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.
2014/15 Annual review of the Ministry of Defence and the New Zealand Defence Force

Report of the Foreign Affairs, Defence and Trade Committee

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Ministry of Defence and the New Zealand Defence Force

Recommendation
The Foreign Affairs, Defence and Trade Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry of Defence and the New Zealand Defence Force and recommends that the House take note of its report.

Introduction
We have divided our report into two parts to reflect the separate operations of the two entities we have reviewed. Part A covers the 2014/15 performance of the Ministry of Defence, and Part B focuses on the performance of the New Zealand Defence Force (NZDF) for the same period.

We would like to begin by saying that we are proud of New Zealand’s defence forces, particularly the men and women who serve overseas in what is a rapidly changing, complex, global environment.

Part A: Ministry of Defence
The Ministry of Defence advises the Government on the defence of New Zealand and New Zealand’s efforts to enhance the security of other nations. The ministry manages the procurement, replacement, and repair of military equipment, and audits the performance of the NZDF. In 2014/15, the ministry’s total income was $11.868 million. Its total expenditure was $11.822 million, resulting in a surplus of $46,000.

The Office of the Auditor-General graded the ministry’s management control environment and financial information systems and controls as “very good”. The ministry’s rating for its service performance information and associated systems and controls increased from “needs improvement” in 2013/14 to “good”. This was because of progress in how the ministry reports its performance information.

Drafting of new Defence White Paper
In 2014, the Ministry of Defence provided the Government with a defence assessment of the international environment to 2040. The Government then directed the ministry to begin work on a new Defence White Paper.

The ministry began this work in March 2015 and expected to complete a draft by the end of 2015. The ministry told us that the draft policy content is complete but that costings have taken longer than expected. It now expects to publish the White Paper in March 2016.

Replacing equipment
We heard that the 2014 capability plan schedules the replacement of air transport and air surveillance equipment from 2020 to 2025. The frigates are scheduled to be replaced around 2029. The NZDF is looking at a range of options as part of its work on the Defence White Paper.
Minister’s satisfaction with policy and advice, and NH90 helicopters

We wanted to know why the Minister of Defence rated his satisfaction with the quality of advice and support provided by the ministry and the NZDF at 50 percent. This was below the targets of 70 percent or more for the ministry and 90 percent for the NZDF.

We heard that, when the assessment was made, the Minister was new in the role, and the ministry and NZDF were adapting to his style and demands. The Minister was concerned with the quality and timeliness of the advice provided. Both organisations have since geared up to meet the Minister’s expectations, improving their relationship with him and the information and support they provide to him.

We pointed out that the Minister had also been critical of the purchase of the NH90 helicopters to replace the UH1 Iroquois. We heard that timing was an issue here; the Minister felt that the aircraft had not yet proven itself in operational service in other countries’ military forces, NZDF air transport could not transport the helicopters, and they cost considerably more to operate than the Iroquois.

The Minister later acknowledged that the NZDF is working to make the NH90s fully operational. The helicopters performed well operating from the HMNZS Canterbury in Exercise Talisman Sabre and as part of Exercise Southern Katipo 2015.

Review of NZDF training mission to Iraq

The ministry is currently reviewing the NZDF mission to train Iraqi security forces. We look forward to the findings of the review. The review will consider the training outcomes and the progress made by the Iraqi Government. It will also assess the broader counter-Daesh campaign. The review will be submitted to Cabinet for consideration in March, and its findings are expected to be made public shortly after that.

The NZDF has not been asked to extend the training mission beyond the two years it has committed to.

Part B: New Zealand Defence Force

The New Zealand Defence Force (NZDF) provides armed forces capable of defending and protecting New Zealand and its interests, and participating in United Nations and other multi-national operations. In 2014/15, the NZDF’s total income was $2.366 billion. Its total expenditure was $2.326 billion, resulting in a surplus of $39.2 million.

The Office of the Auditor-General graded the NZDF’s management control environment, financial information systems and controls, and performance information and associated systems and controls as “good”.

Other agencies’ satisfaction with the NZDF

Antarctica New Zealand, the New Zealand Customs Service, and the New Zealand Police all reported that the NZDF was unable to meet their expectations for engagement. The service that was provided was of a high standard, but the problem of asset availability limited the NZDF’s capacity.

With regard to Customs, the NZDF is looking at how to improve communications and how Customs records the success or otherwise of its requests to the NZDF. We encourage the NZDF to discuss how it can better meet the expectations of these agencies.
NZDF attrition rate and capability

We asked about the NZDF’s attrition rate. We heard that, during the last year, it had dropped by around two percent each quarter from a high of just over 20 percent two years ago to 7.4 percent at the end of 2015. The current attrition rate is 9 percent, and it is expected to remain stable.

This rate is considered ideal for retaining experienced staff while allowing space for new recruits. The NZDF has achieved this attrition rate by ensuring that pay is in line with that of the public service and that conditions of service are favourable—whether they be accommodation, flexible working hours, or allowing other freedoms and choices.

In our 2013/14 annual review report on the NZDF, we discussed the organisation’s recovery to the staff levels of 2008/09. This year, we wanted to know whether the NZDF is still aiming for this target and the time frame involved. We heard that the NZDF is expecting each of the services to grow during the next four years.

To achieve this, the organisation is using lateral recruiting, particularly from the United Kingdom, and re-enlisting people who have left the organisation. However, the NZDF explained that focusing just on staff numbers does not reveal the skills that people bring to the organisation.

Women in the NZDF

The NZDF shares our concern that the number of women in the NZDF has remained fairly static at 15.5 percent for the last four years and that women make up just 4.2 percent of those in the senior ranks. We heard that, rather than having difficulty recruiting women, the NZDF has difficulty retaining them. Therefore, it is focusing on developing flexible, family-friendly work practices and career progression systems.

Injury rates in the NZDF

We asked the NZDF to comment on the fact that injury rates sustained in the NZDF have also remained unchanged for the last four years. We heard that the NZDF believes that this reflects increased reporting of injuries. This is because the NZDF has invested considerably in health and safety initiatives in recent years. We hope that this is the case.

Southern Katipo exercise 2015

We asked about Exercise Southern Katipo 2015, which was held in the upper South Island in October and November 2015, and the opportunities it provided for NZDF personnel. The Southern Katipo involved 2,500 people, making it the largest exercise held in New Zealand.

The exercise is designed to test a multinational Combined Joint Task Force, and participating countries included the United States of America, Australia, Canada, Fiji, France, Papua New Guinea, Tonga, and the United Kingdom. These countries provided expertise and enhanced the size of the operation. They also enabled participants to share technical information and engage with the local region and beyond.

We are aware that some Blenheim residents were taken by surprise when armed forces personnel appeared in full kit in their town. We heard that the NZDF began engaging with the local community months before the exercise and also used locals to play certain parts to make the training more realistic. It was unfortunate that the communications had not reached everyone in Blenheim.
Limited Service Volunteer course

We asked about the NZDF’s satisfaction with the Limited Service Volunteer course and its future. The six-week motivational and training course for young people was being run in Wellington, Auckland, and Christchurch, but the Wellington training centre has recently been closed. This was because the Ministry of Social Development indicated that the number of trainees it provides would drop from 1,500 to 800. This meant that the Wellington centre was no longer viable. Courses will continue to be held in Auckland and Christchurch.

We were interested in how the NZDF measures the success of the course. We heard that the NZDF monitors the behaviour of trainees while they attend the course, and the Ministry of Social Development tracks the progress of individuals beyond that.

NZDF training mission to Iraq

Legal basis for NZDF personnel to be providing training in Iraq

We heard that the basis on which NZDF personnel are providing training in Iraq is a request from the Iraqi Government. The training is providing the Iraqi forces with the knowledge and structure to fight as a cohesive group. Because NZDF personnel are not involved in combat activities, United Nations Security Council authorisation is not needed for New Zealand to be involved.

We wanted to know how NZDF personnel travel when leaving their base at Taji camp. We heard that, on almost all occasions, individuals leave the compound by air bound for headquarters in Baghdad.

Loss of around 40 percent of Daesh territory

We learned that, in the 18 months since the coalition began operations, Daesh has lost around 40 percent of its territory. This has been achieved by support provided to the Iraqi forces through airstrikes and a slow but steady campaign of targeting individuals and supply routes.

Weekly charts compiled using satellite imagery and intelligence show the change of dominance in Iraq and who controls the territory.

Poor living conditions of Iraqi trainee soldiers

We discussed a United States Department of Defence review of September 2015. This review reported that the Iraqi trainee soldiers had poor living conditions, without running water or power. This was affecting their morale and distracting them from their training to the point that they were taking leave without approval.

We suggested that the poor living conditions were interfering with the NZDF’s ability to deliver the training and asked whether this is a concern for the NZDF. We heard that it is a matter for the Iraqi forces and that the NZDF cannot interfere. The issue involves funding and the allocation of resources by the Iraqi security forces.

However, the matter has been brought to the attention of the Commander Joint Forces, and New Zealand, Australia, and the United States have lobbied for better conditions for the Iraqi trainee soldiers.

A supply support system has been put in place to improve conditions for the soldiers, and the training for leaders and senior non-commissioned officers has changed. We heard that
the conditions are not proving to be worse than a distraction; the Iraqi trainees are open, positive, and engaged.

**Fishing patrols in the Southern Ocean during the summer**

In an update on fishing patrols conducted in the Southern Ocean during the summer, we heard that staff onboard the HMNZS Otago boarded eight vessels from Russia, the United Kingdom, Spain, and New Zealand. The staff identified four infringements relating to two vessels.

That information was provided to the Ministry for Primary Industries, which is following up on potential prosecutions. Close communication between the NZDF, the Ministry for Primary Industries, and the Ministry of Foreign Affairs and Trade about roles and decision-making made the mission successful. We heard that the patrols usually identify no more than a dozen illegal, unregistered vessels.
Appendix

Committee procedure
We met on 11 February and 3 March 2016 to consider the annual reviews of the Ministry of Defence and the New Zealand Defence Force. We heard evidence from both organisations, and received advice from the Office of the Auditor-General. The advice and evidence we received are available on the Parliament website.

Committee members
Mark Mitchell (Chairperson)
David Bennett
Dr Kennedy Graham
Dr Shane Reti
Jami-Lee Ross
David Shearer
Fletcher Tabuteau
Lindsay Tisch
Dr Megan Woods
Dr Jian Yang

Evidence and advice received

Organisation briefing paper, prepared by committee staff, dated 11 February 2016.

Ministry of Defence, Responses to written questions, received 18 November 2015 and 3 February 2016.

New Zealand Defence Force, Responses to written questions, received 19 November 2015 and 2 February 2016.
2014/15 Annual review of the Ministry of Foreign Affairs and Trade

Report of the Foreign Affairs, Defence and Trade Committee

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Ministry of Foreign Affairs and Trade

Recommendation
The Foreign Affairs, Defence and Trade Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry of Foreign Affairs and Trade, and recommends that the House take note of its report.

Introduction to the Ministry of Foreign Affairs and Trade
The Ministry of Foreign Affairs and Trade promotes and protects New Zealand’s interests in foreign affairs, trade, and international climate change negotiations. It also administers New Zealand’s Official Development Assistance programme. The services the ministry delivers include

- administering diplomatic privileges and immunities
- consular services
- policy advice and international representation
- promotional activities
- services for other New Zealand agencies overseas.

In 2014/15, the ministry’s total income was $381.2 million. Its total expenditure was $370.8 million, resulting in a surplus of $10.4 million. This surplus was partly because personnel costs were less than budgeted.

Office of the Auditor-General assessment
The Office of the Auditor-General graded the ministry’s management control environment, financial systems and controls, and performance information and associated systems and controls as good.

New Zealand on the United Nations Security Council
New Zealand has begun the second and final year of its United Nations Security Council membership. New Zealand’s achievements so far include

- the July 2015 presidency, where New Zealand presided over the council’s endorsement of the P5+1 (China, France, Russia, the United Kingdom, the United States of America, and Germany) deal on Iran’s nuclear capabilities
- organising the first-ever open debate on security challenges facing small island developing States
- taking practical steps to improve the quality and effectiveness of council discussion and debate.

We asked why so little is heard in public about New Zealand’s work at the council, and whether this could be communicated better. The Secretary of Foreign Affairs and Trade agreed and said the ministry will increase its efforts to inform the public about the work of the council.
We were interested whether New Zealand’s membership on the council has benefited those countries that supported our nomination. The historical session on security challenges for small island developing States gave countries that are normally on the margins of the council’s consideration the opportunity to enter the chamber and have their voices heard. Despite some scepticism from the permanent five members on the council, the open debate was considered valuable.

New Zealand also provides regular, thorough briefings to the countries that supported its nomination.

**Initiatives to limit the use of the veto by the permanent five members**

New Zealand has long been a critic of the permanent five members’ use of the veto and is keen to see its use restricted. We asked for an update on work to limit the use of the veto and heard that there are currently two initiatives in this area.

New Zealand is a member of the Accountability, Coherence and Transparency Group. This group recommends that the veto not be used in cases of mass atrocity, genocide, or crimes against humanity.

The second initiative, promoted by France and Mexico, recommends that the veto not be used in cases of significant humanitarian crisis or crimes against humanity, as long as it is not in the permanent five members’ national interests to use the veto.

New Zealand actively supports both approaches and seeks to highlight the issue through discussions and conversations that put pressure on the permanent five members to restrain their use of the veto.

**The legality of airstrikes on Syria**

We discussed the legality of the airstrikes on Syria and the ground offensive in Syria. We heard that this derives from the United Nations Charter and Resolution 2249 (which was agreed after the Paris attacks in 2015), which permits but does not require international intervention into the Syrian conflict, including of a military kind. New Zealand is working with others who are like-minded to achieve practical, pragmatic, and political solutions to the conflict.

In the view of some of us there is a need for more purposeful work to be undertaken by the appropriate organs of the United Nations in determining the legal basis of conflict.

**Progress on Syrian humanitarian issues**

As co-leader on Syrian humanitarian issues, New Zealand has been at the forefront of the council’s efforts to alleviate the humanitarian effects of the Syrian conflict. This includes leading work to reinforce protection standards and principles supporting healthcare in armed conflict.

**Progress of ISIL (Da’esh) and Al Qaida Sanctions Committee**

We wanted to know whether the sanctions imposed on Da’esh are having effect. We were encouraged to hear that Da’esh is having to levy its members for financial contributions because the sanctions regime is starting to affect its financial resources.

New Zealand chairs the ISIL (Da’esh) and Al Qaida Sanctions Committee.
Agribusiness hub in Saudi Arabia

We asked whether the abattoir at the agribusiness hub in Saudi Arabia was a gift to the Government of Saudi Arabia from New Zealand. We heard that final ownership of the abattoir is a matter for negotiation between the Al Khalaf group and the Saudi Arabian Government. The Saudi Arabian Government owns the 2,000 abattoirs in Saudi Arabia, but this is currently being reviewed.

New Zealand is providing about one-third of the costs of the project, including the costs of delivering the equipment for the abattoir. The Al Khalaf group funds about two-thirds of the costs, including those for constructing the abattoir. The ministry described the project as a partnership or joint venture and said it is being managed by New Zealand Trade and Enterprise.

The ministry was not able to tell us how many staff are working on the agribusiness hub. Some staff are involved with project management, and ministry staff in Saudi Arabia actively support the project. Policy staff have also been involved with processing 39 requests made under the Official Information Act 1982, and about 200 written parliamentary questions.

We wanted to know what the net dollar return from the money spent on the agribusiness hub is. The ministry was not able to provide a figure, but it said that the project is expected to create value for New Zealand. More than 30 New Zealand companies are involved in the agribusiness hub, which presents an opportunity to showcase a New Zealand model of a 21st century abattoir.

We heard that the purpose of the exercise was also to address several issues, including New Zealand’s relationship with Saudi Arabia. This had been damaged as a result of events related to the Al Khalaf group’s business interests in New Zealand. The damage created a range of legal, commercial, and diplomatic risks affecting New Zealand’s bilateral and broader relationships in Saudi Arabia that could impact throughout the Gulf States. We discussed these issues in our report on the 2015/16 Estimates for Vote Foreign Affairs and Trade.

We asked why the $4 million involved in the hub did not go through the normal competitive Cabinet approval process. We heard that the contract for services with the Al Khalaf group went to an overseas service provider. For that reason, it did not need to go out for tender. Advice at the time was that only one party could appropriately provide the service.

Progress on a free trade agreement with Saudi Arabia

We wanted to know whether New Zealand’s investment in the agribusiness hub has brought us any closer to securing a free trade agreement with Saudi Arabia. We heard that the ministry has received strong signals that the partnership effort has addressed issues that were proving to be a stumbling block for a free trade agreement. Some of us are not convinced that the agribusiness hub would enhance the prospects of a free trade agreement. In 2009, the global financial crisis led the Gulf Cooperation Council (GCC) to put its free trade agreement negotiations on hold.

The GCC countries are now reconsidering free trade agreements, and New Zealand is actively pursuing this development through its network in the region. New Zealand is keen to be at the forefront of any free trade agreement negotiations.
The development of a free trade agreement with the European Union

We were interested in the development of a free trade agreement with the European Union (EU). The EU is New Zealand’s third-largest trading partner, and in the year to June 2015 New Zealand exported goods and services worth $8 billion to the EU.

We heard that New Zealand is one of only six World Trade Organisation members that is without a preferential arrangement with the EU or not negotiating one. Therefore, Prime Minister John Key and European presidents Jean-Claude Juncker and Donald Tusk’s announcement in October 2015 of the start of the process for negotiating a comprehensive high-quality free trade agreement was important.

The parties agreed to begin preparatory discussions on the scope and overall objectives of the negotiations. On 16 September 2015, the ministry called for public submissions, closing on 29 February 2016. It is not expected that the negotiations proper will begin before early 2017, should both parties receive mandates to begin them.

We asked whether the lack of a free trade agreement means that New Zealand exports to the EU are suffering a considerable disadvantage. We heard that kiwifruit exporters to the EU, New Zealand’s top market by value, pay a tariff of 8.8 percent. Similarly, apple exporters face a tariff of €128.6 (approximately $212) per 100 kilograms. Some of our competitors do not have to pay these tariffs.

Investor State Dispute Settlement provisions

We discussed the views of some EU commentators that the Investor State Dispute Settlement mechanism included in free trade agreements needs updating. The EU is exploring the possibility of further innovations in this area, and New Zealand would be happy to listen and engage on the topic with the view to arriving at a mutually balanced outcome.

Next steps for the Paris Climate Change Conference agreement

We asked about the next steps for the climate change agreement adopted by consensus at the Paris Climate Change Conference on 12 December 2015. The next steps involve an implementation phase that begins when the agreement opens for signature at a ceremony in New York on 22 April 2016.

New Zealand expects to be ready to sign the agreement on that date. Each country will then need to go through its own domestic treaty-making process to ratify the agreement. The Paris agreement will enter into force by 2020 when a minimum of 55 countries, representing at least 55 percent of emissions, have ratified it.

The Paris agreement is a very high-level one. A significant work programme will provide the rules, guidelines, standards, and processes for the agreement. These must be negotiated before the agreement can enter into force.

We wanted to know whether the Government will review its target, or Nationally Determined Contribution, of 11 percent below our 1990 emission levels, with a view to increasing it. We heard that the target represents real ambition for New Zealand in reducing our emissions throughout the economy. The Paris agreement requires New Zealand to reaffirm or refresh our 2030 target in 2020, so the target will be reviewed then. Some of us were not convinced that the targets are adequate for the prevention of climate change.
We heard that New Zealand’s target represents a fair share of the global effort: it will cost the New Zealand economy more to meet its target than other major developed economies, such as the EU.

