Zealand. The answer for us is not to walk away from 15 towns and actually say we want to try and make that work, but, likewise, not facing up to that reality and actually finding a solution for that is a real failure as well. So what we’ve decided to do—and it’s well announced—is that we have withdrawn services from places like Westport and Kaitaia, with populations of 4,000 to 5,000 people, and we’ve obviously withdrawn services out of Whakatane, where there are 18,000 people. And in the process we’ve gone off and invested $300 million in more turbo-prop aircraft. In the latter half of last year we invested another $500 million in more of those aircraft as well, or [Inaudible] of them incremental to New Zealand, and our plan to be able to more sustainably deliver ongoing services to regional New Zealand is actually getting ourselves better aircraft at a lower cost per seat. And when we can move small towns and small aircraft to much larger turbo-prop aircraft, you know, we’re getting another 15 percent price reduction. That’s already happened in Kerikeri, it’s already happened in Gisborne and four or five other ports in New Zealand as well have been signed as we do those [Inaudible].

So that’s the way we’re trying to comprehensively face up to the reality, find a way through it, and deal to it. Now, if you take a step back, New Zealand is incredibly well served for a country of this size, with the population we have, with the number of airports we have across this country. So when I look at reports by independent professors, say Tim Hazledine of Auckland University, he would go around the world looking at all regional airports. Without doubt, I have no doubt we have the very best regional network of any country—Australia, Scandinavia, UK, Canada, US—in the world. We service 100 percent of towns with populations of 20,000 people or more. The next best regional network would be Australia, where 56 percent of towns with 20,000 people have scheduled air services in and out of those places. So that’s great but it doesn’t give comfort to places that I’m conscious of, communities that we’ve withdrawn from.

Just because we don’t fly there doesn’t mean we don’t do everything that we possibly can to promote their region to the world or to bring tourists to that part of the world. So we promote Stewart Island, we promote Wanaka, we promote Cape Reinga, and we don’t fly to those places directly. We are working very hard with those communities to try and create economic platforms and visitor platforms for their economies that we can actually get behind and promote and drive.

Robertson Just one more question on that point, and picking up that point that you’re saying you’re not abandoning those communities. Can you give us a commitment that you’ll work with the regional airlines that might pick up
services, to coordinate those timetables so there are better linkages with your services? I’m thinking particularly about Whakatane and getting in and out through Auckland to other places.

Luxon

Yes, and what we’ve got happening, and the great thing that has happened, is that there is a plethora now of regional airlines that are actually in this country. You’ve seen Sunair go into Westport, you’ve seen Air Chathams to Whakatane, you’ve seen Great Barrier go into Kaitaia—Kiwi Regional Airlines, Originair, everybody else as well. What we did was quite different from how we may have handled it in the past. We first of all signalled to those towns and said Kaitaia we can’t service, with 4,000 people. It’s very difficult for any airline in the world with 50,000 people or less in the population and with less than 50-seater aircraft to make those economics work. But we can’t make that work and we won’t be going back to Kaitaia. It’s an hour and a bit to get to Kerikeri where we’ve invested in bigger aircraft, the airport upgrade, and all that stuff.

Westport is an area we’re still promoting very heavily but it’s very isolated to do much there, apart from the fact that we gifted all our ground handling equipment to the incoming carrier that’s came in there, and likewise. So across those three places where we made those withdrawals we shared all the data, we shared all the information, we gave a commitment we wouldn’t come back and re-enter into those markets, and I think we’ve done as good a job as we can in setting those airlines up for as much success as they can.

What you’re talking about is an issue called interlining, and interlining is a certification process essentially done by IATA, which is the international airline industry association, and essentially what it means is it’s how airlines talk to each other in terms of transferring luggage, check-ins, how the systems communicate. And there are some very high standards around systems and around technology in order to make those work. And in fairness to those regional airlines in New Zealand, those are costs that are quite hard for them to actually meet in order to be able to do an interline agreement. So the upshot for me is I feel like we’ve honestly done as much as we possibly can, being as transparent as we can about our intention in a route and our handover of data, information, and capital. But going forward we now have a lot of competition in the market place and I think we’re best if everybody rows their boat commercially if they see fit.

Cosgrove

Just on the point Grant made; you talked about working with communities in terms of visitor platforms. Can you enlarge on that, and can you also tell us, have you got any data about the impact in respect of tourism post your withdrawal from those areas for those regional communities?

Luxon

Good question. I can certainly talk about what I mean by visitor platforms. I’m not sure I’ve got the data for those specific communities, but—

Cosgrove

Could you provide it to us post the meeting?

Luxon

I’m happy to do it after the meeting, but I can give you a feel for what’s going on. The first thing that’s happening is that—sorry what was the first part of the question?
Visitor platforms—can you give us some practical things?

Luxon Visitor platforms—I actually fundamentally believe that a tourist arriving in New Zealand from the top, Cape Reinga, all the way to the bottom could hit a lot of New Zealand and a lot of towns across New Zealand, and each sub-region of New Zealand has quite different platforms that drive the visitor economy or the economics of that region.

So, for example, Rotorua is a very good example, where the stakeholders in Rotorua have got together under a proactive mayor in Stevie to actually say: “What is the platform, and a unique platform that Rotorua will compete on going forward?”, and it’s contemporary Māori culture, it’s spas and well-being, and it’s also mountain biking. They’ve said: “They are the three platforms by which we can actually now build events. We can actually go offshore and promote those platforms around the world.” They are unique to Rotorua and unique to that region. So that’s the reason for why we have what we call our mayoral forums where we’re trying to work with those communities to actually build our platforms that are different for that.

When we’re in Marlborough we’re talking a lot about wine, we’re talking a lot about Abel Tasman, you know, national parks. In places like Stuart’s area and Napier, certainly in Queenstown as well, we’re working with those communities to say—Queenstown’s a good one where we’re trying to drive customers or visitors into those regions in offseason times, and we created something called the Queenstown marathon. We’ve got the Hawke’s Bay marathon coming up in May, but it’s designed to drive people into the regions at different times. Now, that’s something that we create—it’s an event we create. In the case of Queenstown we had 6,000 runners. Eighty percent of them came from outside of the Queenstown area, 15 percent of them came from overseas, and the local economy grew over the course of that long weekend, with 31,000 extra bed nights. It was $9 million of economic value created.

That’s an example, whereas if a community can’t get its act together, essentially sort of clarify what the platforms are, or we can’t work together, what we get is it’s not clear what we’re promoting when we’re in Buenos Aires or Houston or LA, around a particular region. So that’s that piece.

The second thing I can answer, the stats around tourism, and I am very proud of tourism, because I think this is an industry that’s come together as an industry across the country. We’ve put together our own private-sector growth plan into 2020 to generate $41 billion worth of value. That’s now having effect. We’ve got growth in visitors of 9 percent. They’re staying here longer, their spending is up 17 percent, and it’s been well disbursed throughout the country. So if I go talk to tourism operators and say: “How have you done over the summer break?” up and down the country, in all parts of the country they’re actually experiencing tourists coming through their part of the region.

Could you get—I know you can’t find it now, but specifically for those areas you’ve withdrawn from, if you could provide us some stats after that?
Luxon  Yes.

Cosgrove  Could I just turn to fuel price and a couple of other issues. You’re in the alliance with Virgin. It’s created efficiencies. You’ve got one of the most efficient fleets in the world, and I think the new aircraft have increased efficiency by about 20 percent, yet we look at the fuel price going down at this point and we look at the correlation with dividends to Government going up, and you could make an argument, I suppose—who is sharing the efficiency gains and the profitability? Is it more the Crown or are we going to see some substantial fare reductions on the back of efficiency gains, the reduction in fuel price and all those positive things. I know you’re discounting various other things, but substantial shifts in fare prices off the back of those gains.

Luxon  The first thing I’d say is that there is downward pressure coming into this marketplace for a number of reasons. Fuel is a big part of that, but just remember, we’re not like a service station that’s selling fuel 100 percent and just making a margin on it. It’s 15 to 20 percent of our costs; it’s slightly less than what we pay for labour, for example, across our organisation. So it’s an important input cost and it is a significant one. A couple of things about that: so yes, downward pressure on fuel and oil prices is a contributor to downward pressure prices for customers. What is happening there is that it has been incredibly volatile, as you know, over the last 5 years, and since where fuel has gone it has bounced around all over the place. In the last 3 months there’s been a rapid acceleration of falling of the price of oil.

We as an airline take quite a prudent and good steward approach to that, which is that we’re not going to speculate on where oil is going and take a position on that, so we have a hedging policy that’s about buying a certain quantity of our needs at fixed prices 6 months out, and that has served us incredibly well. But the reason for that is that airlines have really come a cropper and needed massive recapitalisation, taking a position on what they thought oil might do and if markets move against them. So there is downward pressure on prices by virtue of fuel as an input cost, but the bigger reason, to be honest, is actually the growth that this company is going through.

This company is growing in the order of 12 percent. We’ve never grown that fast in the 75 years of our history, and as a consequence what we’re doing is we’ve got 12 percent more seats going into the markets, whether that’s regional New Zealand, short haul, Trans-Tasman, or internationally, and that without doubt is a bigger driver, because we’ve got 12 percent growth but the economies we’re going to are only growing at 2 or 3 percent. So in order to fill those aircraft up we’re having to discount fares, and that is happening. A good example would be regional New Zealand. Every 19-seater we replace with a 50-seater aircraft or a 68-seater aircraft we have to create the demand in those regions to be able to fill those aircraft to get them above the cost, to fill those aircraft, unless they’re low factors, and that’s taking us some time. But that is leading us to lower prices as consequence of that. So fuel is one piece of it. Capacity and supply and greater demand is the second.
The third thing that’s happening is there’s a phenomenal amount of completion being encouraged through low fuel prices. So we now have seven international airlines, big international airlines, that have come into this marketplace, or have announced intentions to come to this market, and another two are rumoured to come. We’ve got a resurgent, obviously, Qantas, Emirates group here within domestic New Zealand, and we obviously got a plethora of little, regional airline operators coming into the marketplace, as well. So I think the combination of fuel as an input cost, the supply being greater than demand, coupled with the competition will actually drive down the pressure on prices.

What I would say is that Air New Zealand’s result, particularly if you look at FY15, $291 million of the benefit was actually in [Inaudible] sales and actually growing the top line of our business through better revenue, and $119 million was associated with actually the fuel savings or fuel benefits that we got out of that. So as we do better, and as we’ve done better over the last 4 or 5 years, the trade-off that we as a board and executive team have to make is really around how much we pass through to consumers, how much do we use to repay debt, how much do we pay to shareholders who actually stuck with us through pretty poor times when it was [Inaudible] cost of capital, and then, finally, how much do we actually use for reinvesting back in the airline.

As you guys know, it’s a very capital-intensive business. Every time we need a new ATR for regional New Zealand it’s $25 million. Every time we need a new Auckland-Wellington A320, $50 million; every Dreamliner to unlock the global market, $200 million. So when you’re making $71 million, with $6 billion worth of assets, 4 or 5 years ago—a dog that doesn’t hunt. You know, it doesn’t work. So we’re now in a place where we’re actually looking really hard on making sure we’re investing like [Inaudible] before. So $2.6 billion worth of new aircraft, $100 million on lounges, new technology, big investment in new routes, lots of investment in people and obviously in the customer experience. So that’s the trade-offs we have to balance as we think of our improving profitability.

Cosgrove Two brief questions: in a nutshell, I accept all that but is it likely that the consumer is going to see in the near future substantial, insubstantial, reductions—

Luxon Absolutely. How sustainable that will be, you know, as soon as fuel balances up for some of those airlines that really will struggle, whether they’ll come and go, who knows, and how sustainable that is for those businesses, I don’t know. But, yeah, definitely.

Cosgrove Around Asia you’ve had some movement south around the revenue from the geographic region of Asia, from 22 to 19 percent. In terms of China’s difficulties recently, what sort of risk planning are you guys doing, or what are you projecting forward in terms of where that market’s going, and what risk mitigation strategies you’ve got in place around that?

Luxon It’s a good question. We’ve been in China since 2006—the first airline to have services to New Zealand in mainland China. We’ve only got profitable
in the last year, and that’s in the face of actually probably the most
ggressive competition we’ve faced from China. We’ve got more
competition from China to compete with. What we’re doing is a couple of
things. We have to realise that, you know, there’s 103 million people who
left China last year for outbound travel. New Zealand had about 300,000 of
it, so about 0.3 percent of total outbound travel out of China came to this
country. What we’re trying to do is work incredibly hard on changing the
mix and value of those Chinese visitors, or Asian visitors—and, in fairness,
it’s not just Asian; it’s also North American visitors as well. And so what
we’ve done is work incredibly closely with Tourism New Zealand, we’ve
gone into the Chinese market, we’re “NZ Inc.”. We think we’re big in New
Zealand, but out there in the real world of 7.3 billion people, our presence
is quite small, and so we’re working together.

What we’ve done is gone after wealthier 30-year-old couples and we’ve sold
them on the basis that New Zealand’s a great romance destination, and the
second thing we’ve done is gone after families to actually say: “Hey, listen.
We think this is a great family vacation for you to come with the
grandparents, the parents, and kids.”, and that mix has led to a very
different outcome where the growth in Chinese visits is still up 30 percent.
Their spend is up over 60 percent because we’re pushing value over volume
in terms of the types of customers we’re going. We’ve turned off a whole
lot of business we were doing with travel agents or customer segments that
were people that came to this country, did a 1 or 2-day tour of Auckland, a
1-day trip of Rotorua, and then back out again, adding very little economic
value to the sector or to the industry. Those Chinese visitors now coming,
for example, are spending as much per day as an Australian, American, or a
European visitor, and they are dispersing across this country. They’re here
for 7 to 10 days; they’re getting into all parts of the North and South Islands
as a consequence.

So, long way round, the question, Clayton, is that despite the
macroeconomics of what’s happening in China with some leveraging and
some rebalancing within the economy, the reality is our experience was the
same in the US with the financial crisis, it was actually the same in Europe
over recent years as well, and I suspect it would be the same in China. There
are large segments of valuable customers that actually are worth a lot to us
that we have to get much cleverer in sales and marketing to find who they
are, where they are, what are the triggers, what are the barriers, how do we
get them to come here next rather than go to Austria or Brazil or Mexico or
Thailand or somewhere else. So, going forward, that’s the way we’re
managing it around our mix and better customer targeting, but I still think
there’s a world of opportunity. I’m very positive about the proposition for
New Zealand in that world.

Cosgrove Just very briefly, can you comment on the profiling of customers. Is the
Crown, through its agency, doing enough in terms of in-depth profiling and
research to assist you and the industry to sort of unbundle—

Luxon Yeah, I think—I’m really proud of the partnership that we’ve got with
Tourism New Zealand. I think that has just got deeper, better, over the last
3 to 4 years, and, likewise, the same partnership’s building with New Zealand Trade and Enterprise as well. I think you’ve got very good CEOs leading those organisations. They’re a working as a partner and collaborate incredibly well.

The challenge is this. In my old life in North America I spent US$500 million advertising Dove to Americans each and every year, and I might spend another US$250 million promoting the brand to Americans—Dove soap, Dove haircare; all that sort of stuff. So if we rock up into these countries as New Zealand and “NZ Inc.” with all of our money, it has to compete with this soap brand. We have to cut through and actually—you know, we’ve got a situation in America: 315 million Americans, 105 million with passports, but the good news is 30 million Americans have seen Flight of the Conchords, The Hobbit, or had a friend come fly-fishing and have got us on their bucket list of places they want to go before they die, but in that list is also Thailand, Austria, Brazil, Croatia—a whole bunch of places—and our job with Tourism New Zealand, Trade and Enterprise, is to try and cut through and actually do some creative marketing that actually finds the triggers, the barriers, the obstacles that are stopping people from choosing us for their next holiday and working really hard to overcome that. So, no, I think that’s working really well.

The extra resources that have gone into Tourism New Zealand over the last few years—where they’ve put money in, we’ve matched it and we’ve put that into a joint venture marketing fund, essentially. And that’s important because what we were critical of in the past was that we would all go off as different tourism operators, all doing our own thing quite individualistically, and actually not collaborating well enough and hunting in a pack as “NZ Inc.” offshore, and I think that strategy’s been a much more positive one for us over the last 3 or 4 years as we’ve turned the growth on.

Genter Thanks so much for your presentation and well done on your results. It’s really great. I was wondering if you could elaborate a bit more on your sustainability framework, which you launched this year, and particularly how environmental and social sustainability is going to help your business.

Luxon Yeah, good question. So the history for us is over 75 years, having had a 75th year exhibition—is it’s very clear that our past, you know, is very tied to the success of New Zealand, and our future is also very tied to the success of New Zealand. And so as we go forward it’s in our interests to actually be embracing a sustainability framework. And what I mean by sustainability is, in New Zealand it’s been misunderstood as environmentalism, and, actually, “sustainable” is about sustainable development, economically, socially, and environmentally, as you’ve highlighted. So that’s the starting point. We’ve come from a position which is that the world is, frankly, facing some unprecedented challenges. We see it in terms of food security, climate change—a whole bunch of implications that are sitting out there in the world. As a business person and as a business team, we can either choose to do nothing about that or we can choose to be panicked about it, and the sky’s falling in, or we can be burying our head in the sand. But I think we should just go forward positively, working with Government, community
leaders, to solve this problem. It’s actually our problem, as *Inaudible* to deal with.

The second thing is we think business can play a role to strengthen civil society—we do have a responsibility to do that—and the third thing is every time we chase down sustainable development we get innovative, and it’s good for our business. So when we cut waste in our system, it improves our margin and it improves our profitability and our ability to reinvest.

When we actually talk about sustainable suppliers, it actually gives us business continuity. Our risk is de-risked. Every time we sort of think about innovation, we come up with creative solutions to be able to deal with it. So the case for engaging as a business person in sustainability is actually very legitimate. It’s not a political left or right argument; it’s about a forward or backward argument, kind of, really. And it needs a coalition and people working together in quite different ways. But the way we’ve framed it is we have created a framework where we’re saying we want to supercharge New Zealand’s success economically. That is through tourism—we drive 40 percent of the tourists in this country. If we’re not doing our job offshore, as I talked about before, we’re at the sharp end of the spear, doing the work with Tourism New Zealand outside of New Zealand to build the proposition and the case, and that creates the downstream benefits. The same happens with our exporting community that goes out, and we also deal with 4,000 suppliers across this country—pay a billion dollars into other suppliers across this country. And we want those suppliers to be working to some codes of conduct—the UN global compact on making sure that there’s no child labour, making sure that there’s really common standards about our ethical sourcing, and all those kinds of things. So we can have influence economically.

Socially, as I talked about, we take pride in wanting to run a great Kiwi company, and not just a “world famous in New Zealand” company; we want a world-class organisation—a New Zealand company taking it to the world from New Zealand. When you think about the No. 1 places that people want to work, the No. 1 corporate reputation in this country, a 4 percent staff turnover, top quartile engagement scores for our staff, benchmarked against the best companies in the world, we’re on the right pathway there. It’s really around our communities—how we can actually help our communities more—and I think what Air New Zealand can do as a company out there in the world is actually share some of that learning and that IP that we have, actually, with smaller and medium enterprises coming through the system as well. So we think there’s some real opportunities to share what we’re learning. We think there’s some real opportunities to help provide people with connectivity and access to markets and just share what we learn—whether it’s social media, digital sustainability market development there’s a whole bunch of themes that we could help educate the New Zealand community around.

And then we get to the environmental piece, and we fundamentally believe that there needs to be justification for our positioning that we clearly use in terms of the “100% Pure”, and so it’s a great marketing line, but we
actually—as an industry, actually—are trying to find ways in which we can put some proof points to that. So we have a public-private partnership with DOC, which we started some time ago. We’ve extended it out to 2020. We have it with Antarctica New Zealand as well. That’s all about our ability to be able to get tourists into the DOC estate, but actually to be able to add some value back in terms of—and since we’ve got involved, people doing the great walks of New Zealand is up, you know, 31 percent in 4 years. That’s good for DOC in terms of income that they get through the huts but it’s assets—it’s money that is being redeployed back into biodiversity projects in those great walks.

Carbon is the biggest challenge because, there’s no doubt about it, we’re a big hydrocarbon consumer and polluter. Our global aviation is probably 2 to 4 percent of greenhouse gas emissions around the world, but aviation is good for business, you know, in terms of social, people-to-people connections as well. But we have this environmental problem that we’ve got to deal with, and so the way through that has been more fuel-efficient aircraft, much better efficiency of flying pathways and routes. We’ve explored alternative fuels. The sad reality is that no alternative fuel to hydrocarb petrol has really existed or come to commercial scale anywhere in the world, and so the real opportunity for us—we’re moving to electric vehicles in our ground team as well as our company car fleet. I’ll make some announcements about that shortly.

But the real opportunity is how do we find a way to do really meaningful carbon offsetting and do it in an investment way? So we as a Kiwi company could go out and buy a truckload of cheap Eastern European carbon credits, but that doesn’t become mutually reinforcing to the economic—the system in New Zealand. So what we’ve started in the last 6 to 9 months is conversations with iwi, for example, that have degraded land across the country, and we’re working with them to say: “How could we get a carbon benefit through regeneration of that land? How do we get better biodiversity? Can we build a tourism business in that estate?” and actually get a layering of economic, social, and environmental benefits and trying to create an investment model around carbon offsetting here in this country to improve this country’s assets, not someone else in another part of the world. So a lot of work to do.

What we’ve done is we’ve created a group that we call our critical friend—our Sustainability Advisory Panel has Sir Jonathon Porritt, that chairs it; Dame Anne Salmond; Derek Handley; Brian Pearce, an economist who’s another leader in alternative fuels. It’s a really good group, and it’s there as a challenge every 6 months to Tony and I and the business—are we doing enough on that agenda? Separately, our board review our sustainability practices and our agenda every 6 months as well, and then we’re publishing everything,warts and all, once a year with our sustainability report, which our first one was in August. So, more to do, but it’s not a “Kumbaya” issue. It’s not an issue we should be freaked out and scared about; we should be actually really positively engaging and going forward and trying to solve it in very constructive ways. We won’t all agree on every single aspect of it, but
we should be able to get a broad coalition of people coming from different walks of life politically, business, community-wise to actually deal with the issue.

Bishop I’ve got a question about the Virgin alliance—so I think about 5 years ago Air New Zealand said that it was too early to assess the alliance and whether or not the benefits had accrued that you thought it would. So, 5 years on, can you just provide a comment about how the last 5 years have gone for that alliance and how it’s delivered for you?

Luxon Yeah, there’s three aspects to our relationship with Virgin. One is the shareholding, obviously, up to 26 percent share of Virgin Australia—the largest shareholder. The second aspect is—as you identified—the alliance, and the third aspect is, in the back end of our business there’s a lot of operational synergies. For example, we maintain all their narrow-bodied aircraft in Christchurch at our facility there, which has secured good jobs there. We’re working with our unions. We’ve created a facility in Nelson to do similarly on turboprops.

But the alliance has worked really well because, essentially, the problem in airlines is that—alliances work for two reasons. One is to give greater connectivity for our customers. So from Air New Zealand’s perspective, sitting in New Zealand, we can’t do world domination from here in an airline sense. It doesn’t make sense. So we have to find partners to be able to offer that connectivity through for our customers. The second thing, to be honest, Chris, is that we’re actually working—the reason we do it is for sales and distribution reach. So, again, you know, Virgin salespeople, who know every point of sale within Australia, and Air New Zealand salespeople, who know every point of sale, travel agents, or people we sell tickets through—we can use our respective sales forces. We could never create that sales and distribution reach on our own if it was us just running around in Australia.

So our view is it’s working incredibly well. Obviously, we’re up against some pretty big competition. We’ve got the Qantas group, that’s now in relationships with Qantas, Emirates, American Airlines, and China Eastern, but we’re more than holding our own and competing very well. Together as an alliance we have about 51 percent market share across the Tasman. So we think it’s working well, but it works for connectivity benefits and, secondarily, sales and distribution benefits. You can imagine when you think about alliances with China, we’ve just signed a deal with Air China that’s collaborative—you know, it’s a revenue share alliance as well—that’s been really important because there’s no way that we would have got services from Beijing to New Zealand without us being in an alliance, because I could send hundreds of New Zealanders up to Beijing, but there are thousands—tens of thousands—of travel agents and we would never have any of the reach or in-depth knowledge to sell for us.

So alliances—you know, service agreements open up markets, but the alliances and the airlines operating them actually is what’s commercialises it, and I can tell you that we wouldn’t be in Beijing, we wouldn’t be in
Singapore, we wouldn’t be in Buenos Aires, we wouldn’t be in Houston without an alliance partner at the other end helping us build our presence.

Foster-Bell Congratulations on a blemishless audit report over the reporting period, but my question comes to, actually—it touches on things that have come out of the previous line of questioning from the Opposition, around sustainability, efficiency, but also around the competitive pressures and whether you think that competitive pressures should—should we see more flights operating out of Wellington, like the recently announced Singapore Airlines Canberra-Singapore link—might see not only a reduction in fares but Air New Zealand perhaps taking on routes which currently are not being operated; and if so, do you have the equipment, with the retrofitting of the 777-200s that would enable you to be able to operate out of Wellington in the same way, for instance, as Singapore is, but perhaps to another destination?

Luxon Yeah, so, is the question specific to Wellington or to New Zealand?

Foster-Bell It is specifically to Wellington, yeah.

Luxon So I mean, the headline, as I said before, is there is a lot of competition. Competition is great; we welcome it. We think it actually makes our business better. We really enjoy the challenge of it. It makes us be innovative and think about what we’re doing. It’s really good for us. It also means that customers get choice, and they get to choose and weigh up our service versus our competitors’, and they get to make the choices they wish.

With respect to Wellington, the challenges in Wellington around long-haul services are quite difficult. So let me be really clear: we are big fans of Wellington; we’ve invested a lot in making sure WOW stays here in Wellington. We put an exhibition together in Te Papa that brought 400,000 visitors to see the Air New Zealand 75th exhibition. We have massive marketing programmes to Australians to come in here for long weekends, but we are not supporters of extending the runway, and for a series of reasons.

And the first is that the Wellington population hub isn’t big enough to actually support the traffic that we would need to make that happen. If you’re Air New Zealand—or, frankly, any airline in the world—trying to think about a daily service from Wellington to anywhere else in the world, you need to understand this is a $350 million capital decision. You need two long-haul aircraft. They cost you $150 million just in expenses to run those for the year. And you need to fill—they give you 200,000 seats—we need to get 80 percent of them covered, filled every flight just to cover your costs. So that’s the airline economics, and irrespective of airport subsidies, city subsidies, ultimately airline economics trump that.

And so our—and we’ve been quite transparent about it—is that we don’t support the runway, because we fundamentally think that $360 million, whether it’s raised by the taxpayer or whether it’s raised by ratepayer—under airport regulations, an airport can actually charge that back to travellers through landing charges and passenger fees, and given we don’t plan to use it, we don’t want to pay for it. And so what we’ve asked for as a
guarantee from Wellington Airport to actually say: “no use, no pay”. And we haven’t been able to secure that.

The good thing is that Wellington has some really good connectivity—outstanding connectivity—better than any part of the country, frankly, in terms of the eastern seaboard of Australia, and certainly into Auckland, where those bigger population hubs can support bigger international carriers coming in and out of those markets. And our job is—that’s the commitment that we’re making—is getting trans-Tasman services, getting connections into Auckland working very well.

The opportunity, as we talked about before, around regional platforms, is to think “Well, what does Wellington do uniquely for students, for leisure, for business, for tourists; and, actually, how do we build the platform for this city so that people want to play and study and do business here?”. And certainly $360 million would go a long way in terms of building the proposition of Wellington in order to be able to drive that—create that demand. So that’s the work that we do with, you know, stakeholders here, but I’m being really honest and transparent about where we see the runway and long-haul services out of Wellington.

Nash  Have you received any direction at all from the Government to specifically provide infrastructure to the regions?

Luxon  No. Do you want to talk about our relationship with the Government?

Nash  No, that’s OK. I do note from information I got from the Parliamentary Library—and I’m happy to give it to you; it’s what they came up with—that in 2015 your non-current interest-bearing liabilities increased by about $500 million over 2014, and your total liabilities increased by around $800 million, to over $4 billion, but your dividend to the Government increased by about 200 percent. Have you had any pressure from the Government to increase your dividend at all?

Luxon  None at all.

Nash  Because, Mr Luxon, you talked about paying down debt, and yet your debt has increased but your dividends paid have increased.

Luxon  I’ll let Rob answer the financials just for you, because you’ve asked about the piece of it.

McDonald  Yeah, the debt; clearly, we’ve got a strong investment programme into aircraft, and last year, and even this year, probably the—you know, quite a high spend, heading towards a billion dollars a year; three 787s, A320s, ATRs, all right through. So you’re seeing our fleet age come down quite nicely into more efficient aircraft. So as we buy aircraft and large capital assets, we typically will borrow money at that time. That said, we have started to pay cash for some aircraft as well.

Probably the big feature—as you look in the financial statements, you’ll notice—is the operating cash flow has moved quite significantly in ‘15, and that was a very impressive increase. That certainly is, in fact, higher than our
capital expenditure but allows us to do all those things: invest, repay debt, and pay money across to the shareholders.

Nash So you do see a debt reduction programme taking place in the next couple of years then?

McDonald Well, sorry, when we say we’re not borrowing as much as we normally would’ve in the case of bringing this investment plan in, and then when you look 3 or 4 years out, you’ll see this investment plan taper off quite rapidly as that whole fleet—the 787 fleet’s in there.

Luxon Rob, do you want to talk about gearing and liquidity ratios for Stuart?

McDonald Yeah, so just on the gearing—the gearing moved up. There were a couple of reasons for that. One is currency. So, obviously, the New Zealand dollar coming down. We take leases in US dollars, so as we capitalise those, they rise up. And then also, just the investment programme itself raises it.

Nash I do note that some data sets say that the price of aviation fuel has dropped by around about 250 percent over the last 2 years—and, again, I can give you the information that I’ve got from the Parliamentary Library. I’m just keen to know, in a rough indication, of how much Air New Zealand’s standard airfares, regional airfares on routes without competition, dropped over the last couple of years.

Luxon Yeah, so competitive sensitive information, but I can tell you that average fares since 2009 have been trending down over that period of time. We don’t look at it in terms of lenses of competitive or non-competitive networks. We just—we price for a network and for a proposition going into a town or a city, so—

Nash Based on whether there’s competition or not.

Luxon Based on whether there’s a competitor or not.

Nash Ah, no. We don’t look at it that way; we just at the total network, sort of “What does it cost for us to serve that market?” and actually price accordingly for that. So, you know, we’re seeing—so for example, in your area, we’ve got competition coming in with Jetstar. We’ve actually—it’s not you know, we’ve seen headlined fares that we don’t, you know, we don’t think that. There’s promotional activity, for sure, to get a service up and running, but are we anxious about pricing or think that it’s fundamentally changing what we’re doing? Not really, no.

Nash What would you say to people in the regions—and, you know, this isn’t my words; these are words of others—who say that on routes where there is no competition, that you engage in monopolistic behaviour?

Luxon I think that’s really unfair. I understand the sensitivity and I understand the feeling about not having a choice, but, actually, that’s what I’m excited about—actually having competition—because people will be able to look at our service and proposition versus someone else’s and make their own call, versus us having to apologise for being the only person into that region,
because we actually have valued that community, and we’ve actually valued it by actually saying we will run a service into that.

Competitors—you know, we’re dealing with a competitor that’s got four times more resources and scale than Air New Zealand, has cherry-picked four of the most profitable sort of towns to fly to, but doesn’t service 22 towns across New Zealand and hasn’t made that choice to be able to service towns that I said before, you know, 15 of them are unprofitable, and find a way to actually make service work.

So I appreciate that customers feel that prices are high. As I’ve said, 15 of regional New Zealand’s cities, we’ve been losing $1 million a month for 3 years. People may not like the number, but the number is—you know, it’s the structural economics of airline economics. Eagle Air, that’s been running those routes, is not a largesse or a high cost-base place. It’s really, you know, tapped down in terms of its costs. It’s very efficient. I think it’s a really great regional airline, and it still hasn’t been able to make those networks or those towns work.

But in terms of—you know, the Government has made a bit of a play for the Regional Economic Development Strategy, and I talked to a group of entrepreneurs recently and they said the major barrier to doing business in the Bay, and I’m sure this is the same for a lot of hoteliers, is the price of airfares.

Yes, so I can tell you that what we’re trying to do in the bay, for example, is we’ve got 29 and a half thousand extra seats coming in this year as we move aircraft from 50 to 68-seater aircraft to get a lower cost per seat to be able to get prices down, and looking to be able to meet that demand. Any other airline is completely free to be able to compete and be able to do that as well, but it’s not—it’s the structural reality of turboprop aircraft is an issue around the world. And, as I’ve said, the smaller the aircraft, the higher the cost per seat. It’s no different from when you catch a bus from here to Napier with 50 other people it’s cheaper than when you drive your car from here to Napier. The scale benefits that. So a turboprop network anywhere in the world, whether I’m in Tribeca or anywhere, is very expensive.

What we tried to do, though, Stuart, is a couple of things. One is we have put in place a “gotta go” fare because one of the criticisms, and I think it was a very fair one, was to say “If I’m trying to go from Tauranga to Invercargill and I end up travelling on two turboprop aircraft that’s the most expensive proposition that Air New Zealand has to be able to make that work.” And what we’ve said is “If you’ve got to go, we’re making available fares that are capped at $169 for one sector, $249 for two sectors.” And then we introduced and sharpened up our bereavement policy. So if there’s medical emergency or a bereavement, people are guaranteed a seat on those planes for two sectors or one sector in regional New Zealand at those prices.
Nash: It’s all very nice, but you are telling me it’s pure coincidence that Air New Zealand has dropped its prices into, for example, the bay at the same time a competitor has entered it?

Luxon: So a competitor has entered, has had very sharp promotional pricing—$9 fares, a lot of them into the bay—has not been able to, you know, it’s got 50 percent service levels at the moment. That’s not going to be a sustainable place. That competitor is losing a truckload of money in order to be able to build a proposition.

Nash: So once that competitor goes—let’s say that they do go, so Air New Zealand—

Luxon: Well, the first thing I’d say is that competitor is a business that’s four times bigger than Air New Zealand.

Nash: But if there’s no competition, then Air New Zealand racks the price up again?

Luxon: No, that’s not the case. Air New Zealand will actually have a, you know—is working really hard to make sure that that fare—we’ll react to promotional pricing, which was what we’ve probably done in the bay as well, but, actually, we’ll get back to an organic average price.

Nash: One of the major criticisms was people can see the price of fuel dropping, and you admit it’s between 15 to 20 percent of your cost, which is quite high.

Luxon: Yep.

Nash: And your prices just didn’t drop at all.

Luxon: I don’t think that’s fair.

Nash: But in the bay they didn’t, I can tell you.

Luxon: Yeah, well—

Nash: And so they might have been in routes where there’s competition—you know, your Auckland, Wellington, Christchurch, the big overseas routes—but in routes where there is no competition, you know, my research done by—again, I can hand it over if you’d like.

Luxon: Yeah, I’d love to see it.

Nash: Yeah, it just shows that the headline rate just didn’t—you know, every now and again—and we’re not talking about your Grabaseat ones, we’re talking about the seats that businessmen and women have to buy if they’re doing business outside of the provinces. And that is in the bay, until recently, a major barrier to businesses—

Luxon: Stuart, why haven’t more people come into the bay? Why isn’t there a truckload of airlines in the bay servicing that opportunity?

Bennett: I think Stuart’s asking the questions, OK?

Luxon: Yeah, sorry.
Nash: What I’m saying is now there’s competition, what we’re seeing—and, you know, you can understand the cynicism of people in the bay when, you know, they’re paying $500 return from Auckland and suddenly there’s competition and the price drops and they’re going—you know, it was like when Telecom was the only game in town.

Luxon: Yeah, so all I can say to you is that the evidence that I’ve got is that promotional pricing is really keen, they’ve got 2 million fares for under $100 in New Zealand, 600,000 of them are into regional New Zealand. That’s up 10 percent than what it was just a short time ago. Average fares that I look at over, you know, back to 2009 are saying that we’ve trended our average fare down in regional New Zealand. The difference between an average fare in regional New Zealand and a domestic jet isn’t that different. So I appreciate the perception, but I can tell you we’re not sitting there deliberately thinking about how do we make it tough for regional players in New Zealand to get to the main centres.

Nash: I’m not suggesting that, but what I suppose I am suggesting is what you did is you sit there and thought “OK, these guys have got no options. It’s easier for us to charge high rates here. Let’s look at areas where there is competition.”

Luxon: Yeah, that would be a highly cynical view—you could be sceptical, but cynical is different—and that would not be; that’s not what we’re trying to do.

Nash: I just have—

Bennett: All right.

Nash: I do have one last question, and this is totally unrelated to anything we’ve been talking about. I was talking to an international businessman just the other day, and I mentioned I was coming to the select committee. He wanted me to pass on some feedback, to ask you a question. He says that he is allowed to use—and I don’t know if this is true, so please confirm it—he and his team are allowed to use satellite phones on nearly every other airline but they’re not allowed to use them on Air New Zealand. And he said that means that they simply cannot use Air New Zealand. Now, I do not know if that’s true or not. Can you confirm that?

Luxon: Satellite phones—we typically carry them in the cockpit for, you know, for reasons for tech crew to be able to communicate back to our base. A satellite phone’s not suitable—

Nash: Sorry, so these are for businessmen who need to be in touch with the market 24/7, they’re on the plane, they’re flying from here to US. Sat phones allow them to make calls wherever, whenever.

Luxon: Sure, no, I understand. I’ve used one.

Nash: So are you—are customers allowed to use sat phones on your planes?

Luxon: I’m not sure of that. I can come back and [Inaudible].

Nash: OK, that’s fine.
Bennett Do you want to come back? OK. Andrew Bayly, one last question.

Bayly First of all, thank you for your presentation. It was very good. I'm just wondering, where do you go from here? Because you've made a lot changes to your staffing arrangements and productivity around the labour force, you're benefiting from record-low fuel prices, you've invested heavily into new aircraft and more efficient aircraft and you've committed another $2.6 billion over the next 4 years for new aircraft, and you've achieved fantastic profits. So where do you go from here? Is it just the revenue-growth story from here?

Luxon So there's three ways of looking at this. One is we think there's a huge opportunity in the Pacific Rim. We fundamentally think that the New Zealand story of we're a long way away, it's very difficult, lots of excuses for not conversing or building up a system in the Pacific Rim is not acceptable. We think there is a massively rising middle class. There is some huge opportunities in the Americas, Asia, and Australasia. So there is more city peers for us to actually build out and create demand and actually link back to New Zealand. And I think, you know, we as a generation are sitting on this on this big shift of power from the Atlantic to the Pacific that's unprecedented, and we've got to convert that opportunity. So that's really the opportunity that we have to drive profitable growth commercially.

But what we have talked about internally as a board and executive is saying “We don’t just want to be a really good company, we want to be a truly great and world-class one, and that, for us, when you look at the best companies in the world year in, year out, they deliver superior commercial results and, not or, continue to enhance the customer proposition, and, not or, continue to build the culture of their organisations. Many companies can do two of those three, but they can’t put all three together year in, year out, and that’s our ambition if we’re going to be a world-class New Zealand company taking it to the world.

So we have big improvement in our customer performance metrics. You know, they’re as high as they’ve ever been. Our engagement with our loyalty programmes is great, but there’s more that we can do. There’s more that we can do to build our regional economic development. There’s more that we can do in terms of engaging with improving the customer proposition.

And the same within the organisation. You know, we want to build—we want Air New Zealand to be a talent incubator for really awesome and great business leaders for this country. And so we are investing and taking programmes from around the world and bringing them in to our staff and investing in leadership so that we get better leaders: get better leaders, get better culture, better engagement, better organisation as a result.

So on all those three dimensions—culture, customer, commercials—we’ve got a lot more ambition that we want to reach out for, and we’re not prepared to tolerate things as they are. We want to have stretch, and we want to be very aggressive and assertive about it.
Bennett  Chris, with that, that commercial link, you know, you’re talking a lot about people and tourism. How do you see your role as increasing exports from New Zealand in goods that may be able to be transported to that Pacific Rim? With opening up in trade in that region, you know, there’s potential there for us to really advantage our location for export of food and perishables.

Luxon  Yeah, absolutely. I mean, a good example would be we launched service into Houston in Texas. You know, the reason we’re going there is to open up the mid-west and the east coast of America for people-to-people connections, you know, tourism initially, and that’s how trade starts. First of all you need the people-to-people flows and the tourism flows and then people start to go “Maybe I could send my business there or do some exporting there.” So when we went there, we took you know, leading fisheries, meat, and flowers exporters up there with us in order to introduce them to the market and to think about the opportunities that exist there.

So I sort of see it as sort of flows of people, then you lead to flows of capita, flows of data and information, and that’s how we sort of get the show on the road. So I’m very positive about sort of, you know, getting our people and our exporters out in the world, through our connectivity and them being able to see the opportunities that they can see in those markets.

Bennett  OK, thank you very much for your time, and well done on the good work.
2014/15 Annual review of Airways New Zealand and the Civil Aviation Authority of New Zealand

Report of the Transport and Industrial Relations Committee

The Transport and Industrial Relations Committee has conducted the annual reviews of the 2014/15 performance and current operations of Airways New Zealand and the Civil Aviation Authority 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.

Jonathan Young
Chairperson
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Broadcasting Commission

Recommendation
The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of the Broadcasting Commission, and recommends that the House take note of its report.

Introduction
The Broadcasting Commission was established under the Broadcasting Act 1989 as an independent broadcast funding agency. It funds local television, radio, music, and other media content. The commission operates under the name NZ On Air. It is governed by a board appointed by the Minister of Broadcasting. The board is chaired by Miriam Dean, and Jane Wrightson is the chief executive.

In 2014/15, the commission received a total income of $131.658 million and its total expenditure was $134.530 million. This resulted in a net deficit of $2.872 million (compared with a surplus of $600,000 in 2013/14).

Financial management of the commission
The commission reported a deficit of $2.872 million in 2014/15, largely because of an increase in funding expenditure. As a result, equity has been reduced from $5.439 million at June 2014 to a projected $47,000 at June 2016.

We asked what the ramifications of this reduction will be. The commission told us that it will be able to fund content in other ways, such as through co-partnerships. Considering the constrained funding environment it is operating within, the commission will aim to fund more cost-effective content options. It anticipates reducing the amount of funding it distributes next year.

Some of us expressed concern at the commission’s decision to draw down on reserves. We will monitor this situation closely and look forward to getting an update next year.

The commission’s involvement in various reviews
The Government is conducting the Digital Convergence Review with a view to amending the Broadcasting Act 1989. The commission told us it has not submitted on this review. Nor has it been asked to by the Government.

NZ On Air currently funds news and information programmes on six regional television stations. Because of the fragmentation of an already limited audience between online and television viewers, the commission is conducting the Regional Television Review.

As part of the review, the commission alerted incumbent regional broadcasters that it is closing the current scheme and opening a tender for involvement in a new one. We asked how many broadcasters have produced suitable applications. We heard that the commission does not know yet because the submission date has not closed. However, we heard that 18 respondents will possibly submit proposals. The commission will assess all applications and make recommendations to its board accordingly.
We asked why, given the Government’s review of the Broadcasting Act, the commission is conducting its own funding reviews. We were told that the commission is “unaware that the scope of that review will affect our funding operations at this point”. The commission said it has independence over its funding decisions, and it is appropriate for it to undertake funding reviews.

**Captioning of NZ On Air programmes**

We acknowledge the increase of funding for captioning, and asked what percentage of programmes are captioned. We heard that not all programmes can be captioned because live captioning can be difficult. Of the programmes that can, 82 percent of all programmes funded by NZ On Air are captioned, including 100 percent of those funded for prime time.

**Engagement with ethnic communities**

We asked whether the commission engages with young ethnic producers to encourage them to apply for funding, and heard that it currently does not engage with these producers enough. It would like to do so, but first it needs an appropriate outlet for ethnic producers.

We heard that it is working on its ethnic policy to rectify the situation. We encourage this and will look for an update on this next year.
Appendix

We met on 11 February, 10 March and 17 March 2016 to consider the annual review of the Broadcasting Commission (NZ On Air). We heard evidence from the Broadcasting Commission and received advice from the Office of the Auditor-General. The advice and evidence received are available on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Alfred Ngaro (from 16 March 2016)
Simon O’Connor
Maureen Pugh (until 16 March 2016)

Evidence and advice received
Broadcasting Commission, Responses to written questions, received 15 January and 17 February 2016.

Office of the Auditor-General, Briefing on the Broadcasting Commission (NZ On Air), received 9 February 2016.
The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of the Broadcasting Standards Authority, the Electricity Corporation of New Zealand Limited, Genesis Power Limited, the External Reporting Board, the Financial Markets Authority, the New Zealand Tourism Board, the Real Estate Agents Authority, the Retirement Commissioner, the Standards Council, the Takeovers Panel, and the Testing Laboratory Registration Council 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.

Melissa Lee
Chairperson
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Canterbury Earthquake Recovery Authority

Recommendation

The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the Canterbury Earthquake Recovery Authority, and recommends that the House take note of its report.

Introduction

The Canterbury Earthquake Recovery Authority (CERA) leads and co-ordinates the earthquake-recovery effort. CERA was established under the Canterbury Earthquake Recovery Act 2011. The Act expires in April 2016, meaning that CERA will be disestablished. Its functions will be transferred to other government agencies, including three newly created agencies.

In 2015, CERA had the following three priorities

- to improve people’s well-being and ensure that appropriate support remains in place
- to assist the recovery of the built environment
- to develop and implement the transition of CERA’s functions to other agencies.

CERA’s chief executive is John Ombler, who has been in the role since November 2014. As of 1 February 2015, CERA became a departmental agency within the Department of the Prime Minister and Cabinet (DPMC).

CERA’s disestablishment and transition

In October 2015, the Minister for Canterbury Earthquake Recovery released the Transition Recovery Plan. The plan outlines how CERA’s functions will be transferred. Three new agencies will be created. The first is Regenerate Christchurch, to be jointly run by the Government and Christchurch City Council (CCC).

Regenerate Christchurch will oversee the long term development of Christchurch, and provide a vision for its regeneration. It will develop plans and strategies, monitor outcomes, facilitate investment, and advise the CCC and the Minister for Canterbury Earthquake Recovery. In 2021, management of Regenerate Christchurch will be transferred solely to the CCC.

The second agency will be a new Crown entity. It will deliver major projects and divest land owned by the Crown. It will be commercially orientated and sympathetic to the needs of Christchurch’s regeneration. The third agency is Development Christchurch, a council-led organisation tasked with attracting private investment. Some functions will be given to existing government agencies, including the Ministry of Business, Innovation and Employment, the Ministry of Health, Land Information New Zealand, and the DPMC.

Lessons from Canterbury’s recovery

We were told that various organisations have been gathering the lessons learnt during the recovery. A team in the DPMC is collating these lessons, and passing them onto the new
organisations. These are included in the transition documents provided to other agencies. CERA identified that ensuring the clarity of every agency’s role is critical. This helps facilitate constructive debates between the agencies involved in regenerating Canterbury.

CERA is confident that there will be a good demarcation of roles after it is disestablished. CERA believes that the legislation creating Regenerate Christchurch provides clear direction to the agencies. CERA has discussed the demarcation of roles with the chairpersons of the new agencies, and is confident that they understand their roles. However, CERA expects that unforeseen problems will arise between the agencies.

As part of the transition, CERA has begun either transferring or destroying its documents. Relevant documents will be transferred to other government agencies. CERA has developed a disposal schedule for the remaining documents. The schedule was developed in line with the Public Records Act 2005, and approved by the Chief Archivist.

CERA is archiving about double the amount of its records than the Act requires. In a later written response, CERA told us that it may dispose of some administrative records. This includes phone lists and documents about work not led by CERA. CERA informed us that it will keep material about important decisions, policies and discussion, and any work that may assist in future disasters.

**Christchurch’s social well-being**

One of CERA’s roles is to assist Canterbury’s social recovery. We noted our concern with trends in mental health outcomes, such as

- attempted suicides have increased
- Canterbury has the highest number of emergency department presentations for mental health problems
- some reports have estimated that up to 60 percent of Cantabrians have anxiety-related issues.

CERA has some confidence that mental health outcomes will improve. CERA has a programme, called Community in Mind, that helps agencies improve their health services. The programme has recently begun implementation. We were told that CERA expects earthquake-related causes of stress to decline over time. Stressors include having to move house, change jobs, move schools, and so on.

We noted the Ministry of Health rejected the Canterbury District Health Board’s request for $4.1 million in additional mental health funding. No ministers consulted CERA before making this decision. However, CERA is confident that ministers are aware of the mental health needs of Canterbury. CERA provides quarterly reports to the Minister for Canterbury Earthquake Recovery on Canterbury’s social recovery, which includes mental health outcomes.

**Public relations spending**

CERA spent $1.07 million on public relations campaigns in 2014/15, up from $671,883 in 2013/14. It spent a further $1.6 million on external public relations companies. CERA said that this spend was justified, because communication is a core part of its role. The money was spent on producing accurate information about the recovery effort. This includes

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1 The legislation is the Greater Christchurch Regeneration Bill, which as of 16 March 2016 has not been passed into law.
publications such as “Future Christchurch Update”, a monthly magazine about the recovery effort, which is delivered to every house in Christchurch.

CERA also employs 19 public relations staff, which is more than the Ministries of Health and Education combined. In a later written response, CERA told us that it needed the communications staff for a variety of large programmes and events. Over the same period, there was a reduction of confidence in CERA’s recovery decisions, from 41 percent in 2014 to 29 percent in 2015.

**Anchor projects**

We asked about anchor projects, which are major construction developments in Christchurch’s central city. We were concerned that a small proportion of business cases have been completed for the anchor projects. We were told that a lot of work has been done on business cases, and they are often completed very close to the scheduled construction start date.

It has not been confirmed that a convention centre will be built. CERA is having constructive discussions with Plenary Conventions NZ, the preferred developers of the centre. CERA expects to make a statement on the centre in the first half of 2016.

We were concerned that the Margaret Mahy playground is not accessible for disabled people, and CERA is aware of the criticisms and has made some improvements to the playground. We were told that all anchor projects undergo an accessibility audit during their development. An organisation with accessibility expertise does these audits. We hope lessons are learnt from this process, and that future designs are accessible.

**Earthquake Commission claim**

CERA had responsibility for recovering insurance claims that were assigned to the Crown by former owners of residential red zone properties. We asked whether CERA has received any payments for this claim. We were told that CERA has not.

Until recently, CERA had regular meetings with EQC about this issue. These meetings have stopped because responsibility for the claim has shifted to Land Information New Zealand. CERA informed us that insurance claims for dwellings on Crown-owned properties are expected to be settled in the second quarter of 2016. However, no timeframe has been set for claims for land damage.

**Acknowledgement of Michelle Mitchell**

We note the sad passing of Michelle Mitchell, a deputy chief executive at CERA. We acknowledge her outstanding public service and her work on leading community engagement on the recovery.
Appendix

Committee procedure

We met on 10 February and 16 March 2016 to consider the annual review of the Canterbury Earthquake Recovery Authority. We heard evidence from the Canterbury Earthquake Recovery Authority and received advice from the Office of the Auditor-General.

Committee members

Hon Ruth Dyson (Chairperson)
Sarah Dowie
Kris Faafoi
Brett Hudson
Mojo Mathers
Mark Mitchell

Evidence and advice received

Canterbury Earthquake Recovery Authority, presentation to committee, received 10 February 2016.

Canterbury Earthquake Recovery Authority, responses to written questions, received 29 January and 9 March 2016.

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Recommendation

The Commerce Committee has conducted the annual review of the 2014/15 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, established under section 8 of the Commerce Act 1986.

The commission is New Zealand’s market competition authority and regulatory agency. It is responsible for enforcing laws relating to competition, fair trading, and consumer credit contracts. It has regulatory responsibilities in the electricity lines, gas pipelines, telecommunications, dairy, and airport sectors. Its purpose is to achieve the best possible outcomes in competitive and regulated markets for the long-term benefit of New Zealanders.

The commission’s chief executive is Brent Alderton, and Dr Mark Berry is chairperson of the board.

In 2014/15, the commission received total operating revenue of just under $37 million, compared to budgeted revenue of $42 million in 2013/14. Ninety-four percent of this revenue came from the Crown. The commission’s expenditure was just under $36 million, resulting in a net surplus of slightly more than $1 million.

Proactivity in market oversight and investigations

A major focus for our consideration was whether the commission was being sufficiently proactive with the use of its powers. We received some helpful further explanation from the commission in its replies to our supplementary questions.

The commission can proactively investigate potential anticompetitive or misleading practices, so we asked whether it often does this. We noted, for example, that the investigation into Progressive Enterprises Limited occurred because an MP raised the issue with the commission. The commission told us that an estimated 30 percent of its investigations are proactive.

The commission said it is proactive in getting the information it needs for investigations. It pointed out that it used its new power under the Fair Trading Amendment Act 2013 to apply to the court to enforce an undertaking if a trader is not abiding by its terms.

The commission also mentioned that it uses its compulsory interview and search warrant powers when businesses do not provide evidence of their own accord.

We questioned the commission about whether its focus on consumer complaints represented a shift of emphasis away from investigation of structural competition issues such as those pertaining to sections 36B of the Commerce Act 1986. We noted, for example, high levels of market concentration in several domestic industry sectors (such as building products and supermarkets), and inquired what oversight the commission was
conducting on this form of competition. The commissioner told us that the commission’s activities were primarily guided by complaints received. We would expect that the commission’s broad-based oversight on market competitiveness remains high on its agenda.

**Transaction fees for retail purchases**

We asked about a statement the commission released in 2010 saying it is taking a close interest in the surcharges some retailers have introduced for consumers paying by credit card. The commission’s statement said that it will continue to monitor developments.1

Some of us noted apparent increases in credit card fees by airlines, hotels, telecommunication providers, taxi companies, and many other businesses. We heard that the commission made its statement after a 2009 settlement concerning anti-competitive arrangements between credit card companies and banks, and the fees retailers could charge for credit card transactions.

Before the settlement, retailers were unable to charge a credit card fee to consumers and had to absorb credit card costs throughout their business. This meant that consumers paid higher prices irrespective of their payment method. After the settlement, retailers could charge credit card fees.

We asked the commission what progress it has made on this, because some of us were concerned that the increase in many retailers’ transaction fees may go beyond cost recovery. We heard that the commission monitored transaction fees for about three years after the settlement. We were told that the commission was not aware of any complaints about retailers’ credit card fees increasing. However, it can look at these fees proactively. The commission noted that transaction fees for retail transactions are not currently regulated. It could take action on surcharges under the Fair Trading Act 1986 only if retailers do not clearly and correctly disclose the surcharges to customers.

**Commission’s relationship with TERA Consultants**

We asked the commission about its $1.3 million capped contract with TERA Consultants to build a pricing model for UBA (unbundled bitstream access) and UCLL (unbundled copper local loop) services. The commission changed its determination on copper pricing from the one given in the pricing model. We asked whether it was happy with the services provided by TERA Consultants.

The commission told us that the first round of broadband pricing determinations was set by international benchmarking, as set out in the Telecommunications Act 2001. At the end of this process, telecommunications companies were entitled to demand that the commission build a pricing model for services. TERA Consultants built this pricing model after a tender process.

We heard that, because of technical costs, the price of the local loop went up twice while the commission was making its determinations and receiving submissions from telecommunications companies. These price rises changed the final pricing determination from that initially projected by the model. The commission assured us that it was happy with the model TERA Consultants provided.

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Appendix

Committee procedure
We met on 11 February and 10 March 2016 to consider the annual review of the Commerce Commission. We heard evidence from the Commerce Commission and received advice from the Office of the Auditor-General. Evidence and advice received can be found on the Parliament website www.parliament.govt.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
David Clark
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Simon O’Connor
Maureen Pugh

Evidence and advice received
Commerce Commission, Responses to written questions 1 – 107, received 5 February 2016.

Commerce Commission, Responses to additional written questions 108 – 122, 26 February 2016.

Office of the Auditor-General, Briefing on the Commerce Commission, dated 1 February 2016.

Office of the Auditor-General, audit results for the Commerce Commission, dated 5 February 2016.
2014/15 Annual review of Crown Fibre Holdings Limited

Report of the Commerce Committee

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Crown Fibre Holdings

**Recommendation**

The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of Crown Fibre Holdings, and recommends that the House take note of its report.

**Introduction**

Crown Fibre Holdings (CFH) is a Crown-owned company established under the Companies Act 1993 and listed under Schedule 4 of the Public Finance Act 1989.

CFH was established to manage the Government’s $1.345 billion investment in ultra-fast broadband (UFB) infrastructure. Its main objective is to accelerate the roll-out of UFB to 75 percent of New Zealanders by 2019.

The chief executive of CFH is Graham Mitchell, and the chairperson of the board is Simon Allen.

**The current status of the Rural Broadband Initiative**

**Transfer of responsibility**

The Ministry for Business, Innovation and Employment (MBIE) has been managing the Government’s Rural Broadband Initiative (RBI). RBI aims to deliver high-speed internet to rural communities that cannot be connected to the main UFB network. Responsibility for the extension of RBI is in the process of being transferred to CFH.

We asked whether CFH knew that this transfer of responsibility was going to happen before it was publicly announced, and CFH said it was told a few weeks before the announcement. We heard that CFH had been aware that MBIE was considering whether it would be more efficient for the same organisation to manage RBI and UFB. However, we were told that there were no “overwhelming expectations” that CFH would be transferred responsibility for RBI. CFH told us it is a “sensible decision”.

CFH has not yet received a detailed hand-over briefing from MBIE, because MBIE is still determining the policy settings for the RBI extension. CFH will implement the decisions made by MBIE.

**Resourcing**

We were told that CFH has not asked for additional resources for managing the RBI extension. It believes it is “well geared-up” to cope with the added responsibility. It acknowledged that it may need some extra expertise, but it said that this could be covered within its existing budget. CFH said it is not aware of any plans to transfer resources from MBIE to CFH.

**Submissions on extension**

As part of the decision to extend RBI, MBIE has been running two “Registration of Interest” processes. These allow stakeholders and potential infrastructure suppliers to comment on a range of issues relating to the extension of RBI.
Given that CFH will be responsible for the extension, we asked whether CFH will be responsible for completing the analysis of the submissions received. We heard that MBIE will be completing the analysis because MBIE is responsible for setting the policy on the expansion. When CFH implements the policy it will look for any information that may help to achieve the policy objectives, and will be “using and analysing” the submissions if they are made available.

**Coverage**

Determining which rural areas will be covered by the extension of RBI is central to the project’s success. It is important not to duplicate the coverage achieved in the first phase of RBI. Decisions on the second phase of the UFB roll-out, which will be made soon, will also affect the best coverage for the RBI expansion.

CFH is conducting geospatial data mapping of the first roll-outs of RBI and UFB, as well as the second phase of UFB. It says this will produce “quite an accurate picture” of who has been covered and who has not.

**Update on the Ultra-Fast Broadband Initiative**

**Connecting to the network**

Once fibre optic cables are put in place, the next step is for consumers to connect to the network. We asked how long on average it takes for consumers to connect to the network, and heard that it is about 30 days.

CFH told us that its local fibre company partners are responsible for connecting people to the network. The contracts between CFH and its partners contain targets for the partners. These targets focus on keeping to commitments made with customers, rather than the number of days to connect. For example, Chorus has a target of meeting 85 percent of all commitments. It is currently meeting this target.

Although the average time to connect to the network is about 30 days, we have heard that some customers face longer waiting times. CFH told us that demand for connections has doubled in the past three months, which has put pressure on suppliers.