New Zealand’s national circumstances present some unique challenges when it comes to reducing our emissions. Fifty percent of our emissions come from agriculture, and cost-effective technology to reduce those emissions does not exist. Eighty percent of our electricity generation already comes from renewable resources. Advances in transport, such as the uptake of electric vehicles, will take time.

**Plans for the London residence**

We asked about the medium-to-long-term plans for the London residence. We heard that conversations about the future of New Zealand House are intensifying as the end of the 99-year lease approaches.

Since New Zealand sold the residence it owned, the country has been paying a lot for a substitute. Rental for the existing Official Residence is about $8,674 per week (£4,000 per week). However, it is difficult to find a fit-for-purpose residence in London at a reasonable price.
Appendix

Committee procedure
We met on 18 February and 10 March 2016 to consider the annual review of the Ministry of Foreign Affairs and Trade. We heard evidence from the Ministry of Foreign Affairs and Trade, and received advice from the Office of the Auditor-General. The advice, evidence, and transcript of the hearing are available on the Parliament website.

Committee members
Mark Mitchell (Chairperson)
David Bennett
Dr Kennedy Graham
Dr Shane Reti
Jami-Lee Ross
David Shearer
Fletcher Tabuteau
Lindsay Tisch
Dr Megan Woods
Dr Jian Yang

Evidence and advice received
Office of the Auditor-General, Briefing on the Ministry of Foreign Affairs and Trade, dated 18 February 2016.

Organisation briefing paper, prepared by committee staff, received on 16 February 2016.

Ministry of Foreign Affairs and Trade, Responses to written questions, received on 18 December 2015, and 2 February and 8 March 2016.
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**Recommendation**

The Foreign Affairs, Defence and Trade Committee has conducted the annual review of the 2014/15 performance and current operations of the New Zealand Customs Service and recommends that the House take note of its report.

**Introduction to the New Zealand Customs Service**

The New Zealand Customs Service is responsible for the security of New Zealand’s borders. To achieve this, Customs seeks to contribute to the following outcomes:

- **Protection:** New Zealand is safer and more secure through reduced risk to New Zealand’s interests arising from international trade and travel.
- **Travel:** travel to and from New Zealand flows more freely through more secure and efficient border processes.
- **Trade:** New Zealand’s trade flows more freely through improved access to markets and more secure and efficient border processes.
- **Revenue:** the rate of collection of Crown revenue due is maintained for New Zealand.

Under the Customs 2020 Transformation Strategy, Customs aims to be intelligence-led, modernise its border operations, enhance its services with a customer focus, and develop its people and culture.

In 2014/15, Customs’ total income was $168.827 million. Its total expenditure was $168.295 million, resulting in a surplus of $532,000.

**Operational context at Customs**

We heard that increased demands on its resources made 2014/15 a challenging year for Customs. Those demands included:

- a record 11.8 million travellers
- greater trade volumes from higher-risk areas
- collecting more Crown revenue at the border, 5.4 percent more than that collected in 2013/14
- increasingly complex global drug/crime networks and threats
- more online trading and connectivity
- more uptake of free trade agreements by traders.

**Progress and cost of the Joint Border Management System**

We were interested in the current cost of the Joint Border Management System (JBMS), which provides Customs and the Ministry for Primary Industries (MPI) with a single customs and biosecurity system.
We heard that the JBMS will now cost $104.1 million to complete, which is an increase on the 2011 estimate of $75 million. The final version of the JBMS is expected to be released in the first half of 2016.

We understand that the higher cost is because of a change in 2012 from the JBMS having a single implementation date to it having a modular, staged delivery. This change was made to reduce the risk to traders and to enable more testing and increased functionality of the system.

The modular delivery of the system has taken longer and incurred higher costs, which Customs and MPI have met. We were told that no additional funding has been received.

We heard that the JBMS was originally intended to be implemented in two tranches and that tranche two has not gone ahead. However, elements of tranche two have been put in place using existing funding. For example, a mobility programme has been funded from Custom’s IT budget allowance for normal capital replacement. This initiative involves staff using 300 mobile devices that are connected to the main system.

We heard that the old system, CusMod, which was intended to be phased out, is continuing to run alongside the JBMS. This is because CusMod contains large amounts of useful information, including passenger and revenue information. Server and software upgrades mean CusMod can continue to be used.

We wanted to know whether the high-level legal talks between Customs and IBM NZ that we discussed in our 2015/16 Estimates report are continuing. We heard that new governance arrangements mean meetings with IBM are now held less frequently and are chaired by an external independent person.

In September 2014, Customs, MPI, and IBM NZ entered into a seven-year relationship to support, maintain, and enhance JBMS.

**SmartGate passenger processing**

SmartGate is helping Customs to process an increasing number of air passengers. SmartGate now processes just under 70 percent of arriving passengers, taking around 30 seconds per person.

In early August 2014, the minimum age for using SmartGate was dropped from 16 to 12 years. From December 2014, Canadian electronic passport holders can use the technology.

We heard that Customs would like to extend the use of SmartGate to other nationalities as well as the six countries that can currently use it.

**Detecting and intercepting illicit drugs**

We heard that, in its first year of operation from August 2014, the drug-screening laboratory run by Customs and Environmental Science and Research at Auckland Airport has screened and identified more than 2,000 drug samples. The lab, combined with the use of a portable hand-held drug analyser, enables staff to rapidly test and identify substances onsite.

Compared to previous years, Customs is seizing considerably more illicit drugs that are finished products—for example, methamphetamine rather than the methamphetamine precursors ephedrine or pseudoephedrine.
We were pleased to hear that cooperative work with local and offshore partners—including intelligence gathering and information sharing with authorities in Australia, the Pacific, Asia, the United States of America, and Canada—is enabling Customs to proactively target criminal networks.

**Fall in staff engagement and high staff turnover**

We are concerned that Customs’ 2014 staff engagement survey shows that engagement has dropped from 66.7 percent in 2013 to 60.7 percent. This is below the State sector benchmark of 68.4 percent. The unplanned turnover rate for Customs staff with less than four years’ service is also high, at 16.9 percent.

These figures from the survey show that staff morale and Customs’ ability to retain staff are poor. We asked why this is the case and what Customs is doing to address the situation. We were told that staff, particularly those at Auckland and Christchurch airports, say in exit interviews that remuneration and lack of career opportunities are their main reasons for leaving Customs.

Customs is looking to make sure that remuneration is competitive, and to provide greater variety of work for staff at airports. This could include opportunities to work in the cargo and mail processing areas.

Since 2010/11, Customs’ permanent staff has dropped by 109 people. However, the workload has increased and the Minister is expecting further savings. We wondered whether this is putting pressure on people, leaving them disillusioned. Customs said that technology, such as SmartGate and mobile devices, is changing the way it works, enabling staff to work in smarter ways and cope with increasing work volumes.

**Drop in confidence in Customs’ leaders**

We pointed out that Customs’ leadership index has fallen from 57 percent in 2012/13 to 50 percent. We wanted to know the reason for this fall and what Customs is doing to address it.

Customs told us that some staff had a lack of understanding of some of the Customs 2020 Transformation Strategy to modernise its border management system. The leadership team has worked to familiarise staff with the strategy and what it means for them in their daily work.

**Availability of resources for the National Maritime Coordination Centre**

We asked about the consequence of Customs’ failure to meet its target of providing resources to 80 percent or more of New Zealand’s high-risk marine areas (those areas assessed to be in the highest five percent).

Customs told us that, although it does not have any evidence to suggest our borders are more porous because it provides resources to only 57.6 percent of these areas, “You don’t know what you don’t know.” Customs explained that the risk is seasonal rather than consistently high, peaking at certain times.

Customs said that, at times, it has no assets available to service the inshore and offshore high-risk marine areas. To mitigate the risk, Customs works closely with the New Zealand Police and navy, and also analyses information and the situation. It also works with Fiji, Samoa, Tonga, Niue, and Australia to gather intelligence.
Technology also enables the National Maritime Coordination Centre to electronically survey approaching ships rather than having to send craft out. Flying is also easier than despatching ships to cover expansive areas of water.
Appendix

Committee procedure
We met on 3 December 2015 and 3 March 2016 to consider the annual review of the New Zealand Customs Service. We heard evidence from the New Zealand Customs Service and received advice from the Office of the Auditor-General. The advice, evidence and transcript of the hearing are available on the Parliament website.

Committee members
Mark Mitchell (Chairperson)
David Bennett
Dr Kennedy Graham
Dr Shane Reti
Jami-Lee Ross
David Shearer
Fletcher Tabuteau
Lindsay Tisch
Dr Megan Woods
Dr Jian Yang

Evidence and advice received
Office of the Auditor-General, Briefing on the New Zealand Customs Service, dated 3 December 2015.

Organisation briefing paper, prepared by committee staff, dated 30 November 2015.

New Zealand Customs Service, Responses to written questions, received 25 November 2015, 3 December 2015 and 22 January 2016.
2014/15 Annual review of the New Zealand Antarctic Institute

Report of the Foreign Affairs, Defence and Trade Committee

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New Zealand Antarctic Institute

Recommendation

The Foreign Affairs, Defence and Trade Committee has conducted the annual review of the 2014/15 performance and current operations of the New Zealand Antarctic Institute and recommends that the House take note of its report.

Introduction

Antarctica New Zealand is the trading name of the New Zealand Antarctic Institute, which is a Crown entity established under the New Zealand Antarctic Institute Act 1996. Based in Christchurch, it is responsible for carrying out New Zealand’s activities in Antarctica and the Southern Ocean. This includes managing Scott Base, New Zealand’s scientific research station.

The Chief Executive of Antarctica New Zealand is Peter Beggs. Brian Roche is the Chairman of the Board, having succeeded Rob Fenwick in October 2014.

Antarctica New Zealand receives most of its funding (94 percent) through Vote Foreign Affairs and Trade. In 2014/15, Antarctica New Zealand’s total revenue was $16.319 million. Its total expenses were $18.928 million, resulting in a deficit of $2.609 million. This was mainly because of an increase in “other operating expenses”, which are discussed in detail later.

Office of the Auditor-General assessment

The Office of the Auditor-General (OAG) assessed Antarctica New Zealand’s management control environment and financial information systems and controls as “very good”. The OAG assessed Antarctica New Zealand’s performance information and associated systems and controls as “good”. The OAG recommended improvements to how Antarctica New Zealand sets and measures its performance objectives.

Financial sustainability

Increase in expenditure for 2014/15

In 2014/15, Antarctica New Zealand’s expenses were $18.928 million which was greater than in 2013/14 ($15.011 million). We were concerned as to the cause of the resulting $2.609 million deficit. We heard that the biggest factor was the cost of accessing remote areas for scientific research. In previous years, Antarctica New Zealand’s typical operating area had not been greater than 200km from Scott Base. However in 2014/15, research expeditions took researchers as far as 750km from Scott Base.

We also asked whether Antarctica New Zealand was on budget despite its planned research programme. We were told that it was on track to meet its budget for the next financial year although the budget indicates a deficit.

Findings of the 2015 Deloitte review

In 2015, Deloitte independently reviewed Antarctica New Zealand’s finances, including its current and future funding, service demands and asset management plan. We were
interested in the findings of the review and Antarctica New Zealand’s future as a sustainable enterprise. We heard that the review concluded that Antarctica New Zealand was a “highly efficient organisation”, contributing logistical support at an optimal level and without waste. The review complimented the entity’s recent achievements, particularly the evolution of the windfarm, which has greatly reduced the demand on fossil fuel in Antarctica.

However, the review found that Antarctica New Zealand has received flat baseline funding from the Ministry of Foreign Affairs since 2011/12, and indicated that its increasing operations in Christchurch and Antarctica are not sustainable at the current level. We heard that one reason was that, as its scientific research becomes more ambitious and more complex, it must overcome challenges in carrying out the research, such as the cost of aircraft to support deep field research. We note that logistical support is not funded by other organisations.

Antarctica New Zealand noted that its assets and infrastructure need capital funding to avoid deterioration of infrastructure and maintenance being deferred. Additional funding sought by Antarctica New Zealand would go towards addressing these infrastructure challenges.

**Depreciation**

Antarctica New Zealand measures the depreciation of its assets using the historical cost method as opposed to the replacement cost method. Historical cost is based on the amount paid to acquire the asset, and replacement cost is based on the current price of replacing the asset.

We were interested in why Antarctica New Zealand chose this method and how it was handling its depreciation of assets. We heard that it has always used the historical cost method, in accordance with the general practice of other similar organisations.

Antarctica New Zealand will review the way it values its assets in future, to see the realistic cost of depreciation. We were also told that Antarctica New Zealand has built up several assets during the last 60 years and will be developing an asset management plan to replace them over time.

We note that the current method of depreciation may not be appropriate in light of the needs of the Antarctic operation and we think it is important that further consideration be given to this issue.

**Future funding of science programmes**

We heard that Antarctica New Zealand’s science programme in 2014/15 was its most ambitious. It supported three deep field science projects at Cape Adare, on the Siple Coast and in the middle of the Ross Ice Shelf. These expeditions involved complex airlift arrangements in remote areas and research on climate change in Antarctica that New Zealand scientists had not previously looked at.

We commended the ambitious approach of Antarctica New Zealand’s research programme. However, we note it will face increased costs. Antarctica New Zealand acknowledged that its budget will need to increase by an estimated $3 million in 2016/17 to accommodate the additional costs.

We heard that the Antarctica New Zealand Research Institute’s financial model seeks funding from sources other than taxpayers, recognising the global importance of its climate
change research. Funds have been received on the basis that the New Zealand government will also contribute and other countries will collaborate with Antarctica New Zealand on scientific research. Antarctica New Zealand will prioritise its upcoming projects by considering the scientific impact, logistics, environment, and outreach of each, in line with the government’s Antarctic and Southern Ocean Science Directions and Priorities 2010 – 2020.

**Challenges of providing logistics**

We asked where Antarctica New Zealand sees itself in the next 10 years. We heard that the logistics of carrying out scientific research will become more challenging and more costly given the Antarctic environment. Antarctica New Zealand has attempted to project its expenditure during the next 10 years in its preliminary discussions with the Treasury. This is based on where it believes it can contribute most in the way of research.

We also asked what the result would be if the requisite funding, as projected, was not met. We were told of two consequences. First, the amount of international scientific knowledge of climate change would shrink, particularly the science behind retreating ice shelves. This is particularly important given that Scott Base is set up on the Ross Ice Shelf. The second consequence is that New Zealand would not be able to maintain its research capacity in Antarctica, damaging our reputation and questioning the legitimacy of New Zealand’s operations at Scott Base. As one of the original seven signatories to the Antarctic Treaty, it is expected that New Zealand will be active in the region. The success of the McMurdo project, for example, depends on New Zealand’s participation alongside the United States of America and New Zealand is facing competition from researchers in Tasmania.

Other risks identified include the loss of researchers to other scientific fields and reduced understanding of New Zealanders about the impact of Antarctica.

**Jurisdictional responsibility**

We note that New Zealand has, in the past, claimed territorial sovereignty over part of Antarctica and we were interested in the role New Zealand has to play in the areas that remain unclaimed. Antarctica is governed by the Antarctic Treaty, of which New Zealand and 52 other countries are signatories. We were told that since the treaty came into force, territorial claims have been set aside in favour of the treaty. The treaty also covers unclaimed areas.

We asked whether New Zealand still asserts, in practice, jurisdictional responsibility in the territory we occupy and whether we should adopt a different approach in future. We were interested to know the status of historical claims in light of the new interest displayed in the continent by many countries, including non-Antarctic Treaty System parties. We were told that activities in Antarctica are usually under the jurisdiction of the country with the territorial claim or where the individuals concerned are nationals. This is in accordance with Article VIII of the Antarctic Treaty. The Antarctica Act 1960 gives New Zealand courts authority to deal with offences committed in the Ross Dependency and by New Zealand nationals in other parts of Antarctica. For example, a case of common assault at Scott Base would be referred to the New Zealand Police.

We were also told that, to build infrastructure in Antarctica, countries must apply through the Antarctic Treaty System and other mechanisms. Antarctica New Zealand is also required, under New Zealand law, to gazette an Environmental Impact Assessment and
assist the Ministry of Foreign Affairs and Trade in representing New Zealand at the annual meetings of Antarctic Treaty signatories.
Appendix

Committee procedure
We met on 18 February and 17 March 2016 to consider the annual review of the New Zealand Antarctic Institute. We heard evidence from the New Zealand Antarctic Institute and received advice from the Office of the Auditor-General.

Committee members
Mark Mitchell (Chairperson)
David Bennett
Dr Kennedy Graham
Todd Muller
Dr Shane Reti
Jami-Lee Ross
David Shearer
Fletcher Tabuteau
Lindsay Tisch
Dr Megan Woods

Evidence and advice received
Office of the Auditor-General, Briefing on the New Zealand Antarctic Institute, dated 18 February 2016.

Organisation briefing paper, prepared by committee staff, dated 15 February 2016.

Ministry of Foreign Affairs and Trade, Response to questions, received 8 March 2016.

New Zealand Antarctic Institute, Responses to questions, received 23 December 2015 and 7 March 2016.

Report of the Finance and Expenditure Committee

The Finance and Expenditure Committee has conducted the annual reviews of the 2014/15 performance and current operations of the Government Superannuation Fund Authority, the Guardians of New Zealand Superannuation, Crown Asset Management Limited, and the New Zealand Productivity Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

David Bennett
Chairperson
The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the Department of the Prime Minister and Cabinet, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the Department of Internal Affairs, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
The Intelligence and Security Committee has conducted the 2014/15 annual review of the performance of the Government Communications Security Bureau. The committee heard evidence in public from the Government Communications Security Bureau and received advice from the Office of the Auditor-General.

The committee recommends that the House take note of its report.
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Inland Revenue Department

Recommendation

The Finance and Expenditure Committee has conducted the annual review of the 2014/15 performance and current operations of the Inland Revenue Department, and recommends that the House take note of its report.

Introduction

The Inland Revenue Department (IRD) collects about 84 percent of core Crown revenue—assessed at $59.7 billion in 2014/15—through personal tax, company tax, and GST. It has a key role in administering several social policy programmes, including child support, student loans, Working for Families tax credits, and paid parental leave. IRD also administers KiwiSaver, and advises the Government on tax policy.

The chief executive (Commissioner of Inland Revenue) is Naomi Ferguson.

Priorities in 2014/15

The main areas of focus for IRD during 2014/15 were continuing its multi-year Business Transformation programme and introducing a new compliance model to improve the way it delivers its services. The organisation acknowledges the challenge it faces in balancing its commitment to making change with the on-going requirements of day-to-day operations.

Financial and service performance

IRD’s output expenses totalled $706.2 million in the year to 30 June 2015. This was 1 percent higher than in the previous year, and less than 1 percent below forecast. The department achieved 91 percent of its performance targets, compared with 85 percent in 2013/14 and 76 percent in 2012/13. We are pleased to see the continuing improvement.

The Office of the Auditor-General described this result to us as notable, given the energy and attention which IRD is putting into the Business Transformation programme.¹

Changing and simplifying customer interaction with the tax system

The Business Transformation programme

We have reported separately about how IRD is managing its Business Transformation programme.² We took the opportunity of our annual review hearing to seek an update about the enterprise ICT system that was selected to deliver the transformation. In particular, we wanted to confirm that the off-the-shelf system (from Fast Enterprises) would be able to cope with the smooth implementation of noncore tax policies.

IRD assured us that it is confident that the system will meet its projected needs, and has the ability to expand. It had focussed on this in its due diligence work, and had required

Fast Enterprises to demonstrate that the proposed solution would deliver the broad range of required functions. Fast Enterprises had performed impressively in these demonstration scenarios, involving a combination of tax and social policy work. Written references from clients using the proposed solution in both those areas were also required, and had been followed up and confirmed. An independent quality assurance report commissioned by KPMG also confirmed the suitability of the selected software to meet IRD requirements.

**New ways for customers to interact with Inland Revenue**

IRD notes that high customer satisfaction leads to improved voluntary compliance. We agree it is important that the system makes it easy for customers to both pay tax and receive their entitlements.

Several initiatives were introduced in 2014/15 to help customers to interact with the department, including e-documents (in place of mailed papers), a mobile application for GST filing, and a change that enables customers to activate their accounts via text message.

Given that a lot of contact with Inland Revenue is by phone, it was pleasing to see an improvement in the number of phone calls being answered in less than two minutes. This is now better than 75 percent. As yet, however, it is not possible for customers to access the 0800 number from mobile phones. We were told that this is a cost issue, and believe it could be of some significance. As mobiles are widely used, this gap in the system could be more than a simple irritant; it could downgrade the overall customer experience and reduce the value of the department’s voice biometric service and voice self-service. We were told that IRD is working through the matter with its supplier and consulting with another Government department that accepts these calls. We will watch developments with interest.

We note that customer satisfaction has remained stable for both on-line, and voice and correspondence services, at 95 percent and 85 percent respectively.

**Investigations and debt collection**

While the majority of New Zealanders pay tax on time, some individuals and businesses do not comply. The department received additional funding in Budget 2015 to expand its investigations into non-compliance in specific areas such as aggressive tax planning, property tax compliance, and the hidden economy. We note that the overall return on investment for this investigative activity was above target at $7.52 dollars returned for every $1 spent.

IRD told us that it is using its analytics system to intervene earlier to help customers “get it right” from the start. When there is debt, more use is being made of reminders, earlier follow-ups of overdue payments, and putting in place arrangements for managing time to pay. Seminars and video information have been provided for new businesses. We heard that 81 percent of new debt cases are now resolved within 6 months; and 37 percent more high-value older debt has been collected.

**Management of entitlements**

While Inland Revenue’s collection role is well understood, the department also plays a significant part, sometimes with other agencies, in the distribution of money. It distributes

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3 Inland Revenue Department Annual Report 2015, page 50.
child support payments and parental leave payments, and transfers KiwiSaver contributions made through PAYE to scheme providers for investment.

On several occasions we have raised with the department the issue of refunds when tax has been overpaid. We were therefore pleased to hear that there has been a focus on bringing down the time taken to process and pay out amounts that are due to taxpayers. We were told that 99 percent of personal tax summary customers now have their refunds within three working days, and 80 percent of the more complicated cases are resolved within a day, rather than weeks. IRD told us that refunds cannot be paid unless a return or personal tax summary has been filed; its efforts to cut the number of overdue returns (now at their lowest level for five years) has helped to make the refund process quicker and more efficient.

One of our specific concerns has been the apparent lack of proactive work to identify people eligible for refunds. We were pleased to hear that the department has been using its analytics system to identify taxpayers who are due a refund so that they may be made aware of this.

**Policy advice**

The IRD is responsible for providing policy advice on tax-related matters to Ministers and to this committee. The department also conducts policy consultations with the business community and others, seeking feedback on possible changes to the tax system. Several bills came before the committee this year following such consultations.

We expressed concern about the policy advice that had been provided on one of the bills which we examined and reported on during 2015. An issue relating to bodies corporate had not been identified as a problem until after the bill had completed its select committee process and was again before the House. Had it not been picked up before the legislation passed, there could have been significant implications for small businesses and individuals. This is clearly not an acceptable state of affairs, and we asked the department how the situation had arisen.

IRD said that it had initially considered the issue to be operational and able to be resolved by changing processes, rather than requiring a policy solution. Once it became clear that this would not be so, the Minister was advised and an appropriate solution was developed in time for inclusion in the new legislation. While we appreciate that it is always preferable for solutions to be found through a department’s existing powers rather than new legislation, we feel that in this particular instance the need for a policy solution should have been identified at an earlier stage.

We also noted that IRD had achieved only 33 percent of its policy performance targets during the 2014/15 year. Those not met related to the minimum percentage of policy advice papers that met quality standards, and the minimum percentage of ministerial satisfaction with policy advice. Ministerial satisfaction was almost 10 percent lower than in the previous year. We were told that both of those targets had been aspirational, and that the benchmarks had been set higher than in other departments. Those benchmarks have now been significantly reduced (from 90 to 75 percent for policy papers, and from 95 to 80 percent for ministerial satisfaction). IRD assured us, however, that it intends to continue its

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4  Taxation (Annual Rates for 2015-16, Research and Development, and Remedial Matters) Bill.
commitment to improve the quality of its policy advice. We look forward to seeing evidence of this when we review the department next year.
Appendix A

Committee procedure
We met on 2 December 2015 and 9 March 2016 to consider the annual review of the Inland Revenue Department. We heard evidence from the Inland Revenue Department and received advice from the Office of the Auditor-General.

Committee members
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.


Inland Revenue Department, Supplementary Questions: 2014/15 Annual Review of the Inland Revenue Department, questions 118–124.
Appendix B

Transcript of hearing 2 December 2016

Members
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Stuart Nash
Grant Robertson
Jami-Lee Ross
Eugenie Sage
Alastair Scott
David Seymour
Fletcher Tabuteau

Witnesses
Naomi Ferguson, Commissioner and Chief Executive, Inland Revenue Department
Arlene White, Deputy Commissioner, Service Delivery, Inland Revenue Department
David Carrigan, Deputy Commissioner, Policy and Strategy (Acting), Inland Revenue Department

Bennett Hello. Welcome, everybody, and thank you for coming to the Inland Revenue annual review. First of all I would like to welcome Naomi and your team. If you’d just like to introduce them, and then we can have a brief introduction from you and then have some questions.

Ferguson Thank you, Mr Chairman, committee. Yes, this is Arlene White, my Deputy Commissioner, Service Delivery, and on my left is David Carrigan, the Deputy Commissioner of Policy and Strategy. So I would, if I may, like to take a few moments and make some opening comments around our service performance for this year and our transformation journey, building on many earlier sessions with you.

Over all, the year to June 2015 was an excellent year for Inland Revenue in terms of our outputs and results. Our service performance improved greatly when we looked at it compared to the previous year. We achieved 48 out of 53 of our output measures—that’s 91 percent, compared with 85 percent the previous year. We also collected $59.7 billion in revenue, an increase of almost $3.5 billion from the previous year, $1.1 billion dollars in student loan payments, and $463 million from child support—again, both increases on the previous year. And we paid out $4.8 billion to KiwiSaver providers, $2.4 billion in Working for Families tax credits, and $180 million in paid parental leave.

During the year we launched our new compliance model. This builds on earlier work by the department, and retains a fundamental focus on helping
customers to get it right from the start and putting customers at the centre of our thinking. Behind and using that approach we have been able to make some significant shifts in our service delivery. Our customer service improved this year, with over 75 percent of the 3.24 million phone calls we received being answered in less than 2 minutes. That’s an improvement of 6 percent over the previous year. This performance was also reflected in the opinions of our customers, with 85 percent of our customers being satisfied with the quality of phone and correspondence contacts and 95 percent being satisfied with the quality of our online services.

I’m particularly pleased with the latter result, because we have been making significant investments in technology to make it quicker and easier for our customers to interact with us. We now have 1.5 million customers registered for voice ID—again, that’s an increase of over 500,000 from the previous year. The value of that for customers is that they can engage with us without having to go through further security questions whenever they call us on the phone, so it’s a quicker service, and equally it allows us to provide other services, such as call back, which the accountancy profession in particular think is very valuable to them.

In January we launched a mobile application for GST, myIR Mobile, which lets the most basic of GST customers, the smallest businesses, file returns anywhere, anytime, and 3,000 returns have already been filed using that. In April we introduced e-docs for customers, putting the documents that they get from us—letters and notices—straight into the myIR account. Again, that means that they get them more quickly than they have done previously, and of course we have also ensured that 1.75 million pieces of documentation haven’t had to be posted and printed since that time, with those being now received automatically to their accounts. And in August we introduced a service that allowed customers to activate their myIR accounts anytime, anywhere, by replying to us by text. That’s allowed them to access those accounts instantly whenever they’ve chosen to log on for myIR.

A key part of our transformation, though, was also the use of analytics, supporting us to intervene more quickly and earlier and to help customers get it right from the start, and we have used that approach right across our business. It’s helped us to think about how we contact customers when there is debt, with the use of more reminders and earlier follow-ups of payments that are overdue, fast, effective arrangements for managing time to pay, and seminars and video information for new businesses.

All of this has led to the total overdue debt reducing for the first time in 5 years. Our overall debt collection result improved this year, with the total cash collected of $4.7 billion—an increase of 14 percent compared to the previous year. We focused particularly on new debt, which resulted in over 81 percent of debt cases being resolved within 6 months. But we also focused on high-value and older debt, which saw us collect $536 million—a 37 percent increase from the previous year. And overdue returns were down by 21.5 percent to the lowest level in 5 years. That’s a really important factor when we look at one of the areas which I know has been of interest to the committee before, the matter of refunds. We cannot process a refund
until we’ve either had a personal tax summary or a return. So by bringing down the level of overdue returns, we immediately crystallise that. And we have used the same process and thinking around our analytics to help us get refunds out faster. So 99 percent of PTS customers had their refunds within 3 working days, and we’ve decreased the 6-week wait for the more complicated cases, with 80 percent of those being turned round within a single day. So we are focused on ensuring that the amounts that are due to people get to them as quickly as possible.

One of our challenges, though, of course, is not only to deliver today’s business but to manage the future, and that in particular is through the Government’s policy work programme and also through our change programme. The committee, more than many, will appreciate that our policy work programme has been particularly extensive this year, with a large number of consultations in play and bills going through the parliamentary process. Maintaining the quality of the advice in this key area is something that I particularly focus on, and I’m proud of the work that our team has done this year.

A key policy implementation this year, of course, was the child support reform, something we’ve discussed before. The new system went live in April, and I’m pleased to say that from a customer perspective the changes went smoothly. In the period from February ’15 we issued some 250,000 notices under the new formula. Since then we’ve seen the level of payments paid on time by new parents increase by almost 5 percent, and we’ve seen a 16 percent reduction in the level of administrative reviews requested by parents in the period to October ’15 when compared to the same period in October ’14.

I have spoken to you significantly, and most recently in October, about business transformation. As you know, the transformation will deliver real value for New Zealanders as we simplify and streamline the tax system, transform tax policies, business processes, and customer services, and make full use of modern IT to modernise our tax system. A big milestone was the selection of the FAST software, and that commercial, off-the-shelf package will allow us to ensure that we can now deliver that value more quickly and more effectively than we had originally considered. We’ve completed the high-level design for the entire programme and are now working on the detailed design for the first phase.

The policy consultations continue to go out to encourage the business community and also the wider population to work with us to think about the tax system that they think we should have for the future. We’re also improving access to our digital channels, and, as evidenced by some of my earlier comments, that’s already delivering customer value. We have commenced a series of early releases, and this month we expect to pilot the provision of the ability to lodge GST returns straight from MYOB and Xero software to the department with some 2,200 customers that those organisations have registered for a pilot with us.
So this is an exciting time to be leading Inland Revenue. I’m truly proud of the operational performance and the work that our department was able to deliver last year, at the same time as putting in strong foundations for the journey that we have ahead with transformation. It is a department that serves the people of New Zealand and we are very conscious of that, and very conscious of the need to balance both the short-term and the long-term needs of New Zealanders as we think about our work programme. Thank you.

Bishop Thank you very much, it’s very, very helpful. Can I just ask a quick question about business transformation? And I think that the Minister, a couple of weeks ago, said that it’s going to come in costing far less than, perhaps, was originally thought. So the Minister’s statement is that new Crown funding will be under $1 billion, and previously we thought it might be up to $1.9 billion. So can you just take us through what the reasons for that is, and what’s changed, I guess, in the last kind of 6 to 9 months to justify statements like that?

Ferguson Certainly. We are continuing to work with Ministers on this. A significant change has been that acquisition of a COTS solution. It’s a company called FAST that have a solution called GenTax. They have delivered that in over 30 states and countries. Effectively, it is a tax administration software system out of the box. They’re already in New Zealand and working with us on the configuration of that, and that early work in the design phase is indicating that it will require very little alteration in order to support our systems. So that has meant that compared to the original assumptions on which our work was based, which was that we would have to design and build our own system, much as we did with FIRST back in 1989-90, and that would take considerably longer—we don’t have to do that, so that is one of the key areas in which we’ve been able to speed up the work that we’re doing.

Robertson Just to follow up on that, one of the concerns with FIRST was that it didn’t cope well with excellent policy ideas like interest-free student loans and other initiatives like Working for Families and so on. Are you confident that FAST is capable of doing that, given you’ve described it as an out-of-the-box, off-the-shelf tax system?

Ferguson It’s one of the things that we spent a lot of time in our due diligence, working with not just the company but with the States and authorities that they have already supported. It is very agile. We have had evidence from other authorities of a completely new tax type being stood up in a matter of months. It has the ability to expand—yes, I’m not sure if I should have shared that with you; your expectations might be high with future policy work. Remember, we have to put it in first.

Robertson That was months, you said.

Ferguson But it is a very agile system, and in the work that they did as part of the procurement we asked them to demonstrate a number of scenarios for us. They were able to do all of those, even some of our more complicated
Robertson: Just very briefly, what jurisdictions are we talking about that it’s operating in?

Ferguson: They’ve worked extensively with the United States, with individual states such as California—so quite large states. They’re also working at the moment with—they’ve done a number of country deployments, but the most significant of those are Finland and Poland, where they’re ahead of that. And we’re keeping a very close contact with those to understand how those deployments are going.

Bishop: Just a quick supp. to round off that question. How interoperable will this new system be with entities like Xero and systems they use?

Ferguson: Absolutely. Again, it was one of our key requirements as we went into transformation and into the procurement with them that our expectation was that we would be able to interoperate both across Government and with third parties, such as Xero and MYOB. And they are very comfortable that they’ll be able to achieve that. And the work that we’ve done with Xero and MYOB at the moment will shift into that new system once it’s built. So the gateway, if you like, is already being created.

Cosgrove: I want to ask you about the quality of advice that you tendered to your Minister. And I want to reference—and this is within the financial year, because it started on 26 February—last night’s bill in the House, where, you’ll be aware, there’s an issue over body corporates, a tax issue. You’d be aware that Opposition raised that with the Minister on 19 October in the House, so you’re aware of the background of it, and you’re aware of the potential impact it would have had, had it not been corrected. My question to you is: did you provide the Minister with advice around that issue? When did you alert the Minister? And what advice did you provide?

Ferguson: I will ask David to come in on more of the specific of that. I would say I am aware of last night. The issue in question was actually working with us operationally, and at the point whenever submissions had closed on the policy consultation it had not been raised as requiring a potential policy solution. And that was true all the way through the parliamentary process. It was only after we had reached the end of that that we understood that we were not going to be able to deal with it in an operational way using the commissioner’s powers, and then we needed to look for a potential policy solution, which is why it’s coming through in the way it is. But, David, you might want to add to that?

Carrigan: Not that much more. We were aware of the issue through Mr Oliver. Our dealings with the select committee finished on 26 August of this year. And up until that point, as the Commissioner said, there were no submissions received on that particular issue. During that period we were aware of the issue; we were trying to solve it operationally. Mr Oliver was keen to try and solve it operationally. It was only in September that we found that we could
not solve it operationally. So by that stage the deliberations with the committee had finished.

Cosgrove The point I’m trying to make to you is that it’s a worry that, one, your judgment was that you could solve it operationally. No advice was provided. That in itself was now, by your own words, an invalid judgment. It wasn’t raised with the committee. You haven’t answered the question as to when it was raised with the Minister otherwise; presumably it was only raised with the Minister when I wrote to him on 20 October. And to his credit he then did something about it. The point I’m making to you is these sorts of things, this sort of lack of quality advice and judgment—with respect, over recent years the lack of quality has increased and increased.

We’re now at a stage where no advice was provided to FEC. The alibi for that appears to be: “Well, no one submitted it.” Well, you know, there are people who aren’t tax experts; many politicians here, including myself, aren’t. And it took an Opposition to identify [Inaudible]. I’m saying that the credibility and integrity of advice coming from the department—either to Ministers or Ministers accepting it and doing something about it, or to the committee in recent times—has been lacking. And this was an issue you’d have to accept that had it not been corrected would have impacted on thousands, potentially, of small businesses and individuals through double taxation and the denial of refunds. So what assurances can you give us that, you know, we’ve had car-park tax, we’ve had computer tax, a few other things, and now this. And the IRD sort of stumbled to a solution almost a year after it was identified.

Ferguson So, firstly, I’m sorry that you feel that the quality of our advice has not been at the level that you would expect. I disagree with that statement. I think our policy advice continues to be of the highest quality to Ministers, and on this issue—

Cosgrove We’re not Ministers.

Ferguson No, I accept that. This issue—it was not just the department that considered it could be solved operationally; the tax profession, who were raising it, also believed it could be solved operationally, and that was why neither they nor we had considered it requiring a policy solution or policy advice. Whenever we identified that it could not be solved though operational powers, that’s when we looked to advise our Minister and ensure that there was actually a policy solution found to the issue. As you say, it would have affected many customers and wouldn’t have been acceptable.

So that was a discussion that was going on with the tax community. We try to work with them to identify, where there are difficult issues, whether or not we’re going to be able to solve them without the need for new legislation, and, if so, to solve them. We have a regular engagement with the chartered institute, and with the Law Society, and with the Corporate Taxpayers Group, where we talk about some of those significant issues and what is the most appropriate route to try to solve them, very conscious that
if we can solve them within our existing powers, we should try to do so rather than come forward seeking new legislative solutions.

Nash Commissioner, thank you very much for your presentation. I think this is a fantastic report; there’s a lot of really good information in this. Just a couple of quick ones to start with. It’s great that you’re going mobile, but are you still blocked access to the 0800 number from mobile phones, or is that available now?

Ferguson No. For some customers—I'll check with Arlene—but for some lines it is available, but in the main it is not. That's a cost issue, and something that we're working through with our supplier.

Nash OK, so you do think that in the foreseeable future you can—I mean, you’re moving to a mobile world, which is fantastic, it's 21st century. But I suppose the one key thing is, you know, the 0800 has got a problem.

Ferguson Yes. I think that's a really good issue. The other issue that I think is lurking in a similar way is the cost of data.

Nash Sure, yeah. Just a couple of other questions. One thing that sort of stood out is that last year the IRD declined 34 Official Information Act requests. That’s quite high. What was the reason for that?

Ferguson I would have to give you some more detailed analysis of that. Usually it’s because—the information cannot be released under section 81 would be quite a common reason as to why we would have to decline it. But I can provide the committee with a breakdown of that.

Nash Could I talk about your aggressive taxpayer improvement compliance, I suppose? What do you estimate that the base erosion profit shifting cost to the New Zealand economy is?