Installing a connection to the fibre network is “quite an involved process” that requires three workers, trucks, and drilling equipment. Suppliers have had to quickly increase their capacity. While this work is ongoing, CFH told us that its partners are “catching up”. It also said that long wait times would be unusual for households, but may be more common for apartments, where many owners need to consent to the work.

We asked what success in terms of the time it takes to connect to the network would look like. CFH said it is aiming for 30 days for business customers and under 30 days for residential customers. It said apartment buildings will always be challenging, because of the number of consents required.

**International comparisons**

We asked how our UFB network compares internationally. CFH said that when the first roll-out of UFB is completed in 2019, we will probably be ranked fourth among Organisation for Economic Co-operation and Development (OECD) countries for the proportion of the population covered by the fibre network. When the second roll-out of UFB is complete, we will probably be ranked third.
Looking at the proportion of consumers connected directly to fibre, we could rank first. This is because some countries connect buildings to fibre but then use older copper technology to get the internet to consumers inside the building.

**Auckland roll-out**

We asked about the progress made in rolling out UFB in Auckland, and South Auckland in particular. CFH told us that Manukau and South Auckland have been completed, and the roll-out is now focusing on Howick, Onehunga, and Mangere, among other locations.

We also heard that there are a number of challenges in the Auckland roll-out. For example, the population is more spread out than in comparable cities. Volcanic rock and protected trees can also pose challenges. CFH believes that Chorus is “doing a great job” considering the challenges it faces, and it is satisfied that the progress made so far has been “up to standard”.
Appendix

Approach to this annual review

We met on 12 November 2015 and 11 February 2016 to consider the annual review of Crown Fibre Holdings. We heard evidence from Crown Fibre Holdings and received advice from the Office of the Auditor-General. The advice and evidence received can be found on the Parliament website, www.parliament.nz.

Committee members

Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon Judith Collins (until 10 February 2016)
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Simon O’Connor
Maureen Pugh (from 10 February 2016)

Evidence and advice received

Crown Fibre Holdings, Responses to written questions, received 6 November 2015 and 21 January 2016.


Organisation briefing paper, prepared by committee staff, dated 10 November 2015.

Report of the Finance and Expenditure Committee

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Earthquake Commission

Recommendation
The Finance and Expenditure committee has conducted the annual review of the 2014/15 performance and current operations of the Earthquake Commission and has considered the report from the Controller and Auditor-General, Earthquake Commission: Managing the Canterbury Home Repair Programme – follow-up audit. The committee recommends that the House take note of its report.

Introduction
The Earthquake Commission (EQC) has three main functions: insuring residential property against loss or damage caused by natural disasters,1 administering the Natural Disaster Fund and obtaining reinsurance, and facilitating research and education about natural disaster damage and its mitigation.

After the 2010 and 2011 earthquakes, EQC became responsible for the largest managed repair and residential cash settlement programme ever carried out by a single disaster insurer.

EQC marked its 70th anniversary in January 2015. Its chief executive is Ian Simpson, and Sir Maarten Wevers is the board chairman.

We have divided this report into two parts. Part A discusses our annual review of EQC’s performance and current operations. Part B discusses the report by the Office of the Auditor-General (OAG), Earthquake Commission: Managing the Canterbury Home Repair Programme – follow-up audit.

Part A: Annual review of EQC

Financial position
EQC earns its income from insurance premiums and investments. Its main expenses are paying claims and purchasing reinsurance. Any surplus at year’s end is added to the Natural Disaster Fund, from which claims are paid.

Before the Canterbury earthquakes, the balance of the Natural Disaster Fund was more than $6 billion. At 30 June 2015, the fund had a deficit of $424,062 (the deficit was $1.08 million the previous year). Under the Earthquake Commission Act 1993, the Crown is obliged to fund any shortfall.

EQC’s outstanding claims liability fell by $1.8 billion to $2.8 billion as at 30 June 2015. The drop in the outstanding claims liability is largely because of continued settlement payments, totalling about $1.28 billion for 2014/15. The OAG reported that they were satisfied with how EQC determines its claims liabilities. However, because of the unprecedented nature of the Canterbury claims environment and, in particular, the remaining uncertainties around the land settlement process, the OAG’s audit report noted the uncertainty associated with the outstanding claims liability and the corresponding reinsurance receivable.

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1 EQC insures against property damage from earthquakes, landslips, tsunami, volcanic eruptions, hydrothermal activity, flood and storm damage, and fires resulting from these events.
Audit report

The OAG graded EQC’s management control environment as “needs improvement”. It recommended that EQC improve its information-management strategies and controls to ensure that information about claims management and other key performance measures is reliable and consistent.

The OAG graded EQC’s financial information systems and controls as “good”, and observed that deficiencies it identified in the last financial year have been largely resolved.

The OAG graded EQC’s performance information and associated systems and controls as “needs improvement”. Its recommendations are aimed at a lack of data reliability and a general lack of adequate information-management controls within the performance reporting process. We will monitor EQC’s response to the OAG’s recommendations.

Land damage

Some types of land damage from the Canterbury earthquakes are complex to resolve because they cannot easily be seen, such as increased flooding vulnerability (IFV)\(^2\) and increased liquefaction vulnerability (ILV)\(^3\). In December 2014, the High Court confirmed that EQC could recognise and settle IFV and ILV land damage claims. As of June 2015, EQC has about 12,100 IFV and 10,500 ILV properties left to settle.

EQC has developed a policy for resolving IFV and ILV claims that includes settlement by paying “diminution of value”—that is, the reduction in the market value of the property. EQC is still working on a policy for land claims affected by both IFV and ILV.

Land damage and claims liability estimates

Given that EQC is still finalising its approach to resolving mixed ILV and IFV claims and considering the number of outstanding land damage claims, we asked why EQC predicted a reduction of $455 million in its estimated claims liability.

EQC said that it built substantial risk margins into its initial estimates because it was not sure how or even whether it would cover land damage claims. The High Court judgement provided much-needed clarity on the scope of these settlements. More certainty about the actual costs of settlement is provided as more claims are progressed and geotechnical data is collected.

Contract with Fletcher Construction Limited

Fletcher Construction Limited (Fletcher) manages the repair programme on behalf of EQC, including managing the contractors who carry out the repairs. EQC said that it is difficult to measure the value of the repair programme because there are no comparable programmes anywhere else in the world. However, EQC believes that the programme has achieved its purpose of assuring quality because repaired homes are selling well, which it says shows the value of the repair.

We were concerned that having a single entity managing the repair programme amounted to a “monopoly contract” and may not provide the best value for money. EQC said that Fletcher employs about 1,200 contractors, who were selected through competitive tender. This process established clear rates, controlling costs through competitive pricing.

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2 IFV is where an earthquake causes changes to the land resulting in the property being more vulnerable to flooding.

3 ILV is where an earthquake causes land to subside, bringing it closer to the water table, and increasing its vulnerability to liquefaction.
Quality of repairs

In August 2015, the Ministry of Business, Innovation and Employment (MBIE) released a report into whether earthquake repairs to Canterbury homes comply with the Building Code. The MBIE report identified that, of the 74 homes surveyed in the report that EQC repaired, 26 did not meet the Building Code. However, most of the shortcomings were considered relatively minor and easy to fix. As at 19 January 2016, problems have been resolved with 22 of the 26 non-compliant properties.

EQC said that MBIE’s report revealed that the level of quality assurance EQC sought from Fletcher has not matched MBIE’s expectations. EQC said that it is going through a process to remedy this. For example, in the past, EQC relied on assurances such as checking that a contractor was a licensed building practitioner, but it now requires Fletcher to carry out additional checks on its contractors.

Canterbury claim progress

EQC reported that it has completed about 97.7 percent of the repairs in the Canterbury Home Repair Programme. In the last financial year, EQC amended its contract with Fletcher to focus on delayed or “stuck” claims. EQC said that the biggest cause of delay in progressing these claims was engineering resources. Engineers are in short supply, and further delays are introduced when there are conflicting views between engineers. EQC is confident that, with Fletcher focusing on these claims, their progress will be expedited.

Over-cap claims

The Earthquake Commission Act 1993 caps the amount EQC can pay for building, land, and contents damage at $100,000. If a claim exceeds the cap, then the claim is transferred to a private insurer to cover the balance and manage the customer’s repair. In the last financial year, EQC transferred 1,865 over-cap claims.

EQC has transferred 24,527 over-cap claims to private insurers to date, in line with what it predicted in 2013. Although EQC acknowledged that some private insurers are not happy with the referrals, it observed that most over-cap claims were already notified to insurers some years ago, and matched with its predictions.

EQC told us that it has a process where, if a claim reaches 75 percent of the claim cap, a notification is automatically generated in preparation for an over-cap claim. However, EQC said that it had learned lessons about how to engage with insurers better.

EQC could not determine what proportion of its remaining claims may be over-cap claims, but said that approximately 15 percent of claims have gone over-cap in the last 12 months.

EQC and sea-level rise

We asked EQC whether it was investigating extending its current mandate to include claims related to sea-level rise. EQC has been working with Local Government New Zealand to better improve land use. EQC hopes to mitigate some of its risk by planning with local councils about where they allow people to build.

EQC said that, as an insurance organisation, its funds are derived from its policy-holders, not the taxpayer. If it were mandated to insure against sea-level rise, consideration would need to be given to setting appropriate premiums for insurance against sea-level rise.

Appropriate insurance
We are concerned that people may be under-insuring. Under-insurance introduces some
financial risk to the Crown, because, if a natural disaster occurs, it might have to cover what the
policies do not. We asked whether people have enough information to be able to insure
themselves correctly, and what insurance companies could do to promote accurate levels of
insurance.

EQC noted that Canterbury had high levels of insurance, which had helped recovery after the
earthquakes. EQC said that it had a joint interest with private insurers in making sure that
policy-holders have the appropriate cover. However, under the current model, EQC does not
have a direct relationship with policy-holders and relies on private insurers to make sure people
have appropriate cover. EQC observed that insurers have done some work to educate the
public. However, EQC acknowledged that it would need to consider this issue more carefully as
part of its future public education strategy.

Part B: Report from the Controller and Auditor-General, Earthquake
Commission: Managing the Canterbury Home Repair Programme - follow-up
audit
In October 2013, the OAG published a report, Earthquake Commission: Managing the
Canterbury Home Repair Programme. The report concluded that EQC’s management of the
programme had been mixed. Although the programme had been set up quickly and actual
repair costs were well-managed, EQC had not dealt with homeowners well, and project
management costs were high.

The OAG made five recommendations to improve EQC’s management of the programme. It
recommended that EQC:

• improve its auditing of repairs
• improve its communication with homeowners
• refine its key performance indicators
• review the configuration of repair and project management services
• identify and record the lessons learned.

We have now considered the OAG’s follow-up report on EQC’s progress against its
recommendations, published in October 2015.

Auditing repairs
Since 2013, EQC and Fletcher have introduced a range of improvements in managing repair
quality. These include introducing a quality assurance “sampling” process, using industry
benchmarks to inform repair quality, improving monitoring of the performance of contractors,
and introducing “circuit-breaker” meetings to progress difficult claims with complex repair
issues.\footnote{Circuit-breaker meetings involve crucial decision-makers and specialist staff and are designed to progress claims that have been difficult to move forward.}

EQC continues to support good health and safety practices. It has a low number of incidents of
harm and injury compared with industry standards.
EQC’s customer satisfaction is high, with 84 percent of surveyed customers reporting being satisfied or very satisfied with the quality of their repairs. However, the survey does not account for repairs that the homeowners cannot see and is conducted before some defects have time to appear. Customers also tend to be more concerned with finishes than with weather-tightness and durability.

Forming an overall conclusion on the quality of repairs is difficult. EQC estimates that between 8 and 10 percent of repaired homes have needed some aspects of the repair to be remedied. However, the OAG indicated that only two-thirds of repairs get signed off at the first completion inspection without defects or deferred works. The OAG attempted to determine the normal industry rate of rework but could not develop a data-set to directly compare with EQC’s work.

The OAG report concludes that EQC could still make improvements to assess and ensure the quality of repairs. These include having a customer satisfaction survey carried out by an independent third-party, better recording and analysis of information about repair quality, and putting in place a process for learning from complaints.

**Communicating with homeowners**

In 2014, EQC commissioned a report from Linking Strategy to Implementation (LSI) about improving its customer interactions. Since the report, EQC is working to make the customer the centre of its operations.

EQC has introduced a campaign to give homeowners more certainty about their repairs, allowed customers with whom it is in formal dispute to access advice from the Residential Advisory Service, and implemented a range of initiatives for communicating with vulnerable customers. The OAG reported that EQC has improved the quality of communications material from EQC to customers.

The OAG identified several continuing communication problems, including a lack of transparency in EQC’s decision-making, and difficulty in gaining access to the decision-makers. The OAG also suggested improvements to EQC records: EQC’s and Fletcher’s data about vulnerable customers is inconsistent and data about contacts with EQC’s call centre is poor.

**Resolving complaints**

EQC receives between 90 and 120 new complaints about the programme each month. As at 31 December 2015, 667 complaints with EQC’s complaints team were outstanding. Although the overall number of complaints that EQC receives is declining, it appears that complaints are becoming more complex and taking longer to resolve. The average age of open complaints is 155 working days.

EQC has made some significant improvements since 2013 to how it manages customer complaints. It has centralised its complaints to one team and aligned that team with Fletcher’s complaints team. It has also commissioned an external review of its end-to-end customer interactions.

The OAG report acknowledges these improvements but notes that there is room for further development. It reports that EQC has no formal process for using complaints information to improve its processes, has not fully integrated its complaints system with Fletcher’s, and has put too much focus on closing rather than resolving complaints.
Key performance indicators

The OAG reported that EQC has improved its performance reporting of cost, timeliness, quality, and safety. EQC has also strengthened its operational reports with improvements in data accuracy, priorities within the work programme, and additional reporting relevant to the programme.

The key performance indicators demonstrate that EQC has not achieved its planned repair rate. EQC noted that it hopes to reverse its falling repair rates by including new performance measures in its project management service agreement with Fletcher.

Programme configuration

In 2013, the OAG found that EQC’s project management costs were at the higher end of what it considered reasonable. Since 2013, EQC has implemented a new financial information system, reviewed and adjusted the hub configuration of repair and project management services, and signed a contract variation with Fletcher.

The OAG’s report notes that EQC has managed its actual repair costs well, but project management costs continue to be at the upper end of New Zealand indicators and higher than planned. Additionally, overall project management costs are expected to increase because EQC has extended the target for completing the home repair programme indefinitely. (EQC’s original target for ending the programme was December 2015.)

The new contract variation that EQC signed with Fletcher recognises Fletcher’s continued involvement because EQC has extended the target for completing the programme. However, the contract variation also introduces a new set of incentives and performance measures for meeting time, cost, and quality goals.

Lessons learned

According to the OAG report, EQC has started to capture the lessons learned from managing the Canterbury Home Repair Programme. Since 2013, EQC has performed an internal audit of its progress against the OAG’s 2013 recommendations and developed a system to capture lessons from its senior managers. EQC observed that it was able to implement these lessons in its response to the Cook Strait and Eketāhuna earthquakes.

EQC observed that its experience from the Canterbury, Cook Strait, and Eketāhuna earthquakes has shown it that each event and region is different and requires a specific response. However its key lessons centre on establishing better connections with local government and the community. EQC recognises that a long and complex process to resolve claims has caused distress to homeowners and that this has been compounded by dissatisfaction with the quality of EQC’s communications.

Relationships with local government and the community help EQC identify vulnerable customers and the unique needs of the community, support and inform the community, and better plan its management of the situation. EQC also notes the importance of integrating its data systems throughout the organisation and with its partners.

The OAG considers that EQC could also learn to better consider risks—such as anticipating that some of the homes to be repaired contain asbestos—and adapting the programme as circumstances change.

Overall, the OAG report indicated that EQC has demonstrated commitment to improving so that it is better able to deal with large-scale events. We note this and acknowledge the improvements that EQC has made. However, we note that the OAG report highlights issues of
concern and room for further improvement. We will continue to monitor EQC’s progress with interest.
Appendix A

Committee procedure
We met on 2 December 2015 and 9 March 2016 to consider the annual review of the Earthquake Commission, and on 15 December 2015 and 9 March 2016 to consider the Controller and Auditor-General’s report, Earthquake Commission: Managing the Canterbury Home Repair Programme – follow-up audit. We heard evidence from the Earthquake Commission and received advice from the Office of the Auditor-General.

Committee members
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Julie Anne Genter
Stuart Nash
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour

Eugenie Sage replaced Julie Anne Genter for this item of business.

Evidence and advice received
Office of the Auditor-General, Briefing on the Earthquake Commission, dated 2 December 2015.

Organisation briefing paper, prepared by committee staff, dated 23 November 2015.

Earthquake Commission, Responses to written questions, received 13 November 2015 and 22 January 2016.
Transcript of hearing 2 December 2015

Members
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Hon Ruth Dyson
Ian McKelvie
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Eugenie Sage
Alastair Scott
David Seymour

Witnesses
Sir Maarten Wevers, Board Chairman
Ian Simpson, Chief Executive

Bennett    Well, good morning everybody and welcome to the annual review of the Earthquake Commission. Good morning to Ian and Maarten. If you want to just give a brief introduction and then we can open up questions. We’ve got till 10 o’clock. OK?

Wevers    Thank you very much, Mr Chair. Thank you for the welcome. We are very pleased to have this opportunity again to talk through the performance of the commission over the year to 30 June. This year’s annual report, which I’m sure you’ve all had a good chance to look at, sets out the further progress that the commission has made in the past year in dealing with the aftermath of the extended sequence of Canterbury earthquakes. It is a story of continued solid progress to the goal of completing the many varied and really challenging tasks that have confronted us.

The nature and the scale of EQC’s responsibilities in this space is, as you all know, unique globally. Canterbury and New Zealand more broadly have been enormously well served by the very high levels of residential and commercial insurance in the community and the associated reinsurance. It’s the extent of this insurance penetration and the nature of our insurance markets and legislation that has arguably been the biggest enabler of the Canterbury recovery to date. Certainly, the UN identifies insurance as the critical component of disaster reduction, and, particularly, recovery.

That’s not, of course, to say in any way that it’s been easy, simple, or predictable—far from it. The aftermath of the catastrophes has had enormous pressures for all players: private and public, national and local, community and corporate, and voluntary and salary. So it has been a tough journey. It was
always going to be a bumpy road, and it certainly has been. But the board takes very great pride in the fact that our organisation and our staff—almost all of whom came into the commission after the quakes, and they came in in order to help the people of Canterbury—have had a big role in helping Cantabrians to rebuild their lives. We’ve assisted literally tens of thousands of homeowners to repair their homes, and paid out more than $8.8 billion to policyholders for contents, land, and dwelling damage. And this is unprecedented globally.

So the achievements are real, as the report sets out. And if you look at page 12, which gives an indication of how we’re tracking against the main benchmarks that we’re seeking to achieve, even though 95 or 96 percent of the home repairs are done, that doesn’t mean that the job is completed. The end is nigh, but there are still people who are waiting. The wait’s been a long one and certainly the board is fully cognisant of the fact that for many people it has been too long. But I just wish to assure the committee, on behalf of the board and management, that every working day the board, management, and staff, along with our many contractors and partners, are making every effort to ensure that the last claims are settled and repairs completed to the appropriate standard as soon as we possibly can. And our target is June of next year.

So just to recap, we’ve completed 97.7 percent of the repairs in the Canterbury Home Repair Programme, which is an unprecedented campaign and, of course, is not a core responsibility of the commission. That was something that we took up after the events. Ninety-eight percent of cash settlements have been paid. We’ve settled 99.9 percent of contents claims in relation to Canterbury and 71 percent of land claims, 97 percent of flat land simple claims have been resolved, and 98 percent of the land claims in the Port Hills. The focus now, with the land claims, is on payments for increased liquefaction vulnerability and increased flooding vulnerability, which are payments which have never been made under EQC’s policy before and are unique internationally. So it’s been a very big challenge to work out exactly what our liability is and we went, as you know, to the court to seek a declaratory judgment on what the legislation meant.

I would like to take the opportunity to acknowledge here and pay tribute to the Commission’s many partners in undertaking the Canterbury Home Repair Programme in particular. So that is Fletcher EQR as well as our other partners, such as Tonkin and Taylor and GNS Science. There’s been an enormous collaborative effort from many quarters in Canterbury as we’ve sought to address the many technical, regulatory, and legal issues that the earthquakes have thrown up. And I particularly want to thank the literally thousands of contractors and subcontractors, and all of their staff, who’ve been engaged by Fletcher on our behalf. And the workforce in Canterbury has been really dedicated. Many thousands of firms and individual tradespeople are the ones who’ve, in the end, made the big difference for the people of Canterbury. We’ve also, as we’ve come through this process, worked increasingly closely in partnership with community and advocacy groups and organisations such as the local councils and CERA to better engage with and communicate with customers.

Just quickly too, the annual report notes that health and safety has been a very, very big focus for the board—we’ve been running the biggest construction
programme in New Zealand’s history. The target that we set was of no more than six injuries per million hours worked—the average in the industry is 46—and we are well under that target. So our contribution to delivery of safe health and safety practices in Canterbury has been real. There has been enormous effort, and training, and focus on that and I commend the workforce, and Fletcher, and the contractors. There’ve been some very tricky issues but the results are very clear. The annual report also notes the absolutely critical importance of reinsurance for the ongoing financial support for Canterbury and also for New Zealand. In fact, arguably, without the insurance market’s reinsurance, not just Canterbury but New Zealand would have been in deep trouble because, of course, these disasters took place at the time of the GFC. So the fiscal risks were very real but because of the foresight, as I think I have mentioned to the committee before, of the Parliament in 1944 in establishing this scheme, the fiscal shock absorbers for the Crown have deployed very successfully.

Research and education remains a real focus. We do have a very strong role in conducting and undertaking, through contracts and appointments in professorial positions, a range of research across the universities in New Zealand to understand the hazards in New Zealand. And particularly with GNS and Geonet, which is a world-class facility. Over the last year too,EQC has been very heavily engaged in follow-up to the Sendai Declaration on Disaster Risk Reduction, hosting jointly a seminar in Wellington that 300 people attended, and more recently, with BRANZ—Building Research Association of New Zealand—and MBIE, a conference on learnings from Canterbury for the built environment in New Zealand. And there’s more to come. One of the really important things from the built environment conference was that there are many direct lessons out of Canterbury that, in EQC’s view, need to be paid attention to and drawn into practical effort for Wellington and Auckland so we are better prepared as a nation. EQC has a national responsibility and we are working hard to pursue those.

I’d just like to conclude by noting, obviously, the Office of the Auditor-General report, which was tabled in the House yesterday. The previous report in 2013, looking into our conduct of the home repair programme, included five recommendations about how we could improve our performance. That was a report that the board has taken very seriously, as have management, and I’m sure you will have noted that the Auditor-General’s report says that in all of those five areas where recommendations were made, good progress has been made by the commission and its staff and contractors. That does not mean to say, of course, that we’ve reached nirvana yet—it is a work in progress. But I think the constructive engagement we’ve had with the Auditor-General’s Office around the issues that we need to address has led to an improvement of performance. And I’m sure that members will have questions around that. But we’re very happy to take any questions on what has been a very challenging and difficult year. But we’ve made good progress and we’re getting very close to the end.

Robertson Thank you very much. Thanks, Maarten and Ian. My Canterbury colleagues have got plenty of questions to come, but I just want to kick off with a couple. And I want to pick up the point you made, Maarten, about the increased liquefaction
vulnerability and increased flooding vulnerability being unique—new, essentially.
I want to just ask two questions about that. Have you finalised a policy for how
you calculate the diminution of value settlements for when it comes to the
flooding vulnerability?

Wevers Yes, we have, and also for liquefaction.

Robertson For them, both. And the interaction between the two—so if claims are affected
by both?

Wevers Well, if a property is affected by both they will receive a payment for both.

Robertson And you’ve got a formula for that?

Simpson If I can just be really clear—so the overlap of the two, that’s still a piece of work
that we have to do.

Robertson And that you haven’t completed yet?

Simpson Not for the overlaps.

Wevers There are two sets of clients who are at risk, and the fact that you are eligible for
compensation for increased liquefaction vulnerability does not impact on the
fact that you might also be eligible for flooding.

Robertson Yep, I understand that. But you haven’t, at this point, got a policy or a formula
in place for how you will assess where there’s both.

Simpson What we’ve got so far is—the way we calculate the diminution of value
payments is around a matrix that takes a range of factors into account. We have
one for flooding, which we are now using to settle. We literally just got sign-off
from the valuers on the liquefaction model, which we’ll note to the board in the
December meeting. The work as to how they inter-react is still a piece of work
we need to do. But that’s the next cab off the rank.

Robertson Again, because, this is the thing: when we look at this, we are reviewing you up
to 30 June, and at that point you didn’t have the policy sorted. But you obviously
do for part of that now, and there’s a part that you still don’t have finalised. And
you’ve got 22,000 land claims at that point, up to 30 June that hadn’t been
finalised. I’m curious as to how you then make a judgment that you can knock
the best part of half a billion dollars off your ultimate claim bill. You know,
you’ve got an actuarial process that you go through, but isn’t there a huge level
of assumption in that—certainly up to that point?

Wevers Well, I wouldn’t say we knocked half a billion dollars off our estimate.

Robertson You did. Four hundred and fifty-five million if you want me to be precise.

Wevers With respect, Mr Robertson, we haven’t knocked it off. This has been a very
careful process at every board meeting that we have considered the valuation,
and that happens formally twice a year. We take external advice from our
actuarial advisers. In the immediate aftermath of the earthquake the first
estimate of our insurance liability valuation was, I think, $12.2 billion. Every 6
months since then, as we have progressed from having almost no claims settled
and all of them prospective, to having more and more claims settled, because
there were, as they say, risk margins built into the estimates, as we go through
and pay we get more certainty about what the actual payments are. This is standard insurance practice.

And if you look back through our annual reports you’ll find that the estimate of the total liability has progressively dropped. That’s because we’ve had greater certainty about what we actually need to pay. The clarification that we receive from the court through the declaratory judgment established some of the parameters around which we would have to meet our liabilities, and that removed some of the risk. The result of that was that estimates, which had included a risk margin, were then more finely tuned. And that’s the reason the liability estimate has diminished.

Robertson With respect, up to 30 June you still had significant uncertainty, which we’ve just discussed here. What I’m asking is—the confidence—I mean, the model is informed by your own assessments and judgments as well as that of the actuary, and you’ve still got 22,000 outstanding land claims. You didn’t have all of this nailed down. I think Mr Simpson was going to answer, and I’m interested to hear from him, about the process that you used to reach that point and whether you can be certain that you’re in a position to reduce that liability by $455 million.

Simpson Just to build on what Maarten said, the original estimate was purely based on risk. The declaratory judgment didn’t just talk to us about the valuation methodology; it actually confirmed that we cover this form of land damage, full stop. It’s not covered anywhere else in the world; we’ve never had to cover it before. The original estimate included huge uncertainties, because we weren’t even sure if this was something we covered, and then whether a diminution of value approach was an appropriate way to settle the claims if we did cover them. So up until the latest valuation there was just a huge unknown estimate with no real strong inputs into it. Through the declaratory judgment we’ve got far more clarity that we do actually cover these claims.

Also, operationally—just to go back to the previous question—there’s a valuation model, but there’s also a qualification model, because we’re just paying for increased liquefaction risk, or increased flood risk, not absolute flood risk. The geotechnical evidence that helps us let our customers know whether they’re qualified or not has also built over time. So those two factors have given us far more certainty, and, as Maarten said, that’s allowed us to reduce the risk margins—the very high levels of risk margins—that were built into the original estimates. Plus, over the 12 months we’ve settled thousands upon thousands of dwelling claims so that, as we get closer to the end, the 85 percent probability of adequacy that we’re running in the model reduces to a lower level.

Bennett You’ve said a couple of times that there were some things that you’ve covered that aren’t covered around the world, and I presume that means the liquefaction and that. That is covered, though, in parts of the US. It’s even on council reports and everything. How do you reconcile that?

Simpson I mean covered from an insurance perspective. So the California Earthquake Authority, I think, has a US$10,000 grant towards paving and concrete. We can’t find another agency where insurance cover for the value of the land is available.
Tabuteau: I just wanted to ask questions around the discussions with the OAG, and specifically on the auditing of the repairs, the quality of those repairs, and then, because you hear so much in the media, the conversations with homeowners. You’ve reported on it, but I would like to hear directly.

Wevers: I’ll make a couple of comments and then I’ll pass over Ian. The issue of quality of repairs has received some prominence in the media. The fundamental responsibility for repairs sits with the workforce. The licensed building practitioner regime has come in, of course. And the assurance over that is run by Fletchers. And it’s our job as EQC to ensure that our agent, who is Fletchers, has appropriate assurance mechanisms. What is apparent—and I think this is true for all building projects of any nature—is that, across the range of any project there will be some remediation that might be necessary after a project has finished. There are small things that need to be fixed. That has always been our expectation, and it’s always been our expectation that people will come back.

What the recent issues have shown is that the level of assurance that we could take from the work of the licensed building practitioners and Fletchers’ processes over and above those hasn’t matched up with the expectations of the Ministry of Business, Innovation and Employment, and so we are going through a process now to remediate those. But the numbers in general are relatively small and the CEDAR report that Ministry of Business, Innovation and Employment undertook showed that the repairs, the “jack and pack” question, which has been quite a lot in the media—although they certainly need to be fixed, and we will fix them—they were classed in those reports as being minor and none of them were found to be in a position where they breached the consent, or no consent threshold. Ian might want to comment.

Simpson: The first point I’d like to make is the small contractors in Canterbury that have actually done the work, I believe are the unsung heroes of the recovery. They’re the unsung heroes of the recovery. The small contractors—they’re into 70,000 homes and, actually, we’ve heard the homes are still delivering high levels of satisfaction—a huge amount of work that has been done. Again, I can’t find another example anywhere in the world where this has tried to be done. So they’ve done an amazing job.

However, as we know across New Zealand, it’s not a perfect workforce. So our approaches to quality, initially, were to vet the people that came on to the programme to make sure they had relevant qualifications, to work with Fletchers to make sure the relevant checks were in place. And we found over time that, actually, even those checks, relying on things like the LBP, don’t give us the level of quality that we require—that are expected—across the programme. So we had to build—and ask Fletchers to put in—additional checks and balances as we’ve gone along.

Tabuteau: Can I just ask a follow-up, Mr Chair? It is along the assurances, but specifically, for me, the value for money, in terms of contracting Fletchers. What formal audit process has been undertaken, and how have you measured the value that you’ve gotten from such a big contract?

Wevers: Well, the Auditor-General’s report is the principal one. They’ve done that twice. This is an unprecedented programme internationally. I think the value of the
home repair programme is difficult to measure because there is no direct comparison anywhere in the world. This has never been done before.

There is no home repair programme in Japan, there was no home repair programme in New Orleans or in Haiti or Nepal. And this has all been funded through insurance, so this is not a cost to the taxpayer. This is being funded out of the reserves that EQC built up, out of the balance sheets of the private insurers, and reinsurance. So that, fiscally, is an enormous plus. So it’s difficult to make a direct comparison.

Dyson [Inaudible]

Wevers No, it doesn’t. It—

Dyson How does the Government in this case get—

Bennett Ruth, let him answer. He’s answering someone else’s question; we’re coming up to you next.

Wevers So it is very difficult to give a comparison. I think the value for money is “What’s the counterfactual?”. The counterfactual is not having a home repair programme or not having a centralised process for managing it.

And I remember very well, because I was in the process of advising Ministers in a previous capacity at the time. And the purpose of the home repair programme was, firstly, to have some quality across Canterbury—quality assurance processes in place for the repair, to get economies of scale, and to contain cost inflation.

And as the Auditor-General’s report says, one of the great successes of the home repair programme is it’s kept the cost of building and repairing 70,000 houses under very good control, at less than the cost of new builds and at less than the cost of building costs elsewhere.

So that’s a direct benefit to the homeowners, and I note that even in today’s paper, in the Press, it notes that the repaired houses in Canterbury, and the new builds, are selling very well because they are repaired, because the market is judging that those repaired houses have good value. And that’s the ultimate test; that’s been built into the capital value of the repaired houses.

Cosgrove I’m interested in your comments because I recall, when the Minister was here, trying to elicit from him his view on economic theories in relation to competition and monopolies, and I have to say I struggled with the concept that says you would get—I was surprised the Minister endorsed it—that you would get best value for money through having a monopoly contract.

If you look at, say, the horizontal infrastructure stuff that—I’m struggling to remember the name—that was done in Christchurch, where there was competitive tension right through, it has worked exceedingly well. So your comments about best value for money, how do you judge that—when you don’t have any competitive tension; you have, effectively, one supplier—that the taxpayer is actually getting value for money?

Wevers Well, I think—it’s a very good question, and it is—

Cosgrove Mr Brownlee’s view was that monopoly provides the best value for money. In School Cert economics, that didn’t add up for me.
Wevers There are 1,200 contractors to Fletchers. Fletchers is the single provider of management of the programme. And they were selected through a competitive tender, so you go to the market. What was established was some very clear rate powers, so the prices that were paid in the market were competitive to drive cost control. That was associated, of course, with quality assurance processes and other things, and financial management of cash flow.

So—I mean, this was unprecedented. It was complex, and, of course, one of the things that we, perhaps, tend to forget now is that the home repair programme didn’t actually start in full force until 15 or 18 months after the first quake because the ground was still moving, but in that period we did 50,000 emergency repairs for houses in Canterbury, including home heating and removing chimneys and stuff, and 19,000 or so home heating installations.

So they were very, very busy before the substantive programme started. I think there was enormous value generated for Canterbury just from those—the immediate response, more in the response phase of recovery. But there is no perfect model, Mr Cosgrove, to compare this, and I suppose that is one of the things that we’ll have to look at in learning as we go forward.

Dyson Thanks for that. I’ve got two points that I wanted to just tease out a bit. The first one is on the number of outstanding claims that you have and the overcap determinations. I was amazed that in the financial year that we’re looking at you had over 1,800 overcap determinations, and I want to know what response you’ve had from private insurance about getting overcap determinations referred to them in 2015. How are they feeling about that and how are the reinsurers feeling about that?

Simpson The main concern for us is actually the customer in that regard, so it’s to try and make sure we hand over to the customer in the best possible way when it goes over cap at this stage. From an insurance—

Dyson How do you do that?

Simpson All we can do is actually physically sit down with the insurer, hand over all the details, and make sure they understand the process we’ve been through.

Dyson Your concern about the customer—how do you handle that? Tell me about that.

Simpson We just focus on resolving them as quickly as we can. So, actually, the fact we’ve only got, now, I think, 500 people in the repair queue that haven’t got a repair started shows that the way to resolve this is to get to the bottom of—

Dyson In the financial year we’re looking at, you had 1,865 dwellings referred to insurers as over the cap. My question is: what was the response of private insurers to you about that level of referrals in 2014-15, and did they mention any response of their reinsurers?

Simpson We share the reinsurers, and so we talk to the reinsurers. And the last audit we have from Lloyd’s of London, where they looked at this specific issue—because, of course, the insurers are not happy. There are a couple of reflections. First of all, that’s about, what, 7 percent of all the claimants that have gone over cap. Ninety percent of the claimants that were over cap were over cap at the end of 2013. We forecast in 2013 there would be 25,000 overcap claims; that’s roughly where we are. So it’s actually—in perspective of all overcap claims, it was
predicted and predictable, and it's a relatively small number in the context of the total number of overcap claims.

The point of me mentioning the reinsurers is they came to audit us; they went through all the files. Of the sample of overcap claims that they looked at, they pointed out that all of them had already been notified to the insurers, sometimes many years ago. You'll recall that we have a process that if a claim goes to 75 percent of the $100,000 we have an automatic notification. So, actually, it's not—this is something we absolutely have to focus on next time.

We know in general in insurance, when you get to this stage in the process, this is where claim estimates can increase, and we'll need to be a lot better in terms of being better engaged with insurers next time round. However, you have to keep it in context of the overall number of claims and the overall number of overcap claims.

Dyson So what's your prediction for overcap referrals for the financial year that we're in now?

Simpson Well, as I said, there are only 500 claims in the repair queue that we haven't actually got a contractor on site, and there'll be a number, maybe, of the opt-outs that we're still trying to work through.

Dyson What's your prediction for overcap payments for the financial year we're in now?

Simpson I don't have a prediction because we have to go through case by case, claim by claim, and understand the unique circumstances.

Dyson What's your estimate?

Bennett Ruth, he's answered the question. Do you want to move on to the next question?

Dyson He hasn't answered the question, that's why I had to ask it again.

Wevers The fact is there are 69,000 houses or so in the repair programme. The sad reality of it is, is that's always going to take quite a lot of time, and, internationally, 5 years to complete this programme—the reinsurers are very, very impressed with the fact that it's only taken 5 years. It's a terribly long time if you're a customer, but internationally this is unprecedented. And the sad fact is that if you've got 69,000 there's always going to be one claim which is going to be last. And that very last claim may be an overcap claim. We do not know until they're all done.

Dyson Have you done any risk management profiling around the number of overcap claims which you'll refer to insurers this financial year?

Simpson There are two different questions. So every month we provide a report to each insurer showing the number of claims in each of the queues or categories that we have for that insurer. In the financial year we amended our contract with Fletchers to focus them on the claims that were, for lack of a better word, stuck. So I had a range of complexities around that we wanted to get over the line. The biggest risk factor on the remaining claims is with the engineering input. There are delays to finding engineers because it is a tight resource, or there are
conflicting views between engineers. So the reason I can’t give you just an overall estimate is that every single claim needs me to sit down, work through engineers—our engineers, the customer’s engineers—and land on a solution that’s appropriate to that property. We made estimates sometime at the end of last year that we’d move through these final claims far more quickly.

What we’re finding is that given the level of work—we get through about two a day, with a whole bunch of engineers working on these claims to try and get them over the line where there is that level of contention. So all we can say is we’ve got Fletchers now absolutely focused on getting the resources to take those final claims over the line.

In terms of the risk categories, the number of, for lack of a better word, stuck claims in the Fletchers programme is about 300. On average, over the past 12 months, we’ve found about 15 percent of the claims that we’ve settled have gone over cap.

Bishop Obviously, Canterbury and Christchurch are the major focus of your work, but there have been some other incidents in the last year or so—Eketāhuna and Cook Strait, obviously. Can I just ask how you’ve applied the learnings from Canterbury and Christchurch to those incidents—if you have applied them, and, if so, what they’ve been?

Wevers We certainly have, and Ian is better placed to tell you about the operational practices we’ve drawn from Canterbury for dealing with other claims.

Simpson The first thing is community engagement. I think we’ve absolutely recognised that is not an area where we, initially, did particularly well in Canterbury. So, for Eketāhuna, Cook Strait, and Wanganui recently, we actually spent some time to work with the local community before we sent the assessors out on to the ground, to help us get some more feel for where the vulnerable customers might be, the unique situations involved in that area, in that event. And I also spend that time—6-8 weeks—planning before we just charge out and start assessing.

And I’ll also say it is not just outside Canterbury where we’ve learnt those lessons. Within Canterbury too, if you look at the roll-out of the complex land settlement claims—a lot more time spent with community engagement through In the Know Hub and other community sessions that we’ve arranged and set up, a lot more time on the information packs that we’re sending out, making sure we can give as much information as possible before we start actually settling the claims. So that’s probably the main learnings.

Sage I would like to move to a new area, Treasury’s review of your legislation. Did EQC provide any advice to Treasury on expanding your mandate to deal with sea level rise?

Wevers No.

Sage Given that your report—and you’ve also mentioned the foresighted policy initiative in establishing the commission in 1945 after the Napier-Murchison earthquakes—why didn’t you provide such advice?

Wevers Well, that’s absolutely a matter for members of Parliament to assess through the review. Our current mandate is for land damage. The question about whether Parliament wishes to extend that is a matter for Parliament.
Sage: Well, wouldn’t you agree that there’s an expectation of homeowners that there is some assistance available from Government in the aftermath of natural disasters—which, of course, has been provided in Canterbury—and that sea level rise is happening and that there is going to be damage?

Wevers: Yes, but if it’s going to come under the EQC Act—then, to come back to the point that member Dyson was saying, the funds in the EQC system are actually provided not by the taxpayer, they are provided by the policyholders. So if we were to run an insurance scheme around sea level rise, it would be the actual owners of the land who would be paying the premium. It’s not something that comes from Government; it would come from the people who are living near the sea.

Sage: Yeah, I appreciate that.

Wevers: And I don’t know what the premiums would be for sea level rise insurance.

Bennett: Very wealthy houses, for the Greens to [Inaudible]

Wevers: That’s an open question; we don’t have a view on that.

Sage: But are you aware that Local Government New Zealand has called for something similar to EQC to deal with sea level rise?

Wevers: Yes, we are, and we’ve also been working with Local Government New Zealand on their new risk identification entity, because they’re drawing on a lot of the GNS capability, which we fund, which is, actually, we think, a very good thing because a lot of the risks around where EQC faces risks in paying out is because of decisions made by local council about where they allow people to build, about what type of land—and we’ve seen that classically in Christchurch, where some places where subdivisions have been allowed to build have been at high risk, and the consequences of that have been very evident.

So we are very closely involved with local government and Local Government New Zealand and the risk agencies to better improve land use decisions by local councils in New Zealand. But if we’re going to have EQC involved in insuring sea level rise, that immediately means that the reinsurers and the risk people put a price on it, and then they will present a bill to the person who’s got a beachside cottage. The question then would be whether they would pay that bill.

Sage: So in terms of the Parliamentary Commissioner for the Environment’s recent report about preparedness, and the billions of dollars’ worth of homes, businesses and commercial infrastructure, and other infrastructure that’s established in low-lying areas, how does EQC, given its experience in responding to disaster—what thoughts do you have on where we should go with this?

Wevers: Well, that’s not a question that we’ve really given a lot of attention to. I think it’s a good question, so, off the top of my head, I would say, firstly, our focus is residential dwellings. And, again, I come back to the fact that we’re an insurance organisation, so the risk would be priced by the insurers. So it’s probably a question, really, to ask the insurance companies. Do they offer policies now to price people for insurance against sea level rise? I don’t know.
And for infrastructure, that’s not our brief, although, infrastructure providers, local councils, and commercial property owners do draw heavily on the science and research that we fund for homeowners in dealing with their commercial property risks.

In terms of risk, are you aware of the growing concern, and have you done any work or provided advice to ministers, about private insurance de-risking, i.e. capped insurance now that we have as opposed to open-ended, and the many, many cases—and I think the Minister finally drew attention to this after a year of being told about it—where people are, effectively, underinsured because they’re reliant on the calculators and the advice they get from insurers, and unless they get a report and a full inspection, they could be, in some cases that I know of, 80 percent underinsured. Have you done any risk management or advice around that? Because the ultimate [Inaudible] have another one, and then the call goes out to the Crown in some way shape or form to fill that gap.

Well, that’s a very good question, and it’s something that the board is very concerned about. I mean, as I said in my introductory remarks—in fact, somebody said this to me the other day [Inaudible] in Canterbury—that there are ridiculously high levels of insurance in Canterbury, and that has been a fantastic thing for the recovery, quite apart from the disaster. I mean, if you compare the Queensland floods in Australia, my understanding is that only 30 percent of the people had insurance. So viable and well-priced private insurance markets, which give adequate cover, are an absolutely fundamental policy priority, I think, for the Crown, so that they are well regulated and they encourage people to take appropriate private insurance.

I mean, our insurance, just by way of comparison, our premiums have trebled in New Zealand since the Canterbury earthquakes from $67 a year to $207, or whatever it is—and you get full replacement, which is very unusual. At the Sendai UN Conference, nobody could believe the Minister when he said we provide full replacement for houses. In the United States of America, what we would call an excess on a policy can sometimes be quarter of a million dollars in California. So even if you buy insurance with the California Earthquake Authority, you have to pay the first $250,000 of that. So your point is very good. We are very interested to make sure that there are high rates of insurance and we don’t have people underinsuring, or not insuring at all.

With respect, it’s not the high rate of insurance. My concern is about—

The amount.

—with the amount. Because people are diligent. People—to be fair, none of us are experts in this—are either going on a calculator with X insurance company and doing what they should do, or accepting the calculation the insurance company’s made. And yet, I know in a number of specific cases, where people have got a thousand bucks, they get in an assessor—in one case that I know of, they were literally 80 percent underinsured. So OK, on the one hand you could say “Well, it’s Joe Public’s responsibility to go do it.”, but I would have thought there’s a huge responsibility on private insurers—

With us.
Cosgrove Yeah, but this goes directly to the risk management and the pressure the Crown may come under if you have another big one and suddenly you think you’re insured to rebuild a three-bedroom house and you’re building a one-bedroom tree house. And the question I’ve got is: are you putting any pressure on the private funds? Because I think it’s easily fixed. They should go and assess a quantum of houses, match it against their calculation prices, and then if there’s a major gap, then, sadly, they’re going to have to increase the amount that they calculate. But they’ve capped, they’ve de-risked, and they’re leaving it right to the punter to make the assessment.

Wevers We have a joint interest with the private insurers in making sure that there’s high penetration and that it’s the appropriate cover.

Cosgrove Are they responding?

Simpson I think they recognise the issue. I don’t want to speak for them, to be honest. There has been some education from the private sector. I think as we look at our public education strategy for the coming years, we need to think very carefully about whether that’s a significant part of what we do as well. Because I think it is a risk for homeowners across the country.

Cosgrove Can I ask you a final question? I just want to read you a quote from your website on 4 September 2014. It was a media statement, the title of which was “Two major EQC repair milestones reached”. Quote: “This isn’t … about the scale of the job, it’s been about high [quality] standards which property owners can count on,” Do you stand by that quote—it’s actually from your Minister—given that we were given huge assurances from the Minister when the EQR contract was put in place that people would be vetted, monitoring would take place, high-quality repairs would happen? And now we have huge questions in place.

The second point is a practical one. If a person raises an issue about a repair from X tradesperson, in relation to, say, foundations, and they are found wanting, will EQC then check all the other repairs in that particular dwelling if they are executed and actioned by that some tradesperson?

Wevers Well, certainly we stand by the quality assurance—and, as you know, L V Martin used to say, the putting right counts. Most of the repairs are to a high level of quality, but it’s not all to a high level of quality and that’s what we’re addressing and that’s what the MBIE survey showed up. And where complaints are raised and where there are issues that present themselves in relation to particular contractors, then we go through to put it right. The first call is on the contractor, if they’re still around—some of the contractors may no longer be working with us. But those things will be fixed; that’s our commitment. And we’re delivering on it.

Simpson In terms of the second question, so we’ve also now adopted the underfloor robots, we call them ferrets, with the cameras. So when we are re-inspecting a home that’s been fixed by a certain contractor, we give the homeowner full visibility videos, photographs of all the work that’s been done under the house.

Cosgrove If the question is about, say, one aspect and then you find out that not only did they do the foundation, but they did other structural work or whatever—same contractor—will you inspect the other work that was done, not just the piece
that was called into question, because if he’s a cowboy in that area, he may well be a cowboy in another. Will you do that? Are you doing that?

Wevers  EQR take the principal responsibility, but that’s our expectation.

Simpson  We’re not going to do destructive testing, if that makes sense. We’re not going to be ripping off plasterboard that’s been put on walls to recheck that.

Cosgrove  Can I ask why? Because—just a practical point; people have raised it with us. So, you’re worried about a particular repair in, say, a foundation, and then you realise that Joe’s done behind-the-wall stuff as well, so the natural human reaction is “Well, if he stuffed that up, what else has he stuffed up?” But you aren’t actually going to check—

Simpson  Because the finding of the MBIE review was actually, most of the cases they found were minor lack of compliance with aspects of the code. They were in no way structurally—

Cosgrove  After they’ve been through one repair that’s been botched, they identify that and then it’s fixed. For the reassurance and confidence of the punter, the person, don’t you owe them a duty of care at that point to say “Well, OK, this is the second time you’ve been through this. We’re going to check everything this guy’s done.”?

Simpson  I’m sure the customer doesn’t want us to be, basically, ripping the lining off their walls to start all over again. In terms of the level of quality, if I can—actually, MBIE have said, in the press conference where we talked about the MBIE report, the borderline for them between a marginal repair and one that didn’t miss this code was “10 piles have been fixed and there’s one missing nail”. I think if you ran that level of quality control over all houses in New Zealand, you’d get a slightly frightening result. So these are not in any way structurally dangerous. If there was a structural issue, it’s been through a full council consent.

McKelvie  I just want to go back to the previous question about the performance of private insurers. You must notice a vast difference in the performance of various private insurance companies as you go through these propositions. In other words, there must be a big difference in the advice private insurers are giving to clients. Does that concern you?

Wevers  Well, I was thinking as Mr Cosgrove was speaking that, actually, one of the challenges for EQC, because the primary interaction between a homeowner and the system is with a private insurer, we don’t actually know how many people in Wellington are insured or how many people in Christchurch. It’s not until something happens and they come to us that we know. So that data is not shared with us. So in the case of the private insurance—we don’t really know that stuff. That’s between the private insurers and their clients.

McKelvie  I guess my question—I’ve spent a lot of time in the insurance industry—I guess my question relates to the fact that you’ve got to pick up the bits at the end of this and you’re then relying on the initial contact that you’ve had nothing to do with. Is that a concern to you?

Wevers  It is a concern and, most classically, it was a concern for the Crown, in the failure of AMI.
McKelvie    Will you make representations on that basis?

Wevers    Well that would be putting us into a direct relationship with the customer and that’s not the current model. So, you know, I don’t know that that’s being proposed for consideration by select committee. I don’t think it is. I mean, we are—as you say—we are there to pick up the pieces after something happens. So the principal relationship is with the private insurers and the whole model is about driving private insurers. In fact, it’s very good for private insurers in New Zealand, because there’s an incentive for them to grow the business, because people want the earthquake cover. That’s the nature of the model.

Sage    After the Whanganui floods—there was sort of media coverage of people not having insurance because they’d heard all the hassles people in Christchurch had with the insurance companies and with EQC, therefore they hadn’t got insurance. Did you pick that up as an issue there, when you were dealing with claims?

Wevers    Not really, but there were some comments in the media about people concerned about the extent of cover that they had. But actually that was because the cover that they thought they had was outside the terms of the legislation. We’re not running commercial contracts. We have to deliver on the terms of the legislation—nothing more, nothing less.

Bennett    OK. Thank you very much.

__conclusion of evidence__
2014/15 Annual review of the Electricity Authority
Report of the Commerce Committee

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Appendix 5
Electricity Authority

Recommendation

The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of the Electricity Authority, and recommends that the House take note of its report.

Introduction

The Electricity Authority is an independent Crown entity established under the Electricity Industry Act 2010 to provide regulatory oversight of the electricity sector. Its 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 responsible minister is the Minister for Energy and Resources, and the authority is mostly funded by appropriations from Vote Energy. The authority’s chief executive is Carl Hansen. Dr Brent Layton is chairperson of the board.

In 2014/15, the authority’s total revenue was $71.69 million (most of which came from appropriations under Vote Energy). Its total expenditure was $71.093 million, resulting in a net surplus of $597,000 (compared with $373,000 in 2014/15).

The authority’s effect on the market

The authority said that it has increased the inclination of consumers to switch electricity providers, which has “really stimulated competition”. This has allowed new players in the market to make more progress.

An independent study of the authority’s “What’s My Number” campaign by economic consultancy firm Covec found that the campaign’s effect on competition was limited. However, the authority said that the study failed to include the discounts retailers offered customers as a result of the campaign.

Views on the lines companies model

Twenty-nine lines companies distribute electricity from the main grid to consumers throughout New Zealand. We asked the authority whether it has any concerns about the way the lines companies model works.

The authority said that a commonly held view is that opportunities for economies of scale are being wasted because there are 29 lines companies and that perhaps there should be fewer lines companies. However, the authority said that “it’s not as straightforward as people think”. Local organisations can be more nimble and responsive than larger ones.

The authority also cited examples of economies of scale being pursued. Powernet in Invercargill runs five lines companies, and Northpower conducts business throughout New Zealand and in Australia and the Pacific Islands. The authority said that is has a project planned for the future that will look more closely at the lines companies model.
Paper recently published on distribution pricing and new technologies

The authority recently released a consultation paper that discusses how the price consumers pay for the distribution of electricity from the main grid is determined and how this could be improved. The paper also focuses on the way distribution pricing may impact new technologies such as household solar power generation and battery storage of solar power, and how these impacts could affect the electricity market as a whole.

The paper says that electricity pricing should work the same way as broadband internet pricing. It should give customers the ability to choose a price that is in line with the service provided, rather than being fixed at a certain price regardless of usage.

Views on the low fixed charge

Currently, some customers pay a low fixed charge for a fixed amount of electricity. If they go above that amount, they pay extra at a higher rate. We heard that the low fixed charge was introduced to assist people with relatively low or fixed incomes to moderate their power usage.

We asked the authority what it thinks of the low fixed charge. The authority said it does not think the low fixed charge is achieving its aim and labelled it “unhelpful”. However, it does not see the low fixed charge as a legal or technical barrier to the recommendations in the paper, as some companies have claimed it to be. It believes the issue has been “overblown by the lawyers”.

Views on small-scale solar generation

Some responses to the paper have claimed that it has an unfavourable view of household solar power generation. We asked the authority whether it thinks people should stop putting up solar panels. The authority said no and that it is not “anti-solar”.

It does think that it is important to be careful to accurately work out the “real costs” of solar power in terms of the impact solar power could have on the electricity market as a whole. In spite of this, the authority said it is “actually quite supportive” of solar power. We heard that changes made to how people get permission to install solar panels have made it a lot easier for them to do so.

We also questioned the fact that the paper did not take into consideration how the pattern of people’s electricity consumption can change when they switch to solar power. The authority told us that it had recently received data from Queensland, Australia, that did not support the “presumption that people have made in the past” about how consumption patterns change when people switch to solar power.

Questioning the transmission pricing model discussion paper

In June 2015, the authority released a working paper on how the cost of transmitting electricity could be better shared among the regions of New Zealand. One proposed option would see consumers in Northland and the West Coast paying more for electricity and consumers in Southland, including New Zealand Aluminium Smelters Limited, paying less.

We heard that although some of the options would increase prices for Northland and the West Coast by a large percentage, these regions currently pay relatively low prices in absolute terms. The authority said that the prices paid by consumers in Northland and the West Coast are low even when compared to customers who live much closer to where the
electricity is generated. This suggests that “there might be something wrong” with the transmission pricing model.

**Security of electricity supply over the next few years**

Recently, there have been announcements that some power plants are planning to close or are considering closing in the next few years. The authority told us that this could affect the security of the supply of electricity, and we asked the authority whether there is cause for concern. It said that the market will need to respond by 2019 but that there is plenty of time for that to happen.

The authority expects there to be a lot of “to-ing and fro-ing” in the next few years, but it is confident that the market will respond. It said recent media comments from Genesis and Meridian could be described as “pre-negotiation positioning”, because those companies have a contract that is due to expire in late 2018. The authority is currently reviewing whether it has the right incentives in place to encourage a secure supply of electricity and will be keeping a close eye on the situation.

**Comparing New Zealand’s electricity prices internationally**

We asked whether New Zealanders are charged too much for electricity when compared with other countries. The authority said that this is difficult to determine without knowing what subsidies other countries have provided companies to build power plants. It said that New Zealand has historically offered very few subsidies. However, New Zealand remains in the bottom third of Organisation for Economic Development and Co-operation countries in terms of power prices.
Appendix

Approach to this annual review

We met on 19 November 2015 and 11 February 2016 to consider the annual review of the Electricity Authority. We heard evidence from the Electricity Authority and received advice from the Office of the Auditor-General. The advice and evidence received can be found on the Parliament website, www.parliament.nz.

Committee members

Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon Judith Collins (until 10 February 2016)
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Simon O’Connor
Maureen Pugh (from 10 February 2016)

Evidence and advice received

Electricity Authority, Responses to written questions, dated 16 November and 18 December 2015.

Office of the Auditor-General, Briefing on the Electricity Authority, dated 19 November 2015.

Organisation briefing paper, prepared by committee staff, dated 16 November 2015.
2014/15 Annual review of KiwiRail Holdings Limited and the New Zealand Railways Corporation

Report of the Transport and Industrial Relations Committee

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KiwiRail Holdings Limited and the New Zealand Railways Corporation

**Recommendation**

The Transport and Industrial Relations Committee has conducted the annual review of the 2014/15 performance and current operations of KiwiRail Holdings Limited and the New Zealand Railways Corporation, and recommends that the House take note of its report.

**Introduction**

KiwiRail Holdings Limited and the New Zealand Railways Corporation are part of New Zealand’s transport sector, which includes rail, road, air, and sea transport.

**KiwiRail Holdings Limited**

KiwiRail Holdings Limited (KiwiRail) is a State-owned enterprise that owns and operates New Zealand’s rail transportation network and a ferry service between the North and South Islands. It is responsible for the financial performance of the Crown’s investment in rail operations.

In 2014/15, KiwiRail returned a net loss before taxation of $166.5 million (compared with a loss of $248 million in the previous year). The loss arises from the impairment of KiwiRail’s assets as the network does not generate sufficient cash flows to cover the level of required investment and a large proportion of the accounting value must therefore be written off each year.

KiwiRail’s operating surplus for 2014/15 was $90.5 million. This was 17 percent up on the previous year but 22 percent less than forecast.

KiwiRail is governed by a board that reports to three shareholding Ministers, the Minister for State-Owned Enterprises, the Minister of Finance, and the Minister of Transport.

The Chairperson of the KiwiRail Board is John Spencer, and the Chief Executive is Peter Reidy.

**New Zealand Railways Corporation**

The function of the New Zealand Railways Corporation is to make railway land available to KiwiRail in accordance with its powers under the New Zealand Railways Corporation Act 1981. The corporation is a State-owned enterprise, but it is not expected to derive any return from railway land or to operate a rail business.

At the end of 2014/15, the corporation had a net surplus of $3.179 million (compared with a deficit of $1.896 million in 2013/14).

The board of the corporation reports to the Minister for State-Owned Enterprises and the Minister of Finance, who are its two shareholding Ministers.

The chairperson of the corporation’s Board is John Spencer, who is also the chairperson of the KiwiRail Board.
We heard from KiwiRail Holdings Limited and the New Zealand Railways Corporation at a joint hearing on 2 February 2016.

**KiwiRail funding model**

We were interested in the present funding model for KiwiRail.

KiwiRail told us that there is not enough demand for rail in New Zealand to generate enough revenue for it to be wholly self-sufficient. We heard that its revenue covers the operating side of the business, which is running the train and ferry services. KiwiRail noted that the Government makes a contribution to the costs of the tracks and structures.

KiwiRail said that, generally, the Government needs to put about $200 million a year into KiwiRail’s network. The Government has remained committed to funding for 2015/16 and 2016/17. It has not confirmed funding beyond 2016/17.

KiwiRail suggested that it would like to see a permanent funding model developed, perhaps similar to the road-user tax.

**How capital expenditure is spent**

We understand that KiwiRail’s capital expenditure in 2014/15 was about $293 million. We asked what it had spent this money on and what it was likely to use capital expenditure for in the future.

KiwiRail told us it has had a substantial tunnel remediation plan in place to meet new legislative requirements. The vast majority of capital expenditure goes into maintaining and upgrading the rail network. KiwiRail pointed out that its 4,000 kilometre network will always need some sort of ongoing capital investment.

Some of us are concerned at the differing maintenance categories applied to the network.

KiwiRail is predicting that the amount it requires for capital expenditure will drop as the organisation starts to improve its productivity gains and the network is improved as a result of past and present government funding.