Ferguson We don’t have an estimate of that. Like the hidden economy, I guess, it’s quite difficult to estimate what you don’t know is there. What I can say to the committee is that where there is any suggestion that our current tax laws are being worked around, we do, of course, use our anti-avoidance provision to reinforce them. Our international tax rules are some of the most robust in the world, and that, again, has been shown through the OECD work programme. We have been very closely involved with that. So we have a robust framework and we have a very effective anti-avoidance regime, which we have used and is evidenced in some of the results in the report. So whilst it is hard to put a number on it, I think we should be confident that, actually, we have some of the tools in the box to tackle it.

Nash In terms of non-compliance in the property sector, you said you found $67.1 million in discrepancies. What’s going on? Is that people, you know, trading when they shouldn’t be?

Ferguson Yes. It’s a range of things, but primarily it will be people who have bought and sold properties for profit and not declared the tax.

Nash You completed 67 prosecutions for tax evasion. How many of those were successful?
I can give you the round number: in court this year we’ve successfully prosecuted—our success in court is, what, 86 percent? Which is the highest it’s ever been.

Just a couple more from me—just quick ones. It’s good to see that child support is coming under control, there’s no doubt about that. What is the cost of interest you’re charging on overdue child support payments?

Again, I would have to come back with that information for you.

That’d be good, if you wouldn’t mind. And, again, it’s great to see that you are being a little bit more proactive in terms of giving money back to people as you are chasing them, but have you a feel for how much money at the moment the IRD does owe Kiwis that they haven’t collected? Because I think it was about $700 million at the beginning of this year.

That’s correct.

Are you being a little bit more proactive—because, you know, as the Commissioner mentioned, as we expect, you text, you email, and you call people who owe tax. Are you being as vigilant—

We are, sir. We’ve actually identified what the breakdown of that $700 million is, and are using some of our intelligence work, our analytics, to identify and make sure those taxpayers are aware that they’re entitled to a refund. As the Commissioner said earlier, we require them to file a personal tax summary or verify what their income is for the year so that we can generate the refund. In addition to that, we have a number of taxpayers who don’t—and I know this would surprise you—tell us what their address changes are, so we are unable to send them a refund if we don’t have a valid address for them. So we are trying to do a media campaign to make sure taxpayers understand to update their current information with us.

Do you have a feel for who these people are? I mean, I suppose what I’m getting at is: are these people who are working two or three jobs, so they’re paying secondary tax at the end of the year?

There’s a broad range. I wouldn’t be able to generalise that. It is mostly people that are wage earners, yes.

$300k is a lot of money to spend on a customer satisfaction perception survey. Has anything changed as a result of the findings of that survey?

For us, it’s a key data point in understanding that the 4.5 million New Zealanders think our service is good, and that the protection and trust levels in the department are appropriate is a key indicator, not just of today’s service but through transformation. So I think that’s an investment well made. In terms of what we do as a response to it, we have a number of surveys that come in as data points. That one, the chartered institute, have just run their annual survey—again, very favourable results—and out of those we get a range of comments that we will then be able to think about improvements to our service. So some of the myIR improvements, the callback service that I mentioned earlier that agents are particularly supportive
of, have all come through because of earlier comments in some of those surveys.

Nash Just two very quick ones. Is the TrustPower ruling going to the Supreme Court?

Ferguson Yes.

Nash OK, because that’s quite an important decision around resource consents, isn’t it?

Ferguson It is.

Nash One last one—I see you’ve got about 25 percent of your staff in Wellington. Is there any reason why they need to be located in Wellington, as, for example, opposed to Napier? I mean, you’ve got Auckland, Wellington, Hamilton, some in Christchurch, but a lot of the regional offices, over the last 5 years, have decreased in numbers substantially. You know, the rents, the weather, everything in Wellington is—

Bayly Is this a pitch? Is this a pitch?

Nash There is a serious question to this.

Unidentified Where the shield goes, the staff goes.

Nash But seriously, is there—

Ferguson We do have significant presences in the larger conurbations. That allows us to recruit and retain staff at the level—particularly in specialist areas and areas like ICT and finance. We do look to maintain our regional presences. Whilst they may be smaller, they are still there, and when we have areas of work that we think we can service from somewhere like Napier, we will. One of my best international tax experts is in Napier, for example.

Ross In the past few years, including in this last Budget, IRD has been provided tens of millions of dollars for tax compliance. Can you talk to us and give us an update on where that money has been invested, and the proceeds you’ve seen from there?

Ferguson The money has been invested well and we have overachieved against all of the targets that we have set. So, for example, on aggressive tax the target was a return of $11 and they’ve achieved over $34; on property compliance our target rate of return was $6.80 and we’ve achieved almost $10; and on hidden economy we had a target return of $5 and we’ve achieved $5.21. So significant returns of investment, running into the hundreds of millions of dollars. And the way in which we are making that work deliver those results is, again, through the use of analytics, and through thinking about how we can identify areas of non-compliance more effectively, target those more effectively, and deal with them faster and more quickly.

Ross When it comes to the property compliance, one of the changes made recently, and you would’ve advised on during the financial year, was the brightline test. Can you talk—

Cosgrove That’s another cracker.
Ross  You voted for it. Can you talk us through the changes you’ve made internally to gear up for that policy change, and what you’ve had to do? I know it has only been 2 months, but can you give us any indication of what you’ve seen so far?

Ferguson  I may add more on the operational planning, but you’re right, we have had to look at that. We’ve looked at it both from the point of view of managing the IRD number changes and also ensuring that our staff are aware of that and the training that they need in order to think about it. It’s very early to say whether or not there has been an impact. Certainly, some of my frontline auditors feel that they are seeing value from the information flow that’s coming from the IRD number change already. Arlene, is there anything you want to add?

White  Just that, of course, the brightline test being stood up is for properties being bought and sold within a 2-year period. So the 2 years just started ticking on 1 October, so we’re setting up the infrastructure to make sure we’re able to capture that data and that we will be able to ensure compliance in the 2-year period.

Ross  You mentioned that your auditors are seeing value from the IRD number change. Can you expand on that, please?

Ferguson  So one of the changes that went in as part of that property package was the requirement to have an IRD number for a non-resident. That gives us a new information flow and a fast information flow, and good compliance—the use of analytics to identify non-compliance—is better supported the better information we have. So that gives us another data point that allows us to understand if someone is in the system or isn’t in the system very quickly.

Bayly  Commissioner, thank you very much, and just while we’re on the record, I just do want to record that, in the spirit of the member for Napier, if you do want to set up a regional office, Pukekohe’s dynamic. So I just want to go back through the question of base erosion profit shifting. You talked about, you know, you’ve got robust systems. But in reality it’s a global issue, and we’re a small part of that. The OECD has come out with an action list. Can you give us an update on where we’ve gone over the last few months on this?

Ferguson  So we’ve been working very closely with the OECD, and by that I mean some of our staff from New Zealand have been part of the working parties, or indeed chairing one of the working parties, so closely working through to ensure that what has come through is something that we believe is valuable for us as well as for the global position. As a result of that we will now be working through the recommendations that have come through to think about areas that we may need to strengthen our rules, or may want to change them, and providing some advice to Ministers on that. David, is there—

Carrigan  As the Commissioner says, our rules are robust. We have some of the strongest controlled foreign company rules in the world. We have very good
thin capitalisation rules and good transfer pricing rules. Those three sets of regimes are the things that really protect you from things like base erosion and profit shifting. Having said that, there are some areas that we are thinking about in terms of strengthening our rules. One is around the use of what are called hybrids, and those are instruments where the clever tax planners essentially ensure that the flow coming out of the country is deductible, but when it reaches the other country it’s non-assessable. So you get a situation where it’s deductible, say, in New Zealand, but non-taxable in Australia. And they do that through the different rules that different countries have for debt and equity. And we are thinking very seriously about whether we need to change our rules to combat that sort of situation.

The other area that we are looking at is what’s called related party debt, and that is where a foreign parent, for example, capitalises the New Zealand subsidiary through debt rather than equity, and that means the interest deductions going back to the foreign parent are deductible against the New Zealand tax base. We have thin capitalisation rules that protect us to some extent, but the question is: do we need any more rules to protect us against that? Those are probably the two areas that we’re looking at, mostly.

We’re also looking at, obviously, like the rest of the world, about information. One of the other areas where the base erosion profit shifting work is going is basically the swapping of information between countries to combat tax evasion, and we’re well and truly with the international community when it comes to that. You may have seen things like the FATCA recently, and we’ve got global exchange of information that’s coming up as well. Those are probably the key areas we’re looking at.

Bayly What about in the area of transfer pricing?

Carrigan So transfer pricing is—that is one of the areas where what the OECD does affects us directly, because what they do is they change the commentary on transfer pricing. You may think that that sounds quite benign, but that changing commentary affects how we interpret our laws. So I’m not that close to the particular changes, but the work in the OECD is strengthening those rules, and whatever they decide will flow into our double tax treaties and will end up giving us some extra protection.

Bayly Does it flow into, like, GAAP—the accounting rules and things like that? Is there an overlap into that? Is that being worked through at an OECD level, or is that—because we can’t influence that much here.

White Just one comment that I would add to that. One of our senior auditors in international, John Nash, is the chair of that working party, and he is actually instrumental in making sure that those rules—if they do come down in the advance pricing arrangements—that we have a lot of input into that. So we are very influential, I would say, at the OECD level on what and how we are going to implement those rules in New Zealand.

5 Expert Group at OECD
Sage: Thank you, and congratulations to IRD for being the first Government agency to receive a 5-star EECA rating.

Ferguson: Thank you.

Sage: What lessons have you got for other agencies about energy efficiency?

Ferguson: Whether it’s in that area or others, we’re always keen to share the work that we are doing, and I know that our facilities team, who have led a lot of that work, have been sharing that through some of the cross-Government areas. I guess my key take-out is you focus on it, and you measure it. What gets measured gets done.

Sage: In terms of the policy advice targets, I think you only achieved one of the three there. What do you put down the failure to? Is it because the Government doesn’t always take your advice, as with the brightline test, in terms of all property being involved? How are you looking to improve?

Ferguson: The two targets that we didn’t achieve we actually set quite high benchmarks for, and improved performance against last year, and that’s been something we’ve been deliberately looking to do, is to set that high benchmark. They are higher than the equivalent benchmarks for many departments, if you look across the board. So our performance compared to other departments is strong. As I said earlier, ensuring that we maintain and improve the quality of policy advice, for me, is a long-term issue, and something that stays no matter which Government is in place, or which Minister. So working with David and thinking about how we sustain the flow-through of talent into our policy function is particularly important in that. In terms of not achieving those targets, they were stretch targets. We have improved our performance, and I would expect us to continue to look to do so.

Sage: Even though they were stretch targets, haven’t you reduced them downwards next year from 90 percent to 65 percent for policy papers and 95 to 80 percent for ministerial satisfaction? That’s quite a drop.

Ferguson: It’s dropped to more in line with other Government departments, and recognising that that would be a level that allows us to maintain that quality.

Sage: And I notice there’s a 5-percent reduction in the number of people who resent paying tax, which is good.

Unidentified: You can always make a voluntary contribution.

Sage: This is going back to some of Stuart’s questions—can you estimate, at all, the extent of tax that’s lost through tax evasion from individuals in New Zealand?

Ferguson: No, we don’t estimate that. In order to do that we would have to do something like run a random audit inquiry, which actually puts a lot of burden on all of the population, and economists would argue as to whether or not there’s actually still value out of the output of that. It’s a long debate that’s gone on internationally over many years, about the way or the value of trying to measure that. So we don’t follow that approach, and therefore I can’t give you a sense of that.
And the same for companies as well?

Yes.

Yeah, OK. Thank you.

Thanks, Commissioner. I wanted to focus on the people. You’ve got a lot going on. Your results—you know, your key indicators—are good. You’ve got business transformation on, which must be pulling some resource from your main business, and you’ve got quite a high turnover. And so I’d like to explore your succession planning, perhaps, or how you’re protecting your key people in the business, making sure they don’t shoot off to the UK, or Aussie, or wherever. So can you comment on how you’re managing that risk, if you like?

Thank you for the question, it’s an excellent one. You’re absolutely right that our people are, you know, key assets for the department and for the people of New Zealand, and ensuring that we have the right capability and capacity is key. We’ve done a significant amount of work around talent management and identifying, right down to our team leader level, who are our future leaders and the capabilities that they have, and indeed the capabilities that they need to build, and have some structured development in place around that.

In the context of our transformation, we are just refreshing all of our leadership programmes so that people are thinking about the leadership skills that they need for the future, and we’ll start to roll out those new programmes in the new year—in the calendar year ’16. And then thinking around key individuals and critical people has also been part of our work to identify a small number of people that we would consider at a point in time are in critical roles. They may not be in a critical role over time, but for the period that we have at the moment they are, and that will continue to change. And, as Arlene rightly tells me, that talent work etc. is right across the country, not just in Wellington.

I just wanted to come back to questions raised by Mr Bayly. As an outside observer at this stage, with the conversation—especially in the OECD—around base erosion and the like, one of the difficulties you observe, and I’d be interested to know if you’ve had any feedback from your team over there, is the uptake from other countries in terms of consistency in dealing with a problem, rather than having differing levels of approach. Because that’s going to be the make or break of it, and even unilateral decision-making on saying “We’re just going to do it like this”—undermining that group effort. Has there been any feedback to this?

It is a really good point. I guess, you know, we’ve seen more connected thinking from the OECD—and all of the countries involved, not just OECD countries—on this issue in the past 2 years than I think we have, historically, for quite some time. I engage with a couple of organisations, both the OECD, through the forum of tax administrators—we will meet again next year in Beijing—and last week I was in Singapore with a network called SGATAR, which is the Asian countries—Asian, Australia,
Australasian countries. On all of those agendas, that’s dealing with the issues that are there. Understanding how each of us are going to implement something like country-by-country reporting are the subjects of those meetings and the subject of those working groups. We do have significant influence into the work, as I said, by chairing a number of the groups.

We also are very keen to continue to build up our treaty network, which is one of the ways in which we can ensure that we have the right engagement with the countries that are most connected to us, are most valuable to us. But it will remain an issue of ensuring that we work with the countries that we need to, to get that consistency. And, in particular, Australia is always one that we work closely with on this, and, again, have had quite a lot of engagement both with their treasury and with their revenue authority on this. Is there anything, David, that you’d like to—

Carrigan  No, I think that’s exactly right. I mean, the key point here is that—and the OECD recognised this—that countries, at the end of the day, have a sovereign right to set their own tax laws. The OECD is not arrogant enough to assume that the standards that it has set are going to be adopted wholeheartedly right around the world. I mean, a country is still free to drop their company tax rates to attract foreign investment; that’s the sovereign right of a nation. The OECD recognise that. What instead they are focusing on, I think, is setting minimum standards that they’re trying to push out, not just to OECD countries but to other developing countries as well. And that’s the approach they’re adopting, and I think it’s a sensible approach, because you cannot set guidelines on what the company tax rate should be around the world. It’s just not possible.

Robertson  A couple of quick questions following up on things that have been mentioned. Have you estimated the cost for yourselves of implementing changes around the brightline test to your systems?

Carrigan  I’m sure we have, I just can’t remember the number.

Robertson  If you can get back to us on that.

Carrigan  Yeah, I’m sure we have.

Robertson  Especially whether it’s plus or minus $5 million that you’re going to make.

Ferguson  Actually, if I may, Ms White has confirmed that it’s $5 million.

Robertson  The cost of?

White  No, the entire package from the Budget, which includes the brightline test and the registration and getting in IRD numbers—$5 million.

Robertson  Which is exactly the amount you’re going to make from it. That’s interesting, isn’t it? Cost neutral.

Ferguson  That includes all of the property. That’s to implement all of the changes to property legislation that came through.

Robertson  And just to confirm that the estimate—

Ferguson  Not just the brightline.
Robertson: I understand the point you’re making. But just to confirm that the estimate of the amount of money to be gained out of the brightline test was about $5 million?

Carrigan: That’s correct.

Ferguson: Yes.

Robertson: Amazing policy.

Unidentified: It’s curious.

Robertson: In the comments you made before, and which I thought were really interesting, on the base erosion about the deductibility-assessability difference—have you done any estimates about the scale of that, in terms of the New Zealand context?

Carrigan: Again, I’d have to come back on that. It’s possible we have, yeah, but we may not. But I can come back with some advice on that.

Robertson: Thank you, that would be good. Just finally, following up from Alastair Scott’s question about the people at IRD, you’ve got one of the highest levels of sick leave of departments—around an average of 10.2 days, 2014-15 year. That puts you right at the upper end of sick leave. Is that a concern to you? Is there anything you’re doing about that? Have you looked at why that is?

Ferguson: Yeah, we have been looking at that. And if you track it past the past couple of years, you will see that that level has come down, and so it has. And some of that for us has been about focusing on ensuring that people are well at work and ensuring that we take the time—for example, when they come back from sick leave—to understand: are they actually truly well to be back, or what were the reasons for the sickness absence? So there has been quite an extensive programme around wellness and attendance and ensuring that we understand what is driving that.

I think if you look across departments you will find that usually the larger operational departments have got a higher level of sickness absence than some of the smaller policy departments. We could speculate as to the differences in our working populations and why that is, with other responsibilities and things, but it is an area that we focus on and, as I say, that’s why that work programme has been there to support positive attendance with all of our staff. It’s also something we’ve worked quite closely with the PSA on, as, indeed, we’re working with them in terms of the transformation programme and the changes ahead.

Bennett: OK, well, thank you very much. I appreciate your time and all your good work.

**conclusion of evidence**
2014/15 Annual review of the New Zealand Fire Service Commission

Report of the Government Administration Committee

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New Zealand Fire Service Commission

Recommendation

The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the New Zealand Fire Service Commission and recommends that the House take note of its report.

Introduction

The New Zealand Fire Service Commission is a Crown entity established under the New Zealand Fire Service Act 1975. The commission’s vision is to lead an integrated fire and emergency service for a safer New Zealand.

The commission has responsibilities for urban and rural fire safety. For urban fire safety, the commission is the board of the New Zealand Fire Service. For rural fire safety, it acts as the National Rural Fire Authority, which co-ordinates New Zealand’s independent fire authorities.

The commission’s chairperson is Rt Hon Wyatt Creech, and the chief executive and National Commander is Paul Baxter.

Financial and service performance in 2014/15

In 2014/15, the commission’s total revenue was $372 million, and its expenditure was $375.2 million. This resulted in a deficit of $3.2 million. The commission had budgeted for a surplus of $1.9 million, after a surplus of $11.4 million in 2013/14. The deficit was offset by the gain of $16.3 million on revaluation of lands and buildings.

The Office of the Auditor-General graded the commission’s management control environment and financial information systems and controls as “very good”. It graded the commission’s performance information and associated systems and controls as “good”.

The commission has two core outcomes. The first is to improve fire knowledge and behaviour. The performance measure for this outcome is to “achieve and maintain the number of fires in structures to fewer than 120 per 100,000 population”. In 2014/15, it achieved this goal, with 118 fires in structures per 100,000 people.

The second outcome is to deliver an effective response to emergencies. The performance measure is to “achieve and maintain an avoidable residential structure fire fatality rate of less than 0.45 per 100,000 population”. It achieved this, with a rate of 0.28 per 100,000. However, with regard to its output performance we note the commission missed several performance standards related to its output of ‘operational readiness’.

Structural and governance changes

The fire service is undergoing substantial structural and governance changes. In 2012, an independent panel produced several recommendations. In response, the Government sought a wider review, called the Fire Services Review.