**The “true value” of rail**

KiwiRail said that—as well as reducing road maintenance, easing congestion on roads, and increasing road safety by taking freight off the road network—rail’s true value can be seen in its lower carbon emissions than road transport. Although its freight fleet includes diesel locomotives, KiwiRail noted that it emits less than 0.2 percent of New Zealand’s total carbon emissions.

KiwiRail also takes a wider view of the true value of rail and believes that becoming part of an integrated land transport network would enhance its long-term sustainability.

We look forward to receiving the report “the true value of rail”.

**Developing KiwiRail for a sustainable future**

KiwiRail believes that it is important to futureproof its business for future jobs and generations. It intends to do this by adapting to the changing nature of rail networks and increasing the emphasis on integrating rail into wider transport planning and investment.
An integrated transport network

KiwiRail is simplifying its operating model and standardising its assets after a 2014 commercial review. As part of this, it told us that it wants to make it easier for its customers to switch their freight between road, rail, and ships through a reliable, integrated transport network.

One of the ways it is achieving this is with intermodal freight and standardised intermodal wagons. We heard that KiwiRail is developing containers with other large freight operators. These containers can be carried on, and easily transferred between, ship, road, and rail. This would mean that the present rail-compatible Interislander ferries, which are costly and very difficult to procure, would not be necessary. This would be more cost-effective, particularly in terms of maintaining a standardised asset and reducing supply chain costs.

KiwiRail also told us that it is making progress with the New Zealand Transport Agency on an integrated land transport strategy that would make optimal use of investment in transport infrastructure.

We look forward to receiving the analysis of an integrated transport network with interest.

Asset utilisation

After its recent restructuring, KiwiRail created the role of Group General Manager Asset Management, Engineering, and Innovation and adopted an asset management policy. We understand that this will leave the organisation better placed to manage its assets.

KiwiRail told us that it will minimise costs by developing its use of intelligent assets. In two years’ time, Sydney trains will be driverless and KiwiRail is looking to overseas’ models such as this to see what changes it could make to lower the cost of operations.

We heard that KiwiRail is benchmarking itself against international companies such as Pacific National and Aurizon in Australia to see how it can further reduce its costs and improve its use of its assets.

Electrification of the rail network

New Zealand was a party to the 2015 Paris Agreement to reduce climate change. Therefore, we asked KiwiRail whether it is considering extending the electrification of its rail network in an effort to move away from fossil fuels and reduce emissions.

KiwiRail did not say it would extend the electrification of the rail network. It said it could keep its present mix of electric and diesel locomotives or it may move to just diesel. It would still maintain the electrification infrastructure.

KiwiRail told us that its emissions have dropped by 12 percent during the last two years. It said that it has also reduced fuel tonnage by 400,000 litres and CO₂ emissions by 1,100 tonnes during the last year. It considers it is building a sustainable platform for its business.

Restructuring and organisational change

Restructuring has been taking place at KiwiRail in response to the 2014 commercial review. We heard that staff numbers have been reduced. Two years ago, KiwiRail employed 4,200 staff. This year, it has around 3,700 staff and it eventually intends to reduce to 3,400.

We understand there have been 32 change programmes at KiwiRail during the past year. We were concerned about this and asked how the changes and job cuts are affecting staff.
morale. KiwiRail agreed that this much change had been hard to cope with. However, it believes that staff understand that the organisation has a business imperative to become more efficient. It told us it has been working with unions during the change processes.

**Declining income from freight services**

In 2014/15, freight accounted for 60 percent of KiwiRail’s income. However, the organisation’s freight revenue fell by 6 percent in 2014/15, and it also declined in 2013/14. We asked KiwiRail why freight volumes on rail are dropping despite an increase in freight movement in New Zealand.

KiwiRail said that its rail service primarily transports “bulk” freight. In New Zealand, this is mostly coal and bulk milk. The organisation pointed out that freight revenue in New Zealand has very little diversification. It said that Solid Energy and Fonterra decreased rail freight volumes in 2014/15, which had reduced its revenue.

Solid Energy going into voluntary administration in August 2015 resulted in a minimal amount of coal freight. This consequently affected KiwiRail’s revenue. We heard that, two years ago, coal generated $50 million a year in revenue for KiwiRail but that this has now dropped to $23 million.

KiwiRail told us it is predicting another fall in freight revenue for 2015/16.

We asked KiwiRail whether it was exploring forestry, and the transporting of logs, as an area to potentially increase revenue.

KiwiRail told us that it was experiencing growth in this area. For example, it now moves about 32 wagons of logs a day into CentrePort. Three years ago, it moved about six wagons a day. It is also working successfully with forestry companies to get them to commit to capacity-based fixed-term contracts.

Unfortunately, a large part of the forestry growth in New Zealand is in provinces where rail is not available. KiwiRail told us that, in the future, it would look at extending its rail network in areas such as Northland if there was a demand for it.

Some of us are concerned that KiwiRail stated during the hearing that there is no rail north of Whangarei. A subsequent announcement shows the rail exists but KiwiRail have cancelled contracts for freight movements on that track.

We will continue to monitor KiwiRail’s developments in New Zealand’s provincial regions.

**Zero Harm strategy**

KiwiRail acknowledges that there are inherent risks associated with its business and that in the past it has had problems with safety. Its new Zero Harm strategy aims to embed a culture of safety within the organisation to address these risks. This involves encouraging staff to care for and protect each other, the business, the community, and the environment.

The strategy is proving successful, and we are pleased to note that KiwiRail reported a 50 percent reduction in total recordable injury frequency rate in 2014/15.

We asked KiwiRail about its Zero Harm initiatives. It told us that it has engaged its executives and board with the new strategy and culture. It has monthly Zero Harm leadership and executive team meetings that discuss leading indicators, systems changes, and high potential incidents that could be catastrophic.
In the year ahead, KiwiRail plans to increase employee engagement with the Zero Harm strategy. It will ensure that it has good central systems and processes to support employees to take responsibility and make good decisions at the local level.

We will follow the development of the Zero Harm strategy with interest.

**Loss of the Wellington Metro contract**

KiwiRail lost the contract for Wellington’s rail passenger service, Tranz Metro, in late 2015.

The organisation said that it is comfortable with losing the contract because moving from a schedule-rates contract to a performance-outcome-based contract would be a substantial risk if patronage did not grow.

KiwiRail told us that, if it had won the contract, the profit forecast would have been $1 million a year. In 2014/15, Tranz Metro made an operating surplus of $4 million.

We asked KiwiRail whether the loss of the Wellington contract affected its bid for the Auckland Metro services. KiwiRail explained that there is currently no Auckland Metro contract available to bidders. It will decide whether to bid for any future Auckland contracts depending on the type of contract that is put to the market.
Appendix A

Committee procedure
We met on 2 February and 3 March 2016 to consider the annual review of KiwiRail Holdings Limited and the New Zealand Railways Corporation. We heard evidence from KiwiRail Holdings Limited and the New Zealand Railways Corporation, and received advice from the Office of the Auditor-General.

The advice, evidence, and transcript of the hearing are available on the Parliament website www.parliament.nz.

Committee members
Jonathan Young (Chairperson)
Andrew Bayly
Sarah Dowie
Peeni Henare
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Alastair Scott
Hon Maurice Williamson

Evidence and advice received
KiwiRail Holdings Limited, Responses to pre-hearing questions, received 26 January 2016.
KiwiRail Holdings Limited, Post-hearing responses, received 26 February 2016.
Organisation briefing paper on KiwiRail Holdings Limited and New Zealand Railways Corporation, prepared by committee staff, dated 2 February 2016.
New Zealand Railways Corporation, Responses to pre-hearing questions, received 26 January 2016.
Transcript of hearing

Members
Jonathan Young (Chairperson)
Andrew Bayly
Sarah Dowie
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Alastair Scott
Phil Twyford
Hon Maurice Williamson

Witnesses
KiwiRail Holdings Limited
New Zealand Railways Corporation Limited
John Spencer, Chair
Peter Reidy, Chief Executive
Kate Jorgensen, Chief Financial Officer
Todd Moyle, Group General Manager Network Services

Young
Thank you very much. Well, we’re going to allocate possibly 10 minutes for your remarks, and thank you very much.

Spencer
Thank you, Mr Chairman, and thank you to the committee for the opportunity to appear here again on behalf of KiwiRail and New Zealand Railways Corporation. [Introductions] This is your opportunity to ask questions, so I’ll just make some very brief observations to start.

First, I hope that as part of your holidays, committee members and their families travelled from Wellington to Picton or vice versa on the Interislander. If you did, then I thank you for contributing to a successful season for the Interislander, with the highest passenger-vehicle demand in December since competition started on Cook Strait in 2003, the highest foot passenger demand for the last 5 years, and, I’m pleased to say, the highest ever December revenue. The indications are that January has also been a very successful month. So it’s been a good start to 2016.

Overall, KiwiRail’s board, executive, and staff continue to focus on strategies to lift the company’s performance, and these include standardising our assets, investing in our people, and simplifying our business. In the year
under review, our achievements include a 17 percent improvement in operating surplus compared with the previous 12 months, a 50 percent reduction in the total recordable injury frequency rate, annualised savings of $3 million in fuel consumption and reduced emissions by using a fuel efficiency technology system in our locomotives, a 99 percent reliability performance against scheduled sailings for the Interislander fleet. We are continuing to work with New Zealand Transport Agency towards an integrated approach of transport, planning, and investment. We value the opportunity to contribute to a more efficient freight network where investment is prioritised according to whether road or rail is best suited to the freight task in that area.

Most of you will be aware of the commercial review that we undertook. It revealed that every configuration of running a rail network required an ongoing level of Government investment. Simply put, there is not enough demand for rail in New Zealand to generate the revenue that would allow the company to be wholly self-sufficient. When you look at our revenue and expenditure, I encourage you to consider that our revenue covers the operating side of the business, or what we call the above-rail cost. Those are the costs of running the trains and ferry services. Meanwhile, the Government’s investment contributes to the below-rail costs, on the tracks and structures. These costs are largely fixed. As I mentioned, you have to pay for them regardless of how much or how little demand there is for the services. It is a reminder that infrastructure businesses are expensive. We’re running about 3,500 kilometres of operational track which requires maintenance and upgrades, even where there are no passenger services or very little freight. Despite these challenges, we are committed to making productivity changes which will reduce the level of Government investment required over time.

Of course, the balance sheet is just one way of measuring the cost and benefits of rail. Another way is to consider the increase in road transport that would be required if rail did not exist, or if it was significantly diminished. Our next sustainability report will be out in a few months, and it will continue to show that the benefits of rail accrue also to road users, because without our freight trains there would need to be more than a million extra truck trips on our roads.

A final couple of points. Later this year we will complete the rectification programme for locomotives that have asbestos in them, and we look forward to having our full loco-fleet in service. You will know that we were unsuccessful with our tender to run Wellington’s Metro passenger service beyond July, but we will continue to run the network, as we do in Auckland. In both major cities, rail contributes to an enjoyed increased patronage.

Should the committee ask any questions that require us to seek further information, we’ll take note and get back to you. Otherwise, thank you, Mr Chairman.
Young

Thanks very much, Mr Spencer, for your opening remarks. Great to hear that success for the Interislander, and great to see that New Zealanders and a lot of visitors are using your services around the country.

Moroney

Thank you for the presentation. I’m probably going to start where you finished off, and that’s about your revenue streams, because you’ve had decline happen and you’re forecasting another decline in freight revenue last year and this year—sorry, the financial year that we’re reviewing, and also the year that we’re currently in. Freight is on the increase. Freight movements are on in the increase in New Zealand. What’s going on? Why are the freight volumes dropping on rail?

Spencer

I’ll let Peter get into more detail, but one of the things you’ve got to remember—we are very much bulk freight, not freight in general. So when you talk about freight, you’re absolutely correct—freight’s increasing. But what freight goes on rail? Bulk freight. We’re very much reliant on commodities. We’ve had the whole issue with coal, with Solid Energy, Fonterra, etc., etc. One of the issues with the rail is—let’s just say Fonterra’s numbers are down, or Solid Energy—as we know, that volume’s well down. Who else do we go to? We don’t have the option of being able to go and say: “Well, we’ll go to that company or this one.”

Moroney

Are volumes actually down with Fonterra? Because the price—we know the price is down. Is the volume down?

Spencer

Peter?

Reidy

If you have a look at—if I could just answer your question at the macro level to start with. John’s right. Our revenue: 64 percent is freight—bulk freight—what we call full container loads of freight, usually non-time sensitive. If you have a look at a lot of our freight mix, this year domestic freight is in line with last year; forestry’s in line—your price is at an all-time low for forestry—our IMEX freight, which is import-export freight, has grown 10 percent, freight to and from ports. The freight that’s down is bulk. So bulk is primarily coal—2 years ago coal was $50 million a year revenue; this year it’ll be $23 million—and bulk milk. So bulk milk is very sensitive to the dairy season and El Niño effects, etc. So this year, for example, there was a very late start for the season. Last year, some bulk freight just didn’t materialise. So if you have a look at our revenue—break it out—it’s primarily bulk, and that’s down. The growth area for us, which we’re happy with, is IMEX—import-export growth growing 10 percent and showing strong growth this year. Domestic growth—even if you have a look at Mainfreight’s domestic, they’re saying they’re 3 percent down in the first 6 months. Our domestic growth had a poor June-July-August-September; very, very strong October-November-December. So you’ve got to look at it sector by sector, but in terms of the market and the opportunities for us, we’re comfortable with where we’re heading in line with our competitors.

Moroney

Although you are predicting another fall in the freight revenue for the current year?
Yes, that’s correct. And primarily—if you look at that, that’s primarily Solid. So when Solid went into receivership for a month, they did not—they moved very, very minimal amount of freight. So it doesn’t take much for Solid to come back in a month and bulk milk not to move, and then it goes. The other third thing that impacts our revenue is port calls. So if a big ship does not come into Port of Tauranga that they might have predicted 6 months ago and it goes to Auckland, then that’s a big reduction in our revenue because when it comes into Auckland we just take it from Auckland port to Westfield. It’s a small shuttle. When we take it from Tauranga it goes all the way up to Westfield. It’s a very big movement—six train trips a day. So our revenue has very little revenue diversification compared to overseas—wheat, grain, coal, oil, and gas; that’s not the market—and, secondly, highly exposed to commodity, particularly milk and coal.

So can I just bring you back to the forestry, because you referred to it briefly before. That’s an area of increased production. It should be an area of increased freight movement on rail, but—and this is not scientific—every time I’m driving on the roads there’s a bloody great logging truck in front of me with raw logs on it going to the Port of Tauranga. Is that an area that you’re going to be exploring?

Well, it is. If you have a look at the—in fact, a very good success story is the inland hub that we developed with CentrePort in Whanganui—32 wagons a day, primarily logs, coming into CentrePort. Three years ago it was about six. That’s a significant growth, bringing logs and export product in the middle part of the North Island to the world. Secondly, a large part of the forestry growth is not rail enabled. Large parts of north Auckland—there’s no rail up there. So if you look at the wall of wood coming up in 20, 30 years, some parts of it don’t have rail access to it. The third part is that with rail we are locking customers into capacity-based contracts. Forestry companies will change for 20c. You’ve seen their forestry workers—that’s why they’ve got such a bad safety record. They’ll change their workers within a week. We need capacity-based, fixed-term contracts over a period of time, and the forestry companies that have committed to that—we are moving more product.

So you’ve mentioned about the rail capacity up north. What are your plans for that?

Well, at this stage, there is no rail north of Whangarei, and we’re not intending to build rail north of Whangarei. If there’s demand, that’s something that we’d look at.

Sorry, just on the—I’ll just finish with the revenue streams if I can, Mr Chair. You made mention of it—the other obvious revenue issue that you’re facing down the barrel of this year is the loss of the Wellington Metro contract. Did you see that coming?

Ah, yeah, but if you look at the Wellington Metro contract, it’s a schedule-plus contract. We’ve had it for many years. In fact, our predecessors have
been taking passengers in Wellington since 1870, so we have a long history here. It’s moving from a schedule-rates contract to a performance-outcome based contract with significant risk. The forecast of profit for that contract, if we’d won it, would’ve been a million a year. Currently, it’s $3.5 million to $4 million a year. In terms of the risk and the level of risk, it was something that our board—we had many meetings on. Significant level of risk that we’ve taken before—you can lose $10 million on that contract in a year if you do not grow patronage. We’ve grown patronage 4 percent in the last couple of years. Wellington is not growing at that pace. We were uncomfortable with the risk, but we bid. I’m not uncomfortable that we’ve missed that contract. In fact, it gives us the opportunity to focus on core business.

Moroney And so what impact does that have on your bid to be contracting for the Auckland Metro services?

Reidy Auckland had been clear that at this stage they’re not going to the market on a procurement model. They’ve pulled that contract. We don’t know where they’re at. If they come out with a procurement model, we’ll assess it at the time. But at this stage they have rolled a contract over with the current operator, I think, for 18 months to 2 years.

Moroney OK, so you are planning to bid for a contract?

Spencer As far as Auckland goes, Auckland’s going to be very much a part of our future focus. It has to be, given what’s going on in Auckland with the Loop, etc., etc. Auckland has to be very high on our radar.

Reidy And it depends upon the model that comes out.

Moroney And what happens with your capital expenditure around the Wellington Metro service?

Reidy Well, the capital expenditure is all—it’s outside the Government appropriation we get. It’s a separate appropriation through MOT. You know, Greater Wellington now—we’ll actively be looking to secure funding for that network. We are a network operator with Greater Wellington. We’ll be working with them on that, and that’ll be up to Greater Wellington to pursue the funds from MOT.

Moroney But didn’t you just outlay a whole lot of CAPEX on the new trains?

Spencer No, no, no.

Moroney No?

Spencer That was the council itself.

Reidy Capital Connection.

Young We’ll come back to you, Sue. We’ll go to Denise Roche now.

Roche Thanks for your presentation. I want to ask some questions around locomotives. If I’m right, one of the issues that was raised as a way of being more cost-effective was around standardising the types of locomotives that
you’ve got. As a Green, of course, we’re quite worried about diesel versus electric locomotives, so I just want to know, has KiwiRail purchased any additional diesel locomotives from the Chinese national railways in the last year and, if so, how much were they?

Reidy Well, we had an order that went in, I think, 2 years ago now. We had eight locos arrive in the country last year. There are no locos at this stage being built in China from any procurement, and at this stage we have 48 diesel locomotives that we purchased from China, out of a fleet of 200.

Roche Has there been an open tender process used before each purchase of diesel locomotives with the Chinese national railways, and what other options were considered?

Reidy When KiwiRail—5 years ago now—went to the market to look at different locomotives, they did go to the market with Caterpillar, EMD, different loco power. The model they chose was the MTU engine with the DL loco from CNR, and that was locked in as a standard for the diesel upgrade about 5 years ago. So the locos we’ve purchased to date were based on that total design package that went to the market.

Roche So you’ve got quite a lot of different types of locomotives, including electric. Have you done a breakdown on the operating costs per different type of locomotive, and which one stacks up the best?

Reidy Sure. Every railway has lots of different locos. So we have five or six different types. Some are 40, 50 years old that we’re continually upgrading at the Hutt. We have—EFs are electric, 35 years old. We have 15 in the fleet, but only about seven are running at any one time, and we have 48 DL—diesel locomotives. Plus we have some old heritage locos. So we continually look at our cost of maintenance on a cost per kilometre basis, and that information’s been provided through in the pack. And, dependent upon the distance and the freight carried, we will set targets for what we call breakdowns or breakdowns per kilometre, depending upon asset class. So, for example, the newer asset class should go and get you a better performance than the older class. So, yeah, we look at those regularly. That’s part of our business maintenance. We spend $40 million a year, so it’s a big part of our business.

Roche There’s been some talk about moving away from electrification of the rail, which is quite a concern to us considering we’ve signed up to the Paris COP agreement, which means that we need to move away from fossil fuels. Has KiwiRail been considering extending electrification beyond the main trunk line to places like Tauranga—you know, so just extending it?

Reidy If I could just make a point—we aren’t deciding to move away from electrification. If we standardise locos to diesel, the infrastructure would still be maintained and it would still exist for future generations. That’s the first point. The second point is that as we look at our locomotives, the key thing here is domestic market and reliability. So this is not about diesel versus electric; it’s about how do we improve our reliability in the domestic
market? And the domestic market is domestic freight that’s, particularly, moved to the South Island and lower North Island, and we’ve got to get an on-time performance of 90 percent, otherwise you’ll lose it to trucks. So right now, we have seven EF locomotives, and even if we decided to maintain electric going forward, we’d need to buy some diesels shortly because they’re at the end of their life. And if we went and bought new electric locos, it would take 2½ to 3 years. So we’re always going to have a mix of fleet. Right now we are looking at how do we best grow our domestic market, how do we improve our reliability, and what’s the model going forward to improve our operating performance?

Roche I accept that, and I understand your rationale. What I’m interested to know is, when you’re planning for going forward, are you also taking into account the need to increase electrification and the use of electric locomotives in order to offset our climate emissions? Has that come into the planning at all?

Reidy Yes, it does. If you have a look at the total CO emissions that KiwiRail produces, it’s 0.2 percent of the national. If you have a look at our emissions over the last 2 years with our energy efficient DLs, it’s dropped 12 percent, and if you have a look at our technology we’ve got in place, we’ve reduced fuel tonnage by 400,000 litres over the last year and CO₂ emissions by 1,100 tonnes. So we’re doing a lot right now to build a sustainable platform for our business, and that may involve a mix of electric and diesel going forward, or it may involve a mix of diesel. If we did go for diesel, we would still be maintaining the infrastructure which is part of our network asset, which currently, as you know, runs some part of the North Island.

Roche So if you are extending your locomotive fleet to diesels, are you going to be using an open procurement process?

Reidy If you have a look at what we’ve designed, we’ve designed a bespoke model for KiwiRail—a narrow gauge twin-cab train. All right? So if we go to the market, and say if we went to Caterpillar, we would have to buy their model—we would have to buy their bespoke model to fix our rail network. So right now—

Roche Are you just saying there’s just one provider, though, and that’s the Chinese national railways?

Reidy No, no, no. What I’m saying is we have—for some of our fleet we’ve got a DL designed loco to fit narrow gauge for a freight haulage, 2000 tonne, that suits our demand. If we—and we’re meeting Caterpillar shortly, for example—we would look at other models to see, going forward, is there a different motive power we might need in the future.

Scott Every year KiwiRail—we lose a couple of hundred million dollars each year, according to the financial statements—if you just looked at the statements, right? And Treasury want to close part, or are recommending closing part, of the rail network down as a result of that narrow perspective. You also
mentioned, Mr Chairman, the integrated transport network—that we should be looking at something more than just the railway network on its own, looking at the cost or the opportunity cost that would result—if you closed down the rails, the whole burden would drop on to the road network. So could you outline some of the—are we looking at the railway network in the right way? Are we looking at it too narrowly? Are we saying this is losing money when, in fact, there are a whole lot of other benefits that your CO has just outlined—you know, low emissions, taking freight off the road—and how can we measure those benefits and what are some of those benefits that you haven’t talked about to date?

Spencer Interesting question, interesting points. Couple of things. First of all, when you say it’s losing money, of course you’re going to get me excited when you say that. Let’s have a look at what we’re already talking about. When I talked about above-rail and below-rail, if you look at the network—go back to the ONTRACK and Toll model, right? If you divided KiwiRail accordingly—say, in other words, NZRC and the land, which it does now, plus the track, that’s where the Government money goes. If you did it that way, KiwiRail would not need one dollar from this Government or any other Government. It would be self-sustaining. Worked on a very general basis, the Government of the day needs to put around about $200 million into KiwiRail—not into KiwiRail itself; into the network. It’s just like putting it into the motorways, the highways. What we’re saying is this. When you’re looking at the Northland, Gisborne, Napier, anywhere, the Government should be sitting down and saying: “Which is the best?”. They’re putting a dollar in; now they’re going to put it into a road or—it’s not a competition. It’s not rail versus road. What’s the best for the region? What’s the best for growth? If you split it that way, KiwiRail does not need one dollar. In fact, it would contribute $50 million a year of the $200 million, roughly.

Scott So that’s my question—are we looking at the rail network in the wrong way? Your financial statements look like you need $200 million worth of taxpayer money every year, but tell us about the stuff that it’s saving the country, and how is it adding value—what are the other benefits of the network?

Reidy Look, you are correct. Last year we announced a strategy called the true value of rail, and there were some articles on that. So a couple of takeaway points is that, yes, the spillover benefits of rail that KiwiRail provides to New Zealand accrues to road users, and NZTA are in agreement with us on that. Secondly, if you have a look at some of those benefits, it’s road maintenance, it’s safety, it’s CO₂ emissions, it’s trucks off the road. So there is a larger economic footprint here. Thirdly, what KiwiRail is doing, if you look at our growth in revenue, it’s supporting the growth agenda right now—freight flow to and from ports. And, thirdly, it has a strong regional plan around it. So quite often, when we look at some parts of the rail network, it needs to involve local council as well.
So I think it’s an emerging discussion. I think we are very comfortable right now with the discussion we’ve been having around the true value of rail, looking at the benefits that it provides the economy. Railways all around the world are invested in by Governments because of economic and public value reasons.

Moroney So, just supplementary to that then, can I ask—have you had this discussion with your shareholding Minister and NZTA, and what’s their view of your assertion that there is a cost that the Government must bear for the future?

Spencer We’ve certainly talked with the Government about it. It’s in the last major review we did and the Government’s considering it. As far as working with the NZTA, that is definitely starting right now—that has started. Sitting down with—

Moroney Did they accept your view?

Spencer Absolutely. They accept the view that it is logical and sensible to look at what’s the best for the country.

Young In terms of that intermodal transportation around freight, I’ve heard trucking companies saying they appreciate the relationship they have with KiwiRail. So can you explain a little bit how you’re developing that relationship with the entities that a lot of people would say are your competitors?

Reidy Sure, look, it’s about intermodal freight, which is, basically, we need to standardise our assets so that they can be—containers—so they can be carried on ship, road, or rail, and that’s what happens overseas. You’ll see rail come into a cross-dock facility like the Whanganui hub, taken off rail, put on the truck, and moved. So it’s about how road and rail can reduce the supply chain costs for New Zealand. It’s not rail by itself and road by itself. And smart operators like Mainfreight, Toll, Bascik, for example—Bascik’s a large freight operator out of the South Island. Huge growth, doesn’t operate large series of trucks for line haul—it uses rail. And Mainfreight is having more and more freight. They’ve just invested in a big siding into Hamilton and Christchurch. So all Mainfreight’s facilities now have sidings going right through the middle, and it’s a combination of the two that’ll reduce the supply chain costs for New Zealand, which should help us become competitive.

Young So you’re talking there about design of wagons—so is this the old traditional flat deck? What’s happened to that?

Reidy For example, KiwiRail’s got about 63 different wagon types. So in the past they would design a wagon, say, for fertiliser or coal, and when the demand dropped off and they hadn’t locked them into long-term capacity contracts, the wagons are sitting there. Right now, the coal volume’s come back. We’ve got about 80 wagons sitting there that I can’t move anywhere else. That is a cost to this country. Going forward, the future, if Solid Energy want any more wagons, it’ll be an intermodal wagon. So you’ll be able to take it off a train, put it on a truck. And as we start to standardise, you’re
going to see more of these wagons come in. They are flat-bed, you’re seeing curtain-side wagons come in now, and, you know, we’re starting to design these in tandem with the larger freight operators.

Spencer  Do you want me to talk about—with the Interislander, you might be aware—it’s almost impossible to get a rail-compatible ferry around the world now. They don’t have them. So, in other words, if we wanted to get an Interislander ferry to replace one of our existing ones and we wanted to make it rail compatible, we have to pay the cost of doing that. Because we’re leasing, the biggest cost is when you come to hand it back, you’ve got to put it back to what it was—millions and millions of dollars. So we’re now working on the basis of not having any rail-compatible ferries at all, all right? What Peter’s talking about—a new intermodal model where there is no rail—that will save fuel, apart from anything else, because boats won’t be nearly as heavy, etc. There’s a lot of savings, so that’s where we’re heading towards.

Young  So is KiwiRail carrying the total costs of the development of these intermodal wagons, or do you share costs, or how do you work that out?

Reidy  They’re fairly standard around the world, so there is a saving to us by standardising in terms of maintenance. So as we go forward, for example, some customers, if we lock them into capacity-based contracts, will have to pay for additional infrastructure if they want bespoke infrastructure. Going forward, as we have intermodal assets, they’ll be assets we carry and customers will fit into those modes.

Williamson  Can I just ask you a little bit about international comparators, and can I also ask you about whether in certain times in the history of the planet certain industries just are no longer relevant? I mean, I predicted for some time that New Zealand Post was going to fall over and I got it wrong. However, I didn’t get it wrong; I just got the timing wrong because New Zealand’s mail is now just completely drying up, and no one is sending envelopes. The envelope volumes in that is collapsing. That’s just the way the new world is. Is it possible that your mode is one that is just going to continue to struggle and shrink, and, if that was the case, what would you be doing to look at international comparators to see who’s doing a good job of growing that freight and are they comparable to our jurisdiction? Because, you know, it’s a little bit of sugar coating on the numbers. You said “Operating surplus is up 17 percent over the previous year.”, but it’s down 22 percent on forecast. So, you know, it sounds good, but it actually isn’t that good. Return net loss before taxation was $166 million compared to a loss of $240 million the previous year, but it’s still a $166 million loss. So it’s a matter of, is this a time in the history of the planet where the new transport modes that are originating in some of the massive truck sets that they’ve got in America now, with some of them even going driverless, are going to continuously erode the ability for a rail network, which really only moves stuff from an A to B rather than all over the place that a trucking system can be, and have you looked at comparative jurisdictions to see who’s doing it good and what they are doing?
Reidy  OK, firstly, if you look around the world, our model is integrated network and operating, so you can’t look at us saying we’re losing $160 million compared to the rest of the world. If you looked at us in that mode, you’d say last year KiwiRail made $93 million on a revenue of $723 million, an EBIT to revenue of 12.5 percent, and it was 11.5 percent a couple of years ago, and we’re improving. So when you look at our operating model, we’re improving our productivity—our EBIT to revenue.

Williamson  Is that because other train systems around the world don’t have to pay for the below rate?

Reidy  Correct. Around the world it’s not integrated, so what they’ll do is they’ll pay a fee. They’ll pay an access fee coming through. Secondly, what happens around the world is the Governments will mandate certain sectors must carry baseload by freight. So in Canada, wheat, cement, coal—you must carry a certain percentage of your freight by rail otherwise you’re penalised—

Williamson  We had a crack at that at one stage, didn’t we?

Reidy  —yes—otherwise you’re penalised. So, for example, in Canada right now, there’s coal companies paying Canadian Railways a fee because they’re not putting enough money in. You know, Warren Buffet has invested in railways around the world. I don’t think he’d be investing in a model that’s dying, and the reason he’s investing in his model is because of the economic and public benefit model of rail going forward.

I think going forward for rail you’re raising good questions. It’s about mobility; it’s about intelligent assets. So what are we doing to minimise the cost of supply chains by having intelligent assets? In 2 years’ time Sydney trains will be driverless. All right? So we’re still—we’ve still got—we used to have two drivers in each train; we only have one now. You should be able to go through the Ōtira Tunnel in a driverless mode. So we have to be really pushing the technology, and as you look overseas it’s about what are they doing from a technology perspective to lower the cost of operations. Our benchmark tends to be PN in Australia and Aurizon—large intermodal freight operators. They’re driving productivity in the same way as we are—fuel, labour, maintenance, asset utilisation. It’s an asset utilisation play. Right now if we’re only moving our assets 60 percent of the time we’ll be losing money. So we’ve got to get our fuel—our fuel and labour’s 50 percent of our cost. We’ve got to get our asset utilisation up. So all the productivity improvements we’re looking at on capital and operational is exactly what PN and Aurizon are doing in Australia.

Williamson  Because you’re forecasting decreases in revenue and decreases in operating surpluses, based on what I’ve seen from the Auditor-General’s report. So if you’re doing that you’re going to have to be making substantial savings and efficiency gains to offset any of that loss of revenue, aren’t you?

Reidy  Correct. So, for example, you know, 2 years ago this business was doing $750 million in revenue, all right? The Auckland maintenance contract has
been taken over by CAF, coal’s halved in volume, bulk milk has come down. There’s been a change in the way some product’s being distributed, but in terms of our growth sectors, which is IMEX and domestic, we’re seeing some growth, but you are right. It’s a business that has limited revenue diversification, so you’ve got to really drive your productivity initiatives, you’ve really got to drive your efficiencies, and you’ve got to focus on the two sectors—import-export growth and domestic. And there may be some customers this year we actually walk away from because they don’t suit that model.

Spencer  Sorry, can I just answer that other question also to say, just remember this. We’re talking about freight that has to move; we’re not talking about it being optional. So if it doesn’t go on rail, it goes somewhere else, and this is why we need to work with the NZTA. If the model is that we should have less rail, fine. Let’s look at it from a country point of view.

Williamson  I just think that a point that Sue Moroney made before is answered, to me. I’m involved with some forestry people, and they say: “Look, we’d love to move our trees on trains, but you’ve actually got to load them on a truck to start with to get them to a railhead and then at the rail departure you often have to take them off on a truck to take them, and the actual multiple handling makes it not economic.” So you’ve either got to punch your railhead further into where the forestry is being stripped or it actually gets less and less profitable.

Spencer  Absolutely correct. Another thing—I think we all forget our history. Remember that in 1990 the Rail Corporation, as it was then, had a debt of $1 billion—$1 billion. Do you remember that?

Williamson  I do remember, very well. I’m still getting counselling over all of it.

Mitchell  I guess my biggest question is around the lack of investment in the provinces. We’re seeing some heavy investments in towards the cities and that’s creating some concerns for us. We just heard you say that north of Whangarei there’s no spend going into new rail up there. Gisborne’s obviously offline now. Just what Maurice Williamson just said about the cost to get those two trucks to the train heads. You know, sometimes the economy of scale to grow the empire, if you like, is the right way to go because we can get more people using it and look at ways that we can get more people into using that. What about the provinces? What are we going to be doing to look at trying to get more growth on our rail system in the provinces?

Spencer  Really the answer to your question, without being smart, is sort of a chicken and egg thing: where’s the demand? We will follow the demand. What we’re asked in many, many cases—where you put the rail in—right—and the demand will come. Sorry, we don’t have the funds for that. And this goes back to my whole point before about KiwiRail as an operating company versus the network. So if you had separated them out and you were funding the network, then you could look at—from a country point of view—do you want to invest in a rail line north of Whangarei? Forget about KiwiRail,
because if it was only sending one train a day we’d make money on that one train if there was a customer. I think we get confused when we talk about KiwiRail losing money on this and the other thing. We’re talking about the network. We can put the trains on—that’s easy. We don’t have the funds to go and do exactly what you’re talking about—going into the provinces where there’s no demand at this point in time. We can’t have the luxury of having assets sitting unutilised. By gosh, when there’s demand there, we’ll go.

Reidy That is an example—firstly, our railway, if it was in the States, would be called a short-haul network. We are a short-haul network. So if you look at short-haul networks in the States, there’s 400 of them, and they’re usually owned—some of them are owned by private investors, regional bodies. So there is a model in New Zealand where regional council, KiwiRail, NZTA can get involved. I mean, the Capital Connection last year—you know, we went round and round, and we ended up getting quite a good agreement with two councils, the NZTA, and ourselves trying to stimulate that. Napier Gisborne—we’re currently talking to Napier - Hawke’s Bay Regional Council about the level of risk they might want to take and how they can get involved in a particular model. They’re talking with the forestry industry. New Plymouth, for example—there’s a lot of work going up there. CentrePort are looking at setting up an inland hub, and we’re working with local council in that area to facilitate that. So I think it’s not just KiwiRail. Where the regional demand is, we can stimulate it if a number of parties come together.

Mitchell Is it a concern to you with, you know, the Budget that was brought out last year, that there’s going to be a pretty steady decline in funding available to KiwiRail? Because, I mean, if we’re talking about a chicken and the egg, we really need to—there’s a whole lot of things we’ve spoken about here today. We’ve talked about the efficiencies. We’re talking about 34,000 kilometres versus the 50,000 kilometres of breakdown time. So we’ve got 18 different locomotives on our tracks at the moment, and surely that would actually help streamline the event to actually help grow and actually bring in some bigger heads around the country in the provinces? That’s the key.

Spencer The issue on funding—it’s not so much the amount; it’s coming up with a permanent model. If you work on the basis, as we’ve said quite openly, KiwiRail will need the Government’s support forever and a day—all right—for the foreseeable future.

Mitchell Because it’s a service. It’s not a business at this stage.

Spencer Exactly. And we’re talking about the network, not the operations. Therefore, it needs—rather than having to every year, hopeful we’re going to get some money, it needs to come up with a permanent model, just like you’ve got road-user tax. But let me make it very clear: the last thing we’re looking for is an open cheque book. It would be worst thing you ever did to rail if you ever did that. You’d end up with another 20,000 employees, like it used to have—all right? What we’re looking for is an efficient KiwiRail as a
commercial operation—SOE—that had to make a profit and contribute to the network. But we’re looking at as a public benefit entity is to have a network that is funded by Government. All the things you were talking about before, with the regional, and all the rest of it—all those are political decisions, not KiwiRail decisions.

Bayly Just to carry on with what we were talking about there—in terms of CAPEX, a couple of years ago you spent about $342 million on Capex. Last year it was about $293 million, I think. What’s your projection for CAPEX for this year and the next year, and can you also just tell us a little bit around the prioritisation, because you must be migrating from track remediation, a lot of that work that you did initially, too. Where’s the money going to go towards now?

Reidy Kate, why don’t you talk about the capital dollars, and then, Todd, you can talk about a large proportion of the capital that goes into the network. Todd runs the network. He can explain it.

Jorgensen So this year we’re looking at between probably $270 million and $285 million. Todd, do you want to speak to the network spend?

Moyle Yeah, so in terms of that capital spend it’s between the rolling stock assets that we talked about and maintenance and upgrading them, but in terms of the network assets there’s a focus across—we’ve still got a large amount of investment that goes into all of those assets, whether it’s bridges or structures and the signalling system upgrading. We’re also working through things like the tunnel remediation plan to meet new legislative requirements. There’s still quite a lot of investment and ongoing investment that’s required in that network asset. So when Peter makes reference to the fact that they’ve renewed this ongoing investment, a large proportion of that goes into maintaining that railway network asset.

Bayly So of the $280 million, roughly, how much would be going into the network as opposed to rolling stock?

Moyle I think it’s roughly about $220 million, but off the top of my head I can’t give you the exact figure.

Bayly But the vast majority?

Moyle The vast majority.

Bayly The vast majority. There’s been a lot of money put into the network over the last few years. Do you see that part tailing off? Where’s the CAPEX profile here? Are we going to always spend $280 million—

Reidy If you—last year when we did our plan, 2045, which will be public, there is a Manhattan skyscraper the next couple of years, mainly around tunnels—the cost incurred in Kaimai, Ōtira, etc. It does drop off, you know, and really what we’re predicting going forward as we drive our productivity gains is the investment will come back to about $160 million. We are seeing a dramatic improvement of the network due to the Government investment. The health and safety regime right now would demand that
probably more needs to go into tunnels than we might have thought 3 or 4 years ago—that's fine—but, largely, the condition of the network is in very good condition.

Bayly The reason I’m asking this question at the moment is, as Alastair said, roughly the Government has been throwing in $200 million a year. With that declining CAPEX, which is down from—if you take from roughly 2 years ago, to $343 million, that means the ongoing funding may actually reduce from the Government, because if you’re covering your operating costs—right—you’ve got $100 million spare out of that. Most of that’s going out of CAPEX, so that’s going to dry up a lot of the funding from the Government.

Reidy That’s correct, plus from our capital investment allocation model right now, we are applying capital to areas of market growth and demand, as any business would do. And where demand is not coming we will drop off a bit of CAPEX spend. We’ll still be maintaining the network, but you’ve got a network now that is there to service the operating model. It’s not gold-plate the network, so it will invest in areas of growth. So once we get over the hump of the tunnels and the cost that needs to be incurred, we are projecting that that funding will come back primarily through the increase in productivity, and because of the demand the network we’ll need will not be as high as it might have been 5 years ago.

Parmar You’re continuing to restructure and changing systems and processes. So how are you managing that it’s not adversely impacting your ability to actually deliver and drive the actual business? Because that means lots of dealings with staff and the union. So how’re you handling that?

Reidy Kate, do you want to answer that?

Jorgensen So, look, I can talk in terms of the IT, which I suspect you’re referring to. We’ve embarked on a real strategic partnership with Spark to deliver an outsourced model. Now an outsourced model is very common in a lot of businesses. It really will actually—I think it will deliver great benefits to KiwiRail, and we’ve got a number of plans in place to effect—to manage that transition.

Parmar What about staff and the union? So how’re you dealing with them while you’re restructuring?

Jorgensen Yeah, so I don’t know if you want to touch on that.

Reidy Sure. We have a—you are right. We are driving a productivity improvement programme. Our staff numbers have reduced, and in terms of our productivity numbers, we’re targeting some big goals, yeah. Firstly, we’ve embarked on a high-performance, high-engagement strategy with the unions, so we’ve got significant resourcing and we’re working with Air New Zealand on that—they’ve been approaching it similarly. In fact, right now, we’ve got a big group meeting looking at the Woburn sites out in Lower Hutt in terms of, you know, what’s the future of that, and we’re doing that in full consultation with the union. We recently had been restructuring our
staff force and we’ve lost, you know, a number of people in the last 3 months—and Todd, for example, the network—there’s been a full consultation with the RMTU. So that is something that we’ll always be conscious of, but, you know, we do need to keep driving the productivity changes. And largely our staff, I think, on the whole, understand why this is needed. And it’s about improving our competitiveness and making sure that we’re able to approach the threats we have in the market.

Dowie Before I ask my question I thought it was important, just with the regional questions, to thank you, because I know that you’re not sitting on your hands with respect to Southland and working with South Port to play to your strengths and to be collaborative with them. So I just want to thank you for that without breaching any confidences. But my question, as much as this line of questioning is very interesting, is going to move to the people, with respect to health and safety. So I know that you’ve got a zero-harm initiative in play. Can you talk about some of the programmes that you’ve got in force that have helped you achieve your successes?

Reidy Sure. The last couple of years, our reduction in critical incidents or safety has reduced 45 percent 2 years ago. Last year was 49 percent and, you know, we’re certainly tracking above 30 percent this year in terms of total recordable injury frequency rates. Like any business, you know, the environment’s changing. I think largely we have certainly made sure our senior executives are engaged—, the board is certainly engaged on this topic. We certainly have measurable targets. We have a very good subcommittee of the board that meets four times a year. We have a monthly leadership network meeting with my executive team with our zero-harm leaders—so that’s a good 3 or 4-hour session—going through lag indicators, leading indicators, systems changes, HIPOs—which are high potential incidents that could be catastrophic. I think it’s a rigorous attention to detail. Like anything, as you come down a curve it gets harder and harder and harder, and we, just like any other business, are trying to drive that. We are now about to enter the employee engagement model a lot stronger. We have hazard action teams around the country—40 of them. This year’s a big year to really get them engaged, give them some responsibility and authority to make decisions at the local level, and making sure that at the top level we’ve got the right systems and processes to support them doing that.

Roche On that, I mean, I acknowledge that in order to achieve really good outcomes in your health and safety you’ve got to be investing in your staff. I note that you’ve spent $3.3 million in redundancies over the last year, had 32 different change programmes operating, and lost about 100 staff. How do you keep morale up so that they will engage in the safety programmes that you’re wanting to run?

Reidy Well, look, our vision is that we’re a Kiwi-owned business. All the money goes back to our people; it doesn’t go to offshore stakeholders. It’s about investing back in the business, it’s about futureproofing the business for
future jobs and future generations. We’re 150 years old and we’ll be here in another 150 years, but we won’t be if we don’t make some change.

Roche I guess it’s the 32 change programmes in the last year that must have been really hard to cope with.

Reidy Sure, and we probably need about 50.

Moroney I just want to pick up that point as well because, you know, 32 change programmes in the last year is more than one a fortnight, and you had 14 change programmes the previous financial year. And I noticed things like that in the information that you gave the select committee that in your infrastructure and asset management area, that that resulted in the 2013-14 year that you had a net increase of nine more staff in that area, and then the very next year you had another series of change programmes, which resulted in a net loss of nine. And it feels a bit like, you know, are we spending a lot of time and energy—are you spending a lot of time and energy—rearranging the deckchairs on the Interislander while the whole thing changes? So I’d just like your comments on that, because that’s a lot of change going on.

Reidy Firstly, 2 years ago we had 4,200 staff; this year we probably have 3,700. We’ll get down to 3,400—all right? So let’s put the facts on the table: we are reducing the cost base in our business, because if we are to be competitive and help New Zealand reduce the cost of its supply chain, we need to be competitive so we can go to the market and offer good, attractive rates to exporters, etc. So there is a business imperative to get more efficient. This business in the past—prior years—through all sorts of different ownership models, has not been as efficient as it could be. So we’ll measure ourselves globally. It’s a different market here. It is tough when we don’t have the big revenue growth. But, you know, I think our staff—I’m really proud of our staff. You look at our engagement surveys—you know, they are coping extremely well. We’ve got some really good achievements that our staff have done. I mean, to put Fuelmiser in, which has saved us close to 400,000 tonnes and reduced 1,100 tonnes of CO₂ in the atmosphere. That’s done by our people, not external consultants—our own people have driven that. We don’t use consultants—well, largely, we don’t. It’s our own people coming up with initiatives and driving those. So, look, we don’t apologise for doing that. That’s our mandate—that’s the job. Our job is to make this as efficient, but to make it efficient so it’s a competitive model that can help grow New Zealand.

Moroney Have you reduced the track gang numbers through that process?

Reidy Yes, we have.

Moroney What’s the size of that reduction?

Reidy Just in the last year, it’s not a big number.

Moyle We’ve reduced the track gangs by about 14 or so—

Moroney Out of how many?
Moyle Out of 680. So that’s not just really through trying to reduce headcount; it’s about getting the structure right and making sure we’re consistent. So in KiwiRail, we’re trying to standardise our assets and standardise the way we maintain our network and get consistency in processes.

Moroney So what does that look like over time, in terms of track gang numbers? Because what I notice—and this is just sort of a general observation that we as a committee asked you for figures over 6 years in a lot of our questions, and you gave us figures for only over 2 years. I’m perplexed about that, but interested to know, say, for over 6 years what do the track gang numbers look like?

Moyle So over that—I can’t give you exact figures, sorry, but we can find those and come back.

Reidy I can answer that. Remember, a large part of this business was outsourced. So when it was under Toll, all the maintenance was outsourced to Alstom.

Moroney Yeah, but it hasn’t been Toll for a very long time.

Reidy ONTRACK had the network. So if you have a look at our network, about 2 years ago they went through a big change—about 150 people. But the network numbers of people haven’t reduced substantially. Where we’re getting improvements is productivity; is things like sleeper relays. We deliver 80,000 sleepers a year. Todd’s now getting, you know, some savings—some real productivity savings—by looking at innovation initiatives and driving targets. We’re not getting that by reducing people; we’re actually getting—

Moroney Are you doing it by reducing the standard of track that you now accept as being an acceptable track standard?

Reidy No, I don’t think so. In fact, Todd can answer this, but our track, in terms of our total speed restrictions, in some areas is the best they’ve ever been. In the “golden triangle” we don’t have one wooden bridge now, where we used to. So if you look at the Midland Line, over the South Island, a large part of that is concrete sleepers. So we’ll always invest—

Moroney OK. Well, outside of the main trunk line have you reduced the standard of the track condition that you accept?

Moyle We target our maintenance to where the business needs it. You know, I think a good measure that we measure ourselves on is derailments. Last year we had four derailments on the main line—so that’s all of the rural lines as well—whereas if you went back 5 years, about 2010, it was over 30 a year we were having. So what we’re seeing is that investment profile is being targeted to where the business needs it, and those key parameters—they sort of give an indication of whether the network’s delivering what we need and delivering it safely.

Moroney With due respect, you’re still not answering my question. There is a standard that you expect your tracks to be adhered to, or maintained to. Has that changed? Has that dropped? Has that declined for the non-main trunk line part of the network?
Moyle So we have five categories of line that we maintain to, and we classify it on business need which one of those five, those lines—as any infrastructure provider would, whether it’s roading or any other infrastructure. And some lines do change—they change every year around the priority of business needs—so whether it’s a category one to a category five line, and that will be determined on whether there’s a market need associated with that line.

Williamson I just—look, I had a whole stack of them but time won’t permit me. I’m just going just drill on this last bit, with regards to the future and where you may go. How much of a business decision for your customer base to go to rail or to stay with other road transport options is based on the logistics ability of getting your stuff on to you and off and to their customers or their warehouse, and how much of it is to do with pricing? And if it’s anything to do with pricing, how elastic is your pricing? How much flexibility do you have to move pricings up and down, or the moment you move even a few percentage points, are you going to have your customer base say: “OK, we’re going to flick it.”? Is it that precariously balanced?

Spencer I’ll let Peter answer that in far more detail than I would. One thing—you missed out: a word called reliability. I’m not being smart, because that’s one of the issues right from the beginning. Forget price, forget all the things you’re talking about—which are very important—but we were unreliable. A lot of what we’ve had to do in the last few years—right—is to convince our customers that we are reliable. Because what was happening was we were being used when there was excess freight for their own trucks, right? Because you couldn’t rely on KiwiRail, so we’ll fill our own trucks first and get them going—in other words, we were being used while we didn’t have any long-term contracts. So today the train could be full; tomorrow, nothing—from the same customer.

Williamson But if you get that reliability fixed, I’m still interested about that elasticity factor. Are you close to the margin or have you got room to take on the road industry with some better pricing?

Reidy It’s a good question. It’s sector by sector—have to do it sector by sector. So if you have a look at—come back to the first question about double handling. Forestry, yes—you’re exactly right with the answer you gave. If you have a look at the domestic market and ports, we are the most efficient mode. We can go into a port, we can clean a port out in the most economic and environmentally friendly model they have, and all the ports would tell you that. In terms of Mainfreight and organisations that have railhead sidings, it’s the most efficient rail and shunt, and they load their containers and they’re out. So I think, well, what we’re starting to see in the growth markets, IMEX market and domestic, we’re not—there’s no double handling cost in terms of being a barrier. In terms of pricing, you are seeing, for example—and our international shipping, for example, is some of the lowest rates you’ll ever see. That’s giving exporters a greater opportunity. There is—if you look at the marginal cost of rail, it’s a lot more efficient for us to add an extra wagon than Toll to put on an extra truck—all right? Can’t get drivers, tyres—it’s a real issue. The issue that we have is from pricing
perspective—is that in the past, rail’s probably taken the risk of a route, Auckland to Christchurch, and they’ll come back empty. Toll or Mainfreight would never operate like that. You lose money if you don’t get a backload. So what we are looking at is how we price these, and we’re starting to move ports now on to fixed-price contracts. So a port, for example, will buy a train. It’s up to them to fill that train.

Unidentified You’re doing that with the port?
Reidy Yes.
Unidentified OK.
Reidy So there’s four ports now that have capacity-based contracts. They buy the train, they fill it up, they’re totally responsible for it, and they take the risk back and forwards. So if it’s half empty, they take the risks. I think you’ll find that as our pricing starts to move and we get more capacity-based contracts in, we can get really competitive. So in the domestic market, if a customer like Bascik wants to buy a train, they take the risk. We’re probably 20 to 30 percent marginal cost more attractive than road, by putting extra trains on. As soon as we lengthen the train we start to make money. It’s when we start to move product to Palmerston North for one customer—four carriages—we’ll lose money.

Young So in terms of, just what you’re saying before there, Mr Reidy, about the return trip, in terms of returning empty boxes around the regions, what’s the challenge around that in particular?
Reidy Well in the past, you know, rail has made a lot of money by moving air. We move empty containers and reposition boxes. The shipping companies are changing that dramatically, so now when an import box comes in, it has to originate from that destination. So you’re starting to see some boxes being moved through—you know, Maersk will come into Tauranga or Auckland, they’ll park, and then there will be feeder coastal ships, or these shipping lines will come in and run feeder routes. You’re going to see a bit more of that. What that does is that takes a bit of the empties out of the market, and that’s fine. But what it means is that we need to rely on fixing customers to these fixed-based contracts so they buy capacity. When you buy rail, you don’t buy a volume, you don’t buy a per-tonnage rate; you buy a capacity. It’s like Transpower. You buy capacity to the network—customers need to buy capacity. We’re starting to move port companies through that now, which is they’re really taking that on board. CentrePort is a great example—huge growth, capacity-based contracts, they met their capacity and some, and what it’s done is it’s incentivised them to go into, you know, the Whanganui area and drive growth. I mean, it’s good for New Zealand.

Moroney Can I just ask what the time frame is for replacing the EF locos?
Reidy We’re still going through that decision. I think. Look, even if we—right now the EFs are falling over. So we take 2½ to 3 years to get a new EF fleet in, so we’ll probably have to buy some diesels anyway to compensate for the shortage we’ve got right now. But in terms of the final paper and the
recommendation, we’re meeting with union officials, the Government, and board. Over the next couple of months we’re looking to come to that decision.

Spencer  By the end of March we’d expect a decision, Sue.
Moroney  A decision by the end of the March?
Spencer  Yes.
Young  Thanks Mr Spencer, Mr Reidy, and your team. Thank you very much indeed for appearing before us. All the best for the year ahead.

**conclusion of evidence**
2014/15 Annual review of Kordia Group Limited

Report of the Commerce Committee

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Kordia Group Limited

Recommendation

The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of Kordia Group Limited, and recommends that the House take note of its report.

Introduction

Kordia Group Limited is a State-owned enterprise operating in New Zealand and Australia. It provides broadcast transmission, operations and maintenance, telecommunications, and internet services.

The shareholding ministers are the Minister of Finance and the Minister for State-Owned Enterprises. Kordia Group Limited is the parent company of Kordia New Zealand and Kordia Solutions Australia.

In 2014/15, it recorded a net profit after tax of $9.234 million. Scott Bartlett is the chief executive of Kordia New Zealand; he and his Australian counterpart report to the Kordia Group board, chaired by Lorraine Witten.

Financial performance in the previous year

In 2014/15, Kordia achieved a profit 400 percent better than forecast, and we asked whether this result is sustainable. Kordia has planned for a higher target result this year, and we heard that it is currently performing above target.

Kordia believes that this profit is sustainable. However, it noted that it works within a dynamic market that can cause variable results.

Reporting of financial information

We asked why Kordia does not report its results for its different business unit activities separately. We heard that it has been Kordia’s long-term practice to combine business unit results. For reasons of commercial confidentiality, it does not report its broadcasting and telecommunications revenues separately. However, Kordia is considering reporting its Australian operations separately.

Kordia is conscious of the importance of finding the balance between keeping its commercially sensitive information private in a competitive environment and being accountable to Parliament as a State-owned enterprise.

Some of us have serious concerns that Kordia would not provide information on the proportion of its revenue from network services to free-to-air broadcasters, and that Kordia does not report its broadcasting and telecommunications revenues separately, and that Kordia has not provided an explanation about why it considers this commercially sensitive information.
**Increase of online viewing**

Increasingly, more households are choosing to watch television content online. The greater the number of households connected to the ultra-fast broadband network, the greater the potential threat to Kordia’s free-to-air broadcast services.

We heard that, to combat this, Kordia is working through scenarios that could occur. It believes that the free-to-air broadcast market will change in the next few years, and it is preparing for this.

**Parliament TV**

Kordia and the Office of the Clerk have signed a contract that will see Parliament TV move towards an online delivery model. The channel often broadcasts replay footage, and we asked whether there are plans for the service to be broadened to include other featured content. Kordia told us that it is currently working with the Office of the Clerk on new services that could be offered.

Kordia noted that it does not know the amount of viewers of Parliament TV.

**Support for regional broadcasting**

We asked whether Kordia’s rates to regional broadcasters include network operating overheads when they do not require network services. Kordia stated that it does not charge a specific rate to its broadcast customers using the term “network operating overheads”. It does not require any of its customers to take a telecommunication service to receive broadcast services.

**The regulatory environment**

We asked about the difference between Chorus and Kordia. Chorus is a natural monopoly. As a result, it is subject to regulation in pricing, whereas Kordia is not. We asked whether the current review of the Telecommunications Act 2001 should include discussion about this aspect of the regulatory environment. Kordia’s submission to the review notes that it believes there is no justification for the broadcast infrastructure to be included under the Act and that therefore the status quo should remain.
Appendix

Committee procedure
We met on 18 February and 10 March 2016 to consider the annual review of Kordia Group Limited. We heard evidence from Kordia Group Limited and received advice from the Office of the Auditor-General. The advice and evidence are available on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Simon O'Connor
Maureen Pugh

Evidence and advice received
Office of the Auditor-General, Briefing on Kordia Group Limited, received 16 February 2016.
Kordia Group Limited, presentation, received 17 February 2016.
Kordia Group Limited, responses to written questions, received 15 February and 1 March 2016.
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Maritime New Zealand

Recommendation

The Transport and Industrial Relations Committee has conducted the annual review of the 2014/15 performance and current operations of Maritime New Zealand and recommends that the House take note of its report.

Introduction

Maritime New Zealand is the national regulatory, compliance, and response agency for the safety, security, and environmental protection of coastal and inland waterways.

It was established to promote a safe, secure, and clean maritime environment for all commercial and recreational activities on the water and to minimise the effect of maritime incidents and accidents on New Zealand’s land, water, and people.

Financial performance

In 2014/15, Maritime New Zealand posted a $344,000 deficit, which was an improvement on the $777,000 deficit in 2013/14. Total revenue in 2014/15 was $38.414 million. Although this was up $2.483 million (7 percent) on 2013/14, it was $4.004 million (10 percent) below budgeted revenue. Total expenditure for 2014/15 was $38.758 million, up $2.050 million (6 percent) on 2013/14, but below budgeted expenses of $42.465 million (10 percent).

Maritime Operator Safety System and SeaCert

MOSS

We heard that revenue was down because the uptake of the Maritime Operator Safety System (MOSS) and SeaCert has been slower than planned. MOSS is the New Zealand commercial maritime safety system that requires commercial operators to develop and maintain their own safety that is tailored to their vessels and operation. It came into effect on 1 July 2014 and builds on the previous Safety Ship Management (SSM) system. Examples of commercial operators that are governed by MOSS include barges carrying passengers, fishing ships, rigid-hulled inflatable boats, large vessels and foreign charter fishing vessels. Although MOSS is compulsory, it will be gradually introduced over four years. As at end of January 2016, 43 percent of operators, which account for 60 percent of the vessels, were in MOSS.

SeaCert

SeaCert is the maritime seafarer licensing framework for national certificates of competency and proficiency. The framework stipulates the specific rules that cover seafarer certification, medical standards, training and examination. An example includes where seafarers can operate in local waters.

Maritime New Zealand is not currently covering the full cost of providing its MOSS and SeaCert functions. It is reducing its operational spending in some areas and using cash reserves to cover the funding gap.
We asked what effect this has had on other areas of the organisation. We heard that Maritime New Zealand has rebalanced some of its other areas of compliance work, focusing more on domestic issues than international ones. For example, Maritime New Zealand has reduced international port inspections under the Tokyo memorandum. Some of us are concerned that this reduction could lower standards and damage New Zealand’s reputation.

Given the effect MOSS and SeaCert have had on the business, we asked how Maritime New Zealand is placed to meet its core obligations and what strategies it has in place to achieve this. We heard that Maritime New Zealand is meeting its core obligations. The real pressures are in those areas that build capability in the organisation and generate capacity for staff.

**Water safety programmes**

Maritime New Zealand is doing extensive work to continue to educate the public about water safety. It is continuing to take more of a sector-wide approach and is working closely with agencies such as Water Safety New Zealand.

We sought more information on the types of programmes Maritime New Zealand is running. Maritime New Zealand cited the Safer Boating Forum and Water Safety Forum as two examples. Maritime New Zealand advised that it will look at more coordinated and balanced programmes during the next three years to get the drowning toll down.

**Recreational boating**

One of the three key roles of Maritime New Zealand is to provide a safe maritime system that supports, encourages, and requires strong safety standards and behaviours. We asked how Maritime New Zealand is doing with preventing deaths in recreational fishing. We heard that, although there is evidence that more people are wearing life jackets than ever before and that Maritime New Zealand’s education programme seems to be making progress, there has not yet been a corresponding decrease in drownings.

Despite falls in other sectors, such as foreign commercial fishing boats, drownings from recreational boating is increasing. It is difficult to attribute the increase to one or two specific reasons, but there are more drownings in the North Island, especially the Bay of Plenty, and fewer in the South Island.

Demographics illustrate that males over 60 have the worst safety awareness. Maritime New Zealand has more work to do to understand this better. It is taking a more sector-wide approach to getting this information, and working with regional councils, partner organisations, and face-to-face engagement with boaties should help. For example, Water Safety New Zealand is leading the sector in preventing deaths from drownings, and Maritime New Zealand is part of that sector approach.

We heard that Maritime New Zealand is reassessing the way it will spend $900,000 over the next three years on recreational boating safety and is considering the role social media can play.

**Response to oil spills**

Maritime New Zealand’s pollution-response capability is essentially funded by the oil industry through an oil pollution levy. Responsibility for cleaning up oil spills is a three-tiered system, with local and regional councils responsible for small oil spills and Maritime New Zealand responsible for bigger ones such as the Rena disaster.
We asked about Maritime New Zealand’s ability to respond quickly to oil spills such as the Rena disaster. We heard that a lot of work has gone into developing Maritime New Zealand’s response capability since the Rena disaster.

Part of this has been to ensure strong arrangements and contracts with the right international people who can bring equipment to New Zealand at very short notice. It is very difficult for any nation to have the capability to respond to a significant oil spill in-house. Equipment is available at all New Zealand ports for small oil spills.

**Health and safety**

Maritime New Zealand has been working very closely with WorkSafe and has been running health and safety initiatives, such as FishSAFE in the fishing industry.

With the new health and safety legislation, Maritime New Zealand is doing work to educate and provide guidance to the maritime industry about all of its obligations for health and safety, including its reporting obligations.
Appendix A

Committee procedure
We met on 2 February and 10 March 2016 to consider the annual review of the Accident Compensation Corporation. We heard evidence from the Accident Compensation Corporation and received advice from the Office of the Auditor-General.

The advice, evidence, and transcript of the hearing are available on the Parliament website www.parliament.nz

Committee members
Jonathan Young (Chairperson)
Alistair Scott
Andrew Bayly
Sarah Dowie
Peeni Henare
Ian Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Hon Maurice Williamson

Evidence and advice received

Organisation briefing paper on Maritime New Zealand, prepared by committee staff, dated 2 February 2016.

Maritime New Zealand, Responses to pre-hearing questions received 3 March 2016

Maritime New Zealand, Post-hearing responses, received 26 February 2016.
Appendix B

Transcript of hearing

Members
Jonathan Young (Chairperson)
Andrew Bayly
Sarah Dowie
Peeni Henare
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Alastair Scott
Hon Maurice Williamson

Witnesses
Brian Elliott, Chief Financial Officer
David Ledson, Chairperson
Keith Manch, Chief Executive and Director
Pania Shingleton, Education and Communications Manager
Russell Wood, General Manager Corporate Services

Young Good to see you, sir, and if you’d like to just introduce your team that’d be great.

Ledson OK. [Introductions]

Young Fantastic. All right. So, Mr Ledson, if you’d like to present some comments and then we’ll come to questions, thank you.

Ledson OK. If I may just briefly say a few things, I’d like to just very briefly describe the context in which Maritime New Zealand operates. All of us in the organisation have a compelling reason to ensure that it performs as well as it possibly can. That is because our performance is vital to the effective and efficient operation of New Zealand’s maritime system, and the performance of that is in its turn vital to providing substantial economic and social benefits to New Zealanders and to those who visit our shores, as, for example, seafarers or tourists.

Here are just a few statistics to illustrate the importance of the maritime sector to New Zealand. Each year, on average, more than 800 foreign cargo vessels make around 5,700 port calls, transporting 99 percent of New Zealand’s trade by volume; 6 million passengers use harbour and Cook Strait ferries to get to work or go on holiday; over 12 million tonnes of oil and 4 million tonnes of freight is transported around our coast; over 1,500 commercial vessels operate around our coast, generating $1.5 billion in
export earnings; more than 30 cruise ships make 120 voyages and 700 port calls; and 1.3 million people take to the water on 960,000 recreational craft.

In terms of our level of performance over the 2014 financial year, I would like to just briefly read some excerpts from our annual report for that year. “The vision that Maritime [New Zealand] has set as the marker to shape the way in which we approach our regulatory, compliance and response activities is ‘a maritime community that works and plays safely and securely on clean waters’. Our progress towards this in [the financial year under consideration] was satisfactory. The commercial sector safety trends are moving in the right direction, although there is further work to be done to enable improvements in accident and incident reporting in some areas. The recreational boating toll remains stubbornly high, despite sustained investment in promotion and education, particularly on the importance of wearing lifejackets. On the security and environmental fronts system indicators are consistently [good].

“… There have been substantial organisational challenges placed on Maritime [New Zealand] by [maritime operator safety system] and [the seafarer certification framework]. To manage the impacts of these on both people and resources, some other areas of compliance operations were maintained in a ‘holding pattern’; and the progress that we hoped to achieve in some areas of our work has [been] slowed. Additionally, determined efforts were made to reduce operating expenses, including bearing some personnel gaps – caused, in the main, by receiving less than forecast revenue from MOSS and SeaCert. Nevertheless, in some important areas significant progress was able to be made. In our international engagement, maritime incident response capability, and the development of our IT capability, good results were achieved. In the recreational boating sector Maritime NZ is now seeing the benefits of a more aligned and strategic approach with our recreational sector partners.

“… Effective collaboration between Maritime [New Zealand] and key policy and regulatory agencies in central and local government has been an important factor in the successes we have achieved during the year. Equally important has been the effective engagement which has characterised our relationship with the broad maritime community. We wish to particularly acknowledge the vital contribution to our performance made by [our] people. They have worked determinedly and uncomplainingly throughout this exceptionally challenging year, and can look back at it with considerable pride.” Thank you.

Moroney Thank you for your overview. What went wrong? What went wrong with MOSS and SeaCert that you didn’t—you know, your revenue projections were completely out, there’s been—what’s the reason for the slow uptake?

Ledson Yeah, well, I mean, there’s a difference, I guess, a subtle difference between what went wrong and what didn’t turn out as planned. I think to a degree we were, perhaps, a little naive about the response that we’d get from industry. I think that we anticipated people would act in a rational manner from our perspective, and actually many of them acted in what they saw as a
rational manner from their perspective as owners of largely small businesses. And so for them—I think for many of them—the short-term view made more sense than the long-term view that was being taken inside Maritime New Zealand. But on the plus side the great thing is we actually learned from the experience and we engaged more closely with industry, and I think that’s benefited both industry and ourselves in both the short term and the long term.

Young Can you just explain the short and long-term view as you see it?

Ledson Well, the aim is to have everyone fully into MOSS by 2019. So this is the printable strategy we have around improving safety in the domestic commercial sector. People had an option of fully going into MOSS or transferring from the safe ship management system into MOSS on a temporary basis, so to speak, and many people took that latter option rather than the long-term option.

Moroney OK. So are both MOSS and SeaCert—are they voluntary, or are they compulsory?

Ledson No, MOSS is mandatory if you wish to operate legally in the domestic commercial sector. SeaCert is actually mandatory if you wish to have an authorised mariner qualification.

Moroney OK. So the slow uptake, then, will have implications on who can operate?

Ledson No, no, because there’s actually—there was the ability for people to be sort of temporarily moved into MOSS. So if you’d like detail can I ask the chief executive to provide that level to you.

Manch So as of 1 July last year everybody was formally under the new MOSS system, but some people were—and we referred to it as—“deemed to be” in the system, so they carried on as before but they were deemed to be in the new system. So everybody moved into it and then they had to go through a full entry process, and that was staged over a 4-year period based on the expiry of their certificates under the old system. And as the chairman mentioned just before, some people sought to refresh their certificate under the old system at the last minute, to give themselves an extended period of being deemed, and the volume of people that did that was not what we had planned for.

Moroney OK. So in order to deliver those two programmes you actually put other areas of compliance into a holding pattern. What were those areas of compliance?

Ledson I guess the most obvious one is what’s called port state control inspections. That is where, as a port state, we inspect international shipping visiting our ports, and we set a target in the year—I think, I can’t remember, it was 90 or 80 percent, or something—and we didn’t hit that target.

Moroney I think you set yourselves a target of 100 percent.

Ledson Yeah, and we didn’t hit the target, but we’re mindful, too—

Moroney What did you get, about 23 percent?
Ledson May have been 24. But I mean—I’m not being frivolous when I say, actually, the word “failure” seems to be a word that resonates with a whole lot of bad vibes around it, but actually, you know, we analysed the results, we looked at what they meant and what the learnings were. The thing around port state control is that it’s actually exercised as part of an international system called the Tokyo memorandum of understanding. So amongst the member countries there are assessments made on the risk profile of international shipping, and so that allows us to prioritise resources where they’re going to have best effect in terms of addressing the risks around particular shipping.

Moroney So what are you inspecting those ships for? What are you looking for?

Ledson Sorry, the CE would like to just add some detail.

Manch It was 49 percent, as I understand it, in terms of the target, but—

Ledson We didn’t hit the target, though.

Manch No.

Moroney Yeah, no, you’ve dropped the target. What you’ve done is you’ve moved the target from 100 percent to 50 percent now, yeah?

Manch We didn’t hit the target.

Ledson No, that’s true. So the port state control regime, as the chair indicates, gives you indications of which ships could be inspected, but most of the ships that come to this country come from other countries that are part of the same regime. We contribute to the regime at two levels. One is in terms of the design of the regime and its operation internationally, and the other is at the operational level in New Zealand. So it was a considered decision to reprioritise some of the resources away from port state control for a short-ish period of time—so during the last 12 months or so—which all of our knowledge of the way that system operates is that it wouldn’t do anything significant to the risks in relation to ships coming to this country.

Moroney So you’re checking for compliance with New Zealand law, effectively?

Manch No, we’re checking for compliance with the international conventions relating to the way the ships operate, their systems, and that kind of thing. So those things are checked as they go around all of the different ports in the region. So we’re part of, if you like, a club that does that, so the consideration we gave was not doing all of the inspections that we had targeted would not significantly impact on safety or risk for a short-ish period of time. If you do it for too long, however, ship owners internationally might work out that New Zealand is a bit of a soft touch.

Young That’s right, and we’ve got to pull our weight, don’t we—in the network?

Manch That’s right. So we’re now building back up to the right level of inspections according to that regime during this year.

Moroney Well, in fact, what you’ve recorded is that you’ve dropped your target from being doing 100 percent inspections to being 50 percent of inspections, and
as I recall I think that you actually only, during the 12 months that we’ve just talked about, managed 23 percent—might be 24 percent.

Unidentified Yeah, we didn’t hit the target.

Moroney Yeah. So you substantially missed the target of 100 percent, and as a result now you’ve dropped your sights on it to saying: “Well, we’re only going to inspect half of them.” That’s now your target, let alone what you’re going to actually achieve.

Ledson Could I say a couple of things in response. The first is that I asked a sister agency in another country whether they were leveraging off the international system to be efficient and effective in terms of the port state control obligations. Their response was they were probably over-inspecting. So, you know—

Young So you’re being quite responsible about—

Ledson Well, I think that the fact that we didn’t make the target has made it look more closely, you know, at how we can leverage off an international regime to deliver efficiency into the operation as well as effectiveness. So the second thing is that the Tokyo MOU, as well as agreeing on the standards that will be inspected, also has targeted campaigns. So one of the things that came out of the Rena was, perhaps a lack of sleep was an issue, and so the MOU had a—the Tokyo MOU agreed that a targeted campaign would be around whether or not mariners are getting sufficient sleep. So we’ve anticipated in the targeted campaigns as well. I think that we’re striving to get the right balance between being effective and efficient in terms of the process and the right balance in terms of being seen to be a constructive player in the Tokyo MOU as a Pacific organisation.

Moroney What level of inspections as port state control inspections have we achieved, say, prior to the last 12 months? What was the norm?

Manch I think previously we have met the targets that were set. There’s also—

Moroney Which is what, roughly?

Manch I’m sorry, I don’t have that in my mind.

Moroney OK. Was it close to 100 percent or—

Ledson It would’ve achieved more than we achieved in 2014-15.

Moroney More than 50 percent?

Manch I think probably, yeah.

Moroney So we really are dropping our sights quite—over a long period of time, aren’t we?

Ledson Yeah, it’s an awful word—maybe we’re recalibrating. I mean, the mix of maritime officers changed when we had the MOSS and SeaCert impost in that they were focused more on domestic issues rather than international, and I think it’s fair to say that we’re just getting that balance back where we think it could be sustained over the longer term. So when we—

Moroney Do you think we were too safe before?
I would—I mean, the chief executive and I may not necessarily entirely agree. I think perhaps we were doing too many inspections, but the fact of the matter is that our assessment was no matter what the level of inspections—the level of inspections that we achieved in 2014-15 did not increase to any significant degree the risk posed by international ships visiting New Zealand.

Can I just check whether these inspections are checking compliance with New Zealand law, like our labour laws and things? Is it doing any of that?

No, no, no—we can’t inspect against the maritime labour convention until it’s endorsed by New Zealand later this year.

Right. And then that will fall under these inspections then?

And the MLC inspections will be part of the port state control inspection.

If I could just add to the chairman’s comments too, the inspection—the targeting regime in the Tokyo MOU is one that’s agreed by the club, if you like. It doesn’t contain the level of sophistication around risk analysis that some other countries like Australia are starting to put into the regime. We are working closely with Australia with a view to picking up on the work that they’re doing and doing it in a stronger partnership sort of bilaterally as part of the multilateral group, if that makes sense. And that will enable us to—we may even change the targets in the future so they don’t reflect the Tokyo MOU as much as reflecting what is best for New Zealand. So we’re in a period of transition around that.

And the other comment the chair made about the resources available for it are—port state control inspections require specialist expertise, maritime officers trained specifically in that. We’ve had a change of staff profile. Typically in the maritime industry a lot of the specialists—you know, there’s quite a high age group, and we’ve had some retirements. We are in the process now of rebuilding the maritime officer capability around port state control and during the course of this year we expect to be back on target, but we also expect to be revisiting those targets over the next few years as we get more sophisticated around the risk analysis.

Thank you for that. I just want to talk a little bit more about MOSS. So that came into force 1 July 2014. I see here at June we’re at about 27 percent of operators have taken it up. Have you got a figure of what the current take-up of the MOSS system is, and when do you expect to be at 100 percent, or are you there already?

They’re to be fully in the system by July 2018, I think it is, and against a graph that we have, we’re tracking to be on target by that date.

As at the end of January this year, 43 percent of the operators, which covered 60 percent of the vessels, were in MOSS, and that reflects that some operators have multiple vessels.

Life jackets—the number of deaths in recreational fishing. Internationally, are we bad? Are we dangerous as recreational fishers, and are we doing enough to keep people safe?
The evidence that we have over this summer is that more people are wearing life jackets than ever before. So the education programme, and the TV programme which is part of that, seems to making progress. As to our stats relative to other countries, I’m pretty sure that relative to some countries, obviously, we’re good, but relative to others we’re not so good.

So you’re heading in the right direction?

No, in recreational boating—you know, all the trends around the other sectors are going down. In recreational boating the trend seems to be increasing.

So would you put anything down to that—any reason that you see?

I think the best answer I can give is that we need to get rock-solid information, you know, to be able to make the best interventions, and that’s an issue right across the sector. But we’re now taking a more sector-wide approach to getting together information. So Water Safety New Zealand is leading the sector around deaths from drowning, and we’re part of that sector approach. And, conversely, we have the Safer Boating Forum looking at recreational boating, and Water Safety New Zealand is part of that group. But, at the end of the day, we need, I believe anyway—we say that most of the deaths were avoidable, and would have been avoided had people been wearing life jackets. But also I think there’s more information required on the regional variations because if you look at the stats, most of them are over summer where there’s warm weather, which is the northern part of the North Island, Bay of Plenty; less down in the South Island—and around demographics as well.

So what sort of programmes are operating around the, you know—the Water Safety Forum you’re talking about recreational boat usage, and water skis are like, you know, these motorbikes on water. They go pretty fast and—

Jet-skis. 

Jet-skis—sorry. What did I say?

Motorbikes on water.

Yeah—sorry. And what’s the history in terms of just educating people who use motor boats versus levels of compliance around how they use them?

I’ll try and—I hope I respond to your question, Chair. Over the last 3 or 4 years that I’m aware of, there’s been a significant education campaign focused on life jacket usage as part of a programme that talks about things like skipper responsibility, no use of alcohol, and carrying two forms of communication. There’s been quite a specific focus, however, on life jackets. As the chairman said, the campaigns have been successful in terms of awareness of the need to wear life jackets. More life jackets seem to be worn, as well, yet the fatalities have been stubbornly high. We’re looking at rethinking the way that the $900,000-odd that’s invested in recreational boating safety work is applied for the next 3 years, bringing in a stronger mix of communication through social communication methods and
engaging with regional councils and partner organisations for more local programmes, face-to-face engagement with boaties and the like, more to get on to the skipper responsibility, reinforcing the life jackets, still using the material and the images and the icons that have been successful over the last few years to see whether we can take another step, I guess, in terms of the improvement in the outcomes.

There’s been a very strong focus on education, both by Maritime New Zealand and by regional councils, and that’s likely to continue. There may be a little bit more of a focus also on enforcement activity because it appears some areas of the recreational community are not really getting the message. So we’ll be looking at sort of a balanced programme for the next 3 years with all of those partners to see whether we can actually crack this.

Ledson  So the $900,000 was specifically given to us by the Government for the recreational boating safety programme. The last survey we did—comprehensive survey a couple of years ago—indicated that recreational boating we all think of something with a motor, but, actually, paddle boards and sea kayaks are a large part of that community as well. And then if you look at the graphs around behaviour, it seems the greatest safety awareness is in the 40 to 55 year bracket, and the worst safety culture is males over 60.

Young  Males—what?

Ledson  Over 60.

Roche  Thank you for that—that was really interesting, actually. It certainly shores up my understanding of who’s not wearing life jackets as I’ve been sailing around the Hauraki Gulf this summer. I wanted to ask you about response to oil spills and what sort of confidence do you have of your ability to be able to respond quickly to a *Rena*-like sort of issue or an oil spill in places like New Plymouth—the ports there. I mean, you have to have a relationship with the regional councils too, don’t you?

Ledson  So can I make some initial comments and then hand over to Keith?

Roche  Yeah, sure.

Ledson  I think it’s important to acknowledge that the Government’s actually invested quite a bit in developing the marine incident response capability that we have and through the oil pollution levy, industry has as well. So the pollution response capability that we have essentially is funded by industry through the oil pollution levy. So since the *Rena* a lot of work has gone into developing our response capability. So, Keith, do you want to go into it?

Manch  Sure. So the system operates on the basis of three tiers. Tier one is operator responsibility for cleaning up the mess that might be associated with an oil spill. Tier two is where it’s a regional matter, so the regional council takes leadership and we might be in a supporting role in the background—we usually are. Tier three is a national response when Maritime New Zealand takes control, and the *Rena* was an example of that. There’s very good capability throughout the country with Maritime New Zealand and regional councils for inshore oil spills, and a lot of that capability is modelled on inshore oil spills—so that’s close to the coast.
And ports and harbours.

And ports and harbours, yeah. Outside the sort of inner coastal area, or off the sea a little bit, it’s a more tricky proposition to do oil clean-up in terms of once the oil’s in the water, so we’re working, first of all, through the Oil Pollution Advisory Committee and with Government around whether the oil pollution levy should fund some more offshore capability at the moment. One of the things about oil spills, and offshore spills in particular, is there’s probably no country in the world that has all of the capability they need in-house. It’s a very international regime, so part of the development we’ve been doing over the last few years is making sure that we have strong arrangements and contracts with all of the right international people, who can bring the equipment that’s required to New Zealand at very short notice to contribute to an international response.

Where’s our closest—Australia?

Australia, yeah.

With the inshore and inner-ports clean-ups that we’ve got, why are all those ports—why do they not have all the equipment that they need for those minor spills, as you call them, or tier twos, if you like—those regional clean-ups? Because we had one recently last year in the Bay of Plenty, in Tauranga, and the equipment took a day and a bit to get down there—the booms, the clean-up equipment. How do we fund that—because, obviously, it’s a cost—and should that cost be put on to the ships themselves and the oil companies? Can you talk about that a little bit?

Well, the equipment that’s available in local areas or in ports, regional councils, is based on modelling of potential oil spills, and it’s sort of a—you go through the modelling risk and understanding what might happen and then you provide the capability that seems to match that model, and sometimes things will happen that are beyond that. I mean, that’s where, as you say, other resources come from other parts of the country or internationally, or whatever.

So Tauranga, being the largest port in the country, didn’t have that equipment available when that Mobil oil spill took place earlier on last year. Can we explain why that was an oversight—being the largest port and not having the equipment for the clean-up?

Well, not specifically in this meeting, I can’t really figure out the detail of it. We supported the regional council in that response so that although they had the leadership, the question of who’s paying for it, it’s—the polluter pays is the principle that sits behind it. So all of that response activity would’ve been paid for by the person responsible for it.

However, that’s a very valid question that Mr Mitchell’s asked, because it’s one of the busiest ports in the country.

Could I just respond? I’m not sure we made ourselves clear that Maritime New Zealand, through the Marine Pollution Response Service, holds a level of capability and it distributes that around the country to ports, and it will at times vary. As we were talking, I recall we were in Whangarei last year, at
the port there, and we were talking about the equipment they had stored there. And as a consequence of that discussion, I think, Keith, we’ve reviewed the holdings that they have at Whangarei. And I’m sure that the lessons that come out of Tauranga—if they talk about the need to adjust the level of holdings, then those decisions will be made.

Mitchell I thought it would be prudent to make every port to have clean-up equipment so you can react in

Ledson We do have a level of—

Manch The question is what level to pitch that at, and it’s a question of balancing the risk with the investment for stuff that sits in a shed. As soon as you start buying dispersant and equipment, it needs to be maintained on an ongoing basis, so it really is a question of balancing the risk assessment with the investment at any particular time in a particular place. So there is the local and the national and the international tiers that can be swung into action.

Roche I had another question—it was on a different topic, actually. My understanding is that you have responsibility for health and safety in commercial fishing. It’s in ports as well, isn’t it? Maritime New Zealand—for investigation?

Ledson Sorry—health and safety as a ship, as a workplace?

Roche Yes. So what sort of actions are you taking to increase the incidence of reporting, particularly, in commercial fishing?

Ledson Well, we had a survey done in conjunction with WorkSafe last year. Do you want to talk about that?

Manch Yeah. So WorkSafe’s been surveying the five high-risk industries and fishing is one of them, so we undertook a similar survey for fishing. So that information is being used to look at the programmes we operate. We’ve previously had a programme called FishSAFE, where we focused on health and safety initiatives in the fishing industry. We’re now transferring that effort into preparing for the health and safety at work legislation, where we’ll be providing very specific guidance to the fishing industry as part of the overall maritime industry around all of their obligations in relation to health and safety, including their reporting obligations.

Parmar Because of concerns on fishing crew on foreign commercial fishing vessels we decided to ban commercial fishing vessels carrying foreign flags in New Zealand waters, so we had this transition period of 4 years which finishes on 1 May this year. So how’s that transition looking like, to be flagged—so that the foreign commercial fishing vessels are carrying New Zealand flags?

Ledson At a high level—very good.

Manch Prior to the Government decision there were 19 foreign-chartered fishing vessels operating around New Zealand’s coast. So far we’re at 17 that have either permanently reflagged—they’re in the application process or they’re working through details in their own country about how they will do it. So we expect that process to be done by 3 April, or whatever the date is. So it’s going pretty well. It’s quite an intense piece of work from our perspective
because some of the issues are quite complex, particularly with what’s happened in Russia and the Ukraine in terms of ownership and flag and that kind of stuff. But we’ve been taking quite a pragmatic approach to make sure that on the one hand the operators can continue and on the other hand they’re doing it under the full auspices of New Zealand law, including things like labour laws, health and safety.

Mitchell
My final question is around the Taharoa vessel that’s picking up all the ironsands there. My understanding, that vessel is swinging off a 40-year-old buoy that hasn’t been kept up to service and has been pretty close a couple of times, in recent times, that its stern has actually swung quite closely to running aground. Now, that’s the largest vessel that comes into New Zealand waters. What steps is Maritime New Zealand doing to secure that, because now I understand there’s three ships coming in and swinging off that so it’s basically constantly being moored. The buoy was actually designed around 150,000 tonnes and now we’ve got ships that are 175,000 tonnes. I see that as New Zealand’s next largest shipping disaster, and what are we doing to make it not become New Zealand’s largest shipping disaster?

Manch
On the buoy issue in particular we understand that New Zealand Steel is looking to replace the buoy this year, but in the last year or slightly more we’ve been through a process where we’ve had international experts undertake a full audit of the operation at Taharoa, commenting on every issue from the buoy to the nature of the shipping operation and the like.

Mitchell
And the piloting vessels and the pilots themselves.

Manch
And there’s been pilot issues that we’ve been working through. So on the audit front, everything that’s been identified in the audit we’re now working through with New Zealand Steel to make sure it’s all dealt with appropriately. We don’t consider the buoy to be, I suppose, essentially unsafe or kind of risky as it is at the moment in a sense that the operation has to stop but it’s important that it gets replaced in due course.

Mitchell
Is there a contingency in place for an incident or an accident to occur for clean-up because, of course, it’s right in the middle of a zone of—

ecological, I guess.

Manch
Yes, there are. We’ve had quite a close look at how we would respond were there an incident at Taharoa, of course. On the piloting issues we spend a lot of time. We work closely with the operator in order to get licensed pilots in place to look after the three ships that are now on the run. Those three ships are purpose built as well, so they are more advanced than the previous ship before Destiny, which did have one or two incidents, as I recall, in the past. So we’re satisfied that the operation is undertaken safely and for a shipping operation that’s, as all are, inherently risky, it’s going pretty well.

Mitchell
Has the Minister of Transport been updated on all this sort of information so he’s aware of what’s going on with Taharoa?

Manch
We keep him informed. These matters are specific decisions that are statutorily independent for the Director of Maritime New Zealand, my role,
so, yes, we keep him informed, but all the decision making is separate from
the Minister or indeed the board in terms of the way the legislation works.

Ledson And can I say we have a really good relationship with New Zealand Steel.

Dowie So you mentioned the body of work of MOSS and SeaCert, and that’s
inevitably put pressure on your business. How are you placed moving
forward to meet your core obligations now and what strategies have you got
in place to do that?

Ledson The core obligations of the organisation are being met. If you look at the
statement of performance expectations, SOI, where the real pressures are
being felt in the organisation are those areas that build capability in the
organisation and generate capability and capacity in the staff, and so the real
challenge for the organisation is to reach a point where it can sustain the
delivery of its core responsibilities, lift the performance over a long period
of time. So right now a critical thing that’s under way for Maritime New
Zealand is what’s called the midpoint funding review, to look at an increase
around marine levies and fees. There’s a full funding review programme for
2018/19.

Moroney I really just wanted to come in off the back of that. You’re consulting on
that recalibrating, which I’m thinking is code for increasing the fees and the
levies. At the moment how’s that consultation going? What feedback are
you getting?

Ledson Just as an overview there’s been a small number of submissions on the
consultation. I went to consultation meetings in Tauranga and Auckland
and Wellington, and we had three to four people at those public
consultation meetings.

Moroney And were they happy with fee increases?

Ledson There was a 60-year-old man in Wellington who was not happy at all, but, I
think, generally people understood the reasons for it. I think it’s important
probably to note that Cabinet was very firm in the direction to us that it was
to be an open-book consultation as well, so there’s been the disclosure of
quite a sizable amount of financial information so that people understand
where we’re coming from, because the concern, of course, is that we drive
efficiencies into Maritime New Zealand.

Moroney Can I just come back and get this straight in my head—that because the
MOSS and SeaCert didn’t go as planned, there was a decision made to put
on hold the, particularly the port state control inspections to a level where
you had a target of 100 percent, you delivered 23 percent of those
inspections, and as a result you’ve now halved the target. You now, long
term, have a target of doing 50 percent.

Ledson Keith’s got the info. I can’t remember what we’re doing this year. Keith, do
you want to respond to that?

Manch I think you’re looking at the foreign ship voyages screened for security and
non-compliance. The port state control data, while we clearly didn’t meet
the target, was a 49 percent result in relation to a 70 percent target.
Moroney  OK. So what did you drop the ball on? What is the 100 percent target that you only got 23 percent of during the year? What was that?

Manch  It’s a proportion of foreign ship voyages screened for security and non-compliance.

Moroney  Isn’t that the same thing?

Manch  No, no, it’s two different areas.

Moroney  OK. So tell me about what the consequences are of dropping that target on the foreign ship inspections.

Manch  The security one.

Moroney  Yes.

Manch  It’s more related again to revising and rethinking the approach to be taken to target more specifically. So the explanation is provided in our annual report, and perhaps I could just refer directly to that. What we say is during the fourth quarter of the 2014/15 financial year we implemented changes to the ship profiling process to increase the volumes of ships being profiled. The revised screening process now focuses on the essential ship assessment step of the process rather than on a whole lot of data entry and non-essential tasks.

The screening rate increased from 19 percent in April 2015 to 41 percent in May and June 2015, following implementation of the changes, and we expect to see this volume increase further in the 2015/16 financial year and subsequent years. A revised annual target of 50 percent has been set for 2015/16. So it’s always been an area we’ve been challenged in meeting, so we’ve revised it. We’ve revised the approach we’ve taken. We’ve changed the target, and this gets us into, I guess, a discussion about the nature of the targets.

We tend to view them as providing information about performance and enabling us to discuss and explain where we don’t hit them, kind of thing. The ISPS code is the international ports and security code, so we’re inspecting against that, and again that’s part of an international regime that we’re clued into. We’re not of the view that anything that we’ve done here increases any risks. Ship security is also related to port security where we have a very strong focus, and port security is important because—one of the reasons—we get audited by the US Coast Guard from time to time, so if our ports aren’t secure it impacts on trade, and that’s going very well. So, again, some decisions are made around the package of things we do to manage the overall outcome.

Young  Thank you. We’re completely out of time. So thank you very much.
2014/ 15 Annual review of Meridian Energy Limited
Report of the Commerce Committee

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Meridian Energy Limited

Recommendation
The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of Meridian Energy Limited and recommends that the House take note of its report.

Introduction
Meridian Energy Limited is an energy retailer and New Zealand’s largest electricity generator. Meridian generates about 30 percent of New Zealand’s electricity entirely from renewable sources (hydropower and wind farms). It retails power to about 276,000 New Zealand customers through the Meridian and Powershop brands. Meridian also operates in Australia, where it owns two wind farms and retails to more than 48,000 customers through Powershop.

Meridian is a mixed-ownership model company under the Public Finance Act 1989. The Crown is Meridian’s majority shareholder. The Chief Executive is Mark Binns, and the Chair of the Board is Chris Moller.

Financial and service performance
In 2014/15, Meridian generated total revenue of $2.904 billion. It reported a net profit after tax of $247 million—up $17 million from the prior year. The Office of the Auditor-General rates Meridian’s management control environment, and financial information systems and controls, as “very good”.

Meridian’s place in a competitive retail market
Given the competitiveness of the New Zealand energy market, we asked how Meridian is ensuring that it remains competitive, and attracts and retains new customers. We heard that Meridian’s customer numbers fell by one percent in 2014/15, although the volume of energy sold rose. Meridian acknowledged that it cannot match the “silly rates” of some competitors. However, it matches lower rates where possible and attracts customers through discounts and one-off incentives.

We heard that Meridian also has products that are unique in the retail market. Meridian’s Powershop brand allows customers to monitor their energy use online or through smartphones. Meridian told us that this “point of difference” makes Powershop competitive and was the basis for Meridian launching the brand in Australia. To date, Powershop has more than 100,000 customers on both sides of the Tasman. Meridian is seeking to franchise a retailer to use the Powershop platform in the Northern Hemisphere.

Some of us questioned whether the market is truly competitive when, in 2014/15, Meridian delivered a 36 percent return to investors, produced a $247 million profit, and paid 132 employees or former employees more than $150,000 in remuneration (23 of whom received more than $300,000). Meridian asserted that these figures actually reveal the market’s competitiveness, as Meridian must offer competitive salaries to attract “good people” whose specialist skills are in international demand. We also heard that the large
shareholder return was mostly because the share price appreciated, which may not continue next year.

The security of supply of energy production

Transpower’s winter energy margin sets the minimum level of energy production needed to cover normal peak demand, as well as any unexpected system breakdowns or sudden increases in demand. We noted that, from 2019, New Zealand’s existing generation facilities may be insufficient to meet the winter energy margin. We asked what Meridian was doing to alleviate this risk.

Meridian believes that the retirement of three thermal plants—one owned by Contact Energy and two owned by Genesis Energy—would reduce New Zealand’s infrastructural capacity to meet the margin. Accordingly, Meridian is renegotiating its existing “swaption” arrangement with Genesis to provide cover for dry years. Meridian is also talking with other parties (who could not be named) about installing gas peakers, which would allow Meridian to achieve similar swaption arrangements with other generators.

Meridian is also working with its turbine suppliers to expand its wind generation capacity, and is developing proposals to increase the flexibility of its hydro catchments. For example, Meridian hopes to be able to draw additional water from some of its South Island lakes, such as Lake Pukaki, during dry years.

We questioned whether Meridian’s decision to call on Genesis to reverse its closure of coal plants is consistent with its marketed image of being an eco-friendly power company. Meridian told us it has increased New Zealand’s use of renewables but that it would be some time before New Zealand’s energy is 100 percent renewable. Until then, a back-up is required to ensure security of supply. At this stage, that back-up is fossil fuels.

Relationship with Tiwai Point smelter

Recently, Meridian signed a variation to its electricity agreement with New Zealand Aluminium Smelters (NZAS) to supply energy to the Tiwai Point smelter. Although Meridian secured a modest price increase, NZAS retains the right to terminate the contract, with a year’s notice, from 1 January 2017. This right will continue until 2030. It is unclear whether, or when, NZAS might exercise this right. The outcome largely rests on the future of international aluminium prices.

We asked how uncertainty about the smelter’s viability is affecting investment decisions to expand New Zealand’s energy production. Meridian acknowledged that because NZAS uses 12 percent of New Zealand’s energy production, the inability to rule out the closure of the Tiwai Point smelter is dissuading investment in the expansion of energy production facilities, such as new plants. In this context, a sequence of smaller investments in geothermal upgrades and wind farms is more likely than a major power station.

We asked what strategies Meridian could implement if the smelter closed. Meridian indicated that it could use its retail business to “go and get more customers”, or it could sell the excess energy on the market at wholesale rates. Meridian did add that, should the smelter close, the retirement of Genesis and Contact’s thermal plants would adjust the supply side and cushion the effect of demand dropping.

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1 The arrangement is a financial contract allowing Meridian the option to access up to 150 megawatts of energy generated by Genesis at a capped rate each year.
We are concerned about the insecurity of the Tiwai Point agreement and will continue to monitor the situation.

**Support of solar and battery power**

We asked whether Meridian supported solar and battery energy. We heard that Meridian “constantly” considers these technologies. However, grid scale solar is not yet viable without unjustified subsidies, and battery technology is still not economic. Meridian maintains that the market should dictate the viability of these technologies, rather than subsidies.

Meridian stressed that, although it does not oppose rooftop solar, it does not support buying back solar energy for more than the wholesale market rate. It believes that the rates it currently pays—10 cents in winter and seven cents in summer—are fair. The Chief Executive emphasised that “it makes no sense” for Meridian to pay more for solar energy than for energy it can buy off the market at wholesale rates. He also rejected our suggestion that solar customers, discouraged by low buyback rates, would go off grid.

We will continue to monitor this area with interest.

**Transmission costs and access to the grid**

Meridian supports the Electricity Authority’s review of the transmission pricing methodology and is confident that the authority will reach competent conclusions. Meridian strongly supports a beneficiary-pays approach. It argues that the variance in what people pay to access the grid presents “a real equity issue” and that not everyone is paying their fair share. Meridian also indicated that it did not support the current low fixed user charge, on the grounds that it operates contrary to the initial policy intention.
Appendix

Committee procedure
We met on 12 November 2015 and 18 February 2016 to consider the annual review of Meridian Energy Limited. We heard evidence from Meridian Energy and received advice from the Office of the Auditor-General. Advice and evidence received is available on the Parliament website, www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon Judith Collins (before 10 February 2016)
Hon David Cunliffe (from 2 December 2015)
Clare Curran
Kris Faafoi (before 2 December 2015)
Brett Hudson
Gareth Hughes
Simon O’Connor
Maureen Pugh (from 10 February 2016)

Evidence and advice received

Organisation briefing paper, prepared by committee staff, dated 10 November 2015.


Meridian Energy Limited, Commerce Select Committee presentation, 12 November 2015.
2014/ 15 Annual review of the Meteorological Service of New Zealand Limited

Report of the Commerce Committee

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Meteorological Service of New Zealand Limited

**Recommendation**

The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of the Meteorological Service of New Zealand Limited, and recommends that the House take note of its report.

**Introduction**

Established in 1992, the Meteorological Service of New Zealand (MetService) is a medium-sized State-owned enterprise. It has four offices in New Zealand and two offshore, and 267 full-time equivalent staff. MetService focuses on safety, good science, and a commercial return on its intellectual property.

MetService has built a global business as a highly specialised meteorological service for weather-sensitive industries. MetService has commercialised its core weather analysis systems and capabilities worldwide. It is also a heavily used weather resource for the general public.

More than 40 percent of MetService’s revenue comes from its contract with the Ministry of Transport, but this proportion will decrease as other parts of MetService’s commercial business continue to grow internationally. A key priority for the coming year will be strengthening the organisation’s information technology infrastructure and resilience. This will include the re-engineering of the Weatherscape Media Visualisation software system and replacement of ageing IT infrastructure.

The chair of the board is Anthony Howard, and Peter Lennox is the chief executive.

**Financial performance**

Delayed confirmation of MetService’s contract with the Ministry of Transport had a major effect on MetService’s full year pre-tax profit. At $1.38 million, this was 67.5 percent below its 2013/14 pre-tax profit. Total revenue was $46.05 million, an actual rise of 0.9 percent. Operating profitability was down $2.28 million to $9.52 million. Setting aside the effect of the contract delay, MetService’s commercial revenue rose by 7.2 percent in 2014/15.

**Social media strategy**

We asked about MetService’s current social media strategy. We heard that a revolution in data availability has changed how it provides weather information. MetService was the first weather service to launch an app five years ago, the first to establish an Instagram presence, and one of the first to set up a Facebook page.

MetService now has 11 apps. This has driven domestic revenue growth in the year under review, with a 71.3 percent year-on-year increase in downloads of MetService weather apps.

**Improving access to weather information**

We asked about future opportunities to improve New Zealanders’ access to weather information. We heard that there is a spectrum of weather information available, including
some freely available on the internet. However, the level of accuracy and precision of this information varies significantly.

MetService’s membership of the World Meteorological Organisation (a United Nations (UN) body) requires a high level of accuracy and precision. MetService’s weather information must be fit for purpose. Misleading coverage of weather events can often be traced to media outlets using the results of a single computer model, rather than the 200 routinely run by MetService. We heard that accurate forecasts are an important selling point for MetService’s services.

**Extreme weather events, and commercial vs public access to MetService data**

We heard that MetService is able to provide location-specific advice to commercial ventures such as factories or manufacturing sites. MetService’s commercial clients often ask for it to set up extra observation sites and require highly detailed topographical modelling.

We asked why commercial clients should have access to better quality information about severe weather events than a boatie or a fisherman. We heard that this reflected the degree of detail required by different users. However, MetService provides information about severe weather events to the general public free of charge through MetService’s website, through social media, and through interaction with the Ministry of Civil Defence and Emergency Management, the police, and local authorities.

Some of us remained concerned that MetService’s commercial clients receive better and more precise information than the general public. We noted that MetService advertises its ability to provide commercial customers with extremely specific weather data, down to the size of a single farm or vineyard. We asked why MetService does not freely provide this detailed information to all who request it. This information could, in some cases, help people save their businesses during adverse weather events. We heard that providing this level of detail across the board would be impossible in terms of time and resources.

We heard that MetService’s commercial clients pay both for the observational tools and the time spent collecting information relevant to their businesses. In many cases, the client owns the observational tools. However, MetService made it clear that, even if that information had been generated for commercial purposes, there was never any risk of critical weather data being withheld from the general public. MetService “would never withhold information if it compromised public safety”.

We heard that MetService provides open access to selected weather data. We understand this conforms with UN requirements for meteorological services. MetService also conducts international data exchanges with countries in the South Pacific, to improve safety in the region.

However, MetService noted that as a State-owned enterprise, its principal objective is to operate as a successful business. We asked whether MetService accepted that some of the forecasting services overseas, for example in the United Kingdom, USA, Canada, South Korea, and Japan, do not charge for their weather observations. In response, MetService said that this was not entirely correct; it pointed out, for example, that such observations in the United Kingdom are funded by a grant from a government-sponsored group. We heard that data that was freely available to the public overseas “had still been paid for by somebody”. Some of us expressed concern that publicly available free weather data was not at the same standard as that offered overseas.
Cyclone Winston

We expressed concern at the gap between recent predictions made by the National Institute for Water and Atmospheric Research (NIWA) and by MetService about Cyclone Winston striking New Zealand. We asked whether this variance is acceptable and also whether it pointed to a need for MetService to coordinate with NIWA better.

We heard that MetService is New Zealand’s authoritative provider of weather information, running more computer weather models than anyone else and with 100 meteorologists on its staff. Coordination with NIWA is good, with the two organisations’ chairs and chief executives meeting regularly to resolve any competitive tensions.

Ongoing infrastructure investment

We heard that MetService is considering adding new radar systems and asked about its ongoing investment in infrastructure. We were advised that 15 Paraparaumu-based engineers travel New Zealand maintaining MetService’s existing nine radar facilities. Two new potential radar sites in Invercargill and Nelson are under discussion.
Appendix

Committee procedure
We met on 3 March and 17 March 2016 to consider the annual review of the Meteorological Service of New Zealand Limited. We heard evidence from Meteorological Service of New Zealand Limited and received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Alfred Ngaro (from 16 March 2016)
Simon O’Connor
Maureen Pugh (until 16 March 2016)

Evidence and advice received
Meteorological Service of New Zealand Limited, Presentation, received 3 March 2016.
Meteorological Service of New Zealand Limited, Responses to written questions, received 3 March and 17 March 2016.
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Mighty River Power Limited

Recommendation

The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of Mighty River Power and recommends that the House take note of its report.

Introduction

Mighty River Power (MRP) generates about 17 percent of New Zealand’s total electricity. MRP operates nine hydro stations on the Waikato River, five geothermal power stations in the Central North Island, and a multi-unit gas-fired station in Auckland.

MRP is a mixed ownership model company under the Public Finance Act 1989. The Chair of the Board is Joan Withers, and the Chief Executive is Fraser Whineray.

Financial and service performance

In 2014/15, MRP generated revenue of $1.678 billion and reported a net profit after tax of $47 million. This was $165 million lower than the previous year. MRP noted that this financial performance was significantly affected by record low hydro generation and several non-cash impairments.

The Office of the Auditor-General assessed MRP’s management control environment and its financial information systems and controls as “very good”.

A competitive market and the price of power

We asked whether the energy market is truly competitive, given MRP’s continuing dividends despite record low hydro generation. MRP asserted that its costs had been offset by a focus on cost efficiencies and property sales. It highlighted that 42 percent of its energy generation is driven by geothermal generation, which is not weather dependent.

We asked whether it is reasonable to expect power prices to decrease because demand for power is expected to decrease. We heard that MRP actually expects demand for power to increase, as it has been doing for the last five quarters. MRP acknowledged that this depends on industrial and residential activity but pointed to underlying drivers of this activity, such as record migration.

We asked what proportion of this growth in demand renewable energy generation would meet, as opposed to traditional generation. MRP stated that, although solar and other renewable technologies have great potential, they do not have as much capacity as traditional modes of generation. For example, 200,000 solar panels meet only 1.5 percent of the current market grid. MRP is enthusiastic about renewable energy generation in the future but stated that, for now, solar energy will remain a niche in the energy market.

MRP’s retail power prices for its Mercury Energy brand have not increased for the last three years, and its GLO-BUG prepaid customers currently pay a rate below the prompt payment discount for their power. MRP has introduced several important innovations for its Mercury Energy and GLO-BUG customers that use smart meter infrastructure.
We asked how the closure of electricity plants such as those in Otahuhu and Huntly would affect the security of supply. MRP acknowledged that, in a year characterised by low rainfall, this may be a valid concern where hydro stocks have depleted.

The major constraint in New Zealand is energy storage. This is typically hydro storage behind dams and gas or coal stockpile storage. MRP stated that storing fossil fuels for energy reserves is cheaper and more reliable than trying to store renewable energy. However, the market has shown it can adapt to renewable energy solutions and there is considerable thought about the issues posed by deep energy storage. MRP told us the key issue is New Zealand’s high use of renewable energy sources. If New Zealand relied entirely on fossil fuels, there would not be a security of supply issue.

Some of us asked how the current price of power fits into the context of a competitive market, given the salary some of MRP’s employees receive, with 112 employees earning more than $150,000 (42 of whom were paid more than $200,000). MRP emphasised that there is a competitive market for talent and that the company was willing to pay for specialised employees.

**Opportunities for renewable energy**

MRP says it is enthusiastic about the potential for renewable energy development within New Zealand. Long-term emphases are on water and solar power. MRP stated that regulatory stability is needed to encourage investors to make the long-term capital commitment that renewable energy requires.

In particular, MRP is focusing on the promotion of electric vehicles within New Zealand. We heard that although electric vehicles are a substantial growth opportunity, it will take time to ensure there is enough infrastructure in place to allow New Zealand to fully leverage a competitive advantage.

We asked MRP to explain how electric vehicles would benefit New Zealand’s economy. MRP pointed to the economic benefits of electric vehicles. These included saving the $3 billion currently spent each year on purchasing fossil fuels to supply transport fleets, environmental and health benefits, and the low cost of electricity to consumers compared with fossil fuels (equivalent to 30 cents per litre).

**Health and safety**

MRP reported five lost time injuries, which are work-related injuries that result in more than one day off work. This is a decrease from last year’s seven lost time injuries. Responses to MRP’s engagement survey were positive about MRP’s health and safety culture, with 87.5 percent agreeing that MRP is visibly and actively involved in the health and safety of its staff; 88.4 percent agreed that MRP is committed to its staff’s health and safety. MRP has a health and safety initiative called “Together Safe” which includes

- redesigned safety documentation and procedures
- an updated safety training programme
- a new incident reporting system
- the development of Safety Cases for all MRP sites likely to be classified as Major Hazard Facilities under proposed new regulations.
Appendix

Committee procedure

We met on 19 November 2015 and 18 February 2016 to consider the annual review of Mighty River Power. We heard evidence from Mighty River Power and received advice from the Office of the Auditor-General. Advice and evidence received is available on the Parliament website www.parliament.nz.

Committee members

Melissa Lee (Chairperson)
Brett Hudson
Hon Judith Collins (before 10 February 2016)
Kanwaljit Singh Bakshi
Simon O’Connor
Maureen Pugh (from 10 February 2016)
Dr David Clark
Clare Curran
Kris Faafoi (before 2 December 2015)
Hon David Cunliffe (from 2 December 2015)
Gareth Hughes
Ria Bond

Evidence and advice received

Organisation briefing paper, prepared by committee staff, dated 16 November 2015.
Mighty River Power, responses to written questions 1–107
Mighty River Power, Commerce Select Committee presentation.
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Ministry of Business, Innovation and Employment

Recommendation
The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry of Business, Innovation and Employment, and recommends that the House take note of its report.

Introduction
The Ministry of Business, Innovation and Employment (MBIE) aims “to grow New Zealand for all”. It works to increase real household incomes through more competitive businesses, increased job opportunities, and more affordable housing.

The ministry co-leads work on the Government’s Business Growth Agenda. Its responsibilities cover a wide range of areas, including immigration, communications, energy and resources, regional development, housing, building regulation, tourism, and government procurement. It is a very large agency, with more than 3,000 employees—over 6 percent of the public service workforce. The chief executive is David Smol.

Overview of the ministry’s performance
In 2014/15 the ministry’s total expenditure was just over $582 million, up 0.5 percent from the previous year. Departmental revenue was just over $614 million, about 1 percent more than in 2013/14. Of this revenue, about 44 percent came from the Crown and the rest from fees, levies, and other sources. Immigration fees were the largest component of third-party revenue, totalling $175 million. MBIE recorded a surplus of about $32 million for 2014/15. This was 12 percent more than the previous year.

As well as its own spending, MBIE administers a large amount of non-departmental expenditure, totalling just under $3.025 billion in 2014/15. About a third of this was for the Accident Compensation Corporation. Other major components were broadband investment, immigration services, core funding for Crown research institutes, tourism marketing, international business growth services, and screen production grants.

Development of the ministry as an organisation
Based on its audit, the Office of the Auditor-General (OAG) has again rated the ministry as needing improvement in all aspects of its management control environment and the systems and controls for measuring financial and service performance. It has recommended that “major improvements be made at the earliest reasonable opportunity”.

However, the OAG also notes that the ministry is making progress in addressing the identified deficiencies. For example, it says that MBIE has made progress with its performance reporting by rationalising its Vote structure to help simplify its performance framework. It still believes MBIE needs to do much more to improve the way it measures and reports performance. The ministry says it is working to do so.

We are aware that MBIE is a complex and relatively new organisation, but we urge it to work on addressing the Auditor-General’s recommendations. We hope to see signs of improvements at our next review.
Some of us question whether the model of having such a large and diverse agency is working. The chief executive told us that he believes it is.

Financial management

When we reviewed the ministry’s appropriations for the current financial year in mid-2015 we expressed concern about the cost of certain items in the refit of its Wellington premises. Since then, we were told, the management team has made several changes to the ministry’s systems, processes, and financial controls. It has also communicated to its staff the importance of prudent expenditure. The chief executive told us he is confident that the ministry will make good spending decisions overall in the future, although he cannot guarantee that a poor decision will never be made.

Increasing the supply of affordable housing

The ministry has been working on several initiatives to encourage the increased supply of affordable housing. They include setting up housing accords with several local councils, and creating special housing areas, where planning and consenting processes are fast-tracked.

We were told that the ministry does not count the number of houses built in special housing areas. It says that the Auckland Council is working on a way to do so accurately, but it is not a straightforward exercise.

Update on the Waimahia special housing area

We discussed the Waimahia special housing area in Auckland, where some houses had reportedly been sold within five weeks of being bought, for substantial profits. The ministry said that media reports were not fully accurate: about a year had passed between the purchase agreement and sale, and the increase in price was not exceptional for Auckland.

The ministry said that about 65 percent of the houses in the development had been bought at affordable prices relative to average household income, as set out in Auckland Council’s criteria. This was well above the normal expectation applied to special housing areas.

Some of us expressed concern that the development was an exception to the 3-year no-sell rule that now applies to special housing areas, and that the development had received $29 million in taxpayer subsidies. The ministry said that most special housing areas do not receive any Crown subsidy.

The use of affordability criteria

There is no single definition of housing affordability. We were told that the Auckland Council seeks to ensure that some properties are affordable by requiring developments to meet one or a combination of certain criteria to qualify as a special housing area. Of the total houses in a development:

- 10 percent should be affordable relative to the market, selling for no more than 75 percent of the median house price in the Auckland region
- 5 percent should be “retained affordable”, selling for a price where the monthly mortgage repayments do not exceed 30 percent of the median household income in the region.

We sought more information about the prices required to comply with Auckland Council’s affordability tests. We later learned that, as at December 2015, a house selling for up to...
$578,000 would meet the first criterion, and one that sold for up to $405,000 would meet the second.

We note that specific affordability criteria apply only in Auckland and the western Bay of Plenty. The ministry said that it could not comment on why they are not required elsewhere, but that there is a view that such requirements can constrain development.

The ministry told us that the market price for KiwiSaver HomeStart grants is reviewed regularly, and was recently increased to $550,000 based on house price movements throughout the country. We asked whether MBIE had assessed what proportion of the market would find such a price affordable. The ministry said it would depend on the suburb; in some areas it would be perfectly adequate.

We asked whether properties in special housing areas can be sold to people who are not New Zealand citizens or residents. We were told that legislation does not restrict such sales.

**Reducing rules and regulations in the property market**

We discussed the findings of the Rules Reduction Taskforce. The taskforce had been charged by the Minister of Local Government with identifying rules and regulations that impose unnecessary bureaucratic burdens on property owners and businesses. MBIE told us that it is considering the taskforce’s recommendations, and has yet to provide advice to Ministers.

The taskforce has recommended that, as a way of reducing compliance costs, builders at a certain level of competence could sign off their own work. We asked whether this would be wise, noting that the Auckland Council has been failing 25–40 percent of building consent applications because of shoddy work.

The ministry said that it is clearly vital to ensure building quality and that it is examining a broad range of inter-related issues to do with regulation of the industry. They include risk-based consenting, for which councils already have some discretion, and joint and several liability which was covered in a recent report by the Law Commission. It said that there are no major safety concerns at present, but growth in the volume of work has increased the importance of workforce training.

We asked whether the certification standard for licensed building practitioners is high enough. The ministry said that recent changes have raised the standard from November 2015. It assured us that it is watching market developments closely.

**The target for increasing exports**

Increasing exports to 40 percent of GDP by 2025 is a key goal of the Government’s Business Growth Agenda, and one of the ministry’s central performance measures. We asked how confident MBIE is that the target can be achieved, noting that exports are currently below 30 percent of GDP. The chief executive said that it is an aspirational target in an area where any government has only limited influence. Many factors affect the level of exports, including the strength of other markets such as China and Australia, movements in dairy prices, and the exchange rate.

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The chief executive said that the target has served as a useful focus for the ministry’s work. He cited some examples of “a huge amount of work going on” that should increase exports over time. However, he noted that there are typically quite long lags before results are seen.

The chief executive also observed that the goal posts move: the more rapidly GDP grows, the harder it is to increase exports by a greater proportion. Statistics New Zealand has also changed the way it records certain data, which has complicated matters.

MBIE agreed that it is disappointing that exports are not moving in the desired direction. It is working with other trade-focused agencies to analyse why, and to advise on what might make the most difference in improving performance over time.

The chief executive commented that, if the Trans-Pacific Partnership Agreement is ratified, it will help to improve access in some very important markets. A free trade agreement with the European Union would also help.

Some of us are concerned to note that the proportion of exports to GDP is declining, and would like to see intermediate measures to lift exports.

**The role of the ministry in government procurement**

MBIE is the “functional leader” for government procurement, with responsibility for improving practices and realising savings throughout the State sector.

We were told that the savings from all-of-government contracts have exceeded forecasts. There have been actual savings of about $253 million so far, and a total of $699 million in forecast savings during the lives of the contracts. The ministry said that there have also been numerous “soft” benefits, such as less disruption and cost for businesses in dealing with government departments, and better transparency. The ministry acknowledges that procurement practices are still not consistently good throughout government, but it says they are definitely improving.

Accession to the World Trade Organisation’s agreement on government procurement now gives New Zealand businesses access to a very large amount of other governments’ procurement. The ministry said that New Zealand Trade and Enterprise (NZTE) is working with businesses to make the most of these potentially very valuable opportunities.

**Jobs and benefits for smaller businesses**

We asked whether the ministry records the number of jobs created through the $40 billion spent on government procurement each year, or the number of small businesses that benefit. We note that both the UK and the US record data about small businesses.

MBIE said that it does not measure these things, and that it can be hard to get reliable data. However, it offered to look into whether data can be collected about small and medium-sized businesses. If this seems feasible, it will discuss doing so with the Minister.

The ministry has been working to ensure that government procurement processes are easy for small and medium-sized businesses. It says that many are now participating in all-of-government contracts, particularly in areas such as legal, consulting, and recruitment services.
Immigration services provided by the ministry

Immigration services represent the largest single part—over a third—of MBIE’s expenditure and revenue.

Vision 2015 programme

Immigration New Zealand is reaching the final stages of a major change programme, Vision 2015, designed to improve its efficiency and effectiveness, particularly by moving to more online services.

The OAG told us that it focused particularly on the Vision 2015 programme because of its size, risks, and effects on Immigration New Zealand’s operations. We were pleased to learn that the programme had a good track record in 2014/15 and remains within budget. The Government has approved further funding of $28.4 million for various enhancements that will mean additional projects in 2015/16.

Pressures on immigration services

We are aware that there is a high potential for fraud in the immigration adviser system, and sought more information about its incidence. We were told that the ministry’s internal assurance team had carried out 34 investigations in 2014/15. No instances of fraud or corruption had been substantiated. There had been eight substantiated cases involving systems misuse, conflicts of interest, or, in one case, theft.

We asked how immigration services have been coping with the increase in tourist numbers. MBIE said that the digitisation of core parts of the visa system has brought major gains in productivity. However, parts of the organisation have been under a lot of stress, and Immigration New Zealand is temporarily using offshore providers to help with some of the demand.

Investor and entrepreneur migrants

Immigration rules seek to encourage investment into New Zealand by offering residency visas for investors who bring at least $1.5 million into the country and entrepreneurs who establish businesses here.

We asked about the apparent lack of success of the Investor Plus category, which requires a minimum investment of $10 million for at least three years. The number of investors in this category has been stagnant (81 in each of the past two years), and the overall value of investments has declined.

The ministry said that it does not expect to see steady growth in these migrant categories. The number and nature of applicants, and the amount of investment they would bring to New Zealand, fluctuates over time. Immigration New Zealand assesses applications to make sure that those approved meet not just the monetary criteria set in the policy, but also that the proposed investments would contribute benefits for New Zealand as a whole.

Monitoring the nature and benefits of migrants’ investments

Some of us are concerned that MBIE does not directly monitor the number of jobs created through the investor migrant categories, nor the regions, sectors, or industries into which investments are made. This lack of data would appear to make it hard to assess whether investor migrants are meeting New Zealand’s needs and contributing the most benefit possible.
MBIE said that the policy is based on the general principle that investment enables businesses to be established, jobs created, and goods and services produced and sometimes exported. It said that it would be difficult to trace the specific results of any particular investment, even with detailed data. Moreover, to collect such data would go beyond accepted norms about the extent to which governments inquire into people’s lives.

The ministry monitors whether migrants are complying with their applications by investing the minimum required amount in an acceptable investment vehicle. It does not monitor what other activities they may invest in, as it does not have any power to require such reporting.

However, the ministry has chosen to research a sample of investors during the past couple of years. It found that some invest substantially more than the minimum in private sector companies. The ministry said that such additional investment is one of the benefits expected from the investor migrant category. It is considering expanding its research programme to try to gauge the extent of such benefits.

Asked about migrants investing in the property market, the ministry said that residential property is not an acceptable investment vehicle under the investor migrant categories. However, investment in building new property developments is allowed. This can be as part of a joint venture with local investors.