In late 2015, the Minister of Internal Affairs announced that the rural and urban fire services will be merged into a unified national service. We were told that the Department
of Internal Affairs is managing the transitional design until new members are appointed to
the commission. The current members of the commission have little to do with the
process. The commission supports the merger.

No decision has been made on how the unified service will be funded. New legislation,
containing the governance changes, is expected to be introduced in 2016. This legislation
will replace the Fire Services Act 1975. The unified service is expected to begin in mid-
2017.

The relationship between brigades and the commission will be reconstructed. Currently,
brigades are incorporated societies, which run similar to franchises. Each brigade has a
service agreement with the commission. The Minister has approved a new structure, which
puts brigades in a direct relationship with the Board of the new unified service. The
Minister recommended that more support should be provided to volunteer firefighters and
that brigades should have more paid frontline staff.

The exact details of the new relationship have yet to be decided. We were told that the
current system mostly works well, and the commission wants to maintain its positive
aspects. The commission does not want command or control over brigades. However, the
commission does want the ability to enforce standards and operating procedures to keep
brigades safe and ensure that they are offering a good service.

The commission views creating a new conflict-resolution process as an absolute minimum.
Currently, conflict resolution is based on 1940s legislation. Brigades can seek a review from
the commission’s chief executive, then the commission, and finally from the Minister. We
were told that this political process is not appropriate, and it should be more like a court
process. The commission views the process as too slow and cumbersome, meaning the
commission only gets to engage in disputes when they are a “festerling mess”.

**Major projects**

The commission is carrying out several major capital programmes. It is building new fire
stations in Christchurch, because all stations were lost in the Christchurch earthquakes. We
were told that the commission is well on its way to completing these stations. A new
station in Rangiora will be opened in early 2016, and a station in Lyttelton is about to begin
construction. Several factors have delayed completion of these projects, including

- finding the right land
- land stabilisation
- completing the Resource Management Act process
- the complex nature of construction required for fire stations.

We were told that choosing the right land for fire stations is important, because the
location affects how quickly brigades can respond to emergencies. The commission had to
wait until demographic changes were predictable enough to decide where to place its
stations, so it could place them near high population areas.

The commission is also improving the seismic resilience of its fire stations. About 80
percent of its 450 buildings are up to the standard the commission requires. Fire stations
are often heritage buildings, making the strengthening process more difficult.

The commission has an ongoing programme of fleet upgrades. During the past 10 years,
the commission has sought to provide a consistent stream of investment for upgrades.
Before this, the commission delayed upgrades to save money, causing large peaks and troughs in upgrade funding.

**Funding for the commission**

The commission raised concern about its funding arrangements. The commission is predicting significant net cash outflows during the next five years, with $23.5 million predicted in 2015/16, peaking at $46.9 million in 2018/19. We were told that, if the commission does not get additional funding, it may have to shift funding from fleet upgrades to seismic strengthening.

However, the commission would be averse to doing this, given its work to provide consistent investment. The commission hopes that higher levels of funding will be recommended.

**Levy**

Almost all of the commission’s revenue comes from a levy on insurance contracts that include insurance against fire risks. We were told that the levy is based on the commission’s normal business costs and does not cover the cost of its major projects. The commission has asked the Minister for a temporary increase in the levy, from 7.6 to 8.1 cents. This would cover the capital required for the major projects. The Minister has not yet responded to the commission.

In 2012, the Insurance Brokers Association of New Zealand and Vero took the commission to court over its interpretation of the fire service levy. In May 2015, the Supreme Court found in favour of the commission. We were told that an adverse ruling could have jeopardised the commission’s future revenue.

The court case shut some loopholes used to avoid the levy. However, the commission believes people are finding new ones. The court’s decision will help hold the commission’s revenue base but not increase it. We were told the levy is based on 1940s legislation and is not fit for purpose in the modern environment. The commission hopes the new legislation will remedy this problem.

**Moving to a broad-based emergency service**

The fire service is moving towards being a broad-based emergency service. The fire service is attending fewer fire incidents and more non-fire emergencies. The commission has recognised this trend through the increasing co-operation between fire, ambulance, and police services. This includes

- a committee made up of the chief executives of the fire, ambulance, and police services
- fire and police services sharing 111 services
- working with the Department of the Prime Minister and Cabinet to identify gaps or overlaps in the emergency services.

The commission works closely with St John and Wellington Free ambulance services. Fire brigades now provide a “medical co-response”. If there is a cardiac or respiratory arrest anywhere in New Zealand, both fire and ambulance services will respond. We were told that the medical co-response has improved health outcomes. One-third of fire stations are first responders, meaning they can respond to medical or fire emergencies.
Firefighter safety and training

The commission has taken a proactive approach to improving the safety of its firefighters. The chief executive advised that safety is a high priority. We were told that legislation, such as the Health and Safety Reform bill, is increasing the standard of safety required for the fire service.

The commission is pleased to report that no firefighter has died on duty since 2010. The commission is moving away from a prescriptive set of rules and towards a principles-based approach. The commission promotes a “safe person” doctrine, which follows the motto “everyone goes home”.

Firefighters will risk a little of themselves to save things they know they can save but will not risk themselves for something that is already lost. To engage staff in improving safety measures, the commission has run a survey and a safety conference. Both initiatives were well received.

Training is critical to increasing the safety of firefighters. It is a fundamental part of the commission’s role. Major training courses are held in Rotorua. The commission is planning on building a second large facility in Christchurch to reduce travel time for staff. It has bought the land for the site but has not secured funding to build it.

Volunteer firefighters spend about one night a week training. The commission is aware that this is a big demand, so it ensures that its training is time-effective. The move towards being a broad-based emergency service has made this problem more acute, because firefighters have to be trained to respond to more diverse situations. The commission is investing in new technology to help deliver training, such as simulator buses and online training tools.

Staffing

We asked about the commission’s succession and recruitment plans. We were told that research has shown that staff are the best recruiters of new volunteers.

The commission has a large programme for succession planning. Brigades produce an annual report to area managers. These reports identify the qualifications of staff. This allows gaps to be identified and training to be provided to potential successors. We were told that managing expectations, to keep people motivated to train, is important.

Staff turnover is very low, so there can be limited chances to move to the higher levels of brigades.

Conclusion

New Zealand is superbly served by its fire service, and we wish to express our gratitude to the fire service for its work in keeping New Zealanders safe.
Appendix

Committee procedure
We met on 10 February and 9 March 2016 to consider the annual review of the New Zealand Fire Service Commission. We heard evidence from the New Zealand Fire Service Commission and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Office of the Auditor-General, Briefing on the New Zealand Fire Service Commission, dated 10 February 2016.

New Zealand Fire Service Commission, responses to written questions, dated 10 February and 9 March 2016.

New Zealand Fire Service commission, response to written questions sup 01-27.
2014/15 Annual Review of the New Zealand Security Intelligence Service

Report of the Intelligence and Security Committee

The Intelligence and Security Committee has conducted the 2014/15 annual review of the performance of the New Zealand Security Intelligence Service. The committee heard evidence in public from the New Zealand Security Intelligence Service and received advice from the Office of the Auditor-General.

The committee recommends that the House take note of its report.

Rt Hon John Key
Chairperson
2014/15 Annual review of the Office of the Clerk of the House of Representatives
Report of the Government Administration Committee

The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the Office of the Clerk of the House of Representatives, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
The Finance and Expenditure Committee has conducted the annual review of the 2014/15 performance and current operations of the Office of the Controller and Auditor-General and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

David Bennett
Chairperson
2014/15 Annual review of the Office of the Ombudsman

Report of the Government Administration Committee

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Office of the Ombudsman

Recommendation

The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the Office of the Ombudsman and recommends that the House take note of its report.

Introduction

The Office of the Ombudsman (the Office) is an independent authority that works to ensure that New Zealanders are treated fairly when they interact with the Government. The Office handles complaints, and investigates, reviews, and inspects state sector agencies’ administrative conduct and decision-making. The Ombudsmen are Officers of Parliament, independent of the Government.

There are two Ombudsmen: the Chief Ombudsman, Judge Peter Boshier, and Ron Paterson. Judge Peter Boshier became Chief Ombudsman on 10 December 2015, after Dame Beverley Wakem retired. We acknowledge Dame Beverley Wakem’s exemplary service during her tenure and welcome Judge Boshier into his new role.

Income, expenditure, and performance

In 2014/15, the Office’s total income was $10.553 million (up from $9.964 million in 2013/14). Its total expenditure was $10.553 million. Staff and accommodation costs accounted for 80 percent of the amount spent.

The Office of the Auditor-General (OAG) rated the Office’s management control environment and financial information systems and controls as “very good”. It rated the Office’s performance information and associated systems and controls as “good”.

Last year the OAG recommended that the Office strengthen its reporting of quality measures. This year, the Office began work to address this. The OAG recognises this work and encourages the Office to continue building on it.

Managing complaint numbers, caseloads, and staff turnover

In 2014/15, the Office received 12,151 complaints and other items of new work. This was the second highest amount ever received and 10 percent higher than in 2013/14. Due to the high work volume, the Office did not meet its timeliness targets for completed complaints.

We are concerned that the backlog of complaints to be completed may have a “chilling effect” on new complaints lodged with the Office. For example, opposition members of Parliament wishing to avoid burdening the Office may be deterred from complaining about agency responses to Official Information Act (OIA) requests. The Chief Ombudsman told us that the Office wants to change this perception of its capacity. Over the last three years, the Office has reviewed and restructured its complaints handling system to increase efficiencies. This has included strengthening its early resolution process, so that staff deal with simpler requests and complaints when they come in. We heard that the Office is
improving and quickening its response to complaints and that it is doing better at meeting targets.

We are concerned that staff caseloads are too high. The Chief Ombudsman told us that the Office has reduced caseloads to 35 cases per person (down from the “inhumane” level of 50–60 cases). However, the international standard to ensure adequate attention and follow-up is 25 cases per person. In 2014/15 the Office’s rate of staff turnover increased to 21 percent, which is high for an office of its size.

Given these metrics, we asked why the Chief Ombudsman stated in the media that the Office does not need more resources. She clarified that the Office has never had enough resources, but that it must do the best with what it has and seek to increase efficiencies where possible.

We commend the Office for the difficult and important work it does, on its progress in reducing staff workloads, and on its Continuous Practice Improvement strategy to increase the quality and efficiency of its work. We also note the extensive changes, restructuring, and renewal within the Office during the past decade to modernise its operating model and practices to match its expanding mandate and functions. Nevertheless, we believe the Office is under-resourced and over-worked, and would benefit from additional resources.

**Review of the OIA**

On 16 December 2014, the Office launched a major review into the practices of government agencies in their compliance with the OIA. In 2015, the Office considered more than 2,500 submissions and survey responses, interviewed about 300 officials and requesters, conducted 37 visits to agencies, and analysed countless relevant agency records, articles and other documents. On 8 December 2015 the Office released its report (several days after appearing before the committee).

**Politicisation of the OIA**

We asked whether the Office had found any worrying trends in government agency responses to requests under the OIA. Some of us believe that the response process is vulnerable to politicisation, through unjustified delays or by withholding information.

The Chief Ombudsman emphasised that, although suspicions about politicisation of the response process may be legitimate, the Office can only work with “hard evidence”, not “mythology and hearsay”. She stressed that the review found no problems with the OIA, which is a good piece of legislation. However, it identified gaps and inconsistencies in the Act’s implementation. The Office believes that these gaps result predominantly from public servants’ lack of understanding about the Act’s proper use and operation, rather than active malevolence.

We asked the Chief Ombudsman about her comments in the media that the Prime Minister had been “cavalier” and shown “a disregard for the law” in relation to OIA requests. She told us that she had made the comments when door-stopped by reporters, and that the interview was not her “finest hour”. She assured us that the Office has not noticed timeliness problems with responses from the Prime Minister’s office to requests under the Act. She expressed her belief that the Prime Minister and his ministers are committed to the OIA and its constitutional importance.
Delays in responses to requests under the Act

The Chief Ombudsman explained that delays in responding to OIA requests often stem from systemic issues or procedural matters. She highlighted the sheer volume of requests, the lack of dedicated units in agencies that could deal with requests efficiently, and out-of-date information management systems that slow down information retrieval. We also heard that the OIA allows agencies and Ministers to consult about requests. Although consultation is good practice and should be encouraged, it can also delay responses.

Education and leadership

We asked whether the Office will conduct formal training programmes to educate government department employees on how to comply with their OIA obligations better. The Office already provides training for agencies on request, including structured workshops that seek to demystify agencies’ responsibilities. The Office told us it has a mandate and budget to continue and develop this practical educative role, to talk with chief executives and staff, to identify practices and policies that could be improved, and to run workshops and training sessions with agencies on particular issues.

The Chief Ombudsman also told us that its review revealed that Ministers and chief executives have a good understanding of their agencies’ responsibilities under the Act. She believes that effective leadership would involve these individuals working to spread this awareness throughout their agencies and offices, so that all staff are well-versed.

Furthermore, the Chief Ombudsman mentioned that the media, the public, and those making requests and complaints could also benefit from education about the best use of the OIA. We heard that the scope of requests could often be refined to improve the quality of responses and to avoid overburdening agencies.

We agree that increased awareness about the OIA can only be positive, although we note that robust requests are important for ensuring good governance and transparency.

Recognising good and bad practice

The Office’s review revealed instances of both good and bad practice throughout the public sector in compliance with the OIA. We heard that some agencies are improving their relationships with customers, and others are running seminars to upgrade their knowledge and experience on the Act. The Chief Ombudsman especially noted departments that operate a policy of proactively disclosing information, which the Office encourages.

We asked whether the review would list those agencies that have demonstrated poor practice. We heard that the Office intended the review to be a practical, government-wide health-check, not a name and shame. However, on the back of its review, the Office hopes to focus now on encouraging good practice and stamping out bad practice. At the hearing, the Office told us that it has recommended auditing each agency and ministerial office on their compliance with the Act annually. Each audit would result in a public report card. The Chief Ombudsman believes that the announcement of this recommendation alone will improve practice.

Vexatious litigants

We asked whether the Office faces problems with vexatious litigants and what it does to ensure that they do not tie up the Office’s much-needed resources. We heard that in this area the Office uses a process manual compiled by Ombudsmen throughout Australasia
and trains its staff accordingly. We also heard that some vexatious litigants highlight the need for security-consciousness and vigilance to keep staff safe. This includes ensuring that offices are secure.

The Chief Ombudsman told us that the Office is currently working with some vexatious litigants. However, although it must manage the time and resources these litigants involve, the Office must always monitor each complaint or request carefully—as it would any complaint or request—to avoid missing any legitimate or reasonable element that the Office should pursue.
Appendix

Committee procedure
We met on 2 December 2015 and 17 February 2016 to consider the annual review of the Office of the Ombudsman. We heard evidence from the Office of the Ombudsman and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Sarah Dowie
Kris Faafai
Brett Hudson
Mojo Mathers
Mark Mitchell

Evidence and advice received
Organisation briefing paper, prepared by committee staff, dated 30 November 2015.
Office of the Ombudsman, response to written questions, dated 2 December 2015.
2014/15 Annual review of the Parliamentary Service

Report of the Government Administration Committee

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The Parliamentary Service

Recommendation

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

Introduction

The Parliamentary Service provides administrative and support services—including the administration of funding and certain entitlements—to the House of Representatives and members of Parliament. It also provides services to agencies that work in the parliamentary precinct. The service’s two overarching strategic outcomes are that the House of Representatives and members receive high quality services, and that Parliament is accessible.

The General Manager of the Parliamentary Service is David Stevenson.

Income and expenditure

In 2014/15, the service’s total income was $63.957 million and its total expenditure was $62.897 million, resulting in a surplus of $1.060 million.

The service also administered non-departmental appropriations and two multi-year appropriations. The non-departmental appropriations cover depreciation on the parliamentary complex, support for members and parties, travel of current and former members, and salaries. The multi-year appropriations cover minor capital works within the Parliamentary complex, and parties’ parliamentary operations during the 51st Parliament.

Financial and service performance

The service did not meet all its performance targets for member and customer service in 2014/15. Only 48 percent of returning members were satisfied with services during the 2014 general election, 70 percent of customers were satisfied with human resources, and 73 percent were satisfied with financial services (all against a target of at least 80 percent).

The General Manager told us that the fifth triennial Appropriations Review Committee (ARC) highlighted that the service does not always understand members’ needs as well as it could. Furthermore, the Performance Improvement Framework (PIF) review, published in July 2014, highlighted areas across the service’s core business, and its organisational management, which were “in need of development”. The review found the service’s people development to be “weak”.

For 2014/15, the OAG rated the service’s management control environment, financial information systems and controls, and performance information and associated systems and controls, as “good”. The OAG noted that the deficiencies it identified in its 2013/14 audit had all been either largely or partly resolved. However, it reported that the service was under-prepared for its financial audit.

We note that the Parliamentary Service needs to improve areas of its performance. However, we recognise that 2014/15 was a busy and challenging year, not least because of
the 2014 general election and the transition to the 51st Parliament. During this time the
service also had to manage new rules and legislation, resulting from recommendations of
the fifth triennial ARC. These recommendations led to changes to the Speaker's
Directions, and the Members of Parliament (Remuneration and services) Act 2013, which
reorganised the service’s appropriations and changed the management of members’
funding and entitlements. Furthermore, we note the OAG’s recognition that the service did
well to maintain its control environment in a year of considerable activity and change. We
are also aware that the service is undertaking several organisation improvement initiatives
in human resources, and that staff growth and development is its highest priority.

We will continue to monitor the service’s improving performance in meeting its targets,
financial auditing, and human resources.

Parliamentary security

We heard that security was a focus for the service in 2014/15. It set up a new security team
and began implementing the Government’s new 29 Protective Security Requirements
(PSR). As a result, security on the parliamentary precinct has increased in the past few
months. There are more doors with access control and fewer doors available for exit, and
CCTV capability has grown. The service is also reviewing its standard operating
procedures. The service reported that it takes an intelligent led approach to security.

Balancing the security and accessibility of Parliament

We asked how the service maintains the balance between an accessible Parliament and a
safe and secure Parliament. The service told us that there are “121 different views” on how
accessible New Zealand’s Parliament should be, which makes implementing a consensus
difficult. The service is guided by the PSR initiative and focuses on “tiered responses”,
where the intensity of a response is proportional to the existence or seriousness of the
threat at hand.

We heard that the service is working to strengthen the perimeter of the precinct by
extending it from the edges of the buildings to the premises’ boundaries. The service told
us that it can soften the effect on accessibility by installing security features that can be
activated if an actual risk is apparent; for example, more gates that could be opened or
closed when necessary, or bollards that could be lowered and raised.

Out-of-Parliament offices

The service considers the safety of its out-of-Parliament staff the most worrying security
risk at present and is working on providing better support to out-of-Parliament offices. It
told us that although some members have exceeded the service’s minimum security
standards for electorate offices, 90 out of 144 offices do not comply. The service intends to
continue working with members to improve security standards, make necessary upgrades,
and increase the consistency of security across offices.

We heard that the service may also seek to clarify whether members should cover some of
the funding for electorate office security upgrades. The General Manager noted that the
new Health and Safety Act will place some responsibility on members to maintain the
safety of their out-of-Parliament staff.

We expressed our concern about the insufficient level of consultation with members and
their out-of-Parliament staff regarding office security standards. We agree that the safety of
personnel is paramount. However, we believe that staff have not been adequately involved
in security decisions affecting their working life. We questioned whether it is appropriate that the service reserves the right not to pay rent for an electorate office that fails to meet safety standards, when members have not been consulted on these standards. We also highlighted the risk that requiring members to pay for security from the same pot as their support funding could jeopardise the quality of security in out-of-Parliament offices.