The ministry acknowledges that investments differ in the extent to which they stimulate economic activity. For example, low-risk government bonds, the minimum requirement, would have the least effect. It is giving thought to how one might require more active investment, and what effects such a requirement might have on incentives.

Some of us would like to see the ministry do more to trace such investment flows, to identify the economic benefits of these migrant programmes for sectors and regions.

**The Government’s broadband investment and initiatives**

MBIE advises on telecommunications policy and oversees work on the Government’s broadband initiatives. The Government has now committed extra funding for the ultra-fast broadband (UFB) and rural broadband initiative (RBI) programmes, designed to extend coverage from 75 percent of the population to 80 percent.

We understand that responsibility for this “UFB2” extension is being transferred to Crown Fibre Holdings, which (in partnership with Chorus and three local electricity network companies) is already responsible for physically building the UFB fibre network and connecting users to it. Up to now, MBIE has managed the RBI programme.

During the year, local authorities were asked to register their interest in having towns or areas in their district selected for the extension programmes. They have provided information on ways they could facilitate the deployment of infrastructure in their districts.

The ministry explained that the ideas submitted often involve ways that costs could be reduced through more efficient processes. These include combining laying fibre with planned road improvements and sharing towers and other infrastructure. Such cost reductions could allow the Government’s $210 million additional investment to go further and provide even more coverage.

We realise that local authorities have put a great deal of effort into their submissions, assessing their communities’ needs and the best possible solutions. We asked what
assessment MBIE is doing of this wealth of information, and what information it is passing on to Chorus.

The ministry told us that it is carrying out analysis for Ministers’ use in deciding the eventual selection of UFB2 towns. However, it has not been relaying information from the submissions to Chorus, because it is up to individual local authorities to determine whether their information is commercially confidential. Many local authorities have been in direct discussions with the potential suppliers of UFB2.

Some of us expressed concern about the adequacy of the analysis for the UFB2 programme, especially given what appeared to be a short-notice transfer of responsibility from MBIE to Crown Fibre Holdings.

**Funding for the National Science Challenges**

MBIE oversees funding for the 11 National Science Challenges, launched in 2013. We heard that eight of the challenges were underway by the end of 2015, with funding of about $650 million committed for their 10-year lives.

The ministry said the challenges involve a range of parties throughout the science system, and it has been quite a “sea change” to get them all working in collaboration rather than in competition. For this reason it has taken longer to get the challenges into action than the ministry would have liked.

The aim is to build a “Team New Zealand” for each challenge, to have the best of New Zealand’s scientists working on a given issue. Different agencies host or take the lead on each challenge. Some of the main agencies are GNS Science, Callaghan Innovation, and the University of Auckland.

A Science Board appointed by the Minister of Science and Innovation makes funding decisions for each challenge. The ministry told us that many participants contribute value from the work their researchers are already doing, in addition to the specific funding allocated to each challenge.

The ministry said that there is no plan to expand the number of challenges at this stage. The challenges are a major change for the science system, and it is important to allow time for the changes to bed in and bear fruit.

**Grants for research and development**

The ministry works in partnership with Callaghan Innovation to encourage New Zealand businesses to innovate. The ministry provides policy advice and sets the parameters for the programme of government-funded R&D grants, which Callaghan Innovation manages.

Some of us note that a recent report by Deloitte criticised the way Callaghan Innovation manages the R&D grants. The report suggested that the funding agreements made it difficult for businesses to access funds for development. The ministry said it is not involved in the matter because it relates to a contractual dispute between Callaghan Innovation and the media firm Trends Publishing that is now before the High Court.

However, the ministry said it believes that the R&D grant system works well. In its view, Callaghan Innovation has made some significant improvements in its grants administration since it was established. MBIE told us that it considers that the grants cover the full range from research through development.
Tourism and major events

Working with Tourism New Zealand, MBIE provides policy advice on ways to grow tourism’s contribution to the economy. It noted that tourism has been a star performer in recent years, vying with dairy as the top earner. In the past year tourist arrivals increased by 9 percent overall, and the number of visitors from China grew by 35 percent. We note that the value from tourists has grown by 17 percent in the past year. The ministry said that the strategy continues to be twofold: to diversify the sources of our visitors; and to increase the amount they spend while here.

In the year to March 2015 total earnings from tourism were about $30 billion, of which about $12 billion came from overseas visitors and $18 billion from domestic tourists. The ministry stressed the importance of domestic tourism, which provides jobs in many regions.

The ministry pointed to some challenges ahead. It said that tourism’s success is placing increasing pressure on available skills, infrastructure, and accommodation. Occupancy rates are at 100 percent during the peak tourism season, and the ministry is working to try to move tourists to the shoulder season (the months of October, November, March, and April).

Building on opportunities from major events

The ministry plays a coordinating role for major events in New Zealand and overseas, working to make the most of the opportunities they offer for tourism, trade, and investment.

We heard that the Cricket World Cup boosted GDP by about $110 million and brought many visitors from the Indian subcontinent, raising New Zealand’s profile in that important tourism market. Similar opportunities that the Major Events Development Fund will support include the World Masters Games and the Winter Games, and a major world mountain biking event in Rotorua in 2016.

Support for an agribusiness hub in Saudi Arabia

Some of us expressed surprise that $2.68 million in funding for an agribusiness hub and model farm in Saudi Arabia is being carried forward to 2015/16, because the project appears to have failed. The Auditor-General is investigating the project.

The ministry told us that it does not know whether the project is continuing, but that this must have been the expectation when the accounts were prepared. Although the project was funded from Vote Economic Development, it was the responsibility of New Zealand Trade and Enterprise, in partnership with the Ministry of Foreign Affairs and Trade. The ministry said that it does not have any further information about the project.
Appendix

Committee procedure
We met between 3 December 2015 and 3 March 2016 to consider the annual review of the Ministry of Business, Innovation and Employment. We heard evidence from the ministry and received advice from the Office of the Auditor-General. The advice, evidence, and transcript of the hearing are available on the Parliament website, www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received

Organisation briefing paper, prepared by committee staff, dated 1 December 2015.

Ministry of Business, Innovation and Employment, Responses to committee questions, received on 1 December 2015 and 2 February 2016.
2014/15 Annual review of the Ministry of Transport and the New Zealand Transport Agency

Report of the Transport and Industrial Relations Committee

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Recommendation

The Transport and Industrial Relations Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry of Transport and the New Zealand Transport Agency and recommends that the House take note of its report.

Introduction

Ministry of Transport

The Ministry of Transport is the Government’s principal transport adviser. It provides advice on issues affecting the whole of the transport system and the regulatory framework that supports it.

The Ministry of Transport is funded through Vote Transport.

In 2014/15, the ministry had a total departmental income of $31.702 million and a total departmental expenditure of $31.682 million. This resulted in a net surplus of $20,000. In 2013/14 the ministry broke even with an income and expenditure of $33.650 million.

The chief executive of the Ministry of Transport, and the Secretary for Transport is Martin Matthews.

New Zealand Transport Agency

The New Zealand Transport Agency (NZTA) is a Crown entity governed by a statutory board. Its purpose is to create transport solutions for a thriving New Zealand.

In 2014/15, NZTA had a total income of $2.299 billion and a total expenditure of $2.239 billion, resulting in a surplus of $59.738 million.

Although NZTA’s total expenditure was $141 million higher than in 2013/14 (reflecting an increase in licensing volumes, land transport funding, and state highway depreciation), its operating income was $122 million higher than in 2013/14. Its total value of assets, $1.8 billion, was also higher than in 2013/14.

The chairperson of the NZTA Board is Chris Moller.

Dave Brash has been the acting chief executive since the departure of the previous chief executive, Geoff Dangerfield, in December 2015. Fergus Gammie became the new chief executive on 1 March 2016.

We heard from the ministry and NZTA at a joint hearing on 11 February 2016.
National Land Transport Fund

NZTA is responsible for allocating and investing the National Land Transport Fund (NLTF) and preparing the National Land Transport Programme (NLTP). The NLTP invests the NLTF and co-invests funds contributed by local government and the Crown.

Variance in spending

We were concerned that in the three-year NLTP for 2012–15, there had been more spent on state highways than planned and less spent than planned on local roads, public transport, and road safety promotion.

NZTA acknowledged that there had been less spent on local roads in particular. This was largely because of issues with partnership funders, especially Auckland Transport. Some local authorities had difficulty finding their local share, and funds were sometimes directed to other priorities, such as water infrastructure renewals.

NZTA told us that it was confident that expenditure will catch up in areas of underspending. This is because spending is expected to even out during the three-year lifespan of a project.

Partnership funding with local councils

NZTA acknowledged that partnership funding with local councils, which might experience constraints that result in shortfalls, can be difficult.

Some of us commented that local authorities have secured their own money for projects and then had difficulty obtaining partnership funding from NZTA. The ministry pointed out that projects must sit inside the NLTP framework to receive NZTA funding. For example, a commuter train between Hamilton and Auckland would not receive backing because the NLTF does not fund inter-regional train and rail services.

Public-private partnerships

We asked NZTA whether it had put a cap on the percentage of leverage that will be committed under public–private partnerships through the NLTF. NZTA said that it has capped it at 10 percent for all debts. The principle behind this is not to limit future governments and generations with an over-commitment to debt now.

Transport challenges in Auckland

We are aware that there are substantial transport challenges in Auckland city and the Auckland region as a whole. A range of projects are under way or planned to address these challenges.

East West Connections

East West Connections is a joint NZTA and Auckland Transport programme to improve freight efficiency, commuter travel, public transport, and walking and cycling options during the next 30 years. The programme area covers Onehunga, Penrose, Mt Wellington, Māngere, Otahuhu, and East Tamaki.

We sought clarification from NZTA about how it decided on the final, more expensive option for East West Connections. It said that it used a range of measures, including benefit–cost ratio and community feedback.
Given NZTA’s commitment to the Roads of National Significance programme, we asked how East West Connections would be funded. NZTA said that the project has been programmed into long-term NLTP planning and that the East West Connections project will move into the funding gap created by the eventual completion of the Roads of National Significance programme. We heard that construction on the project will start in 2018/19 and is expected to finish around 2025. We will continue to monitor the progress of the East West Connections project.

Congestion

Population growth in Auckland has resulted in serious congestion problems on the city’s roads. We heard that an integrated package of solutions is needed to address congestion, including a cross-agency approach. We were concerned that, by widening roads, such as the Southern Motorway, and making it easier for people to choose to use their cars, there could be an induced demand from motorists. This would mean that any benefits from the widening could be lost within five years. NZTA said that induced demand is a very complex issue that it has explored. However, it maintained that widening state highways is a necessary part of a broader package of solutions. We asked NZTA whether it would consider reducing Auckland public transport fares to increase the use of public transport and relieve congestion. NZTA said that Auckland Transport is reviewing its fares and that NZTA is involved in that process. We look forward to progress on different approaches to addressing Auckland’s congestion problems.

Auckland Transport Alignment Project

Public transport and fares are also part of the Auckland Transport Alignment Project consultation process. This project is seeking a 30-year alignment of cross-agency initiatives to meet growth and demand in Auckland. Funding for any resulting projects will be decided in the future. The project’s final report is expected in August 2016.

The ministry told us that the project is a good example of central and local government working together in planning and as investment partners. We were concerned that Auckland Council may have a lot of debt and that this could impact on its ability to co-fund projects. NZTA acknowledged that local share funding with councils is a long-term challenge throughout the country. While Auckland Council has problems with huge growth and demand, some rural councils are facing difficulties with maintaining and sustaining transport infrastructure because of ageing and reducing populations.

We asked whether advances in technology during the next 30 years were being incorporated into the project. The ministry said that it is important to realise that there will be future shifts in technology and changes in patterns of mobility. It wants to embrace and use changes to help solve the challenges of growth. Examples of future changes could include connected technology to better manage the network, driverless cars, and people choosing not to own their own car and instead sharing cars or rides with others.
The ministry said that it is difficult to predict where technology will go during the next 30 years. However, by starting to look at what can be done in the next 10 years, it hopes to use the opportunities offered by changes in technology and mobility.

**Pakuranga Highway**

We noted that the Pakuranga Highway in Auckland is run as a local road despite huge volumes of traffic. We were pleased to learn that the Reeves Road flyover will be built to improve traffic flow in the area. However, we asked the ministry and NZTA to remain aware that the eastern area of Auckland is continuing to grow and that, as a result, the volume of traffic in that area will also grow.

**Waikato Expressway**

When the Waikato Expressway programme was first announced in 2009 the target date for completion was 2019. It is now likely to be completed in 2020.

We asked why there had been a delay in the completion of the expressway. NZTA told us there had been changes in land use, and major development proposals that were not known about, since the original date was set in 2009. These required substantial further investigation and consultation with local authorities, land owners, and developers. The additional work required during the development phase of the project has therefore meant a delay in the completion of the expressway.

Some of us were concerned that when the expressway is completed, the savings in travel time will be less than initially predicted and that consequently the cost-benefit ratio may be worse than the current ratio of 1.4:1.

**Job creation**

We queried whether NZTA does regular reports on the jobs that have been created out of the motorway projects, such as the Waikato Expressway and the widening of the motorway to Papakura, once the projects have been completed. We learned that if job creation is claimed as a benefit in funding applications, post implementation reviews will compare what has actually been delivered against what was expected.

Business and Economic Research Limited (BERL) has assessed that it is necessary to wait for seven to 10 years after project completion to determine the “real” level of job creation. The Roads of National Significance projects are all “younger” than seven years, therefore meaningful results are not yet available.

**Funding of KiwiRail**

We asked the ministry and NZTA how they are involved in the current discussion about funding KiwiRail. The ministry told us that, apart from passenger subsidies in Auckland and Wellington, KiwiRail is funded by the Crown and not NZTA and the NLTF.

We asked if NZTA would consider funding inter-regional rail services. The ministry said that this would be a policy issue and that current Government policy is not to fund inter-regional train or rail services out of the NLTF.

The ministry said that, even with KiwiRail’s long-term projected freight growth, it is unlikely that KiwiRail will ever have enough volume to commercially generate enough revenue to sustain and maintain its 4,000 kilometre network.
We heard that KiwiRail will always need some level of government funding for the rail network to remain viable. We are aware that the Government has remained committed to funding for 2015/16 and 2016/17 but that it has not confirmed funding beyond 2016/17. We are concerned about the ongoing funding of KiwiRail and will continue to monitor the situation.

**Planning**

NZTA told us that, within its policy framework, it has a strategic priority to work with KiwiRail and the road–rail interface on a planning level rather than a funding level. KiwiRail and NZTA would need to go to the Government for funding for any projects that they develop together.

We heard that cross-agency collaboration allows NZTA to plan and improve New Zealand’s transport sector as a whole. This would include developing an integrated road–rail network.

**Government Policy Statement on Land Transport**


We asked what some of the features of the monitoring approach in the policy statement are. The ministry said that one of the tasks of the programme is to monitor and assess the value for money of land transport activities. Therefore, it scrutinises those activities, their investment frameworks, and their management. An example of this is measuring the outcomes of the Road Maintenance Task Force to ensure that there is value for money throughout the country.

All current analysis will feed into the 2018 policy statement. An investment strategy will also be completed in time to support the 2018 policy statement.

**Urban Cycleways Programme**

Cycling is a fast-growing mode of transport in cities and towns throughout New Zealand.

The Urban Cycleways Programme was set up to improve the urban cycling infrastructure between 2014/15 and 2017/18. It is funded by the Crown ($100 million over three years), the NLTF, and local government.

We heard that NZTA and the Urban Cycleways Programme are committed to raising the number of cyclists in New Zealand and to keeping cyclists safe.

We were pleased to learn that there are about 50 cycleway projects in several cities and towns, including Auckland, Tauranga, and Dunedin.

**Signage for toll roads**

We were concerned that some toll roads—for example, in the Bay of Plenty—have ambiguous signage. There can be discrepancies between the price on a roadside sign and the actual price charged if someone pays at a service station rather than online.

NZTA said it would look into the matter. We intend to monitor this issue.
Driver licensing

We are aware that large numbers of people are not progressing through the driver licensing process. We questioned whether the increase in costs for the different stages was contributing to this.

NZTA told us that it does not believe the increased costs are causing the back-log. It suggested that the more difficult restricted driving test could be the main cause. We heard that the current average waiting time is 18 days for sitting a restricted test and 14 days for sitting a full test.

We will continue to monitor this matter with interest.
Appendix A

Committee procedure
We met on 11 February and 3 and 10 March 2016 to consider the annual review of the Ministry of Transport and the New Zealand Transport Agency. We heard evidence from the Ministry of Transport and the New Zealand Transport Agency and received advice from the Office of the Auditor-General.

The advice, evidence, and transcript of the hearing are available on the Parliament website www.parliament.nz.

Committee members
Jonathan Young (Chairperson)
Andrew Bayly
Sarah Dowie
Peeni Henare
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Alastair Scott
Hon Maurice Williamson

Evidence and advice received
Ministry of Transport, Responses to pre-hearing questions, received 30 November 2015 and 26 January 2016.

Ministry of Transport, Post-hearing responses, received 26 February 2016.

New Zealand Transport Agency, Responses to pre-hearing questions, received 26 January 2016.

New Zealand Transport Agency, Post-hearing responses, received 2 March 2016.


Organisation briefing paper, Ministry of Transport, prepared by committee staff, dated 11 February 2016.

Appendix B

Transcript of hearing

Members
Jonathan Young (Chairperson)
Andrew Bayly
Peeni Henare
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Hon Maurice Williamson

Julie Anne Genter was a member of the committee for this item of business.

Witnesses
Ministry of Transport
Martin Matthews, Chief Executive
Andrew Jackson, Deputy Chief Executive
Gareth Chaplin, General Manager, Sector Performance
Nick Brown, General Manager, Aviation and Maritime
Mike James, General Manager, Road and Rail
Fiona Macmaster, Manager Finance

New Zealand Transport Agency
Chris Moller, Chairperson
Dave Brash, Acting Chief Executive
Tommy Parker, Group Manager Highways and Network Operations
Celia Patrick, Group Manager Access and Use
Barbara Tebbs, Acting Group Manager, Planning and Investment
Allan Frost, Group Manager Organisational Support

Williamson So gentlemen, and ladies and gentlemen, if it is, can I just say that we’re going to try to do you both together so there’s no “Well, that’s policy” or “No, that’s operational”. So if we can get at least the two major players from each of the organisations—right. I think there’s a spare chair if you want to have one more person represented. All right. Well, good morning to you all. We’re going to be here until 12:30, so we’ve got about an hour and a whole lot of questions about your operation. We have had an audit office briefing, and now we’re going to have something from you. I presume there’s a little bit of an intro from both of the organisations—from the Ministry of Transport and then from the New Zealand Transport
Agency—then we'll open it up to members of the committee to ask whatever they like. So we're in your hands.

Matthews

Thanks, Mr Chairman. Members, I’m Martin Matthews, Secretary for Transport, Chief Executive of the Ministry. [Introductions] Look, I’m very mindful that this is your time to examine us, so I’m not going to take much of your time with opening remarks. What I do want to do, I suppose, given both agencies are here is just open with sort of a reminder of what we do relative to NZTA, and that will help when you’re putting your questions to us.

So I think it’s sort of, in a sense, helpful, and you'll have a copy of our annual report, to remind you of the purpose of the ministry. We express it as ensuring our transport system helps New Zealand thrive, and our job is to think about all of the modes of transport, not just land transport. We are the Government’s policy adviser. We advise on the investment settings, on the policy and regulatory settings, and we also advise on the governance and performance of the Government’s Crown entities, including the Transport Agency.

The agency, on the other hand, is responsible for the implementation of the Government's investment policy and regulatory requirements for land transport. So that sort of distinguishes what we respectively do, both in terms of policy and operations and scope. Of course, our job is to support the Minister and the Government of the day to give effect to their programme and priorities in transport, and we work actively to do that.

But we also have a longer-term, what we call, stewardship role: a role to think about the long-term issues for transport and to ensure that helps inform the advice we give to the Government of the day—to also help influence the thinking and debate over time. And, of course, we had, I thought, a really good engagement with you as a committee late last year, as we talked about the future of transport, and we certainly really enjoyed that engagement with you.

We’ve expressed our purpose, but, also, we have a sense of ambition about the sort of difference we can make as a ministry in our role as the Government’s adviser. We have, what we call, our greatest imaginable challenge. And that challenge is expressed as creating the environment to double the value from transport initiatives. It’s about what can we do to make a real difference to the transport system through our role.

And that clear sense of purpose and ambition we have as an organisation is, I think, reflected in the performance and results of the ministry that you've seen over the last year. Each year we benchmark the quality of our work alongside a range of other government policy organisations, and that’s done through the Institute of Economic Research. We are in the top four agencies of the cohort they assess.

Our longer-term strategic policy work—the futures work we do, which we talked with you last year about—is increasingly being recognised around
Government as leading practice. It is really seen as something that not a lot of other policy shops or agencies in Government are doing. And so that, I think, is very positive.

And our organisational health is assessed each year independently, through an engagement survey. Engagement, as you’re I’m sure aware, is not just about measuring satisfaction; it’s actually about establishing whether people come to work with a clear sense of purpose, a clear sense of knowing what they need to do, a sense that they can make a contribution, and that they and their organisation can do the best every day. The Ministry of Transport has the highest engagement score in the New Zealand public sector. And I'm very proud of that achievement.

Now, I know you’ll probably want to talk to us about transport issues rather than those issues, and I’ll refrain from commenting on transport issues, because I can deal with those as you ask your questions to me. So, perhaps I’ll pause at the point and hand over to the chairman.

Williamson: Maybe get Mr Moller to introduce the team he’s got here from NZTA. Just interested in the Dave Brash, acting CE—does that mean Geoff’s finished? Or?

Moller: Yes, I was going to comment on that later, Mr Chairman, and also talk to the replacement for Geoff. So, Dave is acting chief executive—Dave, do you want to introduce your team that you have here?

Brash: So, Allan Frost, he looks after our finance and corporate side of things. Celia Patrick, access and use, our GM. Tommy Parker, who looks after the highways group. And Barbara Tebbs, who is acting in my role, in planning and investment.

Moller: Thank you very much, Mr Chairman, and good morning, members of the committee. In 2014/15, the New Zealand Transport Agency closed out the third and final year of the 2012/15 National Land Transport Programme. In addition, we finalised the development and implementation of the $13.9 billion 2015/18 NLTP. We also reviewed our investment framework, and made changes to ensure we maximise the returns to the country on this very significant investment. Our annual report comprehensively outlines what we have delivered and the transport results we have achieved over the last year.

There were a number of significant capital works that were either opened or commenced across the country. These include the Tauranga Eastern Link, which was opened ahead of schedule and under budget, and the opening of further sections of the Waikato Expressway. In Auckland there were a multitude of projects that were progressed, including the roads of national significance and the accelerated Auckland roading programme. In Wellington, the Wellington memorial park over Arras Tunnel was completed for the Anzac Day commemorations.

In Christchurch, the Sawyers Arms to Wairakei Road four-laning was opened. Work on the slow vehicle - bays was completed in the Gisborne region. Progress is under way on the four other projects in tranche one of
the Government’s Accelerated Regional Roading programme, being part of our wider work on regional economic development. And the construction of the Government’s Urban Cycleways Programme has begun on nearly all of the phase one projects, with funding committed to cycling trebling relative to the previous 3-year period, which includes the Transport Agency’s response to the recommendations of the Cycling Safety Panel.

Our new approach to asset management and maintenance contracting continues to be rolled out, with substantial efficiency gains being achieved. This year we have placed an emphasis on integration as our customers want seamless movement between local roads and State highways, and between modes. We’re also working closely with local government on the implementation of the One Network Road Classification system.

We are driving freight efficiency with 25 percent of heavy trucks now using high productivity motor vehicles. We are supporting the 9 percent growth in public transport patronage in Auckland. And increasingly we are working with KiwiRail on what integration looks like in the road-rail environment, including connecting with the country’s air and sea ports. We are working closely with our central and local government partners on the Auckland Transport Alignment Project.

In addition, road safety is a crucial part of what we do. This year we have delivered safe systems training to approximately 1,100 people across central and local government; led a substantial safety improvement programme, including significant improvements to the eight risk State highway intersections; and improved a number of rural roads, including over the Rimutakas, and the Kaimais, and at Little River on the Banks Peninsula, and Kopaki in the south Waikato. The Visiting Drivers Programme also continues to be a major area of focus for us. We remain committed to Christchurch rebuild with an investment in 2014/15 of $48 million in the earthquake-related transport network rebuild programme, including the new central city bus exchange.

In the area of regulation, there have been changes to learner and restricted drivers’ licences, and to blood-alcohol levels. We are doing our part in implementing these amended regulations, including overseeing comprehensive advertising and education programmes. This year has seen our work, resourcing, and presence as the rail safety regulator increase. And we have continued to enhance the experience of customers with a new website, allowing them to far more easily interact with us digitally. The percentage of motor vehicle registry transactions completed online rose by approximately 35 percent this year.

In short, we continue to be delivery and customer focused in everything we do. And finally, to your point, Mr Chairman, I’d like to acknowledge the outstanding work of Geoff Dangerfield, who finished just before Christmas, as the inaugural chief executive of the Transport Agency, and note that his replacement, Fergus Gammie, will assume responsibility at the executive level for the agency on 1 March 2016. Fergus is the former chief
executive of the Auckland Regional Transport Agency, the deputy chief executive of Auckland Transport, and currently works in a very senior position in New South Wales transport, and has been doing a very good job. So we’re delighted to have him back. In the meantime, Dave is acting, and he and I’ll try and answer your questions to the best of our ability.

Williamson: Well, thanks Mr Moller, that’s great. We’re going to committee. Sue, you can start off.

Moroney: Thank you. Thanks very much for the briefing from you both. I want to start off by asking a range of questions about funding decisions, and I suspect they’re mostly NZTA, but there might be some MoT input as well. Start off with the Land Transport Fund—99 percent spent in the year that we are considering in this annual review. But what I notice is that there’s an overspend on State highways and there’s an underspend on some pretty important areas, like road safety, and local roads, public transport, and road planning. And so I’d like some explanation about why that keeps happening, particularly at a time when our road tolls actually have started to tick back up again.

Moller: Can I just clarify: are you talking about the 2012 to 2015 Land Transport Programme?

Moroney: Yes.

Moller: Or a particular year within it?

Moroney: Sorry, no, for the 3-year programme.

Brash: So it’s a 3-year programme is the first thing to say. So the programme will vary from year to year, as it does, and we essentially work to maximise that expenditure across the whole programme. But just to talk to your particular points, there is some underspend, particularly in local road expenditure, and that really comes back to the local roads improvements. A number of councils finally got a challenge to find their local share and to get their programmes up to speed. A number of those include road safety components as well. On the public transport stuff, my recollection is that it was pretty close, but—

Genter: In the auditor’s report, it says it was an underspend by 9 percent on operations, 23 percent on infrastructure.

Brash: Yeah. So the infrastructure stuff, I’m confident that is a timing issue. On the operational side of it—

Moroney: Sorry, can you just enlarge on what that means: “it’s a timing issue”? What does it mean?

Brash: Well, in terms of when infrastructure projects actually—how they’re progressing over the 3-year period. So, I think, what I’m saying is the expenditure will catch up. In terms of the operating expenditure, it works off the number of claims. There’s been some savings and efficiencies around—particularly on the rail, and I’m particularly aware in Wellington...
here that some of that reflects that, but maybe Barbara could help with any other reasons for the changes in operating expenditure.

Tebbs Yeah, so again a lot of it comes back to the same issue that we have with local roads, which is about local share. So it’s actually about where regional councils are making changes in services, and there’s some timing around that.

Moroney It’s quite—

Moller Barbara, maybe come and take a chair just up here, so we can—

Moroney It’s quite perplexing because I’m sure that other MPs will share this view, as local MPs what we hear is a lot of local demand for these very services: public transport, for improving road safety programmes, for better local roads. So it’s quite perplexing to see that this is the outcome of the spend of this.

Moller But it is important to understand we’re a co-funder. We are a partnership funder, and we put in a proportion of the dollars. And if, for whatever local reasons, the regional councils or the local authorities find that they can’t—for budgetary reasons, revenue gathering reasons and things—then that does cause a shortfall. But that’s the generic answer. I agree. Barbara can give you more.

Moroney Because I could give you several local examples in the Waikato where, in fact, what the local authorities are reporting to me, as the local MP, is that they cannot get agreement from New Zealand Transport Authority for their share of the funding arrangements, for example for a commuter train service between Hamilton and Auckland.

Moller That one has a whole lot of precedent around it.

Matthews That example is a slightly different one; that is a policy issue around interregional rail services.

Moroney So the policy issue is not to fund.

Williamson It was a good try to sneak it in though, Sue.

Moroney No, no, seriously. I mean, I think as an actual example of, you know, where there is local demand, where the local authorities actually want to put their share of the funding—but they can’t get the Government part of it secured. Where’s the hold-up?

Matthews Maybe David—from a policy point of view: two things. Firstly, is that, you know, the things that the agency can fund have to be inside the frame of the Land Transport Programme and the policy settings about what they can fund. So, just to reiterate on the example you gave, the Government policy setting at the moment is that interregional train services, or rail services, are not funded out of the National Land Transport Fund.

Moller And I was going to add, I was going to say that, and I was going to add one other point, which is actually, in the conversations we’ve had with the councils there, there has been no proposal come forward. So while there’s
been some in principle discussions around it, there’s no actual proposal on it to be considered.

Moroney I think because they’ve been told that the policy is—you’ll never get the money so don’t bother. OK. So thanks for those answers around that. I mean, I think that, you know, I’d raise some concerns around that general pattern, because I think it’s been happening for a while, around the overspend on State highways—they underspend on some of those other really critical areas.

We had KiwiRail in front of our committee just last week, and they were talking also about the interface that they’re having around funding decisions and the option of rail. And they have a view that there will always be a need for a basic level of Government funding—and so there should be from a fairness basis. Where are you at in that discussion?

Moller Can I say that I’m aware of what Mr Spencer said to the committee and it’s very much a policy issue.

Matthews So, two things. Firstly, when it comes to funding for KiwiRail, that is Crown funding, not out of the National Land Transport Fund. In other words, for rail other than for passenger subsidies in Auckland and Wellington, all of the rail funding is from the Crown. And the rationale for that, just to be very clear, is that road users whose money goes into the fund—is used for investments that are for, essentially, the benefit of road users, which is why public transport subsidies are covered there.

Moller Can I just take it a stage further. So the road-user charges that are used and the fuel excise duty is to reduce congestion, so that we’re investing in public transport. But we don’t invest in rail more generally.

Matthews Last year, particularly, the Government acknowledged that after the major work that KiwiRail did in their long-range outlook around the business, even with the projected freight growth that we have looked at over the next 30 years, it is unlikely that KiwiRail will ever have sufficient volumes on their network to commercially generate enough revenue to sustain and maintain our 4,000 kilometre network. So the Crown has accepted that the network costs will need some level of Government funding to maintain the network as a viable network for rail and so that’s why the Crown funding comes through the ministry in support of maintaining their network.

Moroney To date that’s happened on a kind of—I’d almost call it an interim basis. Has that now been secured as an ongoing mechanism?

Matthews It isn’t locked in for in perpetuity but there is an understanding by the Government that actually that is going to be required.

Moroney So I can I come then to—given that funding arrangement—what that means for decisions for NZTA about what operationally it invests in. And I will come back probably to the examples that I do know quite well where you’ve funded the Waikato Expressway with its 1.4 benefit-cost ratio, which is inter-regional land transport. The other inter-regional land transport option of the commuter train service with a cost-benefit ratio of 1.4 doesn’t
get a look in. How are we going to make sensible decisions when that continues?

Brash It does go back to the policy issue. But within the policy framework, as Martin’s outlined, we have a strategic priority around working closer with KiwiRail and road-rail interface on the planning end rather than the funding end. So over the last year or two we got much to them around sharing what our capital programmes are and collaborating around that and trying to look out 30 years as to what the best options for the network are so we can coordinate our investment rather than not addressing the broader funding issue. For example, the Minister’s asked the Transport Agency to work with KiwiRail around an option for a third rail line in Auckland and so we’re developing a business case with them. And then that’ll come forward to Government. We are not looking at the funding issue. The funding issue will go back to Government to be addressed.

Moroney Yes, so I guess the question that I’m asking is: given that you’re not dealing with funding how does that impact on the planning? And you’re telling me that the planning is going to get better in terms of having a fairer assessment of all the options across the transport network?

Brash Yep—at least at a minimum of making it transparent to everybody where those are so we understand it, and where we can, by collaboration, optimise we will, but then it does come back to the funding question ultimately.

Moller But the word we haven’t used in this is “freight” and a lot of the work we do with KiwiRail is about freight and the trade-off between that freight being on State highways to and from ports and whether it’s on rail.

Parmar Just last week I was at the soil-turning for Waterview Shared Path and I saw that people were really excited about that shared path. I just want to know from you how many centres across the country will have such projects in their community. Second, we have a lot of issues of cycles on roads, so will this urban cycling programme—will it help with that issue?

Brash Sorry, what was the last bit again? Sorry, I didn’t quite hear.

Parmar Because we have a lot of issues in Auckland—cyclers on roads—so will this urban cycleways programme help with that issue? So two questions.

Brash Well, yes very much. I mean, the cycle programme, as the chair mentioned—a significant uplift in investment both from the National Land Transport Programme and from the $100 million of the Crown extra funding. So we’ve trebled the size of the programme for this 3 years. That investment is focused on urban centres so that’s everywhere from Tauranga and Dunedin as well as Auckland. We’re really committed to not only lifting the number of cyclists and the cycling—people using cycling as an option—but also to keeping them safe.

So the programme, again as the chair mentioned, kicked off with the previous year and then this year it’s really ramping up right across the country—a whole range of programmes—and we’re really in the stage of a lot of consultation going on with communities about proposals in there,
whether it’s Dunedin or Wellington or wherever. There’s a huge amount of work going on across the community and we’re getting a lot of support from the cycle advocates—they’re involved in a lot of the planning for and along with local government.

Parmar  Do you have any idea of numbers?
Brash  Numbers of?
Parmar  Numbers of the cycleways.
Brash  There were over 50 different cycleway projects. In terms of—Barbara? No, I can’t remember the number of cities that were involved.
Tebbs  I think it’s across six different cities.
Genter  I wanted to ask about the investment strategy that the Ministry of Transport, I think, is undertaking—looking at the investment across activity classes—and I’m wondering if whether it’s going to be looking at whether it would be possible to fund rail infrastructure on the basis that it benefits the road network, freight, and the economy as a whole.
Matthew  So I can’t answer the last part of your question specifically, but the idea at the moment, particularly as we lead into the next Government Policy Statement (GPS), which comes into effect in 2018, is to recognise that—at least in relation to land transport—the GPS is, effectively, the Government’s investment strategy. The work we’re doing in the lead up to that is to stand back and ask some quite hard questions around the performance of the land transport system, where in the future investments may or may not be required, and whether that invites a Government to rebalance where its investments go. So the objective is to be quite open-minded.

What I can’t commit to, of course, is where that may take us, but, as Chris reflected, there are quite—at least in my view—some reasons why successive Governments have been careful about the National Land Transport Fund and what it’s used for. I think, in a sense, there is a social contract with motorists, and one of the reasons that organisations like the AA and the Road Transport Forum have been supportive of some of the tax rate changes that have occurred is because they recognise that there’s a link between what they’re paying and what benefits they get.

Genter  Is it safe to say though that actually motorists are subsidising the State highway network—because more than half of all the vehicle kilometres travelled are on local roads, and local roads are half-funded by ratepayers? So if we look at the wrongs and the justification for those as freight movements, it’s actually people driving to and from work on local roads which are paying the majority of the Waikato Expressway, which has a BCR of 1.4 and—you know—on any given day is only used by less than 1 percent of all motorists.
Matthews  Look, I couldn’t agree to that. One of the things that I think that we’re very careful about is the allocation of costs. So in fact the agency itself is
responsible for determining the financial assistance rates with local government, but the difference or the charges that are made through road-user charges, particularly to heavy vehicles, are carefully determined. So the overall amount of revenue that’s collected for the National Land Transport Fund from heavy vehicle users is a reflection of the best assessment we can do of the costs they put on to the network.

Genter But even half of all the heavy vehicle kilometres travelled are on local roads, not on State highways—and yet the majority of capital expenditure and the NLTP is on State highways. I’d just like to point out that there’s an inconsistency in saying that all road users benefit from all spending on roads, when we could say all New Zealanders benefit from spending on transport infrastructure generally. So it’s kind of a false distinction.

Matthews Again, I think the critical part in here is that partnership that the agency has with local government, and the financial assistance rates are determined by what is considered to be a fair share between what ratepayers and what road users pay for in relation local roads.

Genter With respect to the investment strategy work that you’re doing, will rail and coastal shipping be at least considered as something that might be within the ambit of the GPS?

Matthews The broader idea of an investment strategy is for us to actually look at, across all modes, the role that Government plays and the policy settings around its role in investment across those modes.

Genter When can we expect the outcome of that work?

Matthews That is something that’s kicking off at the moment and—as I say—it’s really a part of the lead-in work that we’re doing to GPS.

Genter Can I ask NZTA about the East West Connections project that’s been committed to by Government? As I understand it, it’s going to be funded from the National Land Transport Fund. I’m wondering about how that particular option was chosen given that, if you look at an options analysis, it clearly didn’t have the best benefit-cost ratio—with significantly higher costs and lower benefits than option B, for example. Why is it that the agency’s gone for a more expensive option? And how will it be funded given that so much of the National Land Transport Fund new State highway and infrastructure is already committed to the RONS projects over the next 10 years?

Parker The option evaluation for East West had a number of criteria, of which BCR is one and cost is another, but we had to get a whole balance of measures, and this one was the one that sort of rose to the surface, including feedback. We got very strong feedback from the communities in that area—that they were taken into account. So we’re moving forward with the investigation and the consenting work for that option. In terms of the funding coming out of the State highway portion of the NLTP, we’re now about halfway through the RONS programme, and so, as we implement the RONS, there will be some headroom in that fund. We’ve programmed the
East West negotiations into the programme in the longer term, so it kind of comes into the gap as the RONS programmes tail off.

Genter Over what time period are you expecting to be paying for that construction?

Parker Well, obviously, it’s not an exact science. It depends on consenting, when we can secure property, all those kind of things. But we’re looking to—best case, we will start construction, sort of, 2018-2019 and finish around 2025.

Genter What specific benefits and considerations were taken into account that aren’t included in the benefit assessment that’s used in the benefit-cost analysis?

Parker The main benefits of this particular scheme relate to freight movement, and there’s a huge amount of—

Genter How was that not considered in the time travel savings that’s used in the benefit assessment? It is? So there was another option that achieved the same benefits, but was much lower cost and it wasn’t selected.

Parker Yeah, but again, there were other considerations in terms of community impact, consenting, ability, and so on. So it’s much wider consideration, which is all documented and in the public domain.

Genter Can I ask one final question, which is—

Young Sure. We’re fine for time, Julie Anne.

Genter Oh, great. Network productivity in Auckland has declined on the road network. Just wondering what your thoughts are about why that might be—is it related to the drop in fuel prices, and what are your plans to improve it besides spending a billion dollars on a small link of road?

Parker So can I just clarify—when you say “network productivity”, what do you—

Genter The congestion on the State highway network and road network in Auckland.

Parker Yeah, I mean, we have seen considerable net growth in demand on the Auckland network and we’re forecasting more as the population growth continues. So yes, whilst we are implementing a huge amount of infrastructure new build, we’re also aware that the, you know, background growth in demand is increasing.

Genter So do you think expanding road capacity is going to improve congestion?

Parker Well, it’s part of a package, and, obviously, you heard talk about the ATAP process and looking at a more integrated package for the whole of Auckland. I think the congestion would be an awful lot worse had we not—

Williamson That’s right. That’s quite obvious. We get rid of the roads, we’ll be great.

Parker It is very much part of a package, and we are working with all our partners to produce a whole package.

Genter Tommy, is it the case that until about last year vehicle volumes were falling on most of the State highway network around Auckland, particularly when
we had sustained higher fuel prices, despite population growth and economic growth? So do you think the drop in fuel prices is related to the surge in demand for road transport?

Parker I think there’s a number of reasons. It did tail off and plateaued in Auckland; it wasn’t a huge drop in VKTs. Interesting to know that even whilst general traffic plateaued, freight transport in Auckland continued to grow and demand continued to increase. So we were looking to facilitate that. I think, you know, there was the effects of the global financial crisis, and oil crisis, and so on, but we’re now seeing, if you look at the long-term growth of VKTs, we’re seeing it coming back on to some of growth forecasts that we had prior to the global financial crisis.

Genter And do you think that there’s any role for reducing public transport fares and increasing public transport frequency in reducing congestion in Auckland?

Brash I’m happy to talk to that. The short answer is that we’re ready to look at the whole—we have major investment coming in from the Transport Agency into Auckland around public transport, increasing frequency and the fleets right across the board, into the network. So it’s huge—it’s never been anywhere near the size that it is now, in the past. The broader issues around the pricing and so forth: Auckland Transport is undertaking a review of its fares at the moment; we’re involved in that process. So there is a trade-off there that we could look at. And I think, ultimately, those questions are going to be looked at through the ATAP process as well, because it goes to the broader package that we’re trying to put together.

Matthews Just for the benefit of the committee, the acronym ATAP is Auckland Transport Alignment Project.

Williamson I think members are pretty aware. And that’s due for a final report in August, isn’t it?

Matthews That’s the aim, yeah.

Mitchell Gentlemen, thank you for coming along today. A nice easy, sort of, start off with a bit of a fluffy, just a bit of a background around the GPS, some of the features, GPS monitoring that’s coming in next year. There’s not a lot of detail about it. Could you give us some of those features and run us through that?

Matthews Just clarify, sorry?

Mitchell Just see you’ve got here the GPS monitoring approach and what are some of those key features that—can you put me in the picture on that?

Matthews I might ask Gareth to talk about that.

Chaplin So the GPS is the programme where we, essentially, act as an investment framework for all activities, including safety and (inaudible). One of the obligations we have is to assess the value for money of those activities. So in the first instance the board has a key role in scrutinising the activities, the
investment framework, and ensuring that it’s keeping management well aligned and on track.

And the role of the ministry is to test those assumptions, as well as to look at how the system is working from an overall perspective. So we do occasionally do reviews around how the construction market is performing, how the maintenance market is performing, the outcomes of the Road Maintenance Task Force, to make sure they’re getting, kind of, value for money across the country. And, where appropriate, we’ll take sort of deeper dives into, you know, areas of activity—to say, well, are we confident we’re getting the kind of outcomes we expected. All of this will feed back, in terms of advice, to the Minister and Government during the process. And we actually do an annual stocktake of how the GPS is performing.

The overall analysis will then feed into GPS ‘18 so that what we want to do is to have, basically, a smarter programme next time, which is a better investment framework than we had in ‘12, and all the work that we and the agency did to improve the quality of that to get to the ‘15 one. We’re expecting the ‘18 to ‘20 GPS to be a better instrument.

Matthews Maybe if I could just add that one of the important things that we now have is an agreement between ourselves and the agency around what the critical metrics are to measure whether or not they are delivering against the prime policy objectives.

Mitchell Is that information available for us to sort of delve into at the moment? Or is there still detail coming out on what the—

Chaplin The ex-ante (inaudible), so there is a short-form—I didn’t bring a copy with me, but there are some fold-out pages within the GPS, which says “These are the expected targets, these are the expected outcomes, these are the expected metrics.” And that is published.

Unidentified We can provide those to the select committee if you wish.

Michell Just to touch on some of the toll roads that are going on around the country, we’ve got the, obviously the TEL—fantastic road up there in the Bay of Plenty. We’ve got Route K in Tauranga, and then we’ve got the Northern Link. Just around signage to do with that—it’s probably an NZTA question—relating to, I think it’s very ambiguous to say the least that there’s a $2 charge for vehicle users going through there, but when a lot of these disenfranchised road users that don’t have access to computers go to pay at the service station, they’re getting charged $3.20. There’s nowhere that suggests that it’s a $3.20 fare as opposed $2.

Is there something that we could do to tidy that up? Because, being from the Bay of Plenty, I know there’s a real frustration—that I think that’s a real disingenuous sign. And even to the point, looking at the numbers of those people that are actually paying by cash, is it actually worthwhile disenfranchising them with the increased costs—it’s about 300 people on the TEL at the moment—that we could actually still make it $2 for them.

Unidentified 200 people a week?
Mitchell  So it’s quite a rounded question really.

Brash  I think, you know, we’ll look into that issue. I don’t know the answer to it off the top of my head. But—

Williamson  All right, maybe you could get something, a note, back to the committee just on that specific issue.

Brash  Will do.

Bayly  Thank you for your presentation. I just want to focus a little bit on Auckland, initially. You have got the ATAP review going in ways and note that I think we’re committed to $4.25 billion over the next 3 years for Auckland. You’ve also expressed vote transport or volumes increased by 9 percent. So we’ve got big investment, unprecedented investment, but we’ve still got this huge demand, and Julie Anne talked about it. The issue with the ATAP, and I just want to get your view—it’s sort of almost a wider question. The ability for our local partner, so the councils, to fund their share of the road, 48 percent on average—right? We’ve got Auckland Council who increasingly are getting heavy debt levels. Our ability to actually deal with this and the funding, and I note how Government has stepped into the East West project and, as I understand it, the Government is going to fund that, rather than sharing costs with council. Going forward, is this going to be a barrier in terms of some of Auckland’s?

Matthews  Can I comment first, given I’m leading the alignment project, from the Government side. Can I just, firstly, say about that—I think it is a very good example of central government and local government, in this case Auckland Council, working together. I think it is, in a sense, a precedent of good practice. It applies in a range of other portfolios as well. What we’re trying to do is get a 30-year alignment around what is the best package of initiatives that you would need over that time frame—not just investment in infrastructure, to go to the member’s earlier question, but rather what are the range of things that we need to do together to manage demand and growth in Auckland?

So the idea of getting full alignment around that I think is a critical first step to then saying: “Well, actually, as investment partners, how do we now ensure we have the necessary tools to generate the revenue on both sides to do that?”. So the alignment around strategic options and direction is a really critical first step.

So, I think, to your question about what if the partner doesn’t have the funding, I think we have a much more constructive engagement if we are all agreed on what we’re trying to achieve. Then we can start talking about money, and that’s certainly the approach that the alignment project is taking with Auckland, and, as I say, I think both partners are working very, very constructively together to get that alignment.

The broader question with local government might be something that you want to talk about, Dave?
Long term there’s no doubt there are challenges around this, and I mentioned the local share issue before. This is not just about Auckland. So it is something that we will have to look at in the long term. We’ve got many in our rural councils with ageing populations, reducing populations in some cases. So there’s some real challenges in maintaining infrastructure across the board, including transport infrastructure.

So there’s no doubt in the long term there’s some challenges there. We looked at those issues specifically when we looked at the financial assistance rates, so there’s higher financial assistance rates for those councils that are struggling. So we have a policy in place that addresses that issue, but I am saying long term there’s a much bigger issue for society that sits there, and probably comes back on to Martin’s plate, really.

So going back to the ultimate situation, for where Maurice and I represent, which is east and South Auckland, there’s some big projects—the MTV out to the east. And where I am, down south, it links there with the—it needs substantial investment. I suppose what I’m getting at, and I’m not trying to particularly get at Auckland Council, but they’ve got funding constraints. You can obviously see it by looking at their financial statements going forward. So how are we going to deal with that? It’s good that we’ve got a partnership, an affiliate. It’s a great approach. But how are we going to endorse that, because that’s 9 percent are vehicle increased volume per annum. What we don’t want is to be in the situation where we actually are constraining that type of investment for other reasons, because otherwise—a lot of these projects should be done and if they’re being constrained for financial issues, that’s not really a ——

I’ll go back to my earlier response. I think that once we’ve got through the alignment work the discussion around if there are constraints on Auckland Council’s ability to fund its share of whatever is required, then I guess we will inevitably have to engage with them around that. Now clearly members will be well aware that the council lead its own process around alternative funding tools. The response in part by the Government is to say “Before we talk about that let’s get alignment around what we need the funding for.”

And so for other councils because we’ve got 78 councils I think, you alluded to before, has the agency been looking at how we might address it because we’ve regional areas of growth that we want to pursue and promote. Has the agency or the ministry been looking at how we’re going to assist these other councils other than just relying on existing mechanisms?

It’s not a specific area of work we’re doing at the moment, but as they’ve signalled, we’re all conscious, I mean, we are very aware, for example, of the work that Local Government New Zealand is doing and has done and released around some of the long-term issues for local government. Particularly in those communities and regions where you have smaller communities and the question of whether or not current rating tools are sufficient to sustain not just the roading investment, but all of the
infrastructure and services that they have to maintain. So it is a long-term issue, I think we all acknowledge, we have, but it’s not just a transport issue.

Moroney I just want to talk on some of the funding things that I was pursuing before. And I do want to come back to the Waikato Expressway. In the questions that you answered for the committee, you said that it’s going to reduce the travel time between Hamilton and Auckland by 14 minutes when it’s completed. From where to where? Into central? Into, what, the port? What’s the point in Auckland that that’s supposed to represent?

Parker I believe it’s the round Central Motorway Junction. So it’s in the centre of the Auckland—

Moroney So it’s into the Spaghetti Junction, is that where?

Parker Yeah.

Moroney OK. Because, you know, what we face at the moment—I drive that regularly—is that the drive time is getting longer and longer. We’re spending billions of dollars on the Waikato Expressway and, sure I get to the logjam 10 minutes earlier and I sit there for half an hour longer. So can you be sure that when it’s completed, the travel time will be less, and if it’s not, does that mean the cost-benefit ratio—the benefit-cost ratio—even worse than the 1.4 that you’ve quoted so far?

Parker Just a few points on that. Firstly that the Waikato Expressway is considerably longer than just to Hamilton; it does go down to Cambridge.

Moroney No, I’m talking about the Hamilton to Auckland bit of it.

Parker Just to be clear that obviously there are some significant benefits in bypassing Hamilton and Huntly, which are the projects that we’re working on at the moment. Yes, you’re right, when the considerable time delay is the southern—not getting into Auckland. We have a project that’s just in order to widen the motorway as far down as Papakura. And we would anticipate that in the not too distant future, the widening would continue through, probably to Pōkeno. But that link into Auckland is the only major link at the moment, and with the growth in demand, particularly in the south, it is anticipated that stretch of highway will be under considerable pressure.

Moroney So what I’m concerned about is that the cost-benefit ratio is primarily based on that travel time being saved, and particularly for freight getting into—not Spaghetti Junction, actually, but down to the port is actually the critical part of the economic argument. And that’s getting longer and longer all the time. And it just seems to me that we’re going to end up with a benefit-cost ratio of—1.4 is bad enough, but I suggest that it’s going to be much worse than that.

And can I ask you about the evaluation of jobs? Because at the outset of these projects, there’s always the grand announcement of how many jobs are going to be created. Do you do regular reports on how many jobs actually were created out of these projects as they’re completed?
2014/15 ANNUAL REVIEW OF THE MINISTRY OF TRANSPORT AND THE NEW ZEALAND TRANSPORT AGENCY

Brash
Once they’re completed, we are going to be doing the post-implementation review and it does cover those broader economic benefits and whether they’ve been achieved or not. So, yes—

Moroney
So can that be provided to the committee for the stages of all of the RONS that have been completed so far?

Parker
So the post-implementation reviews are completed once the package is complete. So there would only be a couple of RONS projects that are actually—

Williamson
Do you post those on your website? The post-implementation reviews?

Parker
We do.

Williamson
You do.

Moroney
I just want to move on to two other areas of questioning. Driver licensing—because I notice that in the year that we’re looking at, there’s been an 8 percent increase in fees for driver’s licensing and a 15 percent increase in testing fees, but there’s 200,000 people sitting on restricted licences for more than 18 months, which is—what we are trying to do is, after 18 months people should be progressing on to a full licence. We’re gathering more money through the exercise but there’s people log-jammed in this process. What can you tell us about that logjam? What’s the cause of the logjam?

Unidentified
I’ll get Celia to talk to that; she can talk about the programme we’ve got in place. We’re making some big inroads into those waiting times and so forth, but—Celia?

Patrick
Well, first, in response to the fees: the fees are charged on a recovery basis, so, essentially, user pays. So we only recover what the costs are that are associated with the broader end-to-end licensing system.

Moroney
Although, you’ve gathered $13 million more in the last 4 years than what the system has cost to actually run.

Patrick
It’s not entirely correct. We’ve had significant growth in the number of people going through the system, so you’ll see through our accounts that factor coming through. The number of fees by the number of people have grown. We are also planning to invest in our systems, so at any point in time we may build a small credit in our driver licensing accounts, but that’s to enable us to invest in the system over time. So you’ll see, over a period of time, a movement of those accounts.

Moroney
I’ve looked over the period of time, and you’re always gathering more than what the system is costing you, to the tune of $13 million in the last 4 financial years.

Patrick
Well, what we are doing over the next coming year is having a look at reviewing some aspects of the driver licence rule. Depending on where the Government takes that, we will also be reviewing our fees, and we will reset
those fees based on what the ongoing cost is of recovering the cost associated with driver licensing.

Moroney So do you think the cost is the reason for the logjam?

Patrick No, I don’t think the cost is the reason for the logjam. If you compare the cost of getting a driver licence in New Zealand relative to other jurisdictions, actually, we fare pretty well.

Moroney So what do you think is the reason for the logjam?

Patrick We introduced a couple of years ago a more difficult, restrictive driving test, and that was to manage the fact that younger people driving solo are overrepresented in deaths and serious injuries. So it is taking longer for young people to get the experience they need to be able to pass the more difficult test, and that is one of the primary causes of that. And if you think about that in the broader context of what we’re trying to do—that is, ensure that younger drivers are safer drivers and that we reduce the incidence of death and serious injuries. So there is an element of it that if it takes them longer to get through that system, and they have more practice, then we’ll get safer outcomes in time.

Moroney Can you provide to the committee, please, the waiting times at each of the testing facilities, please, for all levels of driver testing?

Patrick We can provide that.

Moroney Thank you.

Patrick At the moment, we have, in general, an average waiting time of 18 days to sit a restricted test, and 14 days to sit a full test, so the waiting times, actually, with the exception of one or two sites, are good. So people are not having to wait—

Unidentified I’m sorry, look, I’m going to have to pull this up, we’ve got two—three more people, actually—so, Jonathan, quickly.

Young Mr Matthews, you talked before about the ATAP project. You mentioned the 30-year time horizon that the Auckland Council are working towards. Can you give me a picture of where you see things in 10, 20, 30 years, particularly around the development of or release of technology into transport and how that’s going to affect—because all the questions we’ve asked now are about conventional transport, and I’d like to know what you think is going to happen.

Matthews That is an important dimension of the work we’re doing with Auckland Council, and if there’s one thing that I’m pushing quite hard in this work—and it’s a reflection of the discussion we had with you last year—is that the time frames that we’re talking about will see shifts in not just technology but in patterns of mobility that we have to embrace and, possibly, exploit to help solve the challenges of growth. So the general point, I think, is that we have a number of options in the future to put into the mix that we may not have had in the past that are very much on the demand side rather than the supply side.
So future solutions may well be around the extent to which those who are responsible for managing the network have the ability, through connected technologies, to better manage the network. We have options on the demand side where mobility services may well see people choose not to own their own vehicles or to ride-share. So in the mix, whereas, historically, we’ve tended to think about a binary option between using your own car or public transport, I think there’ll be a third option in the mix which is: “Can I share with someone?”.

In terms of Auckland, if we could get car occupancy, on average, up, that would have quite a significant impact on congestion and, ultimately, on the efficiency of the way in which we can use the network we’ve got. So these are big, important issues. The difficulty, to answer your question about 10, 20, 30 years, is it’s very hard to be predictive about that stuff. The question for us, though, as we look at this, is what might we do in the next 10 years to start to release some of the opportunities these things offer us, so that the taxpayer and ratepayer don’t have to invest as much money in infrastructure.

Williamson Just quickly, the gains that you get out of any of those driverless vehicle things and that are hugely hard to integrate over a short-term period, because you have both clean and dirty cars on the same piece of road. So whereas if you’ve got driverless cars, you can have them banked right up next to each other and get about a 300 percent gain in utilisation—

Unidentified Absolutely.

Williamson —it’s only when the whole fleet that is done.

Genter I guess I was just wondering—particularly for Tommy, because he was talking about widening the southern motorway to deal with congestion—there’s a whole lot of evidence from overseas cities that the benefits of adding additional motorway lanes are gone within about 5 years. So I’m just wondering to what extent you’re taking that into account in your planning for Auckland? That is to say, the induced demand by making it easier and cheaper to drive at peak time means that more people choose to use cars, which means that there’s more congestion after about 5 years, and you’ve got no benefit for your billions of dollars you’ve spent on the highway network.

Parker Induced demand is a very complex issue; we’ve talked about it a lot. Going back to an earlier point, the State highway, is part of the broader Auckland transport system and we do need to have an integrated solution to that. Auckland, because of its location, is actually very poorly served by major State highways, if you compare it to other cities, because it’s geographically in the narrowest part of the country. So, I think, you know, there is a clear need for the widening of the State highways, but, as I say, it’s got to be integrated as part of a broader solution if it’s going to be effective. And that goes back to that point.
Genter  I'll ask one final question to NZTA. Is it the case that you've put a cap on the percentage of the National Land Transport Fund that will be committed under public-private partnerships in the future?

Brash  There’s a policy around the extent to that amount of leverage out of the NLTF. So that covers their facilities as part of PPPs but also other loan facilities, for example, we have a loan facility with the Government for the rebuild of Christchurch. So we’re looking at the total debt and leverage across the NLTP.

Moller  But any policy can be reviewed at any time, based on satisfactory arguments to either increase or decrease.

Matthews  Can I just also add a comment on this, because there is a principle behind how much debt—how much of future revenues we commit to funding debt. Because, essentially, that limits the options of future Governments and generations if we overcommit to debt.

Genter  So what is that cap? I mean, my understanding, from looking at the business cases—the Transmission Gully PPP and Pūhoi to Warkworth—if they’re going to go ahead, are going to be 7 to 8 percent of future National Land Transport Funds for 20, 25 years. And that doesn’t sound like a lot, 7 to 8 percent, but it’s actually a much larger percentage of your total capital expenditure that’s available for new infrastructure; am I correct?

Brash  It is in that order, but the—

Genter  Could you say what percentage?

Brash  —in our annual report, I think there’s a graph, which shows how that debt varies over time. We’ve capped it at 10 percent across all debts, but if you look at how the debt comes on board over time, it varies. So we’ve just got to try and manage that over the long term.

Williamson  OK, look, that’s coming to 12.30. Our members have had a good 48 minutes or so of questions, so that’s good. I want to exercise the chairman’s privilege of asking at least one question, and it’s very parochial—you would be surprised to not know it. But where I live—and a guy called Jami-Lee Ross, who’s another member of Parliament—we’re two electorates; we’re about the size of Hamilton, in terms of population, which has got two electorates as well.

Can I just give you three statistics, just so that I would like to know that you heard them. From the 2013 census of the Howick Board, which is the two electorate area of the size of Hamilton, asking the question “What is the main means of travel to work by workplace address in the local board level?”, 93 percent of people responded in the census that they used the motor vehicle. Only 2 percent use bus and rail—only 2 percent use bus and rail. In fact, walking, cycling, and jogging was higher than bus and rail. These are not my figures, these are published by Statistics New Zealand out of the census.
We also have a road out our way called the Pakuranga Highway, which is actually three lanes in either direction, but it’s run as a local road, and yet the volumes of traffic on it are bigger than any other road in New Zealand other than the southern motorway and the Harbour Bridge. And so the people of our electorate are fuming as they see dedicated busways on the North Shore, electrification of rail, doubling of more motorways—and there isn’t one project in our part of the world. No, no, there’s not. There’s not a single State highway, there’s not a single busway, there’s not a single anything in those two electorates. They’re all local roads, run through Auckland Transport. And you don’t, until you cross over the water and get over to the southern motorway, actually get to a State highway.