The service told us that the security standards for out-of-Parliament offices come from guidelines that have been developed with members over the years. We heard that the minimum requirements are not particularly high or exacting. Furthermore, for offices opened in the new Parliament, the service told us that its security team audited the proposed sites and provided advice on the lease terms before leases were signed. We heard that, in future, if security issues are identified, the signing of the lease will be conditional on the member agreeing to make certain upgrades. The service told us that it has allocated around $5000 to assist in office upgrades.

We also heard that, although the service could refuse to pay rent for an electorate office it deems unsafe, this is an “end of the line” option because the service prioritises working with members to find solutions. Furthermore, it takes a pragmatic approach and will focus on an office achieving minimum standards before it looks towards more advanced security strategies with a member.

We will continue to monitor the service’s policy, process, consultation and funding in the area of out-of-Parliament office security.

Modifications to the building

Response to the Government Administration Committee’s inquiry into the accessibility of services to Parliament

In 2014/15 the service modified parts of the Parliamentary buildings to improve accessibility. The service took this action in response to the recommendations of the Government Administration Committee in its 2014 inquiry report on the accessibility of services to Parliament. Changes included installing tactile flooring, automating several heavy doors, putting in ‘talking lifts’ in the Executive wing of the precinct, placing rest spaces and handrails along lengthy pathways, making reception counters wheelchair friendly, and increasing the visibility of security bollards, glass doors, windows, and walls.

We asked about the timeline and budget for achieving the remaining report recommendations. The service told us that these recommendations are the most difficult to implement and will require more time. We heard that although the service has not put in a budget bid, it has an unallocated portion of its capital budget bid that it can use.

We commend the service on the modifications it has made to improve accessibility so far. We note that in 2015, the service received a silver medal from Be Accessible, an organisation which works across all sectors and communities in New Zealand to improve accessibility. We encourage the service to continue to progress the implementation of all of the committee’s recommendations. We will continue to monitor developments closely.

Installation of solar panels

We asked how much Parliamentary Service spends on electricity and whether it will install solar panels on the roof of Parliament to reduce this cost. The General Manager told us that the service spends $1.2 million on electricity and that the service’s ten year asset management plan contains an intention to consider solar panels in the coming years. In the
meantime, the service is managing electricity as much as possible; unlike many commercial buildings, Parliament is not lit up at night.

The General Manager also emphasised that the service is focused on multiple ways to save the taxpayer money. For example, it has combined many of its contracts with all-of-government contracts. However, he conceded that more could be done and that the service would continue to investigate installing solar panels.

**Lease of Bowen House**

We asked for details about the long-term plan for the parliamentary buildings, particularly whether the lease of Bowen House will be renewed. We heard that the lease is due to expire in 2018. The service is conducting a detailed piece of work on whether it should be renewed or if Bowen House should be vacated. We heard that Cabinet will consider the document in the New Year.
Appendix

Committee procedure
We met on 2 December 2015 and 17 February 2016 to consider the annual review of the Parliamentary Service. We heard evidence from the Parliamentary Service and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Organisation Briefing paper, prepared by committee staff, dated 30 November 2015.
Parliamentary Service, response to written questions, 30 November 2015.
Special report on the 2014/15 annual review of Parliamentary Service

Report of the Government Administration Committee

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Recommendation

The Government Administration Committee recommends that the House take note of its report.

In our report on the 2014/15 annual review of Parliamentary Service, presented on 24 February 2016, we included on page 3 the following sentence in relation to parliamentary security:

It told us that although some members have exceeded the service’s minimum security standards for electorate offices, 90 out of 144 offices do not comply.

We wish to correct this sentence to read as follows:

It told us that although some members have exceeded the service’s minimum security standards for electorate offices, 90 out of 144 offices comply.
Appendix

Committee procedure
We met on 16 March 2016 to consider the special report on the 2014/15 annual review of Parliamentary Service.

Committee members
Hon Ruth Dyson (Chairperson)
Sarah Dowie
Kris Faafoi
Brett Hudson
Mojo Mathers
Mark Mitchell
The Finance and Expenditure Committee has conducted the annual review of the 2014/15 performance and current operations of the Reserve Bank of New Zealand and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

David Bennett
Chairperson
2014/15 Annual review of Southern Response Earthquake Services Limited

Report of the Finance and Expenditure Committee

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Southern Response Earthquake Services Limited

 Recommendation

The Finance and Expenditure Committee has conducted the annual review of the 2014/15 performance and current operations of Southern Response Earthquake Services Limited and recommends that the House take note of its report.

 Introduction

Southern Response Earthquake Services Limited (Southern Response) is a Crown-owned company. It has a board of six directors appointed by the Crown as sole shareholder. The Chair is Ross Butler, and Peter Rose is the Chief Executive Officer. It has 160 permanent or fixed-term staff and five specialist contractors.

Before 5 April 2012, Southern Response Earthquake Services Limited traded as AMI Insurance Limited, New Zealand’s second largest residential insurer. After the Canterbury earthquakes, AMI received an unprecedented level of claims. As a result, it accepted capital support from the Government to ensure that policy-holders were protected and their claims met.

AMI subsequently sold its non-earthquake-related business to IAG Holdings Limited. It retained its former earthquake claims management team and was renamed Southern Response Earthquake Services Limited.

Southern Response is charged with managing and settling insurance claims from AMI policy-holders (primarily for Canterbury earthquake damage that occurred before 6 April 2012), recovering reinsurance proceeds, and managing the remaining investments of the company.

Southern Response has not previously been subject to a detailed annual review. It became eligible for review in 2014 when an amendment was made to the definition of “Crown entity” in the Standing Orders. The amendment included non-listed companies in which the Crown is a majority or sole shareholder (those listed in Schedule 4A of the Public Finance Act 1989).

 Financial position

Southern Response recorded a loss of $309.4 million for 2014/15, compared to a loss of $115.8 million in 2013/14. Most expenditure is for earthquake claims, at $339.8 million. It received income of $15.9 million from investments and $14.8 million from unrealised gains on the fair value of Crown receivables.

Net earthquake claims incurred in 2014/15 were $323.5 million more than budgeted for and $191.6 million more than 2013/14. This variance is largely the result of an increase in the number of over-cap\(^1\) claims. More than half of these claims were transferred to Southern Response through the Earthquake Commission (EQC) settlement programme.

\(^1\) Claims valued at more than $100,000.
As at 30 June 2015, the liabilities of Southern Response exceed its assets by $420 million. The directors have concluded that the going concern assumption is appropriate because of the funding arrangements available under the Crown support deed. These enable Southern Response to access up to $500 million of additional share capital from the Crown.

Audit report

The Office of the Auditor-General (OAG) assessed Southern Response’s financial information systems and controls and its management control environment as “very good”. The OAG made no recommendations for improvement.

The OAG noted that Southern Response could improve its performance information and associated systems and controls by introducing clearer measures and targets, and including more performance information on the quality of the repairs and building programme.

The future of Southern Response

Southern Response’s only mandate is to settle Canterbury earthquake claims from AMI policyholders. This means that its future, once those claims are settled, is uncertain. Southern Response has a wind-down strategy. However, it said that the Crown would need to decide any future direction.

Claim settlement progress

Over-cap claims

As of November 2015, Southern Response has fully settled 5,144 over-cap claims (67 percent of notified claims). Since June 2014, more than 450 over-cap claims have been transferred to Southern Response from the EQC settlement programme. These transfers are a larger number, and were received later, than Southern Response anticipated. This was caused in part by EQC’s triaging process.

After speaking with EQC’s actuaries and analysts, Southern Response expects to be transferred another 300 to 400 over-cap claims.

Shared property claims

Southern Response has identified that shared property claims are one of the main challenges to its target of completing all customer claims by mid-2017. This is because decisions involve multiple owners and insurers. Southern Response estimates that 20 complexes are involved in shared property claims. It has a dedicated team for these claims.

Southern Response said it has developed processes for better managing shared claims. These include enabling the insurer of most of the property to take the lead in project managing the repair or rebuild, or by allowing a developer to buy out an uninsured or under-insured person in a shared property arrangement.

Challenges to progressing settlements

Southern Response has settled about 25,000 claims, which is roughly 85 percent of the notified total. However, Southern Response has changed its target for settling 90 percent of claims from 2016 to mid-2017. Contributing factors to this change include the increase in the projected number of over-cap claimants and the complexity of resolving shared property claims.

Challenges to completing all customer claims by mid-2017 include ongoing disputes, complex land and environmental issues, shared-property settlement delays, meeting the...
needs of vulnerable customers, and a proposed representative action involving 47
customers.\(^2\)

Southern Response believes that, barring any more unexpected claims or blowouts in
valuation, it will have enough capital. It told us that the Minister of Finance has indicated
that the Crown will make further capital available, if needed. However, it has made no
formal request at this stage.

**Disputes**

To date, 58 percent of disputes lodged with Southern Response have been resolved.
Southern Response reported that its open dispute rate remains at approximately 4 percent
of all claims. Most disputes are about the settlement amount and the method of repair,
particularly foundation repairs.

Customers who wish to dispute their settlement are encouraged to resolve their complaint
with one of Southern Response’s claim specialists first. The customer can also request a
formal review of their complaint by Southern Response’s Technical Review and Resolution
team. If internal resolution fails, the customer can seek external resolution through the
Residential Advisory Services, the Insurance and Financial Services Ombudsman, Court-
facilitated mediations, or formal legal proceedings.

We were interested to learn that 33 High Court cases were resolved after legal proceedings
were commenced but before the court hearing date. Since 2011, Southern Response has
incurred about $5 million in claim-specific legal fees and $5 million in non-claim-specific
legal fees, which include corporate and operational legal expenses.

**Financial incentives for staff**

Southern Response has developed several initiatives to progress claims, including financial
incentives for staff. Bonuses are based on a staff member’s throughput\(^3\) and a qualitative
assessment of their performance. Since April 2012, Southern Response has spent $3.291
million on staff bonuses.

Some of us are still concerned that introducing financial incentives for staff could mean
that staff clear claims quickly but not satisfactorily for the customer. Southern Response
said it was satisfied that it has enough controls to protect customers’ interests. For
example, many different people are involved in determining the settlement figure, and the
customer has access to a wide range of external support to verify the amount and protect
their interests during the settlement process.

**Customer support**

Southern Response has developed initiatives to better support its customers, including
more face-to-face and on-site meetings with customers. It also provides better customer-
centred communication material and involves the customer at critical steps in the rebuild
process through its project managers and claim specialists.

**Vulnerable customers**

Southern Response uses a range of indicators to identify vulnerable customers. These
include the customer’s age, health issues, or difficulty in understanding the claim settlement

\(^2\) The hearing to determine whether a class action can proceed was scheduled for 16 December 2015.

\(^3\) Throughput is measured by the number of build completions or cash settlements.
progress. EQC signals vulnerable customers when it transfers them to Southern Response, which also looks for these indicators in its day-to-day interactions with customers.

Southern Response prioritises vulnerable customers in the repair and rebuild programme.

As at November 2015, Southern Response had flagged 642 vulnerable customers and identified 183 very vulnerable customers. The latter need end-to-end support.

Southern Response’s dedicated Customer Support Team (CST) manages very vulnerable customers and allocates a claims specialist and customer liaison adviser to each claim. The CST works with external agencies, such as the Canterbury Communities’ Earthquake Recovery Network (CanCERN), to support very vulnerable customers through each step of the claim.

**Quality assurance**

In August 2015, the Ministry of Business, Innovation and Employment (MBIE) released a report into whether earthquake repairs to Canterbury homes complied with the Building Code. We were pleased that all of the homes repaired by Southern Response (from a survey group that also included homes repaired by IAG, EQC, and Housing New Zealand Corporation) were found to be compliant. Southern Response said that it actively contributes to all reviews associated with earthquake recovery.

Southern Response uses its innovative technology, ROVER, to re-examine underfloor repairs. Southern Response observed that ROVER technology has been vital for its low rates of remedial work and for ensuring that its rebuilds and repairs are compliant.

Southern Response has also put in place a quality assurance helpline, for customers concerned with the quality of their repair.

**Performance monitoring of Arrow International**

Southern Response’s build programme is project-managed by Arrow International (Arrow). We asked how Southern Response monitors Arrow’s performance.

Southern Response said it holds Arrow accountable by various means. It conducts quarterly assessments of key performance indicators (KPIs) that are linked to Arrow’s remuneration. The KPIs measure project throughput, cost, quality, homeowner satisfaction, and adherence to good culture.

Southern Response told us it is committed to ensuring that all of its supply chain adheres to health and safety practices. It has set KPIs to monitor Arrow’s health and safety performance.

Arrow reports to, and is reviewed by, the Project Control Group and the Executive Control Group. Additionally, Arrow’s progress is tracked against targets for each phase of a rebuild. Southern Response also told us that it allocates resources to Arrow on a per-claim basis, so that Arrow’s resourcing is limited to the number of claims it is progressing.

Arrow has been subject to several external reviews, such as KPMG’s Value for Money and Cost Base reviews. Southern Response is satisfied that it is receiving value for money from Arrow’s services.

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4 ROVER is an all-terrain miniature under-floor camera survey robot.
Building and repair panels

We noted that nearly 100 rebuild-related companies have become insolvent in Christchurch, either from expanding too quickly or being mismanaged. We asked how Southern Response manages that risk to building companies on its panel. Southern Response said it conducts an initial financial assessment of panel members and then quarterly financial reviews. It also monitors panel members’ health and safety performance, repair quality, and throughput for any financial effects. Additionally, Southern Response is a member of Creditnet, which provides information about the credit-worthiness of clients.

We will continue to monitor the progress of Southern Response’s claim settlements with interest.
Appendix A

Committee procedure
We met on 11 November 2015 and 9 March 2016 to consider the annual review of Southern Response Earthquake Services Limited. We heard evidence from Southern Response 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 Southern Response Earthquake Services Limited, dated 11 November 2015.

Organisation briefing paper, prepared by committee staff, dated 6 November 2015.

Southern Response Earthquake Services Limited, Responses to written questions, received 10 November and 4 December 2015.

Southern Response Earthquake Services Limited, hearing presentation, 11 November 2015.
Appendix B

Transcript of hearing 11 November 2015

Members
David Bennett (Chairperson)
Chris Bishop (Deputy Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Stuart Nash
Rt Hon Winston Peters
Jami-Lee Ross
Eugenie Sage
Alastair Scott
David Seymour
Dr Megan Woods

Witnesses
Peter Rose, Chief Executive Officer
Anne Urlwin, Deputy Chair
Tony Feaver, Chief Financial Officer

Chair  Morning Peter. Welcome to the committee. It’s the first time you’ve been in front of us for a long time, so we welcome you here today. So, normal format is we just have a brief introduction from you and then if you want to introduce your team as well. And then we can ask questions from the members, OK. So we’ve got until 11 o’clock if we need.

Rose  I was going to leave it to Anne Urlwin, our deputy chair to do the introductions.

Urlwin  I would just like to put in an apology for Ross Butler, our chair, who is unfortunately not able to be with us here today. But what we have got is a brief presentation that we would like to just take the committee through. It’ll take not more than about 10 minutes or so, and then be very happy to answer any questions.

Peters  Where is the chairman?

Urlwin  Another meeting today—

Peters  More important than this one?

Urlwin  I’m not too sure of the exact details of the other one, I’m afraid.

Peters  Could you find out?

Urlwin  Yes, we can certainly let the committee know.

Chair  So if you want to run through it briefly, because 10 minutes is sort of the time allowed for the introduction, OK.
Rose  All right, well, slide number 2 is really the background to our business. We are, in fact, AMI Insurance Ltd with a name change. We started our life as Southern Response on 5 April 2012 as the result of a failure of AMI Insurance. You can see there that they had writ $600 million reinsurance and losses, in terms of the February event, of $1.8 billion, so, that was essentially the end of it. The AMI brand carries on, under the IAG banner, but in fact it’s not connected with us in any way at all. We’re a Crown-owned company, we only retained about 20 middle to lower-order staff, so, in fact, we’ve really built the company afresh since that day. Crown support, effectively, is up to a billion dollars, partly by preference shares and partly uncalled capital.

If you go on to slide 3, we don’t intend to go into any detail, but just to explain, or depict the fact that the nature of the business we have in terms of residential recovery is very complex between the insurer and the customer, and all the other parties associated with it. It’s a very complex business from our viewpoint.

Liabilities and funding: there’s been an increase in the ultimate liabilities, which reflect the expanding technical challenges in the rebuild that includes the land complexities with foundations etc. So, our outstanding liabilities arrive at present, well, as at the end of June, $1.1 billion. The increases that have been occurring during 2014 have more recently stabilised and over the last two quarters have been very modest, in terms of the increase because we are continuing to receive over-cap claims from EQC.

Under slide number 6, the funding, including that Crown support, that diagram’s seeking to depict what that looks like. We’re really just moving into the Crown-support money at this point in time and we expect it to be sufficient, at the end of the day, to cover all our current liabilities.

Customer settlement progress: we’ve now settled 25,000 claims, which is 85 percent of the total. But probably most important to most people is the over-cap claims, 65 percent of those claims have been settled.

Over to the next slide, that diagram’s depicting the progress that’s made; the orange shading is, effectively, the construction completed or cash settlement completed; the blue is those that are in progress; and the grey are those that haven’t made much progress, principally because they’re late-notified claims.

Bayly  Could you say that last comment again?

Rose  Late-notified claims, effectively from EQC.

Slide 11 is describing the ongoing environmental and market challenges that the entire insurance industry and the recovery are facing. One that there seems to be very little critique about is the nature of the open-ended insurance cover. The only place in the world that open-ended insurance cover is applied at a time of a major earthquake. So every case is, effectively, negotiable. There is no fixed sum insured for 95 percent of our policies.

The complex land and environment issues: poor land quality, flood-prone areas, the most recent coastal erosion, archaeological etc. Shared properties:
the cross-leases in particular, means that all parties have to agree to rebuild, for the rebuild to take place. Land compensation—which is still remaining uncertain—and of course, as I mentioned, the continued notification of over-cap claims from EQC.

Then there’s the legal challenges: the proposed representative action, which has, I think, been noted in the media. Currently there’s 47 customers involved in that, which is about 0.6 of 1 percent of our over-cap claimants. The hearing to determine whether a class action, in fact, can proceed is to be heard on 16 December 2015.

We consider each customer’s situation is different and we’re doing everything we can to try and continue to progress those customers’ claims, rather than needing to resort to the class action. Because we understand that up to a 20 percent cut of the gross figure that the customer receives will go to the lawyers and the funders.

Other legal challenges: unlitigated and litigated disputes. Our dispute rate in the High Court is around our market share. And, in terms of the disputes in the High Court, 49 percent of all those cases overall but 52 percent of ours in court, were considered to be under-cap at the time that the writ was served on us in regards to High Court action.

Over to slide 13, our time lines with over-cap properties. Our progress is in line with our expectations at the start of last year. However, with the increase in the number of claims we’ve received, we’re now looking at a target completion of 90 percent of those over-cap properties by mid-2017.

We’re continuing to adapt to be fit for purpose as we move through our life.

The issues that we’re undertaking to progress claims, in terms of dispute resolution: we’re strong supporters of the Residential Advisory Service and the Insurance and Financial Services Ombudsman Scheme. We’re the only insurer who has provided unlimited jurisdiction to the ISO to hear our cases, and we’re working very hard in court-facilitated judicial settlement conferences and mediations. And you can see it in that graph there that we’ve now resolved 60 percent of those cases which were formally or informally in dispute with us.

The next is customer support mechanisms: we’ve just recently completed a successful pilot with CanCERN, in terms of the breakthrough initiative, which will then progress into other customers. I mean, not as a pilot, but as a real-life ongoing initiative. And that’s to seek to have customers who, for whatever reason, have been loath to deal with us, to deal with us through an intermediary, being CanCERN. And end-to-end service for our vulnerable customers—and there’s a lot of them, we’re basically saying a little less than 200 over-cap claims with us—we’ve got a 10 member customer support team dedicated to those people. And you can see from the diagram, in the most recent 15 months we’ve moved from sort of a microscopic number of cases that are well and truly into resolution to a substantial number, albeit
that substantial number is not as high as the proportion of non-vulnerable customers’ claims.

Over to number 16: other initiatives to progress claims. We have increased our resources to have more face-to-face on-site meetings with our customers and flexibility with the meetings in terms of where and when the customer wants to hold them.

Customer-centric communication material to support the customers through the process. A unique situation is our physical integration with Arrow, in terms of working side by side, so the service the customers receive is pretty much seamless between Southern Response and our PMO, Arrow.

Our repairs strategy: dedicated project managers and claims specialists, early on in the process, with a builder involved very early in the process to give the customer comfort that the build methodology we propose for the repair is satisfactory to them.

KPIs and financial incentives for Arrow and our own staff in regards to throughput, quality, timeliness, health and safety, and cost. And we’ll detail collaboration with other parties such as MBIE and CERA.

On to slide 17: I just want to describe the sort of points of differentiation between us and other insurers, and our innovative solutions. We’ve been actively involved in all the reviews that have been pertinent to the earthquake recovery. The MBIE foundation guidelines, the EQC Act review recently, and the Christchurch City Council district plan review.

Our commitment to health and safety: we’re taking a leading role with our contractors to improve health and safety. One of the most vexing issues is to seek to ensure that the entire supply chain is cognisant with and is abiding by good health and safety practices. And we’re working very hard to seek that to happen. We’ve had other insurers and PMOs attend our seminars.

Attention to cultural and heritage issues, education of other insurers and contractors: we learnt that the hard way, in that our project manager, Arrow, and one of our major contractors was involved in a breach of heritage protocols and, in fact, dug up a very valuable Māori piece that gave rise to a court conviction of the parties concerned. But we’ve learnt from that, and we’re doing all we can from those learnings to ensure that the rest of the community doesn’t fall into the same trap—well, not trap, into the same problem.

Accountability: we are party to the build contract and maintain a strong emphasis on quality. Other insurers, typically, have the contract between the builder and the customer. We are a member of that contract, so in no way do we ever absolve ourselves of the responsibilities that we have for the build.

And, of course, transparency: our website information is second to none in the industry.
And slide 18, our last slide: our attention to quality assurance in our build program. The recent Government study, which is known as the CEDAR study into repair quality for exempt building, we came through with that with zero—zero—major defects and every other participant did have levels of defect.

The success of our ROVER underfloor robot camera in our programme—I note that another insurer and EQC have adopted the same approach towards using such a device—and that’s enabled us to be very comfortable at the end of a build, that the quality of the repair underfloor is appropriate.

Recently we introduced a quality management framework. Arrow, our project manager’s on-site quality assurance and continuing improvement approach: as a result of that MBIE study, we put in place a quality assurance helpline, in case people were uncomfortable about what the quality of their repair was.

And then, finally, for building consents, we now obtain consents for all projects and have done since 2013, rather than going through obtaining exemption.

Chair Thank you very much, Peter and Anne. We’ll open up for questions now.

Woods Thank you Peter and team, great to have you here. Look I just want to talk about something that you’ve touched on several times in your presentation, and that’s the influx of over-cap claims that you’ve been getting from EQC. Why this has happened, whether it was something you’ve been expecting.

Rose It’s not our perspective, it’s what EQC’s advised us: is that they went through a triaging process of their claims, and they had a group that went into an area called the technical hub—and they’re the more complex claims—and those things have been fed through as they’ve confirmed that they are over-cap or, indeed, under-cap.

Woods One of the things that you talk about is that 49 percent of all residential cases in court are considered under-cap when they go in, and they come out over-cap. The Minister, when responding to this, has said that the insurance industry’s been part of the assessment process all along. Is that the case?

Rose Well, the first part of the comment that—I didn’t say they come out over-cap, they go in under-cap, some stay under-cap even after the court process, some have come over-cap subsequently. Have the insurers been involved in the process all the way through? We haven’t. Effectively, if you look at the insurance industry, about 25,000 cases are over-cap now—round about that—and the total number of claims that EQC have received in terms of houses themselves, is about 167,000. So the approach we’ve taken—and I believe the rest of the insurance industry—is to allow EQC to go through the initial triaging process, and send to us the cases that are over-cap.

Woods Just to clarify, this is EQC’s lack of clarity of scoping that has led to them sitting around for 5 years under-cap, and are only now being deemed to be over-cap. That’s EQC, not the insurers?
Rose I wouldn’t say it’s EQC’s lack of clarity about them. They’ve put them into a triaging process in regards to the technical ones, the complex ones—

Woods A 5-year triage?

Rose I can’t comment on that.

Woods A very long triage process. Are you expecting many more to come through from EQC? What is your current budget for how many more will be tipped into you as over-cap claims?

Rose Can I just ask my CFO, Tony Feaver?

Feaver We’re expecting about another 300 to 400 still to come. Our actuaries, Finity, have been talking to EQC’s actuaries and EQC analysts about the number of claims that could still come our way, so we’ve got reasonable clarity on that number now.

Woods So this is since the release of the report, when the Minister attacked you personally in terms of the amount of money that you were going to need to settle these claims?

Feaver Ah no, we’ve had good visibility on those numbers still to come from EQC for about 6 months now.

Woods The Minister, in October of this year—the chief executive, Peter Rose, was saying hundreds of millions of dollars were needed, and Mr Brownlee was saying he couldn’t say what the cost would be. Have you sat down with the Minister, and have you sorted that out?

Feaver We haven’t, no. Our valuation shows that the number of claims that we expect will come within the current capital available. Barring any more unexpected claims, or any blowouts in valuation, we should have sufficient capital. But it’s too early to say for sure.

Woods When the report was released the Minister’s response, Mr Feaver, with all due respect, was that he didn’t know who you were, but it was your job to look at the accounts—was one of the comments that was quoted and that went pretty hard saying that you were being ridiculous in your claims that you needed more money. Is that something that you still stand by?

Cosgrove That was Gerry being tactical.

Feaver Yeah, oh yes, yes, I appreciate that. Well. We have the underwrite from the Government. At the moment our funding looks to be sufficient. We may or may not need more money—I think that comment was more around the timing of those claims coming over from EQC. We now have a fairly good idea of how many there are, but just when EQC will finish with them, or finish their assessment and pass them to us, we’re not totally certain on that, and I think that’s really what those comments were about.

Woods But too many more over-cap claims is going to take you outside that buffer, isn’t it. You’re right at the edges of that buffer.

Feaver Yep.
Woods: So what’s your plan b if you get over that? Have you discussed with the Minister whether or not there is going to be additional funding above what is currently budgeted?

Feaver: Well, we have public statements by the Minister of Finance that further capital will be available and that the Crown will stand behind Southern Response. But we haven’t begun any formal process to put that in place.

Woods: When was the last time you met with Ministers to discuss this?

Rose: I don’t believe we’ve ever met with the Ministers to discuss that issue. Because the amount of money available, and, in fact, the second tranche was made available I think before we became Southern Response, or round about that time. We haven’t had any need to speak to the Ministers about the financial situation since.

Woods: How is the guarantee that the Government will stand behind it—how’s that been negotiated and communicated to you, has that just been through correspondence?

Rose: We haven’t entered into discussions with the Minister’s office or Treasury at this point in time. We’ve seen a comment made by the Minister of Finance that they would stand behind it, and we haven’t chosen to go any further at this point of time.

Cosgrove: So you’re telling me that—this is reasonably critical issue, and you’re owned, effectively, by the Government. But you haven’t met with Ministers to discuss this. Have you sought meetings with Ministers, and what’s been the response?

Urlwin: We haven’t formally sought meetings with the Minister on this particular point. We are, of course, in regular contact and communication with the Ministers as part of the normal reporting process. And as part of that we have continued to communicate, as is also in our annual report, that the board considers that there is sufficient funding available for us to settle all the claims at the moment.

But it is something that we keep under constant monitoring by the board. So if we get to the point where the board forms the view that there may not be enough, either because we’ve got significant additional claims or additional technical challenge that increase the amount of the liability, then at that point we will formally engage with our Ministers around what the form of additional Crown support might be, either in terms of its form or its quantum.

But we haven’t formed a view about that at the moment because we believe we have sufficient.

Cosgrove: And Ministers haven’t sought a reassurance from you? Obviously, it’s a pretty critical issue. Have the Ministers sought a reassurance that they’re confident that your projections—your confidence is warranted in these areas?

Urlwin: The Ministers haven’t sought specific assurance for us in that way, but as part of the financial statements process then the board does need to attest,
in those financial statements, that it has adopted a going concern concept, 
which does relate to it having confidence around adequacy of capital to 
meet all the claims.

Cosgrove [Inaudible], but could I just go to your slide 16—under “other initiatives” 
and “to progress claims”—you mentioned KPIs and specific financial 
incentives, and, if I’m correct, you said these financial incentives were, 
among other things, for your staff in order to progress claims.

Can you give us some detail around them? Are they bonuses for how many 
claims are progressed, and is there a moral hazard in that in terms of 
ramming through resolutions which mightn’t be particularly palatable to 
clients? A bit like ACC used to do, you would get a bonus to get somebody 
off the books. Can you outline it, and how you’re managing those things.

Rose We haven’t seen it as a moral risk at all. Our customers, through advocates 
etc., have all the resources at their disposal to determine whether the figures 
are correct. Ours are simply about ensuring that our people do all they can 
to complete the tasks and mission of Southern Response as quickly as 
possible.

Cosgrove Can I just go back to my previous question: so you don’t see any moral 
hazard in providing bonuses for people to resolve claims, as you’ve put it, as 
quickly as possible.

Surely there is a possibility, as we’ve seen, as I said, with the ACC example 
years ago, that staff are incentivised just to get the damn thing through and 
signed off. Whether that’s to the satisfaction of the customer can be 
immaterial. Have you not got any safeguards or management structures 
around that? Because you have to accept that’s a possibility.

Rose Yes, well “get the thing damn through and signed off”—that would be 
throwing money at them rather than under-providing to the customer, and 
we don’t believe we do that.

We’ve got sufficient controls through the Arrow assessment of the cost of 
rebuild, the engineering work that’s undertaken to determine what the 
methodology for repair or rebuild is, the geotech work for the same sort of 
reason. There’s a lot of people involved in determining the appropriate 
figure, and, of course, advocates, lawyers, RAS—the Residential Advisory 
Services—a lot of safeguards for our customers.

Cosgrove Do you have the ability to give us an idea as to the formula—how these 
bonuses are formulated, what’s the quantum? Even if it’s not individual, 
obviously, but—

Rose No, it’s an overall potential bonus to our staff. There’s a maximum of 15 
percent, but they’d rarely earn up to that, so it’s more like in the order of 
7½ percent.

Cosgrove Sorry—of what?

Rose Of their salary, their base salary. And it’s based on two dimensions: one is 
the throughput—throughput is, in fact, the completion of builds or cash
settlements, and the other one is a qualitative assessment of their performance.

Cosgrove

So could you tell us, then, if you can’t, you could provide it—how much would you have spent to date, in global terms, on bonuses for staff for this arrangement? Or, if you haven’t got it, I’m happy for you to provide it.

Rose

We could provide it. It’d be a relatively easy calculation to provide.

Woods

Sorry, I just want to change tack slightly to the repair and build quality. So you had some properties that were part of the MBIE survey, and none came up as non-compliant.

One of the things that I want to compare that with is some of the other repair programmes that’ve been going on. How many remedial repairs—that is repairs on repairs already done—are you needing to go back and do from your book?

Rose

Firstly, we had the ROVER system in place, and the ROVER system has been in place since late 2013. So as a result of what we saw, not about our own programme but about the programmes generally, we thought: “Well, this could be us.”

And so we’ve gone back and, the term we’ve used, we’ve “ROVERed” or “re-ROVERed”, where we have the opportunity, the underfloor repair solutions, and we’ve identified four major cases that will need rectification on and about 150 cases with very trivial levels of rectification work.

Woods

Sorry, so that was four that need major repairs, was it?

Rose

Well, four that have been described to me by our technical people as having a non-compliant repair. One hundred and fifty with minor—and I asked the question “What do you mean by minor?”, and it’s where damp-proofing perhaps wasn’t installed between the pile and the bearer.

Woods

So have you been doing “jack and pack” repairs?

Rose

Yes.

Woods

Do you know how many “jack and pack” repairs you would have done?

Rose

No.

Woods

You made the decision to consent—it said that you obtained building consents for the repairs that you did. This differs markedly from the EQR programme—that many of those have been done without consents. Do you think that this has had an impact on your much better figures in terms of the need for remedial work?

Rose

I think the whole issue of quality is a series of different dimensions, one of which is council inspections—only one of which—so which of them, we couldn’t be sure. The use of ROVER has been very important to ensure that’s occurred. So I really couldn’t comment any further than that.

Woods

Has there been any discussions with the Minister about other agencies using the technology you’re using, that have led to lower rates of need for remediation?
Rose Not directly with the Minister ourselves, but the Minister receives our quarterly reports, and sees the information there, so how they pass it on, we’re not sure.

Woods So he’s well aware of your low rates of remedial work and the technology you’re using, but hasn’t joined the dots?

Chair Have you got a question there?

Woods Yes I have, I’ve got another question. So one of the questions around the panel for builders and a panel for repair contractors that you’ve assessed, a lot of that around assessing the financial capability of companies to take on the work. Because we know that there’s been a number of small building firms in Christchurch that have gone under. How are you seeing this trend—is this something that’s increasing, or do you think that it’s still a significant problem?

Rose It’s obviously a significant issue generally. I come from the Australian market—the accent might have given it away. I was involved in builder’s warranty insurance to some degree, and a lot of builders go under, and they go under in the good times. So we have no sign, particularly, of builders going under, but, just in terms of experience, it’s likely to happen, hence the level of financial control that we seek to apply to our—or financial supervision of our builders that we apply.

Bayly I’ve just got two questions. I’m just interested in how you go about prioritising vulnerable claimants in terms of that type of work, and giving priority round them. Do you have an approach to dealing with more vulnerable claimants?

Rose Oh yes, yes. Firstly, I thought the question was: “How do we identify them?”. And we identify them, well at this point of time with new ones, we’re identifying them because EQC very often signals them to us, and that’s a protocol we have in place with EQC: that if they’re seeing customers who fit into that category. Other criteria are their age. And generally everyone that comes across from EQC, and all of those who have been with us, are regularly communicated with. So we pick up the signals in terms of whether they have a capability of effectively making all the decisions necessary for a build or a repair themselves. Where they don’t, then they go into our vulnerable area, and, as I said, there’s 180 we would describe as very vulnerable, and they’re looked after by a dedicated staff of 10. Yes, we seek to get them through the build and repair programme on a priority basis.

But, of course, we can’t give them financial advice, so we’ve always got to stop a little bit short of, you know, I’d say forcing them through. But we do all we can, sort of an end-to-end protection for them.

Bayly And the second question: with multiple units, you know, complicated buildings where you’ve got different ownership structure, and you’ve got different insurers—how have you been dealing with those types of claims?

Rose There’s an industry-wide approach towards shared property arrangements. And what was decided through the auspices of the Insurance Council, by
the insurers—that that there would be a lead insurer, typically the insurer being the insurer that has the majority of properties in a complex. So that lead insurer takes the role of project manager of all the builds. And that’s working reasonably well, although, of course, it’s a bit like herding cats in terms of getting all those people making the same decision pretty much at the same time. It’s working fairly well, it’s slower than the rest.

The problem that we’re currently experiencing, and so the rest of the insurers are, is where one customer was under-insured, uninsured, got their EQC money and spent it, etc., etc., and they’re not in a position where they can build. And they’re, say, one of four or one of five—they’re all in trouble. So we’re looking towards remedies, one of which was a white knight approach where that person could be bought out by a developer, or an investor I should say, to seek to get those builds through. And I must say, at this point of time, we do not have an ultimate solution for all those issues associated with that.

Cosgrove Could you, further to the colleague’s question—how many of those cases that you’ve just described have you been dealing with? Do you have a number or could you provide it?

Rose We’ve been going through a process where the people in charge of the shared area have been presenting to me and other senior executives the examples of the cases concerned. They’ve shown me about twenty or so that fit into that category. So 20 complexes, which obviously might be more people.

Cosgrove Is that the number since the earthquake, or the last financial year?

Rose No, given that there’s not that many through the process yet, you could basically say it’s the whole time, essentially. So it’s about 20 or so. But we do need to find a good solution. I notice that MBIE have suggested in their latest release, in terms of their future role—because you know they’re taking over the residential part of CERA—that one of their key priorities is to try and ensure that the solutions for that sort of thing with shared property.

Sage In terms of the customer experience, you’ve obviously gone to quite a lot of trouble to work closely with Arrow and try and integrate there, but then what are the mechanisms for monitoring Arrow’s performance, given the substantial amounts of public money involved in all of this? I notice there’s something in here from Peat Marwick, or KPMG, but that seems more on the service delivery. So what are your mechanisms for monitoring financial performance, and just providing some accountability from Arrow?

Rose Well, I mentioned the KPI system, is one that we have, and the KPIs that surround the Arrow remuneration, and I guess their ongoing relationship with us—throughput: quality, cost, health and safety, and there’s one more. We’re looking at the cost of builds, and you’re looking at the quality of builds and the throughput concerned.

But over and above that, they have a benchmark number of claims that each of the project managers should be responsible for, so they’re not able to just claim whatever they wish to claim because we don’t give them
resources to be able to do that. They’ve only got resources on a unit basis that relates to the number of claims concerned.

Sage And, what, you’ve got an average for the KPI about what each claim should take to settle or to build?

Rose The actuaries do it for us, but, ultimately, it would come down to that sort of an outcome, or that sort of a process to get to it.

Sage Other than this KPMG one, what other independent audits have there been done of Arrow?

Rose In fact our report talks about, because it’s a response to one of the 107 questions we had—we’ve had two recent assessments done of Arrow’s performance. Both of them were by KPMG, and one was called the Value for Money Assessment and that was undertaken about a year or two ago, and—do you remember what the other one was called?

Feaver Cost Base Review.

Rose Yeah, the Cost Base Review: determining whether the costs charged were realistic in terms of the service provided and, to the extent possible, looking at other PMO arrangements to see if there was disparity. Unfortunately, in that second item, that second dimension, every one of the PMO arrangements have been negotiated on different terms, so apples and apples is quite a difficult issue. But the board—and Anne should speak to that—was comfortable that we were receiving value for money.

Peters Having a look at page 2 and the bottom of that page you’ve got a statement about two facilities. Can you tell us precisely what those facilities are?

Urlwin In terms of the Crown support?

Peters Yeah.

Urlwin Yes. Well, in April 2011 AMI Insurance, as it was then, entered into a Crown support deed with the Crown, which provided the initial tranche of support, the $500 million of preference capital. And as Southern Response, or AMI, came into the Crown company environment and was renamed Southern Response in April 2012, $100 million of that preference capital was subscribed for and drawn down by the company. And then, subsequent to that—I think it was in January 2013—the company signed with the Crown the second tranche of support, which is another $500 million of uncalled ordinary share capital.