So we actually had some phenomenal feeling of euphoria come across us when AMETI was suggesting we were going to build a thing called the Reeves Road flyover, which would allow all of that traffic coming down the Pakuranga Highway—three lanes, 78,000 vehicles per day—to go across Ti Rakau Drive and join into the motorway. And that euphoria was completely torn apart from our bosom of happiness when we saw announcements from Auckland Transport that “No, we’re going to delay the Reeves Road flyover by 10 years and we’re going to build a busway”. That’s for 2 percent of the people rather than for 93 percent of the people. Turned out they got the wrong announcement, and they’ve said they got it wrong, and they apologised, and it’s all back.

Can I just please ask both Auckland Transport and—sorry, NZTA and the ministry, to keep understanding that the growth that is going to occur out there, in terms of the building of houses and the volumes, and the only possible way of people coming in and out of cities and going to elsewhere can’t be ignored by people saying “Oh well, we’re not going to do the 93 percent of you; but 2 percent of you, boy we’re going to give you a fantastic bus interchange”. That’s all I’m asking.

Thank you very much, thanks for your time.

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New Zealand Post Limited

Recommendation

The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of New Zealand Post Limited, and recommends that the House take note of its report.

Introduction

New Zealand Post Limited is a large state-owned enterprise providing postal, banking, courier logistics, and other services. In 2014/15 it achieved an after-tax profit of $143 million, with the bulk of the profit derived from its Kiwibank operations. After adjusting for the gain on sale of its Australian-based courier company, Couriers Please, restructuring costs, and other items, the underlying profit after tax was $128 million. Total operating revenue during the period was $1,643 million and total operating expenses were $1,483 million.

We note the contribution made by the outgoing Chairman of New Zealand Post, Sir Michael Cullen, and wish him well for his future endeavours.

Replacement of Kiwibank’s core banking system

The most significant project underway at Kiwibank is the replacement of its ageing core banking system, known as CoreMod. We asked what impact the outdated Ultracs system that is currently in place was having on Kiwibank’s operations and whether it limited the banking services it could provide. We were told that the current system constrained its capacity to deliver some banking services and had previously provided some risk potential which had largely been solved by various software patch-ups.

Phase 1 of CoreMod, which dealt with payments, had gone live in August 2015. Phase 2 of the project will be implemented in December 2016 and will migrate the majority of savings and transactional accounts to SAP banking software. We were told that the cost of the project had overrun by about 25 percent of the initial cost estimate. However, this was not high compared to the standard cost of replacing large IT systems.

Once CoreMod is fully in place it will provide protection to all Kiwibank’s core systems, provide it with greater opportunities to provide more digital services to customers, and allow transactional banking services to be provided to the charitable sector, which are restricted by the limitations of its current system.

Restructuring of postal services

We were told domestic letter volumes are forecast to decline by approximately 12 percent per annum, primarily due to electronic substitution. This decline has led New Zealand Post to reshape its processing and delivery networks, and to reduce the number of mail delivery days from six to three. We were told that all redundancies associated with the reduced delivery days had been voluntary. Consolidating mail processing sites into three large processing centres had, however, resulted in 120 redundancies. It is also continually looking at the potential for savings at head office.
The Chairman noted that each year the decline in letter volumes reduces New Zealand Post’s income on EBITAD by approximately $30 million so it was important to keep looking for ways to reduce this.

The declining number of post shops will mean changes in the way customers access their postal and banking services. Customers may have to travel further to visit their closest branch and the move to digital banking services will mean most customers will sign up and conduct their transactions on-line. Kiwibank is working to allow transactions that have strict identification in order to comply with the requirements of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 to be carried out on-line. For transactions that are best done in person the bank’s mobile mortgage managers are able to carry out this work.

**Customer uptake of YouShop and RealMe services**

We asked about the consumer reaction to the Youshop and RealMe services that New Zealand Post has recently launched. YouShop, which allows on-line shopping purchases to be delivered to New Zealand had had a reasonable uptake of the service. It had been successful in stimulating the online shopping market and has grown to handle more than two hundred thousand parcels a year providing more products for New Zealand Post’s delivery services. It was performing well through its service from the United States, while services from the United Kingdom, Europe, and China were relatively recent. The deterioration in the New Zealand dollar exchange rate to the United States dollar had caused a reduction in the number of items being sent through the service in 2015.

However, the uptake of RealMe, an on-line verification tool to securely prove an identity to a participating organisation, had been disappointing. New Zealand Post plays a supporting role for the Department of Internal Affairs in the verification of identities by taking photos in Post Shops. Difficulties had arisen with the Department of Internal Affairs over the project’s contract which had impacted its effectiveness. We were told the initial customer experience had been poor with those wishing to sign up to the service experiencing numerous delays. In the next six months New Zealand Post hopes to relaunch the service as they believe there is a market for it. It is projecting to verify 83,700 identities by 2017.
Appendix

Committee procedure
We met on 19 November 2015 and 11 February 2016 to consider the annual review of New Zealand Post Limited. We heard evidence from the Chairman and Chief Executive of New Zealand Post and received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon Judith Collins (until 9 February 2016)
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Simon O’Connor
Maureen Pugh (from 9 February 2016)

Evidence and advice received

Organisation briefing paper, prepared by committee staff, dated 10 November 2015.

New Zealand Post Limited, responses to written questions 1–107.
2014/15 Annual 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 annual review of the 2014/15 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 agent established under the New Zealand Trade and Enterprise Act 2003. NZTE is the Government’s business development agency. It focuses on growing New Zealand businesses in international markets and works in partnership with NZ Inc. agencies across the public and private sectors to foster competitive economic development.

The chief executive is Peter Chrisp, and the chairperson is Andrew Ferrier.

Financial and service performance

In 2014/15, NZTE generated revenue of $197.270 million. Its total expenses were $189.081 million. During 2014, the Government committed an additional investment of $69 million over four years as part of the Business Growth Agenda to help NZTE further contribute to the value-added part of the economy.

The Office of the Auditor-General assessed NZTE’s management control environment as good, down from very good in 2013/14, reflecting the recommendation for improvements in the procurement area. Financial information systems and controls were graded as very good, and its performance information systems and associated controls as good.

Free Trade Agreement with the Gulf Cooperation Council

Negotiations for a Free Trade Agreement (the agreement) with the Gulf Cooperation Council (GCC) ended in October 2009. However the agreement still needs to be legally and technically verified before it can be signed and ratified. NZTE said that although no timeframes for progressing the agreement have been set, it was optimistic that the agreement would ultimately succeed. NZTE emphasised the benefits of the agreement for New Zealand as a trading nation.

Saudi Arabia agri-business service hub project

Food security is an increasing concern for GCC countries because of their lack of water and arable land, growing populations, and rising food demand. The New Zealand Government has committed funding to establish an agri-business service hub, which will build a platform for agricultural development in the Middle East. This was agreed to under the Food Security Partnership, which is designed to enhance the prospects of the agreement. Part of this includes live exports of animals from New Zealand to Saudi Arabia for breeding purposes.

We asked whether the publicity in New Zealand about live exports, specifically when 900 sheep were sent to Saudi Arabia in late 2014, had affected the agreement’s progress. NZTE said this was not an issue, and that it was not involved in any further live exports.
NZTE told us that it had not suspended funding to the agri-business service hub. Some of us were concerned when media reports after the hearing of evidence released statements from the Chief Executive’s August 2015 report, which noted that funding had been “suspended”.

We wrote to NZTE asking it to clarify its response. In its written reply, NZTE acknowledged that the use of the word “suspended” in the Chief Executive’s report was open to misinterpretation. It said that funding to the agri-business service hub had been delayed until the ownership, permitting, and licensing issues were agreed. However, there was no formal suspension of any funding to any aspect of the Food Security Partnership. Some of us were not satisfied with the written response and moved to ask NZTE further questions in person and remain very concerned at the probity of decisions made around the agri-business service hub.

The Food Security Partnership includes building an abattoir in Saudi Arabia that is funded by the New Zealand Government. Given the slow progress on the agreement, some of us asked why the funding for the abattoir was continuing. NZTE replied that the abattoir should be viewed in the context of the whole Food Security Partnership, which is a commercial agreement that should be honoured.

We note that the Office of the Auditor-General is conducting an inquiry into the expenditure of public money on the Food Security Partnership. NZTE said it is deeply involved with the investigation, and welcomes the opportunity to clear the air. We will follow the outcome of the inquiry with interest.

**Investment in the tourism industry**

New Zealand’s tourism industry continues to grow dramatically. NZTE highlighted the need for more quality tourism infrastructure and accommodation to support Tourism New Zealand’s high-value tourism strategy.

NZTE said that developing a business case for investment in the tourism industry can be difficult because tourism flows are hard to predict. This increases risk and uncertainty. NZTE is working with Tourism New Zealand to establish an accurate forecast of the supply and demand for accommodation, and develop a potential framework for investment.

NZTE and Tourism New Zealand also work together as part of the New Zealand Story Group. The New Zealand Story Group focuses on promoting New Zealand’s international brand under the Government’s Business Growth Agenda which aims to lift exports to 40 percent of GDP by 2025.

**How NZTE chooses which markets to focus on**

We asked which international markets NZTE focuses on for New Zealand businesses to grow in. NZTE said that it determines and implements market focus by following the needs of its Focus700 companies and placing resources accordingly. We commend NZTE for expanding its focus group from 500 to 700 companies, noting the importance of the pipeline of growth companies to support future export earnings.
Committee procedure
We met on 11 and 18 February, and 3 and 17 March 2016 to consider the annual 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. Advice and evidence received can be found on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Alfred Ngaro (from 16 March 2016)
Simon O’Connor
Maureen Pugh (until 16 March 2016)

Evidence and advice received
Office of the Auditor-General, Briefing on New Zealand Trade and Enterprise dated 11 February 2016.
Organisation briefing paper, prepared by committee staff, dated 11 February 2016.
New Zealand Trade and Enterprise, Responses to written questions 1 – 118, received 11 and 26 February 2016.
New Zealand Trade and Enterprise, Clarification response, received 26 February 2016.
2014/15 Annual review of the New Zealand Venture Investment Fund

Report of the Commerce Committee

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New Zealand Venture Investment Fund

Recommendation

The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of the New Zealand Venture Investment Fund and recommends that the House take note of its report.

Introduction

The New Zealand Venture Investment Fund (NZVIF) is a Crown entity established in 2002. It was set up to facilitate the development of the early-stage capital investment market in New Zealand, both formal (venture capital) and informal (angel investment). Since that time, NZVIF told us that it has catalysed between $1.5 and $1.8 billion in investment capital.

NZVIF seeks to help young technology entrepreneurs out of the “valley of death” struggle for early investment at the start of their ventures. NZVIF’s private sector/government partnership model is well regarded among similar organisations internationally.

NZVIF has the following two investment programmes that are designed to meet the needs of companies at different stages:

- The Seed Co-investment Fund (SCIF) assists companies at the “seed” or “pre-seed” stage. This is where entrepreneurs have a concept or some new intellectual property. Such businesses are ready for a first round of commercial external capital investment. This is known as the angel investor market, and we were told it is a “sweet spot” in which NZVIF is very active. NZVIF told us that the size of capital investment ranges from as small as $50,000 to $1 million. NZVIF funds usually make up 50 percent of this investment, with the other half being private sector equity capital.
- The Venture Capital Fund (VIF) is invested through privately managed and commercially-focused venture capital funds that are focused on companies in an early expansion phase. Capital from both funds is targeted at “growth” companies rather than small-scale businesses uninterested in expansion.

In 2014/15, NZVIF invested $15.33 million. Of that, $7.86 million was invested through the VIF and $7.47 million through the SCIF. NZVIF has $300 million of funds under management, with $260 million in the VIF and $40 million in the SCIF.

NZVIF’s current portfolio comprises 190 companies, an increase of 20 on the previous financial year. Of these, 60 are in the VIF portfolio and 134 in the SCIF portfolio. Ten companies are in both portfolios. Many NZVIF-backed companies are now listed on the NZX and growing rapidly, but new technology start-ups are a high risk area and NZVIF remains a critical part of the development process.

Based in Auckland with a team of nine people, NZVIF has a Board of five private sector directors who provide oversight to the investment management team. The chair of the Board is Murray Gribben, and Franceska Banga is the chief executive. The committee
thanked Ms Banga, who is soon departing her role, and acknowledged her excellent work with the company as chief executive since 2002.

**Financial performance during the previous year**

In 2014/15, NZVIF received $2.3 million in Crown funding to invest. Its total revenue for 2014/15 was $3.1 million, including interest and dividends. Its total expenses were $5.3 million, with a net operating expense of $2.2 million. Including a gain on value of investments and foreign currency, NZVIF had a surplus before taxation of $1.7 million.

**NZVIF’s role in supporting company growth**

NZVIF’s goal is to identify and partner with private market participants and investors to “thicken up the pipeline of capital” in support of businesses that show potential for the economy. NZVIF seeks to identify investors who offer both capital and capability in terms of expertise in the technology sector. The capital needs of start-up businesses change across the various stages of business growth: from pre-seed, seed, and market capital raising rounds. NZVIF seeks to support company growth through the SCIF at seed stage, and the VIF during subsequent capital rounds. We inquired whether NZVIF felt that the funding pipeline was being adequately supported at all stages, or whether there are residual gaps. We submitted supplementary questions to NZVIF on these matters.

We note the lack of large institutional investors in the New Zealand market. NZVIF has advised us that they are doing more work to engage with this sector over the next 12 to 18 months, as they regard this as a large gap compared to other countries. We look forward to more detailed advice from NZVIF as to their plans to address this, including whether NZVIF has plans to develop additional products in this area.

We noted that NZVIF’s annual angel investment rate of $5–$6 million seemed low and asked whether this reflected a lack of investment opportunities or the reluctance of investors to invest at an early stage. We were told that there is no shortage of either investment opportunities or private partners for NZVIF and that many countries envied New Zealand’s performance in this area.

NZVIF informed us that, in terms of economic size, New Zealand is comparable to Boston. NZVIF transferred capital from the VIF to the SCIF in a bid to stimulate growth and will continue to do so for two and a half years before reviewing the SCIF’s performance.

We will continue to explore with NZVIF the potential to address gaps in the funding pipeline, including potential to attract large institutional investors.

**Equity crowd funding**

We asked whether crowd-funded equity was an option to fill gaps in seed investment financing. NZVIF told us that, although this could complement early angel funding, it was unlikely to enable significant high-growth companies to raise the $10–$15 million needed. That said, international equity crowd-funding platforms led by angel investors in the technology sector offer the expertise and capability that expert investors bring with them.

**Scope for NZVIF self-funding in the future**

In light of NZVIF’s growing rate of angel investment, we asked whether NZVIF eventually becoming self-funding was a realistic or desirable prospect. We heard that NZVIF may become self-funding by 2020, although it could take longer. NZVIF said that this would be
a desirable result of increased return on investment and private investment partners’
growing confidence in the start-up arena.

We asked about financing and process gaps in New Zealand’s investment system. NZVIF
explained that companies in the $5–$10 million bracket often struggle to find the $10–$15
million they need to develop further.

New Zealand is not a “deep” investment market in terms of technology expertise, and large
investment institutions in New Zealand allocate just 0.5 percent to alternative or angel
investment in tech companies. The international benchmark is closer to 2 to 5 percent.

Some of us would not wish to see NZVIF’s role in supporting the funding pipeline for new
business growth unduly constrained by premature pressure to achieve future self-funding.

NZVIF’s Fidato Report attributed this lack of angel investment to a need for greater
engagement and communication with New Zealand’s large financial institutions to boost
confidence and interest in this asset class and opportunity. It forecast a 20–25-year
framework for confidence in the sector to develop in full.

International partnerships

About 30 percent of the capital raised by NZVIF comes from offshore, and NZVIF has
strong international partnerships. We heard that NZVIF has partnered with the National
Development Fund of Taiwan on an equal basis in a US$160 million fund to boost early
stage investment in start-ups in both countries.
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Committee procedure
We met on 18 February, 10 March, and 17 March 2016 to consider the annual review of the New Zealand Venture Investment Fund. We heard evidence from the New Zealand Venture Investment Fund and received advice from the Office of the Auditor-General. Evidence and advice received is available on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Alfred Ngaro (from 16 March 2016)
Simon O’Connor
Maureen Pugh (until 16 March 2016)

Evidence and advice received
New Zealand Venture Investment Fund, responses to written questions, received 15 February, 29 February, and 14 March 2016.

Office of the Auditor-General, Audit results for the New Zealand Venture Investment Fund, received 1 February 2016.

Office of the Auditor-General, Briefing on the New Zealand Venture Investment Fund, received 16 February 2016.
2014/ 15 Annual review of the Public Trust
Report of the Commerce Committee

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Appendix 6
Public Trust

Recommendation

The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of Public Trust and recommends that the House take note of its report.

Introduction

Public Trust is statutory corporation established by the Public Trust Act 2001 (the Act). Public Trust is a Crown entity for the purposes of the Crown Entities Act 2004 and the Public Finance Act 1989.

Public Trust’s core business is providing wills and Enduring Powers of Attorney, estate management (ongoing and distributable), Protection of Personal and Property Rights Act and personal management services, trusts, and investment services for fiduciary customers.

Public Trust is responsible for funds under management, including fiduciary responsibility for trusts under management and trusts under supervision. This includes the Common Fund ($516 million as at 30 June 2015).

Sarah Roberts has been the chair of the Board since July 2013, and Bob Smith has been the chief executive since December 2013.

Financial performance

In 2014/15, Public Trust had net income of $53.180 million (actual 2013/14: $59.831 million). This was $2.474 million below planned revenue of $55.654 million. Total expenses for the year were $55.886 million, resulting in a loss of $2.875 million (compared to a planned profit of $0.232 million and a surplus of $4.75 million in 2013/14).

Revenue from fees and commissions was $41.208 million (2013/14: $43.458 million), which was $2.705 million below budget. Just under $12 million in revenue was earned from the Common Fund.

The Office of the Auditor-General (OAG) graded Public Trust’s financial information systems and controls as “needs improvement” for the second year in a row. We hope to see an improvement in this area during the current financial year. The OAG graded Public Trust’s management control environment as “very good” for the second year in a row.

Business Improvement Programme and transformation of the business

For the last several years, Public Trust has been underperforming. Since late 2012, it has been implementing a Business Improvement Programme to address this underperformance. The programme involves a series of organisational and information technology (ICT) changes.

Public Trust has significantly invested in upgrading old and outdated ICT systems, which will improve business processes. Public Trust is also focusing on core business services such as administering wills, trusts, and estates. It has restructured or eliminated some services, such as mortgages, pre-paid estates, and term deposits. Public Trust is also
downsizing as part of the restructure: 25 employees were paid redundancy in 2014/15, and as of 30 June 2015, another 54 employees have been told they will be made redundant.

We were advised that, at the end of 2014/15, Public Trust had spent $16.3 million on the programme. We noted that, by 31 July 2015, just one month later, the cost was $17.8 million. The board approved an increase of $1.15 million in September 2015 and a further increase of $1.5 million in December 2015. The expected total cost of the programme is $26.4 million.

We raised concerns that the costs of the programme appeared to be increasing by $1.5 million per month, particularly in relation to the substantial overall cost of the project. We were told that the actual costs were closer to $700,000–$800,000 per month, with the rest being redundancy payments.

**Upgrading outdated ICT systems**

Until the Business Improvement Programme, Public Trust used an ICT system that was 25 years old. This system caused many issues for the business. We asked about the timing of the ICT upgrade in relation to when the programme’s overall strategy was set.

We were informed that, as part of the programme, Public Trust began organisational changes as well as replacing its core ICT systems. The request for information and request for proposal processes ran through 2013. The final tender for the ICT upgrade was completed in 2014, after the transformation strategy was underway.

We were told that the cost of implementing the new ICT system, called NavOne, is estimated to be $23.75 million over the past four years. Some of us were very concerned that the total cost of the new system was nearly half of Public Trust’s annual revenue.

The new system has experienced delays and is still not up and running. We were told that migrating historic and complex data caused the delays. They are not related to the system’s functionality. Public Trust told us that it is confident that the new system will be rolled out in the current financial year. We will follow the new system’s progress with interest.

**Recruitment of a new chief executive as part of the transformation process**

We were told that, before he was appointed as chief executive, the current chief executive had been part of Virtus Consulting, the consultant firm Public Trust hired during the early stages of its current transformation.

We also learned that there was no tendering process for the work done by Virtus Consulting, and no outside recruitment process before the current chief executive was appointed to the role. We were informed that the reason no initial tendering process was undertaken was because the original temporary appointment was for only two months, which was subsequently extended to a permanent position without further tendering. Some of us are concerned, given the importance of transparency and rigour, that in this case the appointee was previously involved with the scoping study which guided the transformation project. The State Services Commissioner was consulted on the permanent appointment.

**Assessing the risk level of the organisation**

We asked whether Public Trust saw itself as a “high-risk business”. Public Trust told us that it had historically been a high-risk business in terms of its investments. However, it took steps to substantially “de-risk” the business, and it remains “very very focused” on continuing this.
We noted some incidents and recurring problems that have occurred during recent years, including inaccurate reporting of billed time, reporting frameworks, and payroll payments to staff. We were told that some problems were caused by the outdated ICT systems that are being replaced, while others were capability issues that had also been addressed. Public Trust agreed that these were basic functions and that such incidents were not acceptable. Some of us believe that all of these incidents appear to indicate a high-risk environment.

We asked what the board had done to manage the risks of the programme. Given the problems noted above, as well as the overall cost of the ICT upgrade and the lack of an outside recruitment process for the new chief executive, some of us expressed the view that the current transformation process is “extraordinarily risky”.

Public Trust did not share that view. We were told that the board is in very close contact with management and that Public Trust uses GemTech as external advisers. We asked whether Public Trust receives advice from any consultants not involved in the Business Improvement Programme from its beginning. We heard that it does not.

**Interest rates and the Common Fund**

Public Trust sets the interest rate for its Common Fund. This rate is lower than bank term deposit rates because the funds are very secure and low risk, being guaranteed by the Crown. Public Trust then invests these funds in other financial instruments.

We asked why Public Trust keeps the revenue it gains from its higher interest rate investments as income, rather than passing the revenue on to those it has a stated obligation to assist, such as those not well-placed to look after their own affairs. We heard that the Act requires Public Trust to behave in a “commercial manner”. Although it earns income from the Common Fund, it manages this income as an investment portfolio.

There are ongoing discussions between Public Trust and the Treasury about the Common Fund guarantee, although no decision has been reached. Some of us believe that, if Public Trust were to operate without the benefit of revenue gained on the margins of the interest rates gained in the Common Fund, its costs would significantly exceed its revenue.

Public Trust said that it could not answer about the margin. However, it also said that, although its core retail market is not currently profitable, it prices its services to market rates.

**New Executor Assist programme**

We wanted to know what kind of steps Public Trust was taking to make itself more profitable. During 2014/15, Public Trust launched a new service called Executor Assist, which allows Public Trust to provide services to estates where it is not the executor.

We were told that this is important because Public Trust can now assist private executors and also build partnerships with lawyers, accountants, and banks. We hope this programme will be successful and will monitor its progress.

**Providing free wills**

We asked why Public Trust stopped providing free wills to the public in 2013. Some of us considered this to be a basic function of the organisation, and we were interested in learning what steps Public Trust is taking to provide low-cost wills to the public.
We were told that Public Trust does not receive funding to provide free wills from its negotiated contract with the Ministry of Justice. It said that this was a policy matter that it was not able to comment on.
Appendix

Committee procedure
We met on 3 March and 17 March 2016 to consider the annual review of the Public Trust. We heard evidence from Public Trust and received advice from the Office of the Auditor-General. Advice and evidence received can be found on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Alfred Ngaro (from 16 March 2016)
Simon O’Connor
Maureen Pugh (until 16 March 2016)

Evidence and advice received
Office of the Auditor-General, Briefing on the Public Trust, received 3 March 2016.
Public Trust, Responses to written questions, received 29 February and 15 March 2016.
2014/15 Annual 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 annual review of the 2014/15 performance and current operations of Radio New Zealand Limited, and recommends that the House take note of its report.

Introduction

Radio New Zealand has two shareholding Ministers, the Minister of Finance and the Minister Responsible for Radio New Zealand. The board of governors is chaired by Richard Griffin, and Paul Thompson is the chief executive.

Financial performance
The Office of the Auditor-General graded Radio New Zealand’s management control environment as “very good”. It graded Radio New Zealand’s financial information systems and controls, and performance information and associated systems and controls, as “good”.

In 2014/15, Radio New Zealand received a total income of $39.935 million. Its total expenditure was $41.325 million. This resulted in an operating deficit (before tax) of $1.39 million.

Changes within the organisation
In 2014/15, Radio New Zealand made some significant changes to its organisation, including rebranding its name to “RNZ” and adding a web-based format to the Checkpoint programme. Considering that Radio New Zealand received no extra funding for this financial year, we asked how it funded these changes. We heard that the changes were all done within budget using reallocated funds. No specific budget is set for “business transformation”.

We had heard speculation that other units and shows within Radio New Zealand are facing cuts that will then be reallocated to the new Checkpoint show. We heard that Radio New Zealand spent an operating expense of $419,030 on Checkpoint between July 2015 and January 2016. Subsequent information received by the committee noted that a further $645,978 of capital expenditure was allocated for equipment for Radio New Zealand’s design built multimedia studio. Checkpoint was the first programme to use this studio, and it will be used by other shows in the future. Radio New Zealand has been able to reallocate funds because of measures such as redundancies and introducing new technologies to improve efficiency.
Funding levels and budget bids
Radio New Zealand is planning to draw down its reserves to zero by June 2017, and we asked whether it needs extra funding to achieve that goal. Radio New Zealand said that it does not need extra funding for this purpose. It explained that its balance sheet is in a strong position and that it is still cash positive. It is reducing its cost base by $1.8 million this year and working towards breaking even in the new financial year. Radio New Zealand also generates revenue from its assets.

We asked whether Radio New Zealand has proactively asked the Government for extra funding. We heard that it has made funding proposals to the Government in the past. However, it understands when these are unsuccessful, given the tight financial environment.

Radio New Zealand has not based its next budget on receiving extra government funding and does not intend to make a proposal for the current budget round. Some of us remain concerned that Radio New Zealand is not adequately funded, and expressed concern that Radio New Zealand has not made a funding bid to the Government. This led some of us to believe that Radio New Zealand had given up on gaining extra funding. Radio New Zealand responded that this is not the case.

Survey results about Māori coverage
We asked Radio New Zealand to respond to allegations from a survey that it has broadcast only 0.1 percent of Māori-specific content during a 12-month period. Although Radio New Zealand is open to receiving constructive criticism, it disputes this claim and believes that the allegations have no credibility.

Radio New Zealand believes that the survey did not comprehensively measure its operations. It accepts that it has work to do so that its staff and content reflect the diversity of New Zealand life. Radio New Zealand is building a new approach to covering Māori culture and issues. We encourage Radio New Zealand to continue to promote ethnically diverse programming.

Radio New Zealand websites and new media environment
Modern technology forces media organisations such as Radio New Zealand to regularly update their practices. It has adapted its business model to reflect this, and we asked how that is going. We heard that Radio New Zealand is broadcasting on more platforms than before and using new technologies. It expects that its growth will come from different markets than in the past.

Radio New Zealand targets its website The Wireless at young people, and we asked how its development is progressing. We heard that it gets about 100,000 users each month, which exceeds Radio New Zealand’s targets. Radio New Zealand’s main website has also been performing well. It allows Radio New Zealand to engage with a new audience because the website’s users tend to be younger than the average radio listener.

Kordia network services
We asked what amount Radio New Zealand spent on Kordia Group Limited for network services. Subsequent information received by the committee noted that the total spend in 2014/15 was $2,894,606.
Remuneration

We noted the difference between the total remuneration paid in the annual report, and the annual salaries provided in subsequent written information, in relation to employees receiving over $100,000. Radio New Zealand clarified that the higher remuneration numbers included severance, unused holiday pay, redundancy and other payments. We noted that in 2014/15 an additional $574,494 was paid to ten employees in relation to cessation.
Appendix

Committee procedure
We met on 18 February and 10 March 2016 to consider the annual review of Radio New Zealand Limited. We heard evidence from Radio New Zealand and received advice from the Office of the Auditor-General. The advice and evidence received are available on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Simon O’Connor
Maureen Pugh

Evidence and advice received
Office of the Auditor-General, Briefing on Radio New Zealand limited, dated 18 February 2016.
Radio New Zealand, responses to written questions, received 15 February and 2 March 2016.
Radio New Zealand, response of clarification, received 10 March 2016.
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Solid Energy New Zealand Limited

Recommendation

The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of Solid Energy New Zealand Limited (Subject to Deed of Company Arrangement), and recommends that the House take note of its report.

Introduction

Solid Energy New Zealand Limited (Subject to Deed of Company Arrangement) is a State-owned enterprise. It mines and supplies coal for export—mainly to steel mills in Asia—and for domestic markets—including the electricity, dairy, cement, timber, and meat processing industries. It operates mines in Southland, Waikato, and the West Coast. The chief executive is Dan Clifford; the acting chairperson is Andy Coupe. The previous chairperson, Pip Dunphy, resigned in February 2015.

In August 2015, the Board of Solid Energy decided to enter voluntary administration, after posting substantial losses since 2012. In September 2015, creditors approved a Deed of Company Arrangement (DOCA) and a Restructured Debt Deed (RDD), ending the voluntary administration period. Under the DOCA, Solid Energy’s assets will be marketed for sale over two-and-a-half years. Once it has completed this process, Solid Energy will be liquidated.

Financial performance of Solid Energy

Solid Energy recorded a post-tax loss of $176.7 million in 2014/15. This followed losses of $181.9 million and $335.4 million in the two previous financial years. A large reduction in revenue and costs underpinned the smaller loss in 2014/15. Revenue totalled $369.8 million in 2014/15, down from $449.2 million the previous year. Net impairments totalled $256.6 million, making up a large part of the post-tax losses. The Office of the Auditor-General (OAG) rates Solid Energy’s management control environment, and financial information systems and controls, as “good”.

Moving the company into voluntary administration

In 2013, Solid Energy advised the Minister for State-Owned Enterprises that it was facing serious financial difficulties. This followed a substantial and unexpected drop in the international price for coking coal, which is Solid Energy’s main export. Solid Energy arranged finance agreements with bank lenders and the Crown. These agreements were intended to support the company back into a sustainable position.

In its 2011/12 annual review, Solid Energy told the committee it expected to return to profitability in 2015. However, against the predictions of independent analysts, the price for coking coal continued to fall. In the first quarter of 2015/16, the quarterly contract benchmark price was US$93 a tonne—well below the minimum price needed to keep Solid Energy’s business sustainable. At its 2013/14 annual review, Solid Energy told us this minimum was US$120–130 a tonne.
In early 2015 Solid Energy decided that financing its arrangements or repaying its borrowings when they fall due in September 2016 was “increasingly unlikely”. The company considered two options: immediate liquidation or a managed sell-down of its assets, to maximise the proceeds to creditors. After intensive discussions with its banks, and after receiving financial and legal advice, the board decided to enter voluntary administration. Solid Energy believes that this will lead to the best outcomes for creditors and employees.

In September 2015, creditors accepted the DOCA and RDD. All of Solid Energy’s land, mines, and saleable assets will be marketed for sale. The DOCA allows until early 2018 for assets to be sold, but Solid Energy expects to know which assets will be sold by the end of this calendar year. We were told this has been one of the most complex processes in New Zealand’s business history.

**Cost to the Crown of the company’s failure**

We asked how much Solid Energy’s failure had cost the Crown. In the hearing, Solid Energy told us the two financial restructurings had cost about $25 million, and the Crown had provided a rehabilitation indemnity to the value of $103 million. Solid Energy said the Crown had also lost about $400 million in impaired asset values, and the Crown’s equity has now been exhausted.

In a later written response, Solid Energy informed us that the Crown has invested $212.7 million (in 2015 dollars) since the company was established in 1987. This includes the following (all numbers adjusted to 2015 dollars)

- initial share capital of $121.8 million in 1987
- preference shares of $25.3 million
- $65.6 million cost of the rehabilitation indemnity in 2015

Solid Energy noted that between 1988 and 2012, the Crown’s dividend income totalled $290.9 million. Thus Solid Energy stated that the Crown had made a net gain of $78.2 million.

We note that the Finance and Expenditure Committee received advice from the Treasury on the same matter.¹

**How the company compares internationally**

We asked how Solid Energy compares against its international equivalents, which also experienced the same drop in the price of coking coal. Solid Energy said it has received independent advice that about two-thirds of global coal mines are unprofitable at current prices, which has led to large job losses in the mining industry. The Anglo-American Mining Company, a large multinational, has announced that it will cut 85,000 jobs in the coming 12 months. The Australian mining industry lost 30,000 jobs in 2015, with a similar loss predicted in 2016.

We noted that few international mining companies are in as bad a position as Solid Energy. We were told that, unlike Solid Energy, other companies have no or low levels of debt. Some of us believe that Solid Energy should have moved faster to consolidate after the

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drop in coal prices in 2012. Solid Energy agreed that, in hindsight, this would have been the correct decision.

**Effect on the company’s workforce**

Solid Energy has significantly reduced its workforce. At the time of our hearing, the company had about 450 employees (including contractors), compared to 1,658 in 2012. It had shed about 64 percent of its mining site staff, and 77 percent of its head office staff.

During this process, every employee made redundant has received their full remuneration. This would not have been possible if Solid Energy had been liquidated. Solid Energy said that its recent actions have protected its employees, although it acknowledges that a redundancy pay-out is not as good as having a job.

The future of remaining staff is uncertain. Solid Energy is marketing its staff as part of its asset sales. Solid Energy said that this is its legal and moral obligation. This means that, if the mines are sold, employees may retain their jobs under the new owners.

Solid Energy believes that this is the best outcome for employees and their communities. Therefore, its current focus is on making mines as profitable as possible, to make them more attractive as assets. However, potential buyers are less likely to need additional head office staff, so they are less likely to retain their jobs.

Staff have received monthly updates on the company’s situation and what to expect in the future. Recent updates have provided mining sites with an indicative sales programme. The feedback from staff has been to keep them updated on any changes to this programme and on how those changes will affect their site and employment.

We note the negative impact that staff reductions have on several regions around the country, including the West Coast and the Huntly area of the Waikato.

**Future of Solid Energy’s assets**

Solid Energy told us it is “naive” to think the coal industry is dying. The dropping price of coal is the result of a fundamental change in supply and demand. However, Solid Energy believes that demand for coal will continue. For example, thermal energy plants, which use coal, are being built throughout the world. Coal is also needed to produce steel, ensuring that demand will continue.

Solid Energy said that its drive to make its mines as profitable as possible has moved its mines down the cost curve. The Government’s decision to indemnify its environmental obligations, so that potential buyers will not bear the cost of rehabilitation, makes its mines a more attractive asset. Because demand for coal remains, and its mines are more profitable, Solid Energy believes its mines still have significant value.

The Government has not advised Solid Energy on the desirability of keeping its assets in New Zealand ownership. However, the company’s obligations to iwi and the requirements of the Public Works Act 1981 (PWA) restrict its ability to sell its land. The Act requires Solid Energy to offer its land back to the original vendor. About 35 percent of Solid Energy’s lands is covered by the PWA.

Overseas buyers may also have to go through the Overseas Investment Office (OIO). We were told the OIO takes into account whether a potential buyer can fulfil its environmental obligations. However, some of us are aware that the OIO has rarely intervened in practice in foreign direct investment flows. These factors do not guarantee that the assets will
remain in New Zealand ownership. We were told by Solid Energy that these processes will protect New Zealand’s interests. Some of us note the major loss of value to the Crown and urge that New Zealand’s national interest be fully considered in any future investment decisions.

**Health and safety, and environmental performance**

Solid Energy improved its health and safety results in 2014/15. The lost-time injury frequency rate fell from 1.5 in 2014 to 0.48 in 2015. The “all injury frequency rate” showed the same change and is now the lowest in Solid Energy’s history. We were told that the emphasis on health and safety will continue. The DOCA provides Solid Energy with more discretion over health and safety spending than any other area. This will ensure that creditors cannot make decisions on health and safety spending.

Solid Energy also improved its environmental performance. For the first time, it completed a year with no statutory non-compliance environmental events. This compares with 15 events in 2014. Solid Energy has a legal obligation to rehabilitate land that it disturbs while mining. Overall, Solid Energy rehabilitated more land than it disturbed in 2015. Total disturbed land decreased by about 45 hectares to 1,785 hectares.

We asked how Solid Energy will meet its environmental obligations if its assets are sold. Solid Energy has two indemnities that cover the cost of rehabilitating its remaining land. As part of the voluntary administration process, these indemnities were restructured.

The new indemnities are now allocated on a mine-by-mine basis. As a result, any potential purchaser will have that mine’s indemnity transferred to them. The indemnity will only cover Solid Energy’s historical obligations, and not any future mining activity.

The indemnities were valued at $191.6 million at 30 June 2015. We were told that there is a gap of $20 million between the face value of its obligations and the indemnities. However, Solid Energy believes that the costing of its obligations is too high, because they are not based on the most efficient rehabilitation techniques. To date, actual costs for rehabilitation have been lower than estimated.

We asked whether the Crown had considered covering the funding gap. We were told that the Crown participated in the indemnity restructure and is aware of the gap. However, the Crown did not provide additional funding to close the gap.

**Using a master list of contracts**

We were concerned that Solid Energy does not keep a master list of the contracts it holds. The OAG raised this issue in its 2013/14 audit, and it was not rectified in 2014/15. Solid Energy agreed that it should have a master list, and said it is working on one. It expects to complete the list by March 2016.

The voluntary administration process means that Solid Energy has thoroughly analysed its contracts, and it is confident it has a strong understanding of their clauses. The OAG also rated its management control environment, and financial information systems and controls, as “good”. As a result, Solid Energy considers that the practical effects of not having a master list are lower than they might have been. We will monitor this issue with interest.

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2 Number of injuries per million hours worked resulting in more than one lost work day or shift. Solid Energy Limited, Annual Report 2015, page 7.

3 Number of injuries per million hours worked requiring medical aid or greater treatment. Solid Energy Limited, Annual Report 2015, page 7.
Appendix

Committee procedure

We met on 11 February and 10 March 2016 to consider the annual review of Solid Energy New Zealand Limited. We heard evidence from Solid Energy and received advice from the Office of the Auditor-General. The advice and evidence we received is available on the Parliament website www.parliament.nz.

Committee members

Melissa Lee (Chairperson)
Ria Bond
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins (until 10 February 2016)
Hon David Cunliffe (from 2 December 2015)
Clare Curran
Kris Faafoi (until 2 December 2015)
Brett Hudson
Gareth Hughes
Simon O’Connor
Maureen Pugh (from 10 February 2016)

Evidence and advice received

Organisation briefing paper, prepared by committee staff, dated 11 February 2016.
Solid Energy, responses to written questions, received 11 February and 10 March 2016.
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Television New Zealand Limited

Recommendation
The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of Television New Zealand Limited and recommends that the House take note of its report.

Introduction
Television New Zealand Limited (TVNZ) is a Crown entity and New Zealand’s national broadcaster. It operates six channels, including one Sky channel and one “pop-up” channel. It also operates an online video-content site and a news website.

TVNZ’s shareholding ministers are the Minister of Finance and the Minister of Broadcasting. TVNZ is subject to the provisions of the Crown Entities Act 2004, the Companies Act 2003, the Broadcasting Act 1989, and the Television New Zealand Act 2003. Kevin Kenrick is the chief executive. Joan Withers took over from Wayne Walden as the chair of the Board during the financial year.

Financial and service performance
Despite a 2.9 percent decline in revenue, TVNZ generated a net profit after tax of $28.1 million in 2014/15 (up 55 percent from last year), and declared an operating dividend of $8.3 million. Cost savings in programming, labour, marketing, depreciation, technology, and transmission reduced expenditure by 3.7 percent.

TVNZ increased its television audience share to 46 percent, well above its closest competitors (at 23 percent). The audience share for seven of its eight news and current affairs programmes grew. The top 20 shows for 2014/15 all aired on TVNZ channels. Online streams of TVNZ OnDemand videos increased by 27 percent.

The Office of the Auditor-General (OAG) rated TVNZ’s management control environment and financial information systems and controls as “very good”. The OAG rated TVNZ’s performance information and associated systems and controls as “good”.

We commend TVNZ for its 2014/15 performance in an increasingly challenging market.

Strategies for the decline in advertising revenue
As advertising is TVNZ’s main source of revenue, the ongoing decline in advertising revenue is a continuing risk to business sustainability. Nevertheless, in 2014/15, TVNZ grew its market share of TV advertising revenue, and increased its online advertising revenue by 19 percent.

To maintain long-term sustainability, TVNZ told us that it intends to optimise its performance in ad-funded TV, speed-up its growth in ad-funded online content, and pursue “step out opportunities” to attract revenue from other sources.

How TVNZ responds to challenges and remains competitive
TVNZ faces several strategic challenges. These include the cost of content it wishes to distribute; audiences fragmenting across various video-content platforms; the need to
compete with global players online; and New Zealand’s market structure, which features a large number of channels and competitors for the size of the population and the number of advertisers.

To meet these challenges, TVNZ told us that it has “left behind” the notion of being solely a TV broadcaster. It now focuses on being a viewer-focused video-content player. Accordingly, TVNZ is “increasingly agnostic” about which platform or device viewers use to access its video content. Instead, TVNZ seeks to perform well in multiple spaces, by continually optimising its TV performance and increasing its size and reach online through its OnDemand website.

We asked how TVNZ intends to compete with online competitors such as Google and Netflix. TVNZ told us that the local content it produces and distributes distinguishes it from global players. When distributing content produced overseas to local audiences, it aims to be “first with the new content”.

**New technology and new ways of working**

We asked whether TVNZ is well-placed to keep up with the rapidly changing technology in broadcasting and online video-content platforms. We heard that TVNZ has invested considerably in technology upgrades during the last two years, and that it continually researches user experience. TVNZ assured us that it will stay abreast of new developments in broadcasting and online technology, and scale and grow accordingly.

The chief executive told us that TVNZ views technology as a crucial enabler of new ways of working. TVNZ is already adapting its practices to take advantage of new technologies. For example, news stories are increasingly edited on laptops in the field or by reporters at their desktops, rather than in studios. TVNZ is also using mobile phones to gather stories, as seen during the recent rugby world cup.

**News and current affairs programming**

**Quality of news and current affairs**

We expressed concern about the state of current affairs and journalism in New Zealand, including a perceived slide towards “infotainment” and reduced competition in current affairs after Mediaworks discontinued Campbell Live. TVNZ stressed that it is “absolutely committed” to news and current affairs and that One News is the “foundational building block” for its local content.

TVNZ explained that, when determining which shows to produce, it has found success by responding to viewers. In 2014/15, its audience share grew in seven of TVNZ’s eight current affairs and news programmes, each of which caters to different audiences. Furthermore, the 7 Sharp programme—which TVNZ said reflects viewers’ desire for a more “contemporary style” of current affairs—has broken several stories and increased TVNZ’s seven o’clock audience. The chair emphasised that good journalism can migrate to any platform and that TVNZ must recognise this and adapt accordingly.

**The effect of the online market on news gathering and dissemination**

We asked how traditional news gathering and dissemination translates to online platforms. TVNZ explained that its OnDemand website has changed how it presents news. First, the competitive online market has sped up the pace of news and current affairs. Second, the multiplicity of platforms means that although news may be gathered once, it is “curated” many times. TVNZ explained that it now publishes new material online as fast as possible,
in “short, sharp soundbites”. News bulletins on its 6pm TV broadcast add “a bit more colour and a bit more depth” to news that has broken throughout the day.

We asked how TVNZ ensures that it publishes accurate information in an online environment based on immediacy. TVNZ stated that it focuses on “being first and being right”. However, being right remains the priority. If necessary, TVNZ will compromise being first to ensure credibility.

**Diversity of TVNZ’s programming**

We asked how TVNZ met its statutory mandate to reflect Māori perspectives in 2014/15. The chief executive pointed to TVNZ’s long-running, “market leading” Māori programmes, such as Te Karere and Waka Huia. He added that TVNZ is “thrilled” that the recent decision to outsource the production of most Māori programmes has nurtured and enhanced them.

We also asked about TVNZ’s commitment to creating and distributing content for ethnic communities. We heard that TVNZ is best placed to distribute, rather than produce, such content and that OnDemand is the “sweet spot” for this.

The chief executive stressed that diverse content can be achieved in many ways beyond producing and distributing targeted programmes. He used the selection of people for casts and crews as an example, highlighting that 30 percent of TVNZ’s news and current affairs teams are non-European, and that Shortland Street’s cast reflects New Zealand’s diverse society.

**Cost of refurbishing TVNZ’s Auckland premises**

In 2014, TVNZ began refurbishing its Auckland premises. The estimated budget for the two-year project was $36.6 million. At the hearing, we noted that the project is now set to exceed this budget and timetable. We asked TVNZ for an update, including an explanation of the extra work and additional costs.

TVNZ said that the process of refurbishment revealed unforeseen structural issues in the building. These unforeseen issues included “extensive” weather tightness issues, and extra work to meet the current building code’s seismic strengthening and health and safety requirements.

At the hearing, TVNZ could not provide an exact figure for the additional costs. However, written evidence that it provided later said that the forecast cost for the completed project is now $60.3 million.

TVNZ emphasised that the refurbishments were essential and that the value of the land and building more than justifies the investment. The chair added that TVNZ would fund the extra costs without taking on debt. She said that this is a “fantastic outcome” because the refurbishments will create a fit-for-purpose, 21st century building.

The new completion date is 30 June 2016, and we will continue to monitor the cost of the project.

**Litigation against Global Mode**

During 2014/15, TVNZ and various industry parties took action against Global Mode, an anti-geoblocking service that allowed New Zealand users to access certain streaming services—such as BBC videos or Hulu—that are usually limited to people living in other geographic areas. The case focused on whether Global Mode’s service was legal.
We were interested to know how much TVNZ spent on this court case. TVNZ told us that the case had cost $47,470. Because the issue related to its core business, including the validity of the geographic rights that it purchases, it was willing to spend whatever necessary to get legal certainty. However, before the case was resolved, Global Mode settled out of court by terminating its service. Although this outcome was favourable to TVNZ, it meant that no judicial decision on the legality of anti-geoblocking services was reached.
Appendix

Committee procedure

We met on 3 December 2015 and 18 February 2016 to consider the annual review of Television New Zealand Limited. We heard evidence from Television New Zealand Limited and received advice from the Office of the Auditor-General. Advice and evidence received is available on the Parliament website www.parliament.nz.

Committee members

Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon Judith Collins (before 10 February 2016)
Hon David Cunliffe (from 2 December 2015)
Clare Curran
Kris Faafoi (before 2 December 2015)
Brett Hudson
Gareth Hughes
Simon O’Connor
Maureen Pugh (from 10 February 2016)

Evidence and advice received

Office of the Auditor-General, Briefing on Television New Zealand Limited, dated 3 December 2015.

Organisation briefing paper, prepared by committee staff, dated 30 November 2015.
Television New Zealand Limited, Presentation to select committee, 3 December 2015.
Television New Zealand Limited, TVNZ building refurbishment clarification, 3 December 2015.
Television New Zealand Limited, Response to written questions, 17 November 2015.
2014/15 Annual review of the Transport Accident Investigation Commission

Report of the Transport and Industrial Relations Committee

The Transport and Industrial Relations Committee has conducted the annual review of the 2014/15 performance and current operations 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.

Jonathan Young
Chairperson
2014/15 Annual review of Transpower New Zealand Limited

Report of the Commerce Committee

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Transpower New Zealand Limited

Recommendation

The Commerce Committee has conducted the annual review of the 2014/15 performance and current operations of Transpower New Zealand Limited and recommends that the House take note of its report.

Introduction

Transpower is a State-owned enterprise under the State-Owned Enterprises Act 1986. Transpower owns and operates the national grid. It transports electricity nationwide and coordinates functions essential to the national electricity system.

Transpower also provides system-operator services to the electricity industry. This involves coordinating electricity generation, transmission, and demand in real time. Transpower is regulated by the Commerce Commission and the Electricity Authority.

The chairperson of Transpower is Mark Verbiest, and Alison Andrew is the chief executive.

Financial and service performance achieved

In 2014/15, Transpower’s operating revenue was slightly more than $1 billion, which is a 4.4 percent increase from 2013/14. Net profit after tax (including net changes in fair value of financial instruments) was $113.3 million. This was a decrease from $213.8 million in 2013/14.

The 2014/15 result was substantially affected by a change in the fair value of financial instruments. Transpower paid $188 million in dividends to the Government, up 25 percent from 2013/14. Transpower’s debt increased slightly to $3.4 billion. We were informed that Transpower has provided just under $948 million in dividends to the Crown since 2008.

Before 2008, the board of Transpower had requested that it not pay dividends. Transpower was beginning a large capital expenditure programme that would increase its debt levels, and not paying dividends would reduce its total debt levels. Some of us noted that Transpower could survive on lower revenue if it had lower debt levels.

Transpower was pleased to tell us that the reliability of the grid has improved. Reliability is now the best it has been for a decade. This was seen in three performance measures. Transpower missed its target on High Voltage Alternating Current (HVAC) availability, achieving 98.5 percent against a target of 98.8 percent.

Transpower achieved its two outcomes relating to “system minute” outages. A system minute is the equivalent of turning Hamilton off for 40 minutes on a winter’s evening. Transpower aimed to have fewer than 15 events resulting in power losses that were greater than 0.05 system minutes and fewer than three that were longer than a system minute. There were 13 and one events respectively.

Transpower missed its safety targets. Transpower had 44 medical treatment and lost time injuries, against a target of 30 or fewer. The total injury frequency rate was 13.3, against a
target of no more than eight. Transpower told us that this measure includes injuries to contractors.

Transpower told us that its staff had better health and safety outcomes than contractors. Therefore, Transpower’s challenge is to get its contractors to improve their health and safety performance.

Future outlook

Transpower works under “regulatory control periods” set by the Commerce Commission. The first regulatory control period ran for four years and ended in 2014/15. During this period, Transpower carried out a large capital building programme, which was funded by debt.

Transpower has now entered its second regulatory control period. This period has new and complex regulatory incentives and reporting requirements, and sets lower revenue and approved expenditure limits. As a result, Transpower is expecting flat or reducing revenue in future years. Transpower told us that achieving these targets will require it to significantly improve efficiency.

Demand for electricity in New Zealand

Forecasting demand growth

Transpower’s forecasts for electricity demand have been incorrect, with actual demand lower than predicted. We were told that accurately forecasting demand is difficult. Transpower told us that, in its modelling, there is a big spread in what demand could be in the future.

Transpower identified two factors to explain the lack of growth in demand. Firstly, although households have more devices and appliances that use electricity, these are much more energy efficient. Secondly, New Zealand has moved away from energy-intensive manufacturing sectors towards the lower-energy service sector.

Transpower is working on a report that considers possible futures for the electricity industry during the next 30 years. The report outlines a range of different scenarios for future demand. The scenarios are affected by factors such as improvements in solar and battery technology, the take-up of electric cars, and how other companies swap electricity generators (for example, moving from coal to wind).

Transpower told us that it is confident the national grid will have an important role to play in the future. The grid will likely be the cheapest option and a reliable back-up for electricity generation.

Transpower expects that the report will be publicly available in mid-2016.

Generation capacity and the Huntly Power Station

We asked about Transpower’s view on the future of the Huntly Power Station. Transpower told us that it advises the Electricity Authority on security of supply issues and has provided advice on Huntly Power Station.

Transpower told us that, if the Huntley Power Station closes and the Tiwai Point aluminium smelter remains operational, more generation capacity in the upper North Island will be needed. However, it is unclear whether either of these will happen.
Transpower told us that it hopes that discussions in the commercial sector will resolve the problem.

**Upgrading the capacity of transmission lines**

We asked whether Transpower is reviewing its decision to upgrade the capacity of transmission lines from 220 to 400 kilovolts (KV). Transpower told us that it is not.

However, we were told that this decision helped future-proof the grid. The additional capacity proved useful after the recent decision to close Auckland thermal plants. The increased line capacity allowed additional electricity to be transported north, effectively covering the thermal plant closures. We noted that this outcome would have been possible under any upgrade, not specifically one to increase lines to 400KV.
Appendix

Committee procedure
We met on 18 February and 10 March 2016 to consider the annual review of Transpower New Zealand Limited. We heard evidence from Transpower New Zealand Limited and received advice from the Office of the Auditor-General. Advice and evidence received is available on the Parliament website, www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Hon David Cunliffe
Clare Curran
Brett Hudson
Gareth Hughes
Simon O’Connor
Maureen Pugh

Evidence and advice received
Office of the Auditor-General, Briefing on Transpower New Zealand Limited, dated 18 February 2016.

Transpower New Zealand Limited, responses to written questions, received 1 February and 10 March 2016.

Transpower New Zealand Limited, presentation, received 17 February 2016.
2014/15 Annual review of WorkSafe New Zealand

Report of the Transport and Industrial Relations Committee

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WorkSafe New Zealand

Recommendation

The Transport and Industrial Relations Committee has conducted the annual review of the 2014/15 performance and current operations of WorkSafe New Zealand and recommends that the House take note of its report.

Second year of operation

WorkSafe New Zealand has completed its second year of operation as a Crown agency. During its initial set-up, the organisation increased staff numbers, put in place information systems, and started to collect baseline statistics.

WorkSafe’s vision is that everyone who goes to work comes home healthy and safe. It aims to achieve this by standing up for health and safety, and by transforming New Zealand’s workplace health and safety culture.

The Government set targets for improving health and safety in New Zealand in 2012. The goal is a 10 percent reduction in workplace fatalities, serious injuries, and injuries that require more than one week off work by 2016, and 25 percent by 2020.¹

Reforms to the legislation

New legislation and regulations will come into effect from 4 April 2016, along with additional enforcement obligations under the Hazardous Substances and New Organisms Act 1996. The Environmental Protection Authority has delegated specific functions for managing hazardous substances in the workplace to WorkSafe under new regulations that come into force on 1 July 2016.

WorkSafe informed us that it has been working with the Ministry of Business, Innovation and Employment to put in place the new Health and Safety at Work Act 2015 and to develop the regulations and codes of practice, guidance material, and other information to assist workplaces understand their obligations.

Workplace fatalities

According to WorkSafe, there were 48 workplace deaths and 3,300 serious harm notifications during 2014/15. In addition, 600–900 people died from work-related diseases and 50–60 people from work-related injuries.

During the previous three years, workplace fatalities have reduced from an average of 57. Although this is positive news, the reduction was not the same for all sectors.² In 2014/15, 33 fatalities (69 percent) occurred in the agriculture sector and the transport, postal, and warehousing sector. Forestry, construction, mining, and five other sectors had 15 fatalities in total.

We were told that the forestry sector has seen a major improvement in health and safety. This was because it took responsibility for the level of harm and its obligations. WorkSafe

has worked with companies, contractors, and employees to improve safety standards and to improve engagement with staff.

WorkSafe considers that a similar approach in the agriculture sector may not be as effective because the sector has a large number of small operators. WorkSafe told us that it has been working with groups such as Federated Farmers, Dairy NZ, and Beef and Lamb New Zealand.

When asked what it can do to reduce the amount of fatalities, WorkSafe told us that it has been conducting education presentations around the country on workplace safety and how to lower the amount of fatalities. It has held about 15,000 events, of which 5,000 were related to Safer Farms. WorkSafe distributed Safer Farms packs, which provide farmers with the tools to improve health and safety. More than 30,000 packs had been requested in the last 12 months.

Preventing falls and improving health and safety in the agriculture sector were a major focus of both WorkSafe’s presentations and safety inspectors’ work during 2014/15. This will remain so for the foreseeable future.

**High-risk sectors**

Recent changes to legislation listed several sectors as high risk. We were interested to know why the transportation, postal, and warehousing sector was not included, considering it had the second highest number of fatalities. WorkSafe told us that it is currently collecting data to find out what the risk areas are and how to reduce the number of fatalities.

**Agricultural sector**

We asked whether WorkSafe regarded agriculture as a high-risk sector. We also asked what role it had in the recent changes to work safety legislation, particularly about recommendations on which industries should be regarded as high risk. WorkSafe assured us that it regards agriculture, construction, manufacturing, forestry, and other high-hazard industries as priorities. However, its role with regard to the regulations was limited to providing statistics.

We were told that a better understanding of accidents would enable WorkSafe to better target the safety message to the agricultural sector. The “intelligent regulator” risk-based approach balances regulation and enforcement with engagement and education. WorkSafe told us that this is the best way of involving farm operators and employees.

**Employee participation and engagement**

WorkSafe assured us that all businesses—regardless of their size, risk, or sector—need good employee engagement and participation processes. This is the core of the new law.

In recent surveys, participation in health and safety has declined throughout the workplace. We asked whether WorkSafe has a target for participation it would like to achieve. We were told that these surveys related to the 1992 Act and that the new law is clear about worker participation. WorkSafe’s role is to ensure that the law as enacted is complied with.

We were told that WorkSafe’s work involves more than just an inspector visiting work sites. It also provides information and guidance on how participation and engagement would operate in the workplace.
WorkSafe is developing case studies to assist employers to understand the importance of engagement and that this is not difficult to achieve. We were given the following example of a deer farmer who was achieving worker engagement:

Well, I get my employees together in the morning; we have a cup of tea, we talk about the weather conditions, we talk about the equipment we’re going to use, we talk about some of the hazards we’re going to face.

We were assured that such examples have been on the WorkSafe website since just before Christmas 2015. WorkSafe will use these examples to provide practical guidance to explain the concepts in the new legislation.

**Prosecution rates**

We were interested in the amount of prosecutions by WorkSafe. These have declined from 117 in 2014 to 106 in 2015. It appeared that, when faced with public or private court action, the forestry sector focused on the need to improve its safety culture.

If prosecutions were effective in getting the forestry sector to improve its safety, we wondered why WorkSafe was not using a similar approach in the agricultural sector. We were told that the make-up of the forestry sector made it easier to get the contractors and forestry owners together to improve safety. The agricultural sector is more diverse, and WorkSafe believes that a prosecution approach would not work. Some of us are concerned that WorkSafe may be reluctant to take prosecutions for workplace deaths and serious harm in the agricultural sector.

WorkSafe assured us that it was developing practice guides to assist the inspectors’ decision-making about which cases may merit further action. WorkSafe told us that it does not have a target for the number of prosecutions each year. However, it is not risk averse when deciding whether to prosecute. We were told that public bodies followed a set of principles about when legal action should be taken. Such actions are not to be treated lightly.

**Use of data**

WorkSafe told us that its intelligence unit uses data from the Accident Compensation Corporation (ACC) and the Ministry for Business, Innovation and Employment, as well as serious harm reports, to develop tools for inspectors. These tools give a real-time understanding of what is happening in a particular industry or region. WorkSafe inspectors can use this information to see areas with a high injury/harm rate to better focus their work.

We intend to monitor the joint ACC/WorkSafe workplace injury prevention action plan and any gains resulting from the evidence-based approach to targeting occupational health.

**Safety inspectors**

Inspectors have a crucial role in developing a better safety culture. We were interested in whether WorkSafe employs the full complement of inspectors. We were told that the number of inspectors would increase from 185 to 200 by April 2016.

In responses to our follow-up questions, WorkSafe said there were 191 inspectors at 31 January 2016. It expects a further 34 unwarranted trainees to be warranted under the Health and Safety in Employment Act 2015 by March 2016.
We now understand that 34 of the 191 inspectors have not yet completed the process to receive their warrants. The process involves them carrying out supervised site visits as part of the warranting process. We heard that unwarranted inspectors had carried out unsupervised assessments. We are concerned that this could damage the relationship that WorkSafe is trying to develop with employers under the new legislation.

WorkSafe told us that inspectors’ training in the basic regulatory disciplines is supplemented by some industry-specific training. WorkSafe also confirmed in responses after the hearing that unwarranted inspectors may take part in assessments with other warranted inspectors.

WorkSafe also responded after the hearing that it may use an unwarranted inspector where there is an immediate risk of harm and no warranted inspector is available to carry out an assessment. However, this would not occur when a fatality or notified injury had been reported.

We were perplexed by the further advice from WorkSafe that such unwarranted trainees cannot write notices or take enforcement action and must leave the site if requested. We will follow up at the next annual review to see whether WorkSafe has ever sent an unwarranted trainee to make an assessment. This would appear to be an indication of a need for additional warranted inspectors.

**Quarries**

It has recently come to light that WorkSafe has not identified or registered about 800 quarries. We asked how it would deal with this additional work. WorkSafe told us that it was not possible to make any assessment until it collects data on the status of these sites, whether they are operating, and the nature of their operation.

WorkSafe also told us that it has a good working relationship with the quarry sector. It has held several roadshows to ensure that the quarry sector is aware of its obligations. WorkSafe assured us that it is using data on local authorities’ resource consents to get a better understanding of the number of approved quarries.

We were interested in how this may affect WorkSafe’s resource requirements and whether it would need more inspectors. WorkSafe told us that, at present, only one person leads the data collection and analysis, but that person calls in others to help them. We were told that the level of risk will determine what priority and how many inspections may be required.
Appendix A

Committee procedure

We met on 2 February and 10 March 2016 to consider the annual review of WorkSafe New Zealand. We heard evidence from WorkSafe New Zealand and received advice from the Office of the Auditor-General.

The advice, evidence, and transcript of the hearing are available on the Parliament website www.parliament.nz.

Committee members

Jonathan Young (Chairperson)
Andrew Bayly
Sarah Dowie
Peeni Henare
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Alastair Scott
Hon Maurice Williamson

Evidence and advice received

Office of the Auditor-General, Briefing on WorkSafe New Zealand, dated 2 February 2016.

Organisation briefing paper, prepared by committee staff, dated 2 February 2016.

WorkSafe New Zealand, Responses to pre-hearing questions, received 26 January 2016.

WorkSafe New Zealand, Responses to post-hearing questions, received 26 February 2016.
Appendix B

Transcript of hearing

Members
Jonathan Young (Chairperson)
Andrew Bayly
Sarah Dowie
Peeni Henare
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Alastair Scott
Hon Maurice Williamson

Witnesses

WorkSafe New Zealand
Professor Gregor Coster, Board Chair
Gordon MacDonald, Chief Executive
Brett Murray, General Manager, Operations and Specialist Services
Kirstie Hewlett, General Manager, Strategy and Stakeholder Engagement
Mike Hargreaves, Chief Legal Adviser
John Tulloch, General Manager Communications
Phillip Jacques, General Manager Corporate/Chief Financial Officer
—which is the commencement of the new Health and Safety at Work Act on 4 April this year. This review covers the second year of our operation, and we continue to build capacity. We think we’ve made a promising start on delivering our vision that everyone who goes to work comes home healthy and safe. We’re taking a proportionate and engaged approach to influencing the health and safety system. There are early indications of positive change, but we recognise that there’s still a long road to go. Our target is a 10 percent reduction on baseline by 2016 and a 25 percent on fatalities and serious harms by 2020. Official data comes out from MBIE in March.

Fundamental behavioural change, as we all know, takes time. It’s about shifting the culture of health and safety in New Zealand and we’re pleased to be part of that, but, of course, far too many people are still being killed at work. The provisional number of worker fatalities for 2014-15 is 48. WorkSafe also received 3,300 serious harm notifications in that time.

The latest Statistics New Zealand data released against baselines indicates—and I know you’ll be pleased to hear this—a 26 percent decrease in fatalities now and a 6 percent decrease in serious injuries. So we’ve got a way to go still. There’s a small increase in severe injuries against baseline, which is injuries resulting in more than 1 week off per 1,000 FTEs, and draft figures indicate that’s about 1 percent up. Now, there’s a data lag of around a year. We’re working on 3-year moving averages, and it’s age-standardised data. We know that not everyone in general is interested in statistics, but each one of these statistics represents a real person, and that’s where our attention is focused: on the health and well-being of workers in the workplace.

Positive safety leadership and harm reduction in the forestry sector provides a very good example for other industries to follow, and in particular the data is that forestry fatalities have dropped from 10 in 2013 to 1 in 2014 and to 3 in 2015, and between 2012 and 2014 there was a 23 percent decrease in the rate of work-related injuries requiring more than a week off work. I think this is testimony to the hard work of the industry and the Forest Owners Association and the forestry contractors association, working in collaboration with WorkSafe to bring a dramatic change in that industry. So it’s a real credit, I believe, to the industry, to workers, and perhaps, a little bit, to the regulator, but it does demonstrate that safety leadership in the health system does make a difference.

We’ve focused our engagement and education parts of our work with business. We’ve made good progress in building our organisation to lead the transformation of New Zealand’s health and safety culture. We’ve now got 185 inspectors, and we have prioritised training and support for our frontline staff to ensure consistency of style in the way that our inspectors relate with stakeholders and consistency of decision making. That’s important for us, and we are putting considerable effort in there.

We’ve established a strategy and stakeholder engagement unit to ensure that WorkSafe is actively engaging with business and with workers, and that’s
particularly important as we come to the introduction of the new Health and Safety at Work Act. We’re working very closely with our social partners and others, and by that I am referring to ACC, EPA, NZCTU, Business New Zealand—and in fact we have those two organisations attend our board meetings three times a year, often together, which has been very helpful. We’ve been engaging in the Canterbury charter in the agricultural sector, and we are also engaging with Government departments to ensure that their CEs are right across the new legislation and how that might affect them.

We’re deepening our research efforts and evaluation efforts to support an evidence-based approach to our work. We use evidence to target our engagement in education and enforcement levers to influence health and safety practices. We’ve had some very good attendances at our events.

We’ve had over 15,000 people attend WorkSafe presentations to promote safe work practices this year: 5,000 have attended Safer Farms - related projects, 4,000 attending preventing falls from height in construction, and a large number have attended the Canterbury and the forestry events. We’ve been busy engaging with businesses to help them understand good health and safety practices. We’ve done over 14,500 proactive assessments, and 780 investigations have been completed. Eighty-three percent of workplaces in a survey have indicated that they have changed their practices following engagement with WorkSafe New Zealand, so this means the improving of the safe use of equipment, employee participation, health and safety training, and how hazards are identified and managed.

In the first 2 years of operation we’ve engaged with the Occupational Health Advisory Group established by the board to identify priority areas in occupational health, build an occupational health evidence base, and develop our occupational health capacity. We would like to have gone faster, but momentum is building now, and we’re very pleased that we’ve recruited some senior staff to lead this work. Our focus on occupational health has intensified, particularly in Canterbury. Occupational health targets have been set. We’ve got the new clean air programme under way, and that will ramp up its activity over the next few years.

The new Act has focused the attention of business and industry on the need for us to improve our record as a country in health and safety, and that public conversation has been very helpful to us as we’ve helped business get ready for the new law. Behind the scenes we’ve been working very closely with MBIE in the development of regulations and the implementation of the new law that is behind it. We’ve been developing an array of approved codes of practice, guidance material, fact sheets, and other information to help New Zealand workplaces come to grips with the new legal framework.

Our staff are also taking their education efforts directly to industry workshops, seminars, industry associations, and so forth. We’ve had a major programme of work under way for our 185 inspectors to have them ready for commencement of the new Act on the date. We will implement the new law and support those businesses that they visit every day.
So, in conclusion, there’s been a lot of hard work from WorkSafe during the year. We’re gearing up to ensure that everyone’s ready, and, ultimately, with our vision that everyone who goes to work comes home healthy and safe. We’re looking forward to the commencement of the new legislation, and by the way we’ve delivered on budget as well. Thank you, Chair and committee.

Young That’s great. Thanks very much indeed. I guess—yeah, it’s not just—obviously, the budget’s very important, but the work you do is incredibly important, and very good to hear that report. Now, I think we’ll come to some questions. We’ll start off with Sue, and then we’ll go to Clayton, Denise, and then we’ll come to National’s side. Thank you.

Moroney Thank you very much for your presentation. You talked about the 48 deaths in the year that we are reviewing. Twenty of those were in agriculture—42 percent, that represents, of the number of workplace fatalities for that year. Can you tell us about what you’re doing to change that statistic around?

MacDonald Yeah, I can, and, bearing the time, I’ll skate over the range of things that we’re doing. So first point I think is to recognise, as we always did, that, actually, culture change in the agriculture sector is going to be a longer-term proposition. I don’t think that’s a New Zealand phenomena; it was certainly true of the UK, where I came from, after doing many years of health and safety. So it’s about changing mind-set and it’s about changing practice.

So we’re working at a number of levels with the agriculture sector. We’re working with the leadership level. I sit down on a monthly basis with the chief executives of Federated Farmers, of Dairy NZ, of Beef and Lamb, to talk about how we’re going to improve things. We’re working very closely at the regional level to spread the message about what good health and safety looks like and how you actually do it. An example of that is we’ve got a Safer Farms pack, and we’ve actually shifted some 30,000 to 40,000 Safer Farms packs over the last 12 months or so—this is the tool kit about how to go about health and safety.

Recognising that we can do that better, we’ve now got a Live Your Life pack, which is out for consultation with 2,000 farmers—not to change the substance of what they need to do but to make sure that we’ve got things in the language that resonates with the farming community. And I think what we’re starting to—you’re absolutely right to point out that we haven’t yet seen any change reflected in a reduction in those fatalities or serious harms, but in terms of people’s engagement with the issue of health and safety—and that engagement being on a positive front: “OK, there’s something here I can do, and here’s a resource to help me.”, rather than “This is a problem that’s going to interfere with my business”, if I can put it that way. We’re starting to see that shift in mood.

Moroney So it’s a high priority for WorkSafe?

MacDonald Absolutely a high priority.

Moroney Do you consider it a high-risk industry?

MacDonald Figures speak for themselves. We’ve already—we’ve had—
Moroney  No, I’m actually after the organisation that New Zealanders actually rely on to keep them safe to give this select committee the advice on whether you consider agriculture to be high risk.

MacDonald  It’s been one of our priority sectors, along with construction and manufacturing and forestry, and the high hazards, since WorkSafe was introduced. We work on improving our operational intelligence to make sure that we can drill that down into “What are the causes of incidents, both by region and by causation?” so we can start to target our guidance to make it count where it matters. So we have given it a priority; we will continue to give it a priority.

Moroney  Have you—did WorkSafe make a submission to the consultation on the schedule that the Government has put out about which industries are considered high risk and which ones aren’t?

MacDonald  No, we don’t make submissions.

Moroney  They didn’t put a submission in on it? Have you given the Government any advice on that?

MacDonald  No, we provided information on statistics, and that’s it—it’s for the Government to decide its policy.

Moroney  So the Government hasn’t asked you, WorkSafe, for advice on whether agriculture should be considered a high-risk industry or not?

MacDonald  But it’s important to distinguish it’s been determined in the way that you describe for one aspect of one part of the law, and that’s in respect to the safety representatives and safety committees angle. The fundamental proposition that all businesses—irrespective of size, irrespective of risk, irrespective of sector—need to have good worker engagement and participation processes, and that is a fundamental core of the new legislation, and I think it’s a fundamental ingredient of good health and safety.

Moroney  Do you know how many people have died on—in the agricultural sector since the law was passed in August? Do you have that figure?

MacDonald  I don’t have that figure to hand, but —

Unidentified  We can get it for you if you wish.

Moroney  I would appreciate that. For the benefit of the select committee—because if the Government’s not interested, on behalf of the select committee, I believe the select committee is interested in the advice of WorkSafe; you’re the experts in the field—is agriculture a high-risk industry?

MacDonald  As I said, we’ve given you the statistics. We’ve had it as a high-priority sector for us—one of the four that we’re concentrating our resources and engagement with—and that will remain.

Moroney  OK, that’s great. So it is. OK, can I just come to, then, the issue about employee participation, because I noticed that in the areas that you are surveying this is an area that we’re dropping off—that the surveys that you’ve conducted show that employee participation systems are in decline,
out of the surveys that you’ve done, in your annual report. So we’ve had: formal employee participation systems have dropped from 58 percent down to 56 percent, and then down to 48 percent in the 2014-15 survey, and we’ve also had a drop from the core elements of a good health and safety system being in place declining from 32 percent to 26 percent. What—you know, that’s going in the opposite direction to what we need it to be going in.

Coster: What’s important here is that we have new law, and you’re kind of pre the old 1992 Act—

Moroney: Yes, yes, no, entirely accept that.

Coster: —so, actually, what is important is that the new law is very clear about worker participation practices, and our job as the Government’s agency in this space is to ensure that the law is enacted, and when we do our inspections we will be ensuring that we play our part to ensure that best practice is occurring.

Moroney: So what would you expect that to be at—to go up to, then—in the next survey, which will be when the law is passed?

Coster: I’m not going to make any brave predictions here, because—

Moroney: Have you a target set for it?

Coster: No, what—

Unidentified: Because they’ll be raised next year of course.

Coster: Of course they will. We perfectly understand. So you can understand why we’re not going to put a figure, but what we are saying is that we will actively promote the requirements of the law.

MacDonald: And that promotion is not just at visits—though that is important—by our inspectors, but it’s providing information and guidance on what employee participation and engagement actually looks like. So we’re producing case studies from different contexts of what good looks like in these sorts of areas, and using those as a way of, I think, indicating to people: a) that it’s important, and b) it’s not as hard as some people would have it.

I was with a group of—a deer farmer the other day, and he said this employee engagement stuff, this is all really hard. And I said: “Well, tell me what you do.” And he said: “Well, I get my employees together in the morning; we have a cup of tea, we talk about the weather conditions, we talk about the equipment we’re going to use, we talk about some of the hazards we’re going to face.” And I said: “Well, that’s the sort of employee engagement.” So it’s making sure that these sorts of—you know what this really means. It’s not some—necessarily, the great bureaucracy. It’s a process of using people and getting them engaged in the process.

Young: Sorry, can I just—just following on Sue’s questions and—I mean, I’ve come across the same thing, where a lot of people have been very apprehensive until they’ve had some pretty sensible conversations. So what are you
finding as you—you know, you’re consulting around the set up of your guidance—

MacDonald Absolutely.

Young —generally out there, and are you going to be ready for April, with those guidelines?

MacDonald Yeah, what you'll see, and what we've already started producing just before Christmas, an increasing body of information that will appear on our website, which explains some of these concepts and gives people some practical guidance; as Coster has mentioned, all the engagement that we’ve been doing around the show.

Also, I think an important element of that is busting the myths when they occur about what the legislation will require, making sure that people are clear what it’s not, as well as what it is. What I’m sensing, and this is what my staff are telling me, is that when we’re having those engagements, when we’re having those dialogues and those conversations, people come out of that a lot more positive about “Yeah, we can do this thing.”, rather than: “We’re stalked by the spectre of what people have been telling us that this thing actually is.” And that, I think, is—you know, it will take us time to make sure that that positive feeling is embedded across sectors, but that’s encouraging, I think.

Roche I was interested in your prosecution rates. I understand that there has been quite a significant drop in the forestry sector, and you suggested it may be because of the work that WorkSafe’s been doing. But there also was a fairly high-profile campaign run by the CTU. And prosecutions in 2015 were 106 is what you did, compared to 117 in 2014. This last year there’s been private prosecutions for two workers, Eramiha Pairama and Charles Finlay taken by the Council of Trade Unions, and the Council of Trade Unions won. So what sort of, you know, remedies or—what’s WorkSafe doing to actually prosecute those who need to be prosecuted, rather than leaving it up to private prosecutions, which are very expensive?

MacDonald Yes, so we have an increasing body of practice guidance to our inspectors about an enforcement policy, which sets out our stall as to when we use the different approaches of different enforcement tools that we have. That tracks down to an enforcement decision-making model, which is a way of guiding our inspector decision making according to a set range of criteria, and then we judge the merits of cases against, starting off with the fundamental evidential test versus — and public policy test, and then move down through our enforcement decision-making framework to see what conclusion we come to. We don’t start from having a target for the numbers of prosecutions that we should deliver, and I think it would be wrong to do that.

Roche That’s true, but it looks to me as if prosecution is actually a deterrent for bad practice around health and safety. And the other thing is that if there were two private prosecutions that were taken last year, what kind of assurances have you got that families won’t have to go through that again?
Because, obviously, there was some slip-up. How has that changed? What are the criteria that have changed to assess what should be prosecuted?

MacDonald: Well, the tests of prosecution that apply to a person that needs to apply are different from what a public body such as WorkSafe needs to apply.

Roche: Are you more risk averse?

MacDonald: It’s not a question of risk aversion; it’s a question of being public bodies having to conform, quite rightly, to a set of principles, because we don’t take prosecution lightly and neither should we. So we have to conform to those principles. That’s not risk aversion; that’s making sure that we are living the ethos and the rule of what the public guidelines say.

I would say in the forestry space that if we take the range of enforcement tools available to us, we’ve seen a correlation between reducing accidents and reducing enforcement, such as improvement notices and prohibition notices, and that is indicating that, actually, forestry operators are being more compliant with the legislation, and that’s driving a reduction in the level of enforcement, which itself is tracking through to better outcomes in terms of serious harms and deaths.

Roche: So is that similar thing happening in the other high-risk areas like agriculture?

Coster: If I may, you’ve raised some really good points. Now, if I can just cover off a couple. I think it was very helpful what Helen Kelly and the CTU did in highlighting the number of forestry deaths, and I think that, following on from Pike River, was pretty instrumental in us getting very active. The truth is, I think there are different approaches for different industries, and in forestry they needed something pretty sharp so they got the education but they also go the prosecutions. That drove change, and industry leadership stepped up.

Our approach in the farming sector’s actually quite different, because I don’t think if you just go around and start prosecuting a bunch of farmers that that’s actually a productive way to—

Roche: Well, people are dying—

Coster: —I don’t think that’s a productive way to bring change in that sector. Our approach has been: “Let’s work with the farming sector to bring change.” And there’s a wide range of industry bodies. We’re working with them all. We’re enjoying working with them. We’ve got our Safer Farms project, so it’s not actually just about prosecutions; it’s actually about our three-pronged attack of engagement, education, and enforcement. So you just got to pick the right way to work with industry groups.

Moroney: So all you’ve got to be is bloody-minded and you won’t get prosecuted?

Coster: I probably would have a different view, but I respect yours.

Roche: But, also, if you look at the lack of compliance around minimum labour standards and particularly in farming, there must be a correlation between
the lack of, kind of, compliance that they’re also operating towards health and safety in those workplaces as well.

Coster I don’t think we want to get into the debate around labour standards, if that’s all right. We are experienced in talking about health and safety though.

Young Can I just put, after the question around the agriculture area—because the industry leaders are very proactive in working with you, are they seeing the rank and file individual farmers, agriculture workers, or contractors etc., following behind?

MacDonald Could I say, Chair, I think there are signs of that. The difficulty is, of course, that if we compare and contrast forestry for a moment with agriculture, forestry is a much tighter industry. You can get the forestry contractors together with the forestry owners. And agriculture is a much more disparate community of interests and, therefore, generalising across that whole community is quite difficult. But I think the answer is that there are encouraging signs.

For example, Beef and Lamb have been working to develop some workshops for their farmers. They’ve been trialling this on the East Coast of the North Island, and they are going down very well. People are reacting very positively to that. So if we can extend that and we can get people, as I say, into this mind-set of “We can do this thing.”, instead of “We fear this thing.”, and we give them the tools that can help them execute good health and safety, then, yeah, I think it will be a slower burn than in some of the sectors to get this spread across the country and spread amongst however many farms there are—and I forget the figure, but it’s an awful lot.

Young Are you noticing, for example, with the drop in the dairy price and farmers are coming under increased financial stress—because some of the health and safety compliances do cost them money—that you’re actually seeing them maintain their, I guess, attitude in compliance? Or are you just needing to bring some more support into those particular areas?

MacDonald I think that positive sign is in the current climate, and I think that the message that we’ve been giving through documents such as this sort is, actually, this thing of health and safety doesn’t necessarily incur a lot of cost. It incurs a bit of thinking, it incurs a bit of planning, it incurs some communication with staff, but that doesn’t always come with a big price tag. So do the things that you can do, and I think that’s the message that is resonating with farmers and getting some traction.

Moroney So we’ve been doing that for decades now with farmers—the softly, softly approach, the “let’s not scare the horses” approach—the quad—or the cows or whoever it is. The quad bike statistics get worse as a result. The proportion of workplace deaths are increasing. What’s it going to take? What is it going to take?

MacDonald Our Safer Farms programme is a 6-year programme—but that’s not to say that we’re waiting for 6 years to see any change in those serious harms and those fatalities, but it is a recognition that delivering long-lasting, sustainable
change is going to be a more difficult proposition in that sector. So what we’re looking for—we’ll be evaluating the Safer Farms programme, we’ll be changing tack if the evidence suggests that we’re not getting the traction that we need with our messages. Some of the indications are positive at the moment. So we’ll be using this programme, we’ll be changing it, we’ll be flexing it, according to the circumstances, according to how people are responding to it.

Moroney So what are the measurements that you’re going to use? How are you going to measure its success?

MacDonald We’ll be doing evaluation through—part of this is statistical, part of it is how people are thinking and feeling and reacting to health and safety. So we’ve done our first year of our Nielsen research which looks at those four key sectors, one of which is farming, to get a sense of how people are reacting to the messages and that side of health and safety. We’re repeating that exercise now, so we’ll be tracking how people are viewing. So we’re using a number of indicators.

Moroney Are you going to be using workplace deaths and serious harm notifications as well?

MacDonald Yes, absolutely. Absolutely. And drilling that down as well beyond 48 in terms of fatalities, beyond the number of serious harms to: what are the causation of these? And the more that our operational intelligence capability comes onscreen, the more we can really target our effort.

Let me give you an example. We know that in the Waikato region at a certain time of year there is a propensity for a certain type of accident. Our operational intelligence capability can now tell us that. So we can really get smart with the targeted messages to that group of farmers at that time of year. So it’s that sort of slightly more laser-like precision of how we target our messages rather than, you know, just dealing with the industry as a whole across the sector that I think will give us some benefit.

Young So, I mean, that’s very interesting and a very good point you’ve made, we’ve gone around the depth of data that you’ve got. So do you have a very strong work stream in terms of your data acquisition and the accuracy of it?

MacDonald Absolutely. We have a built-in operational intelligence unit, which takes the serious harm data from ACC. It takes the serious harm notifications that come to WorkSafe and it uses that, and we’re producing some tools that will be available to our inspectorate to really be real-time tools, telling them what’s happening in their region.

Bayly Just, I suppose, carrying on—just looking at the number of deaths—interestingly, transportation based on warehousing has accounted for a lot of deaths, even though it’s not deemed high risk. Can you explain what you think’s gone on in that sector?

MacDonald Yeah, we need to do further work to establish that, and one of the things that we’re doing at the moment, which is a big piece of work, which is working with our partners ACC to produce an injury prevention plan, and that’s going to be based on the latest statistics of whether serious harms are
being created. And that might change some of our focus on where we go, and that's an early indication that there's a sector there that seems to have an issue. We've identified, certainly, that work-related workplace transport—and I'm distinguishing that from transport on the public highway—is a common cause of fatality across sectors. So not only will we have a sectoral split to our focus but we'll have a topic split to our focus, as well, and provide information and guidance on those issues.

Bayly Just related to that, I see—you talked about 185 inspectors—you’re expecting to go forward at 1 April?

MacDonald No, we'll be 200 strong by April, and that will be about where we expect to be.

Bayly On the website it says you’ve closed off this evening—so you’re obviously processing people at the moment? OK.

Coster And we’ve got another 14 in the high hazards area, as well.

Bayly OK—interesting.

Parmar In your education role in engaging with businesses, you say you did presentations and over 15,000 people came to those presentations. My interest is in small and medium scale businesses. So, for small businesses, I see that they are so busy running their show they don’t have time to come to presentations sometimes. So how are you trying to engage with those businesses that are finding it really hard to come to presentations—trying to do something at the local level so that it's easy for them to come and engage and pass on this education to them as well?

MacDonald So there are a number of dimensions to that. One is working very closely with business.govt to use their channels to get to small businesses, and they’ve got mailing lists in the thousands of small businesses that we can use to direct information to those groups, making sure that what we direct to them is very relevant for a small business and is not a 30-page treatise that they are not, frankly, going to read.

We're also working on making our website smarter so that people can get to the information that they need much quicker, so we’re going to be working with a number of partner organisations. Who is it that small businesses interact with, because it sure as hell isn’t, often, WorkSafe—so is it the bank, is it the insurance company? Who is that body? And then try and make sure that we have, kind of, using those channels, to get messages through to that small business community. So a number of avenues that—it’s cracking what you’ve identified as a very difficult nut to crack, is the reach into that sort of level of the economy.

Dowie You’ve mentioned consistency of decision making and style of doing business—you’ve got a significant amount of people in your organisation and they’re scattered across New Zealand. So I'm interested in the measures and the monitoring that you’re doing to actually capture that and make sure that happens.
So one of the primary methods is we have the service excellence survey that's done on an annual basis of those who’ve experienced a WorkSafe encounter, and we’ve given some of the figures from that. And we’re seeing an improvement in some of those scores as we go through, not just the—that it is very important—the critical one of “Did you do anything as a consequence of this visit?”, but “Did you find this visit fair?”, “Was it clear?”, and “Was it useful to you?”. So we use those sorts of measures.

We’re also embedding good styles of inspector engagement within our quality management framework that our managers will be testing inspectors for and having conversations which are around how they go about doing that, not just “Have you delivered your 100 inspections this month?”, or whatever it might be. So it’s through those sort of layers that we’re getting a handle on our people feeling engaged through that encounter. And that doesn’t mean “Was it a challenging encounter or not?”, it means “Were you treated fairly?”, “Was it explained to you why health and safety was important?”, “Was it signposted to you where you might get further help if you need it?”, and “Was the inspector clear about helping you with those things?”. Sometimes that leads to an enforcement action; sometimes it doesn’t. But it’s interesting from some of these surveys that how people feel about the encounter is not actually driven necessarily by that—it’s how they were treated during that engagement.

Lees-Galloway The 185 inspectors that you’ve got—is that the number that you want, or are you looking to increase that number?

MacDonald Well, as I say, it will settle out at about 200, and that’s where we’ll be, recognising that I think—I might have said this last year, but if I didn’t, I’ll say it now. Inspection is a vital part of our mix of interventions, but we’re not going to inspect our way to the sort of culture change that we need. So we need that number of inspectors, but we need to be working through these other agencies that I’ve mentioned before, through our partner organisations, getting them to—mobilising them to lead their effort with their communities of interest and get that kind of magnifying gearing effect for our effort.

So I think it’s wrong to assume that 180 or 200 is the front-line intervention force, because we have a lot of people intervening with sectors, not through inspections of individual workplaces but engaging with trade associations, with trade unions, with whoever, to get that change.

Lees-Galloway Are all of those 185 inspectors warranted?

MacDonald Oh, some might still be going through the warranting process, but I can get you an up-to-date figure.

Lees-Galloway So that 185 is not your warranted inspectors? Some are still going through that process? It would be interesting to know how many are not warranted at this stage.

MacDonald It’s been whispered in my ear that about 15 of those might not be warranted at this stage.
Lees-Galloway  And are those 15, or however many it is—are they out in the field carrying out assessments?

MacDonald  They are. They undertake largely supervised visits, and the like.

Lees-Galloway  Would they ever be out unsupervised?

MacDonald  Unwarranted?

Unidentified  Going out with warranted inspectors is part of their warranting process.

Lees-Galloway  So there would be no instances of unwarranted inspectors carrying out assessments unsupervised?

MacDonald  Can I definitively confirm that after this meeting? That’s my feeling.

Lees-Galloway  That would be good if you could, because you might imagine from my line of questioning, I have had employers tell me that they have been assessed by unwarranted inspectors and that those people appeared to have very little knowledge of the type of workplace that they were assessing, of the type of machinery that they were assessing, and, you know, I’m concerned that all our efforts to change the legislation and all your efforts to build a better relationship with employers are going to be undermined if you send people out into the field who are not ready to do the job.

Coster  We’ve got very few who are not warranted at present, and we’d be very happy to receive advice of any specific examples that would assist us in assessing the information, so—

MacDonald  As part of our training inspectors we give them all training in the basic—if I could put it this way—the regulatory crafts and disciplines but we also supplement that with industry-specific training to give them, you know, the context of the sorts of industries that they are operating in. One thing it’s probably impossible for any regulator to have is everybody who is an inspector turning up to what the vast array of premises that we visit knowing precisely about that particular sector and that particular business, or else we’d have thousands of inspectors, which is untenable. But I take your point.

Lees-Galloway  Sure, I appreciate that, but if it were the case that unwarranted inspectors were carrying out those assessments, it doesn’t assist in building that trust with the employers. I would appreciate that data coming back—so the number of unwarranted inspectors and whether or not there are any instances of them carrying out unsupervised assessments. But—just to be clear—that is not your practice?

MacDonald  No, that would be a very, very small minority—it’s not our general practice.

Lees-Galloway  Not your general practice, but would it be acceptable practice?

MacDonald  Well, this is what I’m going to check and get back to you on.

Lees-Galloway  Just at face value, would that be an acceptable practice to you?

MacDonald  I’m going to get back to you, because there might be some circumstances for very low-risk firms where it might be part of the training to get them engaged in that. But I will come back to you with—
Lees-Galloway Forestry? Would you expect it in forestry? No?

MacDonald No, but I’m going to get back to you on that point.

Moroney How long does it take for inspectors to get warranted? What’s the length of that process?

MacDonald The process is—Brett, give the—

Murray It can take up to a year, because they go through a practice programme that they go through, and some achieve that quicker than others. It can take up to a year, with assistance, back to where they are warranted at that stage, and then we have a further progression for them, from then on, which can take up to another year. To be fully competent, we’re looking at 18 months to 2 years, although they’re warranted before that, so they’re legislatively mandated to go out. Obviously, the warrants give them the legislative tool to actually enter worksites.

Moroney So at the end of June, beginning of July, last year, you had 56 who were unwarranted, and you think that number’s much lower now?

Murray Yeah, we’re expecting by June this year to pretty much have the whole of the cohort warranted.

Coster I think when we started out we had something like 90 to 100 inspectors so there’s obviously been a very big recruitment programme. You’ll be interested to know for 20 jobs we had 2,200 people apply, and that happened twice. So we’ve been able to raise the quality and standard of our inspectorate as we go, and we’re clearly scaling up and have had a massive education programme under way.

Moroney Now, you’ve recently discovered that you think there might be 800 quarries that weren’t known about or weren’t registered.

Coster Aren’t we lucky?

Moroney Well, I guess I’m about to ask you whether you are lucky. Are you geared up to deal with that—if you thought there was 400 and there’s probably about 1,200?

MacDonald Absolutely. The first point is, almost irrespective of that second question, we need to know the answer to the first question, which is how many of these sites are operating, and something about what’s the nature of those sites, because there will be some of these that are relatively low risk but we can’t make that judgment call unless we have that sort of data and information. So that’s what we’re in the process of collecting. We think we’re not far off now, although it will be a continuing exercise because, of course, quarries move, quarries set up, quarries fold, so we need to be making sure that we’re keeping our eye on that ball.

But we’ve had some very good engagement with the quarry sector. It’s another example of supplementing inspection with other mechanisms, so our extractives team have been doing road shows with the quarry industry across the country to get them alive to what their obligations are and what safety looks like in quarrying operations.
Moroney So how do you find where the quarries are? What’s the process?

MacDonald Our friend Google maps is very helpful.

Moroney Really? What, you look for a hole in the ground?

MacDonald Effectively, I’m sure my colleagues will tell me it’s slightly more sophisticated than that, but it is looking for holes in the ground. It’s making connections with local authorities who have some records where consents have been given, so it’s using a range of data sources to arrive at the 800 or whatever the figure turns out to be.

Moroney So that’s quite resource intensive—just finding them.

MacDonald Yes.

Moroney How many staff do you have dedicated to that exercise?

MacDonald We have one person who’s been leading the effort but, again, I’m not sure how many there will be. They’ll be pulling in other support staff to help them with that—it’s been a project that’s been led by one.

Moroney My question is really around, if you thought that there were, say, 400 and it turns out that there are 1,200, that’s got some, I would think, some pretty significant implications for your resourcing, because they require visiting—do they require visiting? What do you do with them when you find them?

MacDonald It depends on the nature of the activity, really. So like all businesses we’ll be prioritising against the nature of risks that on the data that we have, they seem to be presenting. So that will reduce that number. But we don’t visit every factory or school or every—

Moroney No, but these guys are supposed to be registered.

MacDonald Yeah.

Moroney So you’re supposed to be able to know where they are.

MacDonald Yeah.

Moroney And then, are your 200 inspectors going to be enough if the size of that figure’s correct?

MacDonald I think that’s one of those issues that we’ll need to keep an eye on. There’s no magic formula which dictates, you know, number of premises equals X number of inspectors. But I think we’ll have to take a view on, now that we know that there are 800, then we need to determine, you know, what the nature of those 800 is and then we need to be prioritising, and then we’ll need to make some decisions.

Moroney Another very quick topic about—I notice that you’ve had 12 severances, 12 redundancies, I guess that is, in the 18 months that your organisation has been alive and kicking. That seems quite high to me.

MacDonald Predominantly, as a consequence of an organisation going through a phase of restructuring itself, deciding what skills it needs within the organisation, so there’s some inevitability to some people not fitting in that scheme of things.
Young: This is your second annual review so I guess there’s formation taking place—

MacDonald: Correct.

Young: —currently. Thank you very much gentlemen, and thank you for your staff who have joined us today. We wish you all the best, especially as we come towards April 2016. Thank you.

**conclusion of evidence**
2014/15 Annual review of AgResearch Limited, Callaghan Innovation, Careers New Zealand, Education New Zealand, the Education Review Office, the Institute of Geological and Nuclear Sciences Limited, the National Institute of Water and Atmospheric Research Limited, Network for Learning Limited, the New Zealand Forest Research Institute Limited, and the New Zealand Teachers Council

Report of the Education and Science Committee

The Education and Science Committee has conducted the annual review of the 2014/15 performance and current operations of AgResearch Limited, Callaghan Innovation, Careers New Zealand, Education New Zealand, the Education Review Office, the Institute of Geological and Nuclear Sciences Limited, National Institute of Water and Atmospheric Research Limited, Network for Learning Limited, the New Zealand Forest Research Institute Limited, and the New Zealand Teachers 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 Jian Yang
Chairperson
2014/15 Annual review of Education Payroll Limited

Report of the Education and Science Committee

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Recommendation

The Education and Science committee has conducted the annual review of the 2014/15 performance and current operations of Education Payroll Limited and recommends that the House take note of its report.

Introduction

Education Payroll Limited (EPL) is a Crown company incorporated under the Companies Act 1993. It was established to take over the operation of the schools payroll service from Talent2 in October 2014. EPL acts as a central payroll service for schools, and provides a schools payroll service to the Ministry of Education that ensures school payroll information and entitlements are accurately recorded, school staff are paid correctly and on time, and payroll information is easily accessible to both schools and the ministry.

Error rates

We are aware that the schools payroll is the biggest in New Zealand, and one of the biggest in Australasia. The payroll system has additional complexities as staff can be paid at different rates for different roles, for example as a librarian and as an administrator, or for working for multiple schools during a pay period. In total, there are 1,500 possible unique rates of pay, and 10,000 different permutations for each pay run. We heard that in the year under review, all pay periods showed a reduction in pay error rates, which resulted in fewer payroll complaints. The overall error rate is below 0.25 percent, which is below the “accepted error rate” for Education Payroll Limited, and comparable to other large payrolls.

Superannuation

We are aware that some staff’s superannuation contributions were affected by errors under the payroll system administered by Talent2. We were told that there is an ongoing project to “tidy up” the effect of these early errors. We sought confirmation that Kiwisaver contributions had been correctly transferred to Kiwsaver providers, and heard that in the vast majority of these cases it had been validated.

Debt collection

We are aware that the high error rate of the Novopay system when it was first introduced resulted in frequent overpayment to staff. Novopay suspended the use of debt collectors to collect this debt in March 2013. EPL told us it is now revalidating the debt that was suspended in 2013, and will then communicate with the individuals concerned. This revalidation includes improved tools to calculate and account for overpayments, and enhanced debt notification processes. EPL is also implementing case management to improve collection rates and outcomes where debtors have difficulty making repayments. About 2,000 people owe the Crown $3.4 million from earlier overpayments, some of whom have already entered into repayment arrangements. EPL have engaged a debt-collection agency to collect debt from any individuals that have not entered into a repayment agreement.
Pilot of new service-delivery model

EPL interacts with over 6,000 registered payroll administrators, who often call EPL to raise any issues. We heard that there were 30 percent fewer requests by schools for changes to pay once their instructions had been processed in the year under review.

EPL told us that it has piloted a new service-delivery model with 100 schools in Wellington, which provides a much stronger connection between EPL payroll officers and schools. EPL hope that by providing additional assistance to payroll administrators when they first complete a task, they build up capability for future situations, and reduce the work required to assist administrators correcting errors in reporting. This also reduces the work required by EPL, allowing them to continue to focus on assisting administrators. This successful pilot is now being rolled out to a further 100 schools nation-wide.

We heard that EPL has commissioned UMR Research to provide independent research on user satisfaction with the payroll system. We will watch with interest the results of this survey data.
Appendix

Committee procedure
We met on 17 February and 9 March 2016 to consider the annual review of Education Payroll Limited. We heard evidence from Education Payroll Limited and received advice from the Office of the Auditor-General.

Committee members
Dr Jian Yang (Chairperson)
Catherine Delahunty
Paul Foster-Bell
Hon Paul Goldsmith
Chris Hipkins
Melissa Lee
Tracey Martin
Maureen Pugh
Adrian Rurawhe
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received


Organisation briefing paper, prepared by committee staff, dated 15 February 2016.

Education Payroll Limited, response to questions, received 12 February and 4 March 2016.
2014/15 Annual review of the Institute of Environmental Science and Research Limited

Report of the Education and Science Committee

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Institute of Environmental Science and Research Limited

Recommendation

The Education and Science Committee has conducted the annual review of the 2014/15 performance and current operations of the Institute of Environmental Science and Research Limited and recommends that the House take note of its report.

Introduction

The Institute of Environmental Science and Research Limited (ESR) is a Crown research institute. ESR’s core purpose is to deliver enhanced scientific and research services to the public health, food safety, security and justice, and environmental sectors. It aims to keep New Zealanders safe and to improve their economic, environmental, and social well-being.

ESR is among the smaller of the Crown research institutes, generating $65 million in revenue in 2014/15. Only $7.7 million of ESR’s revenue is from core funding. Most of its remaining revenue is from contract services to other government agencies, such as the New Zealand Police, the Ministry of Health, and the Ministry for Primary Industries.

Forensics

DNA software

We heard that ESR’s total revenue was $3.2 million more than the previous year. Most of the additional revenue came from STRmix™ forensic software. We heard that STRmix™ is highly effective at analysing complex mixed samples of DNA from crime scenes. This enables ESR to analyse data that was previously unusable to identify who was at a crime scene. ESR said that it matches 71 percent of the samples it tests to a known individual on New Zealand’s DNA database.

We were told that STRmix™ is a global product for ESR and that 29 other agencies around the world use it. It is selling well in the United States of America and the United Kingdom. This international revenue has made a significant difference to ESR’s financial sustainability.

ESR hopes to increase its profit margin this year from three to six percent. We asked whether a six percent margin was commercially viable and were told that a six percent margin would give ESR an eight percent return on equity. ESR noted that it is hard to make commercial revenue when selling to government agencies, such as the New Zealand Police, that are under monetary constraints.

Collaboration with New Zealand Customs

In 2014/15, ESR launched a joint screening laboratory with New Zealand Customs at Auckland Airport. The laboratory has significantly reduced the amount of drugs imported into New Zealand.
We were told that the laboratory makes it much easier to identify and stop drugs at the border. It has identified more than 700 shipments of illegal drugs and stopped them from entering the market.

We were impressed to hear that more than 31.9kg of ingredients used in methamphetamine production have been seized at the border.

**Health**

ESR provides health services to government health and biosecurity agencies, district health boards, and local government. Its work in 2014/15 focused on reducing the spread of disease.

We heard that ESR continued its research on influenza, taking blood samples from 1,800 volunteers in Auckland before and after winter. This gives ESR valuable information on what to include in influenza vaccines.

The ultimate aim of ESR’s research is to reduce the number of cases of influenza and the number of hospitalisations. ESR said that the United States’ Centers for Disease Control and Prevention provided US$1.5 million over five years for this research.

Another important stream of ESR’s work studies microbial and antimicrobial resistance treatment. ESR is also researching the emergence of disease strains that are resistant to antibiotics.

**Food safety**

ESR’s focus in the food safety sector is on improving New Zealand’s reputation as a quality food producer. In 2014/15, ESR commercially released STECleaNZ, which is a biocontrol product that reduces E. coli contamination in red meat. STECleaNZ is applied as a spray to hides in processing plants.

ESR said that several important markets reject meat carrying certain E. coli strains at the border. This includes the United States of America, New Zealand’s largest market for beef and veal.

ESR sold more than 700,000 doses of STECleaNZ during the 2014 season. We are interested in seeing how this revenue stream develops.

**Water**

In 2014/15, ESR’s water work focused on understanding and improving the quality of New Zealand’s waterways. In particular, it collaborated with Environment Southland, regional councils, and NIWA to identify E. coli levels in waterways.

ESR’s collaboration with Environment Southland looked at the amount and source of E. coli in Southland waterways. This research helped Environment Southland develop an action plan to improve the overall health of Southland’s waterways.

ESR said it is important to enable regional councils to focus their efforts in the right places and develop a targeted action plan to tackle water issues.

**Organisational review**

We were interested in ESR’s regular reviews of its organisational form. ESR conducted reviews in 2009 and 2013 and is preparing for another in 2016.
We heard that ESR took over the National Radiation Laboratory during the 2013 review and inherited several staff. ESR had to consider how to successfully move extra staff into the organisation.

We asked how these restructurings have affected staff morale and noted that there has been an increase in workplace counselling in the past two financial years. ESR said that it will send out its next staff survey in early 2016 and will use the results to gauge staff morale.

ESR also said that it is developing a unifying purpose for the organisation. We look forward to seeing what changes ESR makes to improve staff morale.
Appendix

Committee procedure

We met on 2 December 2015 and 2 March 2016 to consider the annual review of the Institute of Environmental Science and Research Limited. We heard evidence from the Institute of Environmental Science and Research Limited and received advice from the Office of the Auditor-General.

Committee members

Dr Jian Yang (Chairperson)
Catherine Delahunty
Paul Foster-Bell
Hon Paul Goldsmith
Chris Hipkins
Melissa Lee
Tracey Martin
Maureen Pugh
Adrian Rurawhe
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received


The Institute of Environmental Science and Research Limited, Responses to written questions 1 – 107, received 30 November 2015.

The Institute of Environmental Science and Research Limited, Responses to written questions 108 – 121, received 29 January 2016.
# 2014/15 Annual review of Landcare Research (New Zealand) Limited

Report of the Education and Science Committee

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Landcare Research (New Zealand) Limited

Recommendation
The Education and Science Committee has conducted the annual review of the 2014/15 performance and current operations of Landcare Research (New Zealand) Limited, and recommends that the House take note of its report.

Introduction
Landcare Research (New Zealand) Limited is a Crown research institute (CRI), which was established under the Crown Research Institutes Act 1992. Its purpose is to drive innovation in New Zealand’s management of terrestrial biodiversity and land resources. Landcare aims to achieve the following five major outcomes:

- improve the management of native species
- verify environmental performance by providing robust scientific research and certifying good environmental practice in business
- control pests and weeds
- support sustainable choices by improving the understanding of how land use affects environmental outcomes
- support Māori aspirations.

About 90 percent of Landcare’s work is with local, regional, and central government. Landcare’s total revenue in 2014/15 was $58.4 million, up 6.8 percent from the previous year. However, net profit after tax reduced by just under 20 percent to $1.7 million, from $2.1 million in 2013/14. This decrease was attributed to higher employee redundancy expenses, resulting from a capability alignment announced in 2013/14.

Biodiversity and collaboration with other agencies
Landcare told us that pests continue to be a major risk to New Zealand’s biodiversity. However, there is a lot of activity to try to reduce this threat.

One of Landcare’s goals is to research, in collaboration with other public agencies, New Zealand’s biodiversity and identify areas that should be managed or protected. Landcare sees part of its role as integrating the research other CRIs produce that has a narrower focus. Landcare then supplies this information to other agencies to help manage environmental risks. For example, it provided data to the Ministry for the Environment to help produce the Environment Aotearoa 2015 report.

Enviro-Mark
Some of us are concerned about the performance of Enviro-Mark Solutions Limited, a wholly-owned subsidiary of Landcare. Enviro-Mark provides a certification programme, which verifies that a business is environmentally friendly. In 2014/15, Enviro-Mark made a net loss after tax of $208,000. This followed a $107,000 loss in 2013/14. As a result, Enviro-Mark’s negative equity position worsened, from -$498,000 at 30 June 2014, to
- $706,000 at 30 June 2015.

We were told that these results do not fully reflect the financial position of Enviro-Mark. For example, there had been a review of the strategy and outlook of Enviro-Mark, and Enviro-Mark is now charged for rent in buildings which Landcare owns. The Landcare Group did not incur any additional costs, but Enviro-Mark’s operating costs were more accurately reported. Landcare told us that with these factors taken into account, Enviro-Mark would have made a small positive contribution to Landcare’s overall financial position in 2014/15, and was on target to meet its budget expectations. Some of us were concerned that Landcare’s presentation of Enviro-Mark’s performance did not appear to match its statement of financial position as presented to us.

We note that Enviro-Mark is not seeking to expand its customer base due to the competitiveness of its market. We were told that its business and revenue have not contracted, but it is budgeting for only minimal increases in revenue in future years.

**Gender balance**

Overall, Landcare employs 173 men and 143 women, and two out of seven people on its senior leadership team are women. Landcare told us that it provides mentoring for leaders and potential leaders, but it has no specific programmes to encourage women into senior positions. Landcare stated that it tries to be even-handed in choosing employees and provides flexible working and childcare arrangements.

**Landcare’s four-year rolling review**

We asked about Landcare’s response to its four-year rolling review. The Ministry of Business, Innovation and Employment commissioned this review in 2014. An independent panel carried out the review and identified several areas that required improvement. These included:

- focusing on core purpose and outcomes/clarity of strategic direction
- meeting revenue forecasts
- building its strategic position with Māori
- focusing on a culture of high performance and strong accountability
- resourcing of intellectual property development.

Landcare has created a 13-point action plan to respond to the review. Landcare believes it is on target to achieve 11 of these points. It has deferred the other two points, which are about creating new financial targets and improving its relations with Māori businesses. We will watch the implementation of this action plan with interest.
Appendix

Committee procedure
We met on 9 December 2015 and 2 March 2016 to consider the annual review of Landcare Research (New Zealand) Limited. We heard evidence from Landcare Research and received advice from the Office of the Auditor-General.

Committee members
Dr Jian Yang (Chairperson)
Catherine Delahunty
Paul Foster-Bell
Hon Paul Goldsmith
Chris Hipkins
Melissa Lee
Tracey Martin
Maureen Pugh
Adrian Rurawhe
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received

Landcare Research Manaaki Whenua, Responses to questions 1–107, dated 13 November 2015.

Landcare Research Manaaki Whenua, Supplementary information for questions, dated 14 December 2015.


Landcare Research Manaaki Whenua, Appendix, dated 1 February 2016.
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Recommendation

The Education and Science Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry of Education and recommends that the House take note of its report.

Introduction

The Ministry of Education is the lead advisor to the Government on the education system, covering early childhood, primary, secondary, and tertiary education. It acts as steward of the education system, working to raise the performance of the system as a whole.

The ministry also has a role (with the Ministry of Business, Innovation and Employment) in supporting and monitoring the performance of the education Crown entities on behalf of the Minster of Education and the Minister for Tertiary Education, Skills and Employment.

In 2014/15, the ministry’s total operating revenue was $2.085 billion, which is about 4 percent more than in the previous year. The ministry reported a net surplus of $34.87 million. $22.4 million was received through the Novopay settlement with Talent2 NZ Limited as a non-cash asset, and has been returned as a non-cash capital withdrawal to the Crown.

Ministry Infrastructure

Maintenance of school buildings

We were interested in the ministry’s spending on maintaining and upgrading schools. Approximately $380 million is invested to improve the condition of school property each year. Around $180 million of this is allocated directly to school boards and $200 million is retained by the ministry to redevelop and upgrade schools with complex property issues that boards are unable to fund and manage through funding directly allocated to them. The ministry told us that it works on roughly 5,000 maintenance projects a year.

Some of us were concerned that schools with weather-tightness issues were not being fixed in a timely manner. The ministry assured us that, if a building is closed because of weather-tightness problems, it will act on that immediately.

New ministry headquarters

The ministry recently moved into a new building in central Wellington, amalgamating four separate offices into one building. We heard that having all of the departments in one building will save the ministry $1.8 million per year and $27 million during the lease. The ministry can invest the savings it has made in staff accommodation in other areas in the future.

We were particularly interested in the cost of a $2.5 million staircase for the 12-floor building. We heard that there would be 25 percent more people in the building than when the previous tenants (the Ministry of Business, Innovation and Employment) leased the building. This means that there needed to be additional capacity for people to move within
the building because the existing utility staircase was not enough. The ministry assured us that the new stairwell was cheaper to install than an additional elevator.

We also asked about the cost of furnishings for the ministry’s building. We were told that the ministry was to release this information under an Official Information Act request. However, the Property Management Centre of Expertise advised that the ministry would be unable to do so and that the individual price of furniture was commercially sensitive for the supplier. The ministry said it would be happy to share these costs once it was able to do so.

Communications

We wanted to know more about the ministry’s staff, particularly those in its communications department. Five years ago, the ministry employed seven communications staff, but it has now increased this to 12 staff. We were told that this is because the ministry wants to be able to provide as much information as possible.

We commented that there appeared to be an improvement in the way that the ministry communicates with schools. The ministry said that, in the old communications system, different departments would go directly to schools with communications. This created a large amount of work for school leaders and sometimes meant that information was repeated.

The ministry now sends out one fortnightly communication, the school leaders’ bulletin, and all departments have to send communications through this. We were pleased to hear that this has greatly improved communication with schools and has solved the problems with the previous system.

Ministry intervention in schools

The ministry can intervene in a school where there are reasonable grounds to believe that the operation of the school, or the welfare or educational performance of its students, is at risk. The ministry applies six interventions to schools at a governance level. Examples of interventions include requiring a board of trustees to prepare and implement an action plan to address specific issues or the Minister of Education dissolving a board of trustees and directing the Secretary to appoint a commissioner to replace the board.1

The ministry told us that 77 schools had varying degrees of intervention from the ministry at the time of the hearing. One of these is Rangiora High School, whose board of trustees was dissolved. The ministry told us that a commissioner would act in the board’s place until the ministry was comfortable that the administration of the school has improved. The ministry is confident that many members of the local community could run the board when it was re-established.

Te Kura Hourua Ki Whangaruru

The Government recently announced the impending closure of Te Kura Hourua Ki Whangaruru in Northland. Although the school does not officially close until March, all of the school’s students have found places in other schools.

We were encouraged to hear that the students have been placed in another school or have moved on to tertiary education. The ministry said it has employed a social worker to

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provide support for students and parents. The ministry has offered the schools that have taken in the students extra help and will contact them regularly to ensure that the students are attending the school and settling in.

We asked whether the ministry would be able to recoup the costs of the farm purchased by the trust in charge of the school. The ministry told us that it is about to start negotiations with the trust, so it would not be appropriate to comment before negotiations take place. We will wait with interest to see the results of these negotiations.

Affordability of education

We asked about school donations and whether parents are required to pay them. We are conscious that many families want to contribute to the running of their child’s school but may be unable to do so. The ministry confirmed that its policy states that a school donation is non-compulsory.

We were also concerned that some schools may use unfair tactics to force parents to pay the donation. The ministry said that it has made it clear to schools the difference between donations and compulsory fees.

We are also aware that more schools are requiring students to bring their own digital devices for technology learning. Some of us were concerned that the availability of these devices varies greatly between families and that this may take away a child’s right to free education. The ministry told us that schools are good at making sure that students have access to required technology.

Students with learning difficulties

The ministry did not spend $32 million of funds appropriated for spending on special education. We were told that the ministry put aside most of this unspent money to pay RTLBs (resource teachers – learning and behaviour). However, schools are struggling to find willing and qualified people to take on this role.

We also asked about the large amount of work parents need to do to apply for ORRS (ongoing and reviewable resourcing schemes) funding. Some of us have heard from parents that it can take up to 35 hours to fill out the forms to apply for ORRS funding. The ministry said that it believes the ORRS process is a successful one, but it would like to move away from an application-based system.

Māori achievement

We were interested to know what the ministry plans to do to lift Māori achievement in schools, noting that there has been a recent increase in Māori achievement. The ministry told us that it is taking a hands-on approach by using data to find Māori students most in need. If a student’s achievement is under question, the ministry will look at several factors, including whether the student

- has access to textbooks and required technology
- is taking suitable classes
- has the right teacher
- needs extra tutoring outside of school.
Quality of early childhood education

We asked what the ministry is doing about the quality of early childhood education. This is because we have previously been told that the ministry’s initial focus is on participation. The Government has set a Better Public Services target of 98 percent participation in early childhood education by 2017. We were told that the ministry has been focusing on both participation and quality.

We asked the ministry to comment on the quality of early childhood education on offer. A recent survey by non-profit organisation Child Forum found that 25 percent of early childhood teachers would not enrol their own children at the centre that employs them because of the lack of quality education.

We heard that the quality of early childhood education is a focus for the ministry. There are many standards all early childhood education centres must meet, and these standards are some of the highest in the world.

If a new early childhood education centre is set up, the ministry will follow up to make sure that the centre meets these standards. The ministry assured us that it has strong enforcement powers if it needs to intervene when standards are not being met, including changing a centre’s full licence to a provisional one to address specific issues.

At any one time, about one percent of centres will be on a provisional licence, and the ministry will ultimately close a centre if it is not meeting standards. The ministry added that it has closed five centres in the past three years because those centres were not meeting required standards.
Appendix

Committee procedure
We met on 10 February and 16 March 2016 to consider the annual review of the Ministry of Education. We heard evidence from the Ministry of Education and received advice from the Office of the Auditor-General.

Committee members
Dr Jian Yang (Chairperson)
Catherine Delahunty
Sarah Dowie
Chris Hipkins
Melissa Lee
Tracey Martin
Todd Muller
Maureen Pugh
Adrian Rurawhe
Jenny Salesa
Stuart Smith
Hon Maurice Williamson

Evidence and advice received
Ministry of Education, Responses to written questions, received 4 and 14 December 2015, and 2 March 2016.


Organisation briefing paper, prepared by committee staff, dated 2 February 2016.
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New Zealand Institute for Plant and Food Research Limited

Recommendation

The Education and Science Committee has conducted the annual review of the 2014/15 performance and current operations of the New Zealand Institute for Plant and Food Research Limited and recommends that the House take note of its report.

Introduction

The New Zealand Institute for Plant and Food Research Limited (PFR) is a Crown research institute. It was formed in 2008, when former Crown research institutes HortResearch and Crop and Food Research were merged. PFR’s core purpose is to enhance the value and productivity of the horticultural, arable, seafood, and food and beverage industries.

In 2014/15, PFR received total operating revenue of $128.88 million and reported a net profit after tax of $4.45 million. Its revenue included $43.10 million, or 33 percent, of core purpose funding. There was a drop in PFR’s after-tax operating profit of $4.44 million (or 50 percent). However, this is largely because asset sales of $9 million in 2013/14 were one-off and budgeted 2014/15 asset sales of $2.8 million did not eventuate.

Industry partnerships

We heard that all the sectors PFR work in are currently growing. We were told that, since the previous year, wine exports had tripled and that the seafood industry was making 15 percent more export revenue from 15 percent less volume. We were told that, overall, PFR’s board was very happy with the level of partnership and engagement with the sectors PFR serves.

Precision Seafood Harvesting

We were particularly interested in PFR’s Precision Seafood Harvesting fishing technology, which replaces traditional trawl nets. Precision Seafood Harvesting allows fish to be landed on boats alive and in perfect condition, while safely releasing undersized fish. The design of the harvesting system allows fishing vessels to target specific species and fish size. The system greatly increases protection for small fish that can swim through “escape portals” unharmed.

We asked whether PFR would make the technology available for smaller fishing businesses. We heard that it would be widely available to any fishing business, because the nets are funded by the primary growth partnership and sales are handled by the fishing industry. To get the reputational and environmental benefits of the technology, PFR expects it to be readily available in New Zealand.
Lincoln hub collaboration

We heard about the Lincoln hub collaboration between PFR, Lincoln University, AgResearch, Dairy NZ, and Landcare Research. We were told that current investment in the hub was going into building new facilities and replacing buildings that were damaged in the 2011 earthquake.

We asked whether PFR was concerned that there would be a duplication of roles if AgResearch focuses on its consumer-facing portfolio. We heard that AgResearch’s Future Footprint plan will concentrate its consumer and post-farmgate research and activities in Palmerston North, meaning there should be no duplication at the Lincoln hub.

We were interested to know what level of infrastructural change PFR expects from the Lincoln hub. PFR told us that it does not expect any hub-related changes to PFR’s infrastructure until after 2019. PFR expects to make decisions about its infrastructure on a case-by-case basis during the 20-year time frame of the hub master plan.

PFR noted that staff and facilities are already involved in collaborations and co-location with its hub partners. It expects that this will continue regardless of any hub-related infrastructure changes.

We note that, given the large number of organisations involved in developing the Lincoln hub, the extensive restructuring of AgResearch to this end, and management changes at Lincoln University, we will continue to monitor closely the development of the hub.

Future Science funding

The committee was interested in provisions in PFR’s core funding for Future Science. PFR said that the focus of its investments of core funding in Future Science is to future-proof its science ideas and its capability.

We were told that PFR’s Board sets the total investment of core funding into Future Science, after recommendations from management. PFR’s Future Science portfolio consists of $10.03 million annually for its Discovery Science fund and $500,000 annually for its BlueSkies fund.

The Discovery Science fund provides support through projects to develop new ideas, particularly those that are not yet sector ready. The fund fosters the development of new skill sets and maintains strategically important capabilities within the organisation. We were told that there is a strong focus on investing for the future, beyond the current tactical needs of the sector industries.

PFR said that science in the Discovery Science fund portfolio is expected to be highly innovative and have international standing. We were told that PFR emphasises funding the best high-performing people and developing younger scientists and potential leaders. PFR noted that the research does not need to be aligned with a specific sector or end user but is targeted to position PFR for the future.

The BlueSkies Fund supports small projects of between $5,000 and $20,000 that are aimed at increasing the level of innovation within the organisation and that encourage new ideas and thinking.
Appendix

Committee procedure

We met on 11 November 2015 and 2 March 2016 to consider the annual review of the New Zealand Institute for Plant and Food Research Limited. We heard evidence from the New Zealand Institute for Plant and Food Research Limited and received advice from the Office of the Auditor-General.

Committee members

Dr Jian Yang (Chairperson)
Catherine Delahunty
Paul Foster-Bell
Hon Paul Goldsmith
Chris Hipkins
Melissa Lee
Tracey Martin
Maureen Pugh
Adrian Rurawhe
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received

Office of the Auditor-General, Briefing on the New Zealand Institute for Plant and Food Research Limited, dated 9 November 2015.

Office of the Auditor-General, Briefing on the New Zealand Institute for Plant and Food Research Limited, dated 5 February 2016.

The New Zealand Institute for Plant and Food Research Limited, Responses to written questions 1 – 107, received 6 November 2015.

The New Zealand Institute for Plant and Food Research Limited, Responses to written questions 108 – 125, received 21 January 2016.
2014/15 Annual review of the New Zealand Qualifications Authority

Report of the Education and Science Committee

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New Zealand Qualifications Authority

Recommendation

The Education and Science Committee has conducted the annual review of the 2014/15 performance and current operations of the New Zealand Qualifications Authority and recommends that the House take note of its report.

Introduction

The New Zealand Qualifications Authority (NZQA) is a Crown entity established under the Education Act 1989. NZQA manages the New Zealand Qualifications Framework and the secondary school assessment system. It also provides independent quality assurance for non-university education providers and Industry Training Organisations.

As at 30 June 2015, NZQA’s gender profile was 42 percent male and 58 percent female (up from 57 percent the previous year). Its chief executive is Dr Karen Poutasi, and its board chair is Sue Suckling.

NZQA’s total operating expenses in 2014/15 were $3.224 million, about $500,000 below budget. NZQA reported a net surplus of $512,000, which it puts down to effective management control and reduced discretionary expenses, as well as reduced travel and telephone costs.

Digital learning environments

With many schools requiring students to bring their own digital devices for learning, we were interested to learn more about digital learning. It is important for students to learn how to use digital devices because this is what they may need to use in future careers.

Our main concern is that the cost of digital devices may be out of reach for many families. We asked where the responsibility for digital inequality lies. NZQA said it was working with the Ministry of Education and other public entities to ensure that a digital education is available to all. It pointed out that several schemes help parents with the price of digital devices.

Digital assessments

We were interested to find out more about digital assessments. NZQA wants to roll out, where appropriate, digital assessments for NCEA by 2020. We heard that this was on track. NZQA recently completed a trial of students sitting an assessment both digitally and on paper. It then asked the students about the different methods. It has also run pilots where students are in a secure environment and take the assessment only digitally. Moderation of assessments will also be digitised, which will save significant amounts of time compared to the current paper-based system.

NZQA noted that, to be assessed on a digital device, students will need to use the device during the year so they are comfortable with it. It also mentioned that there will always be the option to do the assessment on paper if that is the student’s choice.
Qualification recognition for overseas students

One of NZQA’s key roles is to increase the recognition of our qualifications internationally. By doing this, NZQA hopes to encourage more students from overseas to study under its framework and help New Zealand students gain internationally recognised qualifications.

We asked whether NZQA is doing any work to recognise the qualifications of other nations in New Zealand, especially those from the Pacific Islands. NZQA delivers NCEA in the Cook Islands and Niue. It also helps Samoa and Tonga build their educational frameworks and systems.

We asked NZQA whether it has considered selling its framework to other nations. NZQA’s priority will always be growing the framework for domestic use. However, other nations have shown some interest in some of its commercial intellectual property.

NZQA said that, on these occasions, it will enter into a commercial arrangement because this increases the reputation of our qualifications internationally. We noted that, if NZQA fails to sell the framework in a coordinated way, staff may take up commercial opportunities or consultancy work.

Tertiary education organisations under investigation

NZQA has a quality assurance system to guarantee high quality tertiary education in New Zealand. A recent Official Information Act request to NZQA revealed that 35 tertiary education organisations had widespread or serious issues with educational delivery.

We asked why, out of these 35 tertiary education organisations, 27 have not been publicly named. NZQA said that these 27 organisations were working with it to address any potential issues. NZQA believed that these issues should not directly affect enrolled students.

It also judged that it was best not to have the organisations’ names in the public domain while it investigates them. We heard that, if an investigation results in a tertiary education organisation being shut down, NZQA will try to place students in new programmes.

We asked what protections were available for people who make complaints about tertiary education organisations. NZQA said that the Protected Disclosures Act 2000 protects these people. It added that people were able to contact them anonymously and did not have to leave details if they did not want an update on their complaint.

Review of the tertiary education organisation monitoring framework

We discussed Deloitte’s Review of Tertiary Education Organisation Monitoring Framework report. The Tertiary Education Commission and NZQA commissioned this report after reviews at four tertiary education organisations identified several issues with programme quality and financial accountability. The report recommended, among other things, that NZQA work with the commission to monitor tertiary education organisations.

NZQA said that it works with the commission when there is a significant difference between the programme approved for study and the actual results and outcomes for the students.
2014/15 ANNUAL REVIEW OF THE NEW ZEALAND QUALIFICATIONS AUTHORITY

Direct Funding Scheme

The Direct Funding Scheme allows larger employers to access the Industry Training Fund directly. We heard that the Industry Training Organisations linked to the scheme will monitor most courses, while NZQA monitors any unit standard assessments.

We suggested that the scheme should also be offered to small businesses in rural areas, so that students all over New Zealand can be given these opportunities. We pointed out that these students have to travel to classes in other areas to gain their qualifications, rather than being able to do it all at work like people in the scheme. NZQA said that it is not planning any work in this area.
Appendix

Committee procedure
We met on 17 February and 16 March 2016 to consider the annual review of the New Zealand Qualifications Authority. We heard evidence from the New Zealand Qualifications Authority, and received advice from the Office of the Auditor-General.

Committee members
Dr Jian Yang (Chairperson)
Catherine Delahunty
Sarah Dowie
Chris Hipkins
Melissa Lee
Tracey Martin
Todd Muller
Adrian Rurawhe
Jenny Salesa
Stuart Smith
Hon Maurice Williamson

Evidence and advice received
New Zealand Qualifications Authority, Responses to written questions 1-125, received 4 December 2015 and 11 March 2016.

Office of the Auditor-General, Briefing on the New Zealand Qualifications Authority, dated 12 February 2016.


Organisation briefing paper, prepared by committee staff, dated 12 February 2016.
**2014/15 Annual review of Research and Education Advanced Network New Zealand Limited**

Report of the Education and Science Committee

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Research and Education Advanced Network
New Zealand Limited

Recommendation
The Education and Science Committee has conducted the annual review of the 2014/15 performance and current operations of Research and Education Advanced Network New Zealand Limited and recommends that the House take note of its report.

Introduction
Research and Education Advanced Network New Zealand Limited (REANNZ) is a national research and education network. It was established in 2005 as a not-for-profit Crown-owned company. Its role is to provide high-speed reliable data communications and networking to support data-intensive research, education, and innovation in New Zealand. The Minister of Finance and the Minister of Science and Innovation are joint shareholders on behalf of taxpayers.

Financial performance
In 2014/15, REANNZ’s revenue was $15.206 million, a 3.4 percent increase on the previous year. This included $8 million from network revenue, and $4 million from REANNZ’s annual operating grant under a Crown-funding agreement with the Ministry of Business, Innovation and Employment (MBIE). The agreement expires in June 2017, raising questions about REANNZ’s future funding base.

We note that the Office of the Auditor-General has recommended some improvements in how the organisation measures and reports on its performance. We hope to see these recommendations acted on by the time of our next review.

Organisational growth and membership
Members of REANNZ include all eight New Zealand universities and all seven Crown research institutes, along with other research institutions. In addition, 13 of New Zealand’s 15 major polytechnics, and some private institutions such as Wynyard Group, Compac Sort, and the Cawthron Institute, are REANNZ members. We heard that increased recognition of REANNZ’s services has broadened its membership. Access to high capacity data transmission has enabled researchers to increase their work rate by orders of magnitude.

Since it was set up, REANNZ has gone from being a leased network to having its own managed network, offering 10 times its original capacity in the Auckland region. Internationally, the network is running at 40 times its original capacity. It expects this to double in the next 18 months.

The role of REANNZ
We asked whether there was an alternative to REANNZ in the New Zealand market. We heard that every country in the world runs its national research and education network as a
collaboration between the research community and the Government. This is because of the degree of specialisation required and its value as a public good. REANNZ adds value by putting together highly specialised agreements that enable coordination of the diverse needs of its membership.

A distinctive feature of the REANNZ network is its very large bursting capacity—its 40 gigabyte connection to Australia and then out to networks in the United States of America. REANNZ has access to high bandwidth on a burst capability under a different pricing model than providers normally supply the market. Using commercial networks for capacity on this scale would be prohibitively expensive, and few private companies working in data intensive areas need permanent super high-speed connection.

**Future funding**

We heard that MBIE is reviewing New Zealand’s e-infrastructure needs. The conclusions of this review will have significant implications for REANNZ’s future funding base. REANNZ could continue to operate without Crown funding but would find this difficult. The 15 universities and Crown research institutes provide about $6 million in funding, but this would not cover all operating costs. We will watch the outcome of this review with interest.

**Capital asset valuation**

REANNZ is a technology-based asset that is regularly updated. Contractual arrangements are in place with suppliers, and these are renewed every few years (except for the Hawaiki cable). Current net assets are $38 million, about half of which is tied up in the Hawaiki project. On a going concern basis, REANNZ assets are worth between $15 and $20 million.

**International cable access**

REANNZ has been exploring new arrangements for broadband internet access to the United States and other global networks, as its current contract with Southern Cross for access using its submarine cable is due to expire. REANNZ has entered into arrangements with the Hawaiki Cable Group to secure a 25-year anchor tenancy on a new broadband internet submarine cable, the Hawaiki Cable. We note that MBIE has funded an advance of $15 million to secure REANNZ’s position as a stakeholder. This commitment would be returned to Vote Communications if the arrangement did not proceed.
Appendix

Committee procedure
We met on 17 February and 16 March 2016 to consider the annual review of Research and Education Advanced Network New Zealand Limited. We heard evidence from Research and Education Advanced Network New Zealand Limited and received advice from the Office of the Auditor-General.

Committee members
Dr Jian Yang (Chairperson)
Catherine Delahunty
Sarah Dowie
Chris Hipkins
Melissa Lee
Tracey Martin
Todd Muller
Maureen Pugh
Adrian Rurawhe
Jenny Salesa
Stuart Smith
Hon Maurice Williamson

Evidence and advice received

Research and Education Advanced Network New Zealand Limited, Responses to written questions, received 5 February and 7 March 2016.
2014/15 Annual review of the Tertiary Education Commission

Report of the Education and Science Committee

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Recommen_dation
The Education and Science Committee has conducted the annual review of the 2014/15 performance and current operations of the Tertiary Education Commission and recommends that the House take note of its report.

Introduction
The Tertiary Education Commission is a Crown entity. The commission’s principal role is to issue guidance and allocate funding to tertiary education organisations and monitor their performance. It also provides advice to the Government on the tertiary education sector. The commission’s chair is John Spencer, and its chief executive is Tim Fowler.

In 2014/15, the commission invested about $2.8 billion into more than 700 tertiary education organisations. Its operating revenue totalled just under $49 million. The commission reported an operating surplus for 2014/15 of $19.5 million. Of this, $15.7 million related to grants and $3.8 million was associated with the commission’s operating activity.

Qualified audit opinion
The commission received a modified audit report that included a qualified opinion for 2014/15. This is because of the transition to Public Benefit Entity accounting standards. The auditor’s work was limited because the commission had not applied the requirements of the new Public Benefit Entity accounting standards to its grant expenditure. Because of this, the commission was unable to provide its annual report to the Auditor-General for audit within three months of the end of the financial year, which breached the Crown Entities Act 2004.

We asked the commission why the board was unable to apply the new Public Benefit Entity standards. The commission said that there is a revenue standard under the Public Benefit Entity standards, but no expenditure standard. Although the commission provides grant funding to entities, these entities need to account for the revenue so that the commission can then apply the Public Benefit Entity standards in reverse.

This is the first qualified audit report that the commission has received. It is working with the Ministry of Education and the Treasury on how it can account for grant expenditure in its 30 June 2016 financial statements.

Monitoring tertiary education organisations
One of the commission’s main functions is to monitor tertiary education organisations to ensure that they are delivering programmes in line with their funding agreements. We noted that a recent Official Information Act request to the New Zealand Qualifications Authority (NZQA) showed that 35 tertiary providers had widespread or serious issues with educational delivery. Of these, 27 have not been publicly named.
The commission told us that it does not tolerate any organisations deceiving the system. It plans to increase its audits of tertiary education organisations from its usual 30 a year to 75 by the end of 2015/16.

**Working with NZQA**

We discussed Deloitte’s *Review of Tertiary Education Organisation Monitoring Framework* report. The commission and NZQA commissioned this report after reviews at four tertiary education organisations identified several issues with programme quality and financial accountability.

The report recommended, among other things, that the commission work more closely with NZQA to monitor tertiary education organisations. The commission’s chief executive said that he meets with NZQA’s chief executive regularly to discuss the implementation of the individual and joint recommendations in the report.

The commission said that it has a team whose key tasks include implementing the recommendations from the Deloitte report by the end of 2015/16.

**Taratahi Agricultural Training Centre**

We discussed Taratahi Agricultural Training Centre, a tertiary education organisation that allegedly enrolled its tutors into the programmes it taught. This meant that Taratahi received increased grant funding from the commission.

Taratahi was also allegedly not teaching the full course. The commission has referred this case to the Serious Fraud Office. NZQA released a monitoring report about Taratahi around the time of this investigation, which stated that Taratahi’s courses met the education framework.

The commission explained that NZQA manages the processes for quality assurance, programme approval, and the delivery of learning outcomes. The commission monitors how its grants are being spent. This means that, although Taratahi is being investigated for its spending, NZQA was assessing a different area in its report.

**Direct Funding Scheme**

We wanted to know more about the Direct Funding Scheme, which allows larger employers to access the Industry Training Fund directly. Four organisations were involved in the pilot, and new businesses were added after the pilot’s success. The four piloted organisations and the regions they serve are

- Engineering Taranaki Consortium in Taranaki
- Southern Group Training in Southland and Northland
- Ryman Healthcare nationwide
- NZ Kiwifruit Growers Incorporated in the wider Bay of Plenty.

We asked how the businesses involved are held accountable to guarantee that students gain employment and are on clear career pathways after getting a qualification through the scheme. The commission clarified that the students are already in employment, so are getting their qualifications in a working environment.
We noted that the scheme could be seen as the Government funding the professional development of staff, which the business would previously have paid for. The commission told us that the scheme is about students gaining an NZQA qualification, which will help them gain full-time permanent employment in the future. The commission noted that a company-specific qualification would not be approved under the scheme.

Māori and Pasifika students in tertiary education

We discussed the participation rates of Māori and Pasifika students in tertiary education, because some of us are concerned that these rates appear to be remaining static. We heard that participation rates exist in the context of the overall numbers of students, so if there is an increase in all student participation rates, there will not be an increase in Māori participation rates, even if the number of Māori students increases.

The commission said that the number of Māori in tertiary education has increased significantly, with more than 110,000 Māori studying in the tertiary education system. The main issue for the commission is that more Māori are gaining university entrance at high school but are then going on to study a lower-level qualification. The commission said that it needs to be better at communicating with Māori and Pasifika students to make them aware that higher-level qualifications are available and help them get into higher-level courses.

Gender balance at the Tertiary Education Commission

We were pleased to see that the commission has a high amount of female leaders in its office and that 54 percent of its staff are female. However, some of us were concerned that 43 men are earning more than $100,000 per year, compared to only 34 women.

We heard that the commission researched the bands for different roles to look at any possible gender pay gaps. It found that, in some areas, women were getting paid more than men and vice versa. The commission also mentioned it was doing work in leadership development for all genders.
Appendix

Committee procedure

We met on 17 February and 16 March 2016 to consider the annual 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

Dr Jian Yang (Chairperson)
Catherine Delahunty
Sarah Dowie
Chris Hipkins
Melissa Lee
Tracey Martin
Todd Muller
Adrian Rurawhe
Jenny Salesa
Stuart Smith
Hon Maurice Williamson

Evidence and advice received


Tertiary Education Commission, Responses to written questions 1-107, received 15 February 2016.

Tertiary Education Commission, TEC Performance Reports 1-3, received 15 February 2016.

Tertiary Education Commission, Responses to written questions 108-118, received 7 March 2016.

Tertiary Education Commission, Responses to written questions 118-127, received 11 March 2016.
2014/15 Annual review of the Department of Conservation

Report of the Local Government and Environment Committee

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Department of Conservation

Recommendation

The Local Government and Environment Committee has conducted the annual review of the 2014/15 performance and current operations of the Department of Conservation, and recommends that the House take note of its report.

Introduction

The Department of Conservation (DOC) is the government agency that manages all conservation land and waters, comprising about one-third of New Zealand’s area. This includes national parks, marine reserves, and marine mammal sanctuaries. DOC has the following five long-term goals:

- to better manage New Zealand’s natural heritage
- to better manage New Zealand’s historic heritage
- to encourage greater recreational use of Crown conservation land
- to promote greater public engagement with conservation
- to foster and grow business partnerships that result in a net conservation gain.

DOC is funded by Vote Conservation. In 2014/15, total departmental expenditure was $349.775 million (1.4 percent more than the previous year), resulting in a net surplus of $8.946 million.\(^1\)

The director-general, Lou Sanson, is responsible to the Minister of Conservation.

Implementing DOC’s new organisational structure

In 2013, DOC significantly restructured its organisation. In October 2014, DOC commissioned Australian consultancy firm Taribon to evaluate the outcome of this restructure.

The Office of the Auditor-General (OAG) advised us that DOC has been making good progress towards implementing the recommendations from Taribon’s report. For example, changes have been made to DOC’s senior leadership team. We were also advised that DOC has been working to improve staff engagement.

We are encouraged by these developments and hope to see DOC’s future annual reports refer to any associated outcomes.

The director-general informed us that a 90-day regional pilot to test the new organisational structure was completed in the South Island. He estimated that the North Island pilot will...

\(^1\) Department of Conservation, Annual Report for the Year Ended 30 June 2015, p. 55.
be complete by the end of March 2016. We look forward to hearing about the result of this pilot.

The director-general said he has acted on the July 2014 Performance Improvement Framework’s critique that DOC’s “purpose, vision and strategy have not yet been converted into a simple compelling story”. We were told that the department’s new vision has been shared with its staff and strategic partners. The new vision is that, by 2025, DOC aims to be working with others through whanaungatanga to achieve world-leading conservation.

The director-general is confident in DOC’s newly adopted 10-year stretch goals, labelling their adoption a “game changer”. By 2025, DOC aims to achieve the following:

- 90 percent of New Zealanders’ lives are enriched through connection to our nature.
- Whānau, hapū, and Iwi are able to practise their responsibilities as kaitiaki of natural and cultural resources on public conservation lands and waters.
- 50 percent of New Zealand’s natural ecosystems are benefitting from pest management.
- 50 freshwater ecosystems are restored from “mountains to the sea”.
- A nationwide network of marine protected areas is in place, representing New Zealand’s marine ecosystems.
- The stories of 50 historic Icon Sites are told and protected.
- 50 percent of international holiday visitors come to New Zealand to connect with our natural places.

The director-general said that local managers will report on progress towards these goals to the conservation board. We will also monitor DOC’s progress and look forward to future updates.

**Internal data privacy issue**

The OAG advised us that, during its audit of DOC, it discovered that certain private documents were at risk of being spread outside the organisation. The OAG has made some recommendations to DOC to ensure that this data is saved appropriately. We hope to see this issue resolved.

**Funding**

Some of us wanted to know why the department had an $8.9 million surplus in 2014/15, given that DOC has a wide range of projects that it could have spent this money on. DOC

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3 Department of Conservation, *Presentation to the Local Government and Environment Committee*, dated 3 December 2015, p. 4.
said this underspending was caused by programme delays and that about $7 million has been added to its baseline for 2015/16.

**Resourcing capacity to confront a beech mast year**

The *Battle for Our Birds* programme began in 2014 to address the 2013/14 summer beech mast (a year when beech trees produce large quantities of seed, attracting pests such as rats and in turn stoats that feed on rats). The year 2016 is predicted to be another beech mast year. Some of us wanted to know whether DOC’s funding would be adequate to confront this challenge. Previously, the director-general had said that the *Battle for Our Birds* programme was partially funded by redundancy savings from its organisational restructure.

The director-general told us that, by February, DOC would have a better idea of whether 2016 would be a beech mast year. However, he stressed that an increase in funding would not be a panacea because the department would also need to have capacity, such as staff with the correct training. The director-general said that DOC would need to be agile and shift its resources to confront future beech mast years.

**Redirected *Battle for Our Birds* funding**

DOC carried out 27 aerial 1080 operations in 2014/15, covering more than 600,000 hectares of land. This programme was considered an “outstanding success” because it significantly decreased the number of rats and stoats.4 We commend the result of this effort. However, some of us are concerned that other programmes suffered as a result of the redirected funding to finance *Battle for Our Birds*.

DOC did not achieve several of its weed, deer, and goat pest control targets because it redirected the funding allocated to these projects. The director-general emphasised that the *Battle for Our Birds* programme had to be prioritised to abate the huge influx of rats and stoats. The director-general is happy with the outcome of the redirected funding.

**Native species recovery**

**Saving the kiwi**

The director-general is confident that DOC can turn the current two percent kiwi population decline into a two percent increase, thanks to the new four-year 2015/16 Vote Conservation policy initiative “Save Our Iconic Kiwi”. This grants a total of $11.2 million towards kiwi recovery.

We support DOC’s efforts to protect one of New Zealand’s national icons and look forward to seeing kiwi numbers increase.

**Kererū road-kill**

Kererū are endemic to New Zealand and a protected species. Although kererū are not classified as threatened, their numbers are in decline because of predation and habitat loss.

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One of us has observed a high number of dead kererū on motorways and queried whether DOC keeps a record of kererū road-kill. The director-general told us that DOC does not monitor kererū road-kill but that members of the public often hand birds in.

Some of us remain concerned that the location of introduced species along motorways, such as tree lucerne, might be exacerbating kererū fatalities near motorways. The director-general assured us that DOC would engage with local authorities on this issue.

**War on weeds**

In August 2015, the Minister of Conservation announced a “war on weeds” programme to tackle the problem of invasive introduced species that hamper native plant growth. We asked for an update on this project.

The director-general said DOC has made good progress on tackling wilding pines, including targeted chemical control techniques.

**Climate change and its effect on conservation efforts**

The director-general shared his concern about the effect of climate change on New Zealand’s flora and fauna. He said he “constantly thinks about this issue” and is worried about the effect of warming sea temperatures on species such as the yellow-eyed penguin and the sea lion.

The director-general stressed that climate and eco-system research is important to combat the adverse effects of climate change. This research is mainly done by organisations such as NIWA, but DOC has one dedicated climate scientist.

The director-general told us that he has observed increasingly more extreme weather patterns. In particular, strong flooding and storms have adversely affected DOC’s walking tracks. This damage has cost implications.

The director-general said that climate change has also forced some tourist operations to adapt to new natural landscape conditions. For example, glacier walks in New Zealand have switched to helicopter experiences.

Some of us share the director-general’s concern about the effects of climate change and support further climate research to understand the extent of its impacts.

**Promoting conservation tourism**

**Increasing tourist numbers**

The director-general is confident that the department can increase the percentage of international visitors who primarily come to New Zealand to enjoy our natural landscapes. Currently, 35 percent of all international visitors arrive for this reason.5

The director-general hopes to see this increase to 50 percent.

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5 Ibid, p.10.
Google Maps recently announced its mapping of New Zealand’s Great Walks. Some of us are concerned about the risk of increased visitor numbers and maintenance costs if all 500 DOC-managed short walks were to be promoted. This could require extra funding.

The director-general told us that DOC is keen to excite people about ways to engage with nature. Currently, visitors are unevenly spread across the short walks. Many short walks in locations such as Gisborne are under-used.

We were told that DOC is considering ways to spread tourists over more tracks so they do not concentrate in areas such as south Westland. Spreading tourists would help to reduce track degradation.

**Supporting New Zealanders**

New Zealanders have been increasingly using public conservation land and waters for recreation (from 71 percent in 2012/13 to 77 percent in 2014/15). We are pleased about this trend. However, some New Zealanders are less likely to use DOC facilities, such as New Zealanders of Pacific and Asian ethnicity, and those with a below average annual income. We encourage DOC to consider new ways to reach out to these groups.

We asked how government funding might best advantage New Zealanders, noting that Great Walk hut subsidies would benefit foreign tourists the most because they are the greatest users of these huts. We wondered whether it might be better to subsidise other huts instead.

The director-general said that DOC could further explore new business models that target New Zealanders so they receive the most benefit from subsidies. We look forward to seeing development in this area.

**Conservation partnerships**

As part of the natural resources sector, DOC works closely with the Ministry for Primary Industries, the Ministry for the Environment, the Ministry of Business, Innovation and Employment, the Department of Internal Affairs, Te Puni Kōkiri, and Land Information New Zealand. DOC also works more broadly with tangata whenua, landowners, regional and local government, businesses, science providers, recreation, outdoor and conservation organisations, and community groups.

The director-general said his vision is to connect the networks of community, private, and other projects with DOC conservation efforts. He said that this would be challenging.

**Working alongside the public**

The director-general recognised the important contribution that volunteer community groups make to conservation. DOC aims to constantly maintain these relationships. In some circumstances, rangers are directly involved with community efforts.

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6. Ibid, p. 32.
We were told that DOC tries to give a minimal financial contribution to help these groups, but they are mainly self-funded. We support DOC’s efforts to foster its relationship with these community groups and encourage DOC to provide more technical advice so that optimal conservation outcomes can be achieved.

**Joint projects with the private sector**

DOC has achieved a steady revenue increase from business partnerships between 2011/12 and 2014/15. DOC’s partnership with Air New Zealand alone has resulted in a 10 percent increase in Great Walk overnight stays during the past three years. We recognise this achievement and would be interested to see statistics about DOC’s progress with its other private sector partners in future annual reports.

The director-general believes that with help from DOC’s partner Air New Zealand, predator-free areas such as Mount Taranaki could be increased.

The director-general emphasised the importance of private sector relationships for pest control efforts, which he said can “transform farm and predator pest management”. Technological advancements have further propelled joint pest control efforts. For example, ultrasonic high frequency sounds emitted from phone applications have been used to lure rats into traps. The director-general believes that the future of conservation lies with technology.

The director-general also said he is aware that organisations such as the University of Otago are exploring genetic solutions to pest control.

**Sharing the load with local authorities**

Some of us wanted to know whether DOC had encountered any reluctance from local authorities to maintain roads leading to DOC land after an event such as a slip. The director-general told us that the financial responsibility for funding road repairs is a constant tension. In 2015, DOC spent $1 million on road safety after a Tasman road fatality. We were told that reacting to constant slips around the Flora Saddle in the Tasman District is particularly challenging.

**Working internationally with China**

We were interested to hear about DOC’s international collaboration with the Chinese government to protect the habitat of the declining godwit and red knot. These migratory birds stop in China on their journey towards their Alaskan and Siberian breeding grounds. We support this initiative and encourage further international conservation collaboration.

**Co-management of Te Urewera**

During the past year, DOC has been working alongside Tūhoe to implement the Tūhoe Settlement and the Te Urewera Act 2014. DOC jointly governs Te Urewera with Tūhoe through the Te Urewera Board. In December 2015, *Te Kawa o Te Urewera: Statement of* 

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8 Ibid, p. 43.
Priorities 2016 was released. Public feedback on this 10-year management plan is open until 26 February 2016.

Some of us wanted to know how DOC’s partnership with Tūhoe is being evaluated. The director-general said that this co-management model is unique and could be world-leading. Although he acknowledged that there have been some “road bumps” and that both partners are still learning, he said he is very happy with the co-management model.

The director-general described the venture as an “exciting journey”. He highlighted the joint response effort after a bridge on the Lake Waikaremoana Great Walk collapsed in September 2015 as an example of what can be achieved together.

We asked how the funding for Te Urewera under the co-management structure is being split. The director-general said that DOC had planned to spend about $2.3 million on the area at the date of the settlement. This will still be spent there. We were informed that Tūhoe will contribute another $1 million.

We were interested to know whether ongoing maintenance costs were being included as part of the department’s transfer of assets to the Office of Treaty Settlements. The director-general said that DOC was working through this issue with Tūhoe.

We commend DOC’s partnership with Tūhoe and encourage DOC to share the positive outcomes of its co-management model with its staff working with the Office of Treaty Settlements, as well as with other Iwi negotiating settlements.

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Appendix

Committee procedure
We met on 3 December 2015 to consider the annual review of the Department of Conservation. We heard evidence from the Department of Conservation and received advice from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Matt Doocey
Paul Foster-Bell
Joanne Hayes
Tutehounuku Korako
Ron Mark
Todd Muller
David Parker
Eugenie Sage
James Shaw
Meka Whaitiri

Evidence and advice received
Office of the Auditor-General, Briefing on Department of Conservation, dated 3 December 2015.

Organisation briefing paper, prepared by committee staff, dated 3 November 2015.

Department of Conservation, Presentation, dated 3 December 2015.

Department of Conservation, Responses to written questions, received 23 November 2015.

Department of Conservation, Responses to additional written questions, received 1 February 2016.
The Local Government and Environment Committee has conducted the annual reviews of the 2014/15 performance and current operations of the Energy Efficiency and Conservation Authority, the New Zealand Walking Access Commission, and the Parliamentary Commissioner for the Environment, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Scott Simpson
Chairperson
# 2014/15 Annual review of the Environmental Protection Authority

Report of the Local Government and Environment Committee

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Environmental Protection Authority

Recommendation

The Local Government and Environment Committee has conducted the annual review of the 2014/15 performance and current operations of the Environmental Protection Authority, and recommends that the House take note of its report.

Introduction

The Environmental Protection Authority (EPA) is New Zealand’s national environmental regulator. Formed on 1 July 2011, the EPA is tasked with contributing to the efficient, effective, and transparent management of New Zealand’s natural and physical resources, along with meeting New Zealand’s international obligations in the field of environmental protection.

The EPA’s main activities are:

- regulation of pesticides, dangerous goods, household chemicals and other hazardous substances, regulation of ozone-depleting substances, certain chemicals and hazardous waste controlled by international environmental agreements, regulation of new organisms including genetically modified organisms
- regulation of certain activities within the Economic Exclusion Zone (EEZ) and Continental Shelf, for example the environmental effects of oil, gas, or mineral production
- administration of nationally significant proposals under the Resource Management Act 1991
- administration of the New Zealand Emissions Trading Scheme and the New Zealand Emissions Unit Register.

The EPA has approximately 180 staff (including contractors)—most Wellington based, but with a small office in Auckland—under the leadership of recently appointed chief executive Dr Alan Freeth.

Financial performance

The authority reported a surplus of $282,000 for the 2014/15 year, compared to the previous year’s deficit of $1.226 million. Both revenue and expenditure were below budget due to fewer activities involving nationally significant proposals and EEZ marine consent applications.

The Office of the Auditor-General gave the authority positive ratings for its management control environment and its systems and controls for measuring financial and service performance. However, it also recommended some improvements to strategic financial management and the measurement of strategic intentions. The EPA outlined various actions it has begun in response to these recommendations, and we look forward to seeing their impact in future.
Cooperation with other agencies

The EPA has cooperated particularly closely with WorkSafe New Zealand. A number of functions to do with hazardous substances—including the test certification regime—have now been integrated into WorkSafe’s obligations. This transition, carried out in anticipation of the new Health and Safety at Work Act 2015 and amendments to the Hazardous Substances and New Organisms Act 1996 (HSNO), will make it easier for small businesses to comply and thereby reduce harm in the workplace.

The EPA has continued to work with the Ministry for the Environment (MfE) to ensure that outdated HSNO regulations are replaced by fit-for-purpose rules (termed “EPA notices”) to prevent or manage adverse effects. EPA notices will help to consolidate, update, and simplify many outdated requirements including some which apply to labelling. The EPA aims to align New Zealand with international best practice.

We noted that the EPA has few legislated enforcement capacities, but is responsible for facilitating compliance and remediation work and keeping the Minister informed. The EPA made constructive use of other agencies’ work where appropriate, and was working with the Fire Service and health agencies on WorkSafe protocols that reflected the concerns of those working in each sector.

The EPA engages with some 76 different agencies. The EPA’s scientists visit and inspect sites nationwide, and work closely with local government. We heard that while larger local authorities are well resourced, others are not, and in certain cases did not even respond to EPA requests.

Organisational reviews

During the year MfE completed a review of the EPA, commissioned by Cabinet when the authority was first set up. The EPA completed its own internal review with Deloitte and also contributed to the MfE review. We expressed surprise at the number of reviews undergone by a relatively small organisation but were reassured that the Cabinet-mandated review and the EPA’s own review were closely aligned and did not reflect any concern about, for instance, the organisation’s ability to deliver on its new EEZ responsibilities.

MfE’s 3-year review found that the EPA has delivered well. It was now at the end of its start-up phase, and management and the board were developing a fresh vision and strategy for the next four years, 2016–2020. We acknowledge the work of former CEO Rob Forlong and former MfE Deputy Secretary James Palmer as Acting CEO on this project.

Staff resourcing against fluctuating demand

The organisation is working on how best to allocate staffing resources in an environment where demand can fluctuate sharply. The number of major applications received by the EPA in any one year ranges from none up to seven. Multiple applications underway simultaneously require the use of additional contractors. During quiet spells, the EPA has been able to redeploy staff, usually by seconding them to MfE, as a way to retain expertise and technical skills, but told us this may not always be possible. The authority will, as a result, be reviewing its resourcing model.

We were told that another challenge for the EPA is that local authorities and the Environment Court’s direct referral processes provide an alternative service for nationally significant project applicants.
New Zealand Emissions Trading Scheme

The EPA administers New Zealand’s Emissions Trading Scheme as part of New Zealand’s international obligations. In 2015, the EPA implemented the functionality to manage the closing of the New Zealand carbon market to international units. The EPA prepared to implement the UN Framework Convention on Climate Change’s “true-up” and carry over process, enabling New Zealand to meet its obligations under the first commitment period of the Kyoto Protocol. This work is now complete. Work continued on the redevelopment of New Zealand’s emissions register, achieving a high level of compliance with the scheme and eliciting very positive feedback from the UNFCCC’s international transaction log.

We asked when work on the emissions trading register would be complete, and whether delays had been caused by the EPA’s competing priorities. We heard that implementation is due by July this year—within budget, but later than planned. This was not a result of EPA’s competing priorities but reflected delays on the part of a subcontractor. This issue was now resolved and all subcontractors were now New Zealand-based. There would be no impact on customers.

He Whetū Mārama implementation

He Whetū Mārama is the framework that guides the EPA in undertaking its statutory and other obligations to Māori. Supported by the advice of statutory Māori advisory board Ngā Kaihautū Tikanga Taiao and in close consultation with the nationwide Te Herenga network, the EPA engages with iwi and hapū on EEZ marine consent applications and consults on its new functions under the Exclusive Economic Zone and Continental Shelf (Environmental Effects—Discharge and Dumping) Regulations 2015.

We asked whether the EPA believes its mechanisms deal effectively with differing points of view on Treaty settlements and the views of the Crown. It said that its Treaty obligations are set out clearly in legislation and it takes them seriously.

We heard that the Productivity Commission has described the EPA as a standard-setter in delivering on obligations to Māori through its implementation of He Whetū Mārama and its nationwide efforts to build awareness of Māori protocols around environmental issues. Te Puni Kōkiri has also commended the EPA’s work in meaningfully integrating Māori environmental concepts through He Whetū Mārama.

Burial at sea

The EPA has consulted widely with Māori about the question of appropriate burial at sea. Burial at sea is permitted in five locations in New Zealand’s EEZ. The response from Māori to the authority’s extensive consultation on the issue had been positive, but with significant variance of views on the practice between hapū.

Baseline funding for EEZ responsibilities

The chief executive told us he is working to address matters highlighted in both organisational reviews. He told us that a significant challenge for the EPA is the lack of baseline budget funding for the authority’s new EEZ responsibilities. For the past two years the EEZ functions have been funded via one-off allocations—$2.7 million in 2013/14 and $4 million in 2014/15—with no certainty of sustainable baseline funding.

We heard that the authority’s baseline funding is still uncertain. Given this, some of us have concerns about the long-term feasibility of its EEZ functions. We heard that the Treasury
has expressed support for increased baseline funding for the next two years with this in mind, but that this recommendation is some way off finalisation. Some of us felt that the resulting funding gap could potentially limit the EPA’s financial and operational planning. We were told, however, that the EPA is functioning well and has prepared an “investment proposal” to determine the level of funding needed.

Some of us were concerned about public confidence in the independence of the EPA’s EEZ marine consent process, and noted that it was not the EPA’s recommendation that the Minister appoint hearing panels for EEZ applications. Some of us were reassured that the EPA has no concerns about the independence of its EEZ hearing panels.

**New EEZ regulations for discharge and dumping of waste**

We asked for an update on the implementation of EEZ regulations covering the discharge and dumping of waste at sea, which came into force last year. We heard that the EPA is pleased with progress on the transfer of this function from Maritime New Zealand. The new regulations cover discharge and dumping from the moment an applicant wants to undertake an activity in the EEZ. The EPA is working closely with industry to ensure compliance with a new cost recovery model that includes longer periods of consent than Maritime New Zealand had previously offered.

The authority told us that the model entailed a significant cost increase for industry but this had been well foreshadowed and so had not been problematic. It said that marine research poses a particular challenge, as researchers often want to ditch “sacrificial anchors” once their research was complete (sonar buoys for whale tracking, for example). The EPA wants to resolve this constructively: it does not wish to put off marine researchers but it is not acceptable for materials to be left behind.

**Release of GMO for clinical trial in New Zealand**

We asked about the EPA’s October 2015 decision to approve the import for release of a genetically modified live vaccinia virus (Pexa-Vec) for use in a multi-national clinical trial involving patients with a form of liver cancer (hepatocellular carcinoma). Pexa-Vec virus is the first genetically modified organism (GMO) for human therapeutic purpose that is capable of reproducing itself within the trial subject to be approved by the EPA for release under the HSNO Act.

We asked about the nature of the investigations that the authority carried out before granting approval. We heard that the decision-making process had taken five to six months and also involved MedSafe. More than 300 overseas patients with advanced cancers have received Pexa-Vec treatments in previous clinical trials. There are approximately 180 new cases of liver cancer in New Zealand each year, with Māori disproportionately likely to be affected both by liver cancer and by Hepatitis B.

The EPA said it made the decision to approve the importation for release of Pexa-Vec after conducting a thorough assessment of the potential risks to the health and safety of the public, any valued species, natural habitats, or the environment. A number of controls have been put in place to manage the risks to people and the environment posed by the virus, whose means of reproduction and transfer are well understood.

**Hazardous substances and new organisms regulation**

We asked about the challenge posed by hazardous substances administration. A key challenge is that the EPA is a regulator but not a policy maker.
We heard that aspects of current legislation are problematic. New Zealand does not place a time limit on consent use, whereas other jurisdictions do. The EPA’s only current time limit mechanism is “reassessment”, through which chemicals are nominated to go on a list for reassessment. The annual budget for reassessments is $300,000—compared with Canada’s $100 million spend on the reassessment of 14,000 chemicals. The EPA is scoping the reassessment issue as a strategic piece of work, likely to take 3 to 8 years. It would be important for agriculture and for the environment.

The EPA has established a 10-year plan for reassessing the hazardous substance information in EPA databases. However, at the current rate of review, it would take 50 years to address each, by which point all would need reviewing in another ten years’ time.

The chief executive told us he is looking at international best practice to avoid duplicating work being done elsewhere. Every jurisdiction now faces tens of thousands of new chemicals, many of them produced via new science and potentially posing environmental and health concerns.

**Global harmonisation system**

EPA staff are involved in OECD work towards a global harmonisation system (GHS) for chemicals—an initiative in which New Zealand is an early leader. If New Zealand joins the GHS it will need to reassess 9,000 chemicals. The chief executive noted that he looks forward to discussing this prospect—and how to re-harmonise the HSNO Act with the GHS—with Ministers and MfE.

We asked about the criteria used to compile the list of chemicals for reassessment, and the reassessment methodology itself. We heard that EPA staff spend a week to a month looking at any nominated chemical, using the system’s “core” approval as a starting point before taking into account factors specific to New Zealand. The EPA said there is much common work among environmental protection authorities worldwide, and the Minister for the Environment has discussed with the OECD the scope for further collaborative inter-agency work.

**Cost recovery**

The EPA collected $7.315 million in application fees and cost recovery expenses in 2014/15, which includes $1.31 million in cost recovery expenses from Christchurch City Council.

We were advised that significant work is underway on the question of EPA’s approach to cost recovery, exploring what work should be Crown funded and what should be considered appropriate for private/public benefit funding. We asked if there had been any crossover where the authority had sought to offset its baseline funding challenges via cost recovery from applicants, and heard that this was not the case. Such charges are set by regulation. The impact of baseline funding challenges was felt elsewhere: decreased resource to commit to nationwide educational campaigns on hazardous materials was cited as an example.

**Chatham Rock Phosphate**

We asked about progress in recovering Chatham Rock Phosphate’s outstanding $800,000 debt to the EPA. We heard that summary judgement has been served on Chatham Rock Phosphate, which the company has opposed. We heard that the case has entailed “huge”
time and cost for the authority. No existing work has suffered but it has meant that other work such as information campaigns could not be undertaken.
Appendix

Committee procedure
We met on 2 February and 10 March 2016 to consider the annual review of the Environmental Protection Authority. We heard evidence from the Environmental Protection Authority and received advice from the Office of the Auditor-General.

The advice and evidence received in relation to this annual review are available on the Parliament website, www.parliament.nz.

Committee members
Scott Simpson (Chairperson)
Matt Doocey
Paul Foster-Bell
Joanne Hayes
Tutehounuku Korako
Ron Mark
Todd Muller
Hon David Parker
Eugenie Sage
James Shaw
Meka Whaitiri

Evidence and advice received
Office of the Auditor-General, Briefing on the Environmental Protection Authority, dated 2 February 2016.

Environmental Protection Authority, Responses to questions (1–107), received 27 January 2016.

Environmental Protection Authority, Responses to additional questions (108–119), received 22 February 2016.
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Ministry for the Environment

Recommendation
The Local Government and Environment Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry for the Environment, and recommends that the House take note of its report.

Introduction
The Ministry for the Environment is the Government’s primary adviser on the New Zealand environment and international matters that affect the environment. It has an environmental stewardship role and leads the natural resources sector in balancing environmental, economic, and other objectives.


The ministry’s overarching goals are to:

- strengthen and support New Zealand’s environmental management systems
- improve New Zealand’s fresh water management
- reduce New Zealand’s greenhouse gas emissions.

The ministry is funded by Vote Environment. In 2014/15, total departmental expenditure was $52.704 million (4.2 percent more than the previous year), resulting in a net surplus of $2.111 million.¹

The chief executive, Vicky Robertson, is responsible to the Minister for the Environment and the Minister for Climate Change Issues.

Management control environment and information technology controls
The Office of the Auditor-General (OAG) advised us that the ministry’s register of interests for key management personnel is incomplete and that information technology controls should be improved. The OAG’s recommendations for rectifying this included the ministry carrying out routine tests to ensure that data can be restored in a disaster. We hope that the ministry will implement these recommendations.

Reporting on outcomes and impact measures
The OAG revised the ministry’s “Performance information and associated systems and controls” rating from “very good” in 2013/14 to “good” in 2014/15. The ministry’s annual report provides only limited information about its progress towards its outcomes and impact measures. The ministry said that it would improve this information during the

upcoming Estimates processes. We expect the ministry to provide adequate information in its next annual report.

Collaboration and partnerships

Outward-focused collaboration

We asked the chief executive to explain what she means when she says that the ministry is becoming an “increasingly outwardly-focused” organisation. She responded that this approach to collaboration is bottom-up and allows the ministry to understand what happens “on the ground”. She also said that it highlights what the ministry can do to make the biggest difference, what is working in practice, and any issues.

The ministry works with a variety of partners including councils, Iwi, hapū, sector groups, and communities. However, the chief executive told us that its outward-focused approach will engage with a wider range of people.

Measuring Māori satisfaction with the ministry

In 2014/15 the ministry did not measure one of its goals under its impact statement to “improve the relationship between the Ministry and Māori by negotiating and implementing fair, durable and fit-for-purpose deeds of settlement and environmental accords”. The ministry’s chief executive said that the ministry did not measure this because she wants to “see the meaning behind the relationship agreements” that the ministry has with Māori.

Therefore, the ministry is considering how to best connect this measure with the desired outcome. We hope to see the result of this consideration outlined in the ministry’s next annual report.

Reviewing the ministry’s international focus

We asked the ministry whether the Trans-Pacific Partnership would put pressure on its resources. Although the chief executive admitted that some projects would need to be reprioritised to address the environment chapter of the agreement, she asserted that the ministry would not be looking for more funding.

We were told that the ministry is reviewing its international strategy and considering whether its focus on countries such as China and Australia is still the best approach.

Improving waste management practices

We asked how the ministry has been supporting communities and businesses to improve waste management practices. The ministry told us that it works with communities directly through local and regional councils, and that businesses can apply for funding through the Waste Minimisation Fund that it administers.

Local authorities conduct waste assessments, which inform their waste management minimisation plans. These seven-year plans are driven by the community and suit the

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2 Ibid, p. 2.
3 Ibid, p. 44.
desires of each local community. The Government contributes about $15 million a year to help local authorities to implement these plans.

The Waste Minimisation Fund contains about $13 million a year to support waste minimisation projects. The ministry said that this fund has supported many industry and local community projects. The ministry highlighted the Para Kore Marae Incorporated Iwi marae-led project as an “incredibly successful” example.

Resource management reform

The ministry told us that it is working to better understand and resolve impediments to the resource management process. The ministry’s work in this area is being done in conjunction with the Productivity Commission’s urban planning work.

The Resource Legislation Amendment Bill that has been referred to our committee incorporates some changes to resource management processes. Some of us remain concerned about resource management processes, including those proposed under the bill.

Resource management planning templates

One of the objectives in the Resource Legislation Amendment Bill is to enable the development of a national planning template for resource management plans and processes. We asked whether the ministry has an idea of the kind of planning template that local authorities might adopt following the passage of this legislation.

The ministry told us that it is important for the final templates to be practical, so it has been consulting with local communities to find out what would work best for them. The ministry said that it would be able to provide us with a template once the bill has been through the select committee process. We look forward to seeing this when it is available.

Oversight of the Environmental Protection Authority

The ministry completed its first review of the Environmental Protection Authority in 2014/15. It found that during its first three years, the authority had delivered its statutory functions within timeframes and budgets. The ministry noted that, in the future, the authority needed to be more strategic and future-focused.

We were told that the ministry is working with the authority to progress the review’s recommendations and improve the authority’s financial performance and regulatory effectiveness. The authority is due to report progress to its Minister in October 2016.

There have recently been complaints to the Regulations Review Committee about the authority’s processes and cost recovery practices. We asked if the ministry’s next review of the authority would consider this. Some of us also wondered if it would be preferable to increase funding for the Environment Court.

The ministry acknowledged that costs have been high at the “front-end” of nationally significant proposal processes (the authority supports a board of inquiry that considers these proposals). However, the ministry told us that costs are probably lower overall because of legislative timeframe requirements and restrictions on appeal rights.

The ministry admitted that some organisations may think that local council processes are cheaper, but it emphasised that timeliness has been the main focus of recent reforms. The ministry drew our attention to the New Zealand Transport Authority’s positive experience as the biggest user of the nationally significant proposal process. The ministry assured us
that the New Zealand Transport Authority is satisfied with the increased timeliness of the process.

**Marine protected areas legislation**

The committee will be interested to see legislation on marine protected areas introduced into Parliament, and asked when this is likely to occur. The ministry said that legislation will be introduced as soon as possible and that this is likely to be in 2016.

**Providing national direction**

We asked whether a national policy statement on sea-level rise might be forthcoming. The ministry told us that it is considering a national policy statement on natural hazards, which is likely to include sea-level rise. The ministry also said it is reviewing and updating its guidance on sea-level rise.

The ministry said that it is also considering other national policy statements, including one on urban development and another that would amend the 2014 National Policy Statement for Freshwater Management (NPS-FM).

Some of us are interested in whether the ministry has had any concerns about the speed at which councils are implementing the NPS-FM. The ministry said that the NPS-FM has started a “necessary conversation at the community level” about regional water quality limits. The ministry was positive about the initial progress that has been made. It assured us that regional councils are aware of their obligations and want to engage their communities.

**Environmental reporting**

**Domain and synthesis reports**

The Environmental Reporting Act 2015 sets out a framework for environmental reporting in New Zealand. The ministry and Statistics New Zealand released the first synthesis report published using the framework of this Act, *Environment Aotearoa 2015*, in October 2015. It analysed environmental data for five different domains: air, atmosphere and climate, fresh water, land, and marine. The first report to be released under the new legislation will be a domain report on fresh water in 2016.

The Parliamentary Commissioner for the Environment can provide commentaries on domain and synthesis reports. We were pleased to hear that the ministry highly values its partnership with the commissioner on environmental reporting.

The ministry said that the commentaries on the domain and synthesis reports provide helpful recommendations. For example, the ministry is considering issues with the National Environmental Standards for Air Quality that were highlighted in the Parliamentary Commissioner for the Environment’s March 2015 report, *The State of Air Quality in New Zealand*.

We were told that a review of the National Environmental Standards for Air Quality will take place within the next few years.

**Measuring fresh water swimmability**

Some of us are interested in whether future fresh water domain reports will include swimmability data. The ministry assured us that it is investigating whether this measure would be practical. It said that it would like to be able to provide swimmability data in domain reports. We look forward to receiving an update on this.
Addressing data gaps and accessibility

We asked what progress has been made to address gaps in environmental data and the accessibility of data. The ministry acknowledged that improving data is a “work in progress” and that there are gaps in data for all domains.

The ministry is keen to obtain reliable and robust environmental data, and told us that communities have actively requested this. We find it encouraging that data gaps are being identified through the production of domain and synthesis reports.

In addition to the production of domain and synthesis reports, we noted that local authorities and other organisations are helping to provide better and more accessible data through the Land, Air, Water Aotearoa (LAWA) website.

Protecting the integrity of environmental data

We asked how the ministry evaluates the accuracy of data that local authorities collect. The ministry said that while not every sample is checked, data integrity is important. We were told that the Cawthron Institute and NIWA regularly peer-review data. The ministry has also employed a new science adviser who previously worked as a chief scientist at NIWA.

We asked how regularly the Cawthron Institute and NIWA peer-review data. The ministry said that reviews are based on workflows and demands for data. We were told that data for air and river water quality is collected on a cyclical basis. However, the ministry admitted that some other data may be reviewed on a more ad-hoc basis.

It is important to maintain data quality to ensure that the conclusions and trends derived from the data can be trusted. We support peer-reviews of data by the Cawthron Institute and NIWA. We also encourage local authorities to periodically evaluate their environmental data and their methods of collecting it.

Fresh Start for Fresh Water Clean-up Fund projects

The ministry partners with councils, Iwi, hapū, communities, and other groups to support fresh water clean-ups throughout New Zealand.

We asked for an update on the Fresh Start for Fresh Water: Rotorua Te Arawa Lakes Programme, which was established as a multi-year appropriation in Budget 2015. The programme focuses on restoring Rotorua, Rotoiti, Rotoehu, and Ōkāreka lakes. The target date for reducing 460 tonnes of nitrogen and 33 tonnes of phosphorus from the lakes is June 2032. We were pleased to hear that the water quality of these lakes has improved.

We note the progress made on the Lake Taupō Protection Project, which finished three years ahead of schedule. This project prevented 170 tonnes of manageable nitrogen from entering the lake.

Reviewing the effectiveness of the Emissions Trading Scheme

We note that a second review of the Emissions Trading Scheme (ETS) began in late 2015. The outcome of the review will help to determine the future direction of the ETS and assess whether the ETS is fit for purpose during 2013–2020 and beyond.
Some of us are concerned that this review is not considering agricultural emissions even though a 2011 review suggested including these. We asked the ministry whether it advised the Minister to exclude these emissions from the ETS. The ministry said that it provided advice about excluding agricultural emissions because it considered it too early to include these. However, it did not directly advise the Minister to exclude these emissions.

We asked whether the ministry thinks that the ETS has contributed to a significant reduction in greenhouse gas emissions since 2009. The chief executive recognised that the ETS has not resulted in any major behavioural changes, such as consumers switching to more energy-efficient cars. However, we were told that there have been some notable changes—for example, new fossil-fuel power stations have not been appearing.

Although the ministry noted that the ETS could only ever have a limited influence, we were assured that New Zealand should be able to meet its target of an 11 percent reduction in greenhouse gas emissions below 1990 levels by 2020.

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Appendix

Committee procedure
We met on 10 December 2015 and 11 February 2016 to consider the annual review of the Ministry for the Environment. We heard evidence from the Ministry for the Environment and received advice from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Matt Doocey
Paul Foster-Bell
Joanne Hayes
Tutehounuku Korako
Ron Mark
Todd Muller
David Parker
Eugenie Sage
James Shaw
Meka Whaitiri

Evidence and advice received

Organisation briefing paper, prepared by committee staff, dated 18 November 2015.

Ministry for the Environment, Output Plan 2014/15, received 7 December 2015.

Ministry for the Environment, Responses to written questions, received 7 December 2015.

Ministry for the Environment, Responses to additional written questions, received 27 January 2016.
2014/15 Annual review of Tamaki Redevelopment Company Limited

Report of the Local Government and Environment Committee

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Appendix 5
Tāmaki Redevelopment Company Limited

**Recommendation**

The Local Government and Environment Committee has conducted the annual review of the 2014/15 performance and current operations of the Tāmaki Redevelopment Company Limited and recommends that the House take note of its report.

**Introduction**

Tāmaki Redevelopment Company Limited was established in 2012 as an urban redevelopment company. It is a Crown entity with joint shareholdings by the Crown (59 percent) and the Auckland Council (41 percent).

The company aims to achieve social, economic, and housing objectives in the Auckland area of Tāmaki during the next 20–25 years. Tāmaki incorporates the suburbs of Glen Innes, Point England, and Panmure.

In 2014/15, the company’s total expenditure was $4.794 million, with a net deficit of $293,000.

The company received a good overall review from the Office of the Auditor-General (OAG). However, the OAG cautioned that the company faces significant upcoming changes. It will need to ensure that its systems and processes remain fit for purpose.

Because the company is a relatively new entity, the OAG did not carry out the comprehensive graded review that other entities usually receive. However, the OAG will start to do this next financial year.

**Transfer of housing stock from Housing New Zealand Corporation**

On 31 March 2016, the company will take over ownership of about 2,800 properties in the Tāmaki area. These properties are currently held by Housing New Zealand Corporation and are valued at about $1.3 billion. The company told us that it has been preparing for the transfer since it was announced in April 2015 by building its management and operational capacity.

Together with Housing New Zealand, the company is working to provide continuity to tenants during and after the transfer. The company is also partnering with the Ministry of Social Development, which is responsible for sourcing the tenants and making rental payments. The company is confident that the transfer will go well, because its team has significant experience in managing social housing.

In addition, seven staff from Housing New Zealand will join the company as part of the transfer. The company has also recruited eight staff to increase the capacity of the tenancy management team. It told us that it has chosen a “portfolio approach” to providing services. Under this approach, tenancy managers will partner with tenants in all of their interactions with the company.

As part of its efforts to ensure continuity of service, the company told us that it has chosen to contract the same facilities management provider that Housing New Zealand employs to take care of the properties.
Risk management

We asked whether the board of the company is ready for the transfer when it comes to risk management. The company told us the board has a risk framework in place that is subject to regular review.

The OAG noted that the current framework is effective but that the company will need to adapt the framework after the transfer to continue to appropriately manage risk.

Social development programmes

The company’s regeneration work is not limited to housing. While partnering with residents to prepare them for the changes to the housing in their area, it has also embarked on several programmes to provide social, economic, and health support to the Tāmaki community.

The company told us that it is committed to “partnership, a respectful and engaging relationship”. It is working to build capability and capacity among residents with the support of community groups, government agencies, local boards, and local businesses.

Career Start

We heard that the company’s Career Start programme, run in partnership with the Auckland Chamber of Commerce, has so far found work for 82 unemployed young people. Young people are given training, including work experience, to make them “work ready”.

This programme is an example of the company’s long-term approach to community support. The training programme runs for a year, and participants are given mentoring support during their first year of employment.

Financial literacy

The company told us that it is offering a financial literacy programme with support from the Commissioner for Financial Capability. Each cycle focuses on a subset of the Tāmaki community. The last cohort was young members of the Cook Islands community.

Participants were nominated by their community with the expectation that they would share what they have learnt with their wider whānau. The company evaluates the programme six months after each cohort ends.

Fenchurch neighbourhood

One of the company’s first major redevelopment projects is in the Fenchurch neighbourhood. Once complete, there will be an additional 500 homes. As at 30 June 2015, 11 homes had been built and 21 more homes were under construction. Further construction is expected in the coming year.

The company chose Fenchurch as the first project for several reasons, including that it has a significant number of existing vacant social houses. This means that fewer people are affected by the development. Low existing housing density also enables higher density output for future rehousing purposes.1

Alongside housing, the company has several other initiatives under way in Fenchurch. It has transformed an unused Department of Conservation facility into a community hub.

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1 Annual Report, p. 11
Local residents manage this with support from the company. The company would ultimately like the governance skills of the management board to reach a level where it can manage the hub independently and sustainably without the company’s involvement.

In addition, the company has set up an early childhood education centre that serves around 60 children. The centre also offers work experience opportunities to local high school students.

These initiatives reflect the community’s priorities. When the company surveyed the community, early childhood education and a community hub were popular choices.

**Measuring success**

We asked how the company measures success. It appears to judge this based on concepts such as community goodwill. The company acknowledged that it is hard to define exact measures. It told us that the community will change a lot in coming years, as will residents’ needs and their expectations of the company. It believes that maintaining goodwill “can only be achieved through delivery and action”.\(^2\)

We heard that the company is working with whānau to support them to achieve their aspirations. Maintaining open and honest relationships will help ensure that the company is well aware of the community’s views. The company is confident that Tāmaki residents have no hesitation speaking their minds, especially when the company provides forums in their languages and in places such as marae and churches.

By involving residents in designing many of the projects in Tāmaki, the company believes its work is on track for success. It also told us that it is committed to regularly assessing and improving its work programmes to ensure that it is on track to achieving its desired outcomes.

**Maintaining a sense of community**

We asked how the company can help support a strong sense of community in Tāmaki if residents, many of whom have been in Tāmaki for generations, are moved from their homes. We were told that residents are offered the choice to stay in Tāmaki if they choose.

The company acknowledged that this can create some challenges in a brownfields development. Some residents may need to move away temporarily, but the option to return will be there. However, the company noted that some people may choose not to come back and that this is part of the changes happening in Tāmaki as part of regeneration.

The company also told us that housing changes will effectively double the population and that it will be important to help new residents integrate.

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\(^2\) Annual Report, p. 6.
Appendix

Committee procedure
We met on 2 February and 10 March 2016 to consider the annual review of the Tāmaki Redevelopment Company Limited. We heard evidence from Tāmaki Redevelopment Company Limited and received advice from the Office of the Auditor-General. The advice and evidence received in relation to this annual are available on the Parliament website www.parliament.nz

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Todd Muller
Hon David Parker
Eugenie Sage
James Shaw
Meka Whaitiri

Evidence and advice received

Tāmaki Redevelopment Company Limited, Responses to written questions, received 17 February 2016.

Tamaki Redevelopment Company Limited, Responses to additional written questions, received 29 February 2016.