And so our process for funding the company has been, firstly, collection of the reinsurance proceeds that AMI had in place prior to the earthquakes, an orderly sell-down of the property portfolio that AMI had in place—some of the branches and some of its buildings and land that it had. Then a liquidation of all the other investments, and then, as we’ve now fully utilised that funding, we have just started to draw down under that initial tranche of Crown support. So we drew down $40 million of capital under that initial tranche of support—the first Crown support deed. So that first draw down of $40 million occurred last month.
Peters: All right. I want you to explain to me precisely where the two sums of $500 million are.

Urlwin: In terms of how they’re recorded in the company’s financial statements?

Peters: No, no. If I was seeking to find that money, where would I find it?

Urlwin: I can’t comment where it would be in the Crown’s accounts—

Peters: It has to be somewhere. I mean, you’ve got a facility. I want to know what it looks like for [Inaudible]. I mean how—

Chair: So, Mr Peters, you’re looking for how that would be recorded in the Crown accounts?

Peters: Yes.

Urlwin: That’s not something we feel able to comment on.

Chair: Perhaps you can put that in a written question. Perhaps you could put that in a written question or something.

Peters: Well, no—I’ve put it to people who’ve told me they’ve got this facility. I want to know what it is.

Urlwin: Yes, we’ve got the documentation around—

Peters: It’s not Government bonds, for example.

Urlwin: No, no. There is separate documentation in place, the original Crown support deed that was entered into by AMI back in April 2011. That was subject to a deed of amendment in April 2012 as the company came into the Crown company environment, reflecting the change in shareholding. And then there is another set of documentation relating to the uncalled capital facility.

Peters: And so who do you suggest I should ask that question to?

Chair: I think you can put a written question, Mr Peters, and we can put that out.

Peters: Can I put it to you? Can you provide that answer sometime in the future?

Urlwin: We can certainly provide the documentation that we have from Southern Response’s perspective, but I’m not able to provide anything in terms—or how it may be accounted for within the Crown accounts.

Peters: Well, Tony, can you provide the answer?

Feaver: I can’t really add too much more than Anne, Mr Peters. We do not have the money ourselves. We haven’t requested it yet. The money itself will be sitting in the Crown operating accounts—

Chair: You’re quite welcome to do a written question to the Minister of Finance, if you’d like to do that. That would be appropriate.

Peters: All right. Can you go to page 12 then, and the other legal challenges—the last one that you’ve got. Could you explain to me the statement with “insurer often not given opportunity to assess prior to legal action”. What does that mean?
Rose It means that the first we’ve heard of this claim—which, as far as we know, is under the cap at the time; it is certainly not an over-cap claim. The first we hear about it is when a writ is served on us and we’re—say EQC generally and ourselves—are jointly named as the defendants in the case.

Peters So almost half of the people don’t even come to you—they just go to their lawyer?

Rose Well, they’re still deemed to under-cap at that time. It’s not a question of whether they come to us, it’s just that they’re under-cap at the time. We haven’t seen them come over-cap.

Peters That means you’ve got no opportunity to assess before you got the writ?

[Interuption] Can I ask one last question? Can I understand: page 15, see that graph you’ve got there. Go to October 2015: the fully settled and cash settlement in progress. How do I delineate? How do I differentiate what you’re talking about there?

Rose We could give you some more granular information. We actually have that in a more granular sense, of course, but we just chose to present it for these purposes in a summarised form.

Chair OK, so we’ll make a note to get that.

Sage I’ve just got a sup. on that. Are you saying that there are only 200 vulnerable customers? Is that what that graph is saying?

Rose We are saying there’s 200 very vulnerable customers. In total, what we’ve recorded in our system in about 650, but the rest are dealt with in a business-as-usual sense.

Seymour Just a general question. What’s the endgame, or is there an endgame, for Southern Response? Will the Government be invested in earthquake insurance indefinitely, or is there a plan to wind down after this major event, and, if there is, how would you describe your progress towards that endgame?

Urlwin When Southern Response came into the Crown company environment in April 2012 its constitution was changed and its purpose statement in its constitution was changed to refer to the fact that Southern Response’s sole purpose is to settle the claims relating to AMI policyholders resulting from the Canterbury earthquakes. So that is what the company is there to do. There hasn’t been—and in terms of the life of the company, that will be there until we can complete that work. Then what the shareholder decides to do with the company after that, we do not know. That will be entirely up to the shareholder at that point.

Woods Just around the settlement process and progress. So you’re around 65 percent settled, according to your details. You’ve shifted the target for 90 percent of claims to be settled through to mid-2017. Can you do that? Can you achieve that target within the $100 million cap, given that you’re already—given the rate of EQC over-caps that you’ve coming through at, I think, 942 of that $100 million? Is that $100 million going to be enough for you?
Rose  The actuaries’ assessment by way of projections and what’s gone on in the past and what they see in the portfolio suggests to us—and the board’s satisfied with it—that that is sufficient.

Woods  But, just to clarify, the Minister has not clarified with you whether or not you can achieve that 90 percent settlement by 2017 within the current allocation? He hasn’t met with you to discuss that?

Rose  He hasn’t asked us that question and he certainly hasn’t sought a commitment from us that that would be that case.

Woods  Right. So what do you see as your challenges to meeting that mid-2017, 90 percent settlement rate?

Rose  The principal challenges are the unknowns—the land and land compensation. The dispute rate is pretty low, so leaving aside the disputes—they’re sitting at about 250 people anyway, so that’s a relatively small number. And that changes, but it’s in that order. It’s complex land, complex build. The open-ended insurance thing that I’ve mentioned before—our views on value very often differ to the views of the customer in terms of value, so there could be standoffs, stalemates, etc., as that time nears an end. I presume that most of those people would then litigate and turn it into resolution one way or another through that process.

Woods  How much have you spent, and how much have you budgeted for litigation?

Feaver  Southern Response has spent about $10 million in legal fees since the time of the earthquakes. That includes the time when it was AMI.

Woods  And what have you budgeted for the current financial year?

Feaver  About $4 million.

Woods  Right. And what about in-house legals? Does that include that?

Feaver  No, it doesn’t.

Woods  So what’s that in addition?

Feaver  We have an earthquake strategy manager who does some legal work.

Woods  And how many staff does that person have?

Feaver  Just one.

Woods  OK, so there’s a manager and one other staff member.

Feaver  No, well the earthquake strategy manager is a lawyer. He does some legal work but most of it is outsourced.

Woods  OK, so $10 million spent to date, $4 million for the current financial year. You’re seeing obviously a reasonable ramping up of your need to spend on litigation.

Urlwin  But it is more than litigation, so it’s covering all of our legal costs. So that, for example, would have covered the legal cost over the past 4 years in relation to fees associated with the company coming into the Crown
environment, change of constitution, all our general corporate legal costs as well.

Woods How much would have that been?

Chair Perhaps they can get that for you.

Woods Yeah, if they could get back to us on that that would be fantastic.

Cosgrove Just on the litigation issue—again if you want to provide this, that’s fine, but how many cases would you have resolved after legal proceedings have been lodged against you but prior to the court hearing phase?

Rose It’s about 30, because a lot of them haven’t had their court hearing date become current.

Cosgrove Just to be clear, what I’m asking is case papers filed prior to the actual substantive beginning of the court hearing phase of that case. So you’d say there’d be about 30.

Rose You see, I think you might saying do we settle on the steps on the court.

Cosgrove And, I suppose, if you aren’t.

Rose Well, the answer to that is we might do but only when the other side produces evidence that justifies it and, so far, in many of the cases concerned, there’s very little evidence available until just before the court hearing or before mediation, and that’s when it becomes available. When it becomes available if it’s reputable information that we’re satisfied with, we’ll certainly look towards settling them.

Sage You’ve done one restructuring with the closure of the Auckland office and downsized by 45 staff. If 90 percent of claims are resolved by mid-2017, what then—have you got a strategy for winding up the organisation, because presumably it’s got no ability to engage with new claims. It’s all settlements. So what is the strategy, and how confident are you?

Rose Well, firstly—

Sage And does it require legislation as well?

Rose No, it doesn’t require legislation. We’ve got a redundancy programme in place for staff so they’ll be well looked after. At one stage there we decided to have fixed-termers, but when the programme ran on beyond where we expected we converted those fixed-termers to permanents to give them the same advantages that the rest of our staff would have. So from the point of view of staff well-being it’s a redundancy programme for them. We have run-down plans—not at an absolute detailed level, but run-down plans associated with the outstanding claims at any particular point of time. And we’ll be going through a process—and we haven’t finalised what it is. It’ll be closing down areas, but, by and large, the intention—my intention—is to ensure that everybody who is in our area, regardless of whether that area’s closed down, will have an opportunity to apply for the reduced number of jobs.
Chair    Well, thank you very much, Peter, Anne, and your team. We appreciate your work today.
Woods    Can we ask for some further information? Obviously you can’t answer it today.
Chair    Yeah. We can ask once they’ve got news.
Cosgrove Can I just ask—could you just provide us those 30 cases, if it’s OK, with your breakdown of the total legal cost for those 30 cases, if it’s possible.
Rose     Yeah, sure.
Chair    Thank you very much.

**conclusion of evidence**
2014/15 Annual review of the State Services Commission

Report of the Government Administration Committee

The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the State Services Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
2014/15 Annual review of Statistics New Zealand

Report of the Government Administration Committee

The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of Statistics New Zealand, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
2014/15 Annual review of the Treasury

Report of the Finance and Expenditure Committee

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The Treasury

Recommendation

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

Introduction

The Treasury is the Government’s main economic, financial, and regulatory adviser. Its core functions include providing advice on economic policy, managing and advising on the Crown’s finances and commercial operations, helping other government agencies to improve their performance, and providing strategic leadership of the State sector (as one of the three central agencies).

Overview of the Treasury’s performance

The information in the Treasury’s annual report indicates that it is generally performing well and making progress towards the outcomes the Government desires for the public sector and New Zealand.

However, the Treasury’s performance is well below targets in two areas where it plays a leadership role with other government agencies: cost–benefit analysis and regulatory impact statements. We discuss our concerns about the public sector’s shortcomings in these areas in a later section.

Funding and expenditure

The Treasury’s operations are mostly funded through Vote Finance. It also recovers costs (about 16 percent of its revenue) from the State Services Commission and the Department of the Prime Minister and Cabinet for services in operating the Central Agencies Shared Services unit.

The department’s expenses totalled $89.133 million in 2014/15, which is 4 percent less than the previous year. It recorded a surplus of about $5.5 million. The main change was a decrease in its spending on consultants after completing mixed-ownership model transactions.

Auditor’s assessment

Based on its 2014/15 audit, the Office of the Auditor-General (OAG) rated the Treasury’s management control environment and its financial information systems and controls as “very good”. The OAG made no recommendations for improvement. We expect this standard, given the Treasury’s role.

As it did last year, the OAG rated the performance information in the Treasury’s annual report, and the supporting systems and controls, as “good”. The OAG says that the Treasury has made progress by streamlining its performance information and providing

1 This includes a section called Reporting Against Departmental Appropriations, which was previously called the Statement of Service Performance.
clearer links to the outcomes it seeks to achieve, allowing a clearer view of how well it has performed in achieving them. The OAG recommends some improvements to link performance to outcomes even more clearly.

Performance reporting

We commend the Treasury’s efforts to improve the way it reports on its performance and endorse the OAG’s suggestions for further work. We consider it vital that all public agencies clearly report how they have used the funds appropriated to them.

Public agencies need to tell the public not only what they have spent money on—their outputs—but also, even more importantly, what benefits for the public they have achieved with that money—the outcomes. We expect the Treasury to be a role model for the rest of the State sector in this regard.

Cost–benefit analysis and regulatory impact statements

An important part of the Treasury’s role is to lead and support other public sector agencies to improve their performance. It is therefore of concern that many entities are falling short in two important areas: analysing the costs and benefits of new policy proposals and examining the potential effect of proposed regulatory measures. We discussed these issues at some length with the Secretary to the Treasury.

Cost–benefit analysis of new spending proposals

We are concerned that cost–benefit analysis was carried out on only 44 percent of government agencies’ new spending proposals as part of the 2015 Budget process, against a target of 100 percent. Although we accept that the Treasury cannot control the performance of other departments, the public expects it to check that spending proposals provide value.

The Treasury’s annual report states that the Treasury analysed and provided advice to Budget Ministers on all significant operating initiatives. However, departments did not complete a cost–benefit analysis for all initiatives. This was often because initiatives for new funding were developed late or outside the planned Budget process.2

We were told that this was the case for the housing and “bright line” taxation measures in Budget 2015. The Secretary to the Treasury pointed out that these were relatively straightforward initiatives and that more complex Budget measures had gone through a more thorough process. He emphasised that proposals supported by an analysis of their costs and benefits are more likely to be accepted by Ministers.

The Secretary to the Treasury agreed it was not acceptable that proposing departments had analysed the costs and benefits of less than half of new funding proposals. He said that the reasons were sometimes pressure of time, sometimes because people in departments did not have all the information needed for a proper cost–benefit analysis, and sometimes because people were disinclined to do such analysis.

The secretary said that the Treasury has been making an effort to lift performance. It has developed an online tool called CBAx to help agencies carry out cost–benefit analyses. It has also provided guidance for agencies and set higher expectations.

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At next year’s annual review, we will look for evidence of improved performance by departments in conducting cost–benefit analysis. The Secretary to the Treasury said that he would also be very disappointed if performance had not improved in a year’s time.

**Regulatory impact statements**

We are also concerned that only 63 percent of regulatory impact statements met all or most requirements, compared with a target of 90 percent. The Treasury states in its annual report that there has been no perceptible improvement in the quality of regulatory impact statements throughout government. It says it is investigating the barriers to improved performance and developing initiatives to address them.

The Secretary to the Treasury acknowledged that the past year’s results were not acceptable. He said that the results were distorted to some extent. They were based on a selection of 27 regulatory impact statements that included some particularly complex cases.

Nevertheless, the Secretary to the Treasury told us that he believes the public service needs to do a much better job in stewarding its policy work, and he believes there is a growing acceptance of this in the public service. He said that the Productivity Commission’s 2014 inquiry into regulatory institutions and practices was an important milestone and its recommendations are now being implemented.

We were pleased to hear that the Treasury has been providing training in regulatory impact analysis and quality assurance to staff from several departments. It has formed a network of specialists to share advice and has commissioned an external party to identify areas of good and bad practice in a selection of regulatory impact statements.

We will re-examine performance in this area at our next review and hope to see improvement, given the importance of such analysis for assurance about the quality of regulatory proposals.

**Economic situation**

At our 18 November hearing, we discussed aspects of the current economic situation. However, we noted that the Treasury would publish its half-year economic and fiscal update on 15 December 2015, along with the Minister of Finance’s Budget Policy Statement. We will have hearings on these matters in February and will then report to the House.

Broadly, we were told that New Zealand is experiencing lower growth than was expected when the Budget was prepared but that the economy remains in a relatively solid position. GDP is now likely to grow by 2 percent in the 2015 calendar year, compared with an earlier forecast of 3 percent. Diverging global trends between a recovering US economy and slower growth elsewhere, including China and the emerging economies, also bring increased risk for New Zealand.

**Employment**

At the time of our hearing, unemployment had risen to 6 percent as job growth had eased while the labour force continued to grow strongly. The Treasury told us that New Zealand’s relatively good performance compared with other countries has attracted net
immigration. Workforce participation has also increased. The Treasury expects the unemployment rate to remain high for a time but to return below 5 percent during the next three or four years.

**The Government’s budget balance**

We asked how the large fall in global dairy prices is likely to affect the Government’s operating balance. The Treasury said it would clearly have an effect, because the dairy sector is an important part of the economy and falls in farmers’ incomes would reduce nominal GDP and hence tax revenue. The Treasury will provide detailed forecasts in the half-year economic and fiscal update.

Some of us observed that the operating surplus achieved for 2014/15 was very short-lived, with results for the last two quarters showing a return to deficit.

**Investment management**

Improving the management of the Crown’s investments and the performance of State-owned assets has been a particular focus of the Treasury’s work during the past year. In July 2014, it set up a new business unit for this, and Cabinet has published new guidelines about capital investment for departments. We were told that the Treasury is working very closely with the agencies that are the biggest users of capital to help them understand and actively manage their balance sheets.

**Infrastructure investment**

In light of the rise in unemployment, we asked whether the Treasury is advising the Government to bring forward some infrastructure projects to try to stimulate more activity in the economy. The Treasury said it is “actively considering” its position on this as part of preparing its forecasts and advice to the Government for the Budget Policy Statement.

The National Land Transport Programme involves a large amount of capital spending—about $1–1.5 billion—that is not subject to Treasury approval. We asked whether the Treasury has any concerns about the quality of this spending. We were told that it does not but that it always focuses closely on infrastructure spending, given its importance.

We asked whether there are grounds for evaluating and funding KiwiRail’s infrastructure on the same basis as the State highway network, which needs detailed cost–benefit analysis. The Treasury said there could be some merit in doing so.

**Social investment**

As part of its work to get the best value from government capital and operating expenditure, the Treasury says it is increasingly focusing on a “social investment approach”, to target investment where it is needed most. The Minister of Finance has said that the approach is becoming embedded in the Budget process.

We asked how well other agencies are engaging with the social investment approach. The Treasury said that it is working with numerous agencies. However, it is currently focusing on the social sector because that sector uses five-sevenths of government spending.

The Treasury said the approach involves using available tools to understand what drives the demand for government services and costs, to better understand which solutions will make the most difference. A whole floor in the Treasury building now hosts a cross-agency team working on social investment. Treasury staff are also getting out into communities
more, which gives them a richer appreciation of the issues non-government organisations face. Many of these organisations provide services on behalf of the Government.

The Treasury believes that this work should lead to better policy advice and to other organisations appreciating better what drives policies and how they can help.

The long-term outlook

We commend the work the Treasury has done in looking at New Zealand’s long-term fiscal position for the next 30–40 years. We believe that its report, *Affording Our Future*, and the 40-odd associated working papers have helped to draw attention to some important challenges.

We asked in particular about the Treasury’s work on intergenerational equity issues, which crop up in many policy areas such as housing, municipal infrastructure, and climate change. The Treasury said that *Affording Our Future* focused on ageing, so intergenerational equity featured in all the options it examined. The next long-term fiscal statement will also cover intergenerational equity. This statement will use an even broader canvas, covering social, economic, and environmental issues as well as fiscal issues.
Appendix A

Committee procedure
We met on 18 November 2015 and 2 March 2016 to consider the annual review of the Treasury. We heard evidence from the Treasury 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 the Treasury, dated 18 November 2015.
Organisation briefing paper, prepared by committee staff, dated 18 November 2015.
The Treasury, Responses to committee questions, received on 17 November and 11 December 2015.
Appendix B

Transcript of hearing

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

Witnesses
Gabriel Makhlouf, Secretary and Chief Executive, The Treasury
Bill Moran, Chief Operating Officer and Deputy Secretary, Strategy, Performance, and Engagement
Girol Karacaoglu, Chief Economist and Deputy Secretary, Macroeconomics, International, and Research

Chair Good morning, Secretary, and to your team. Welcome to the committee for the annual review of Treasury. So we’ve scheduled till about 9 o’clock, so we might not need all that time—depends on how it goes. So if you want to give us a brief introduction, and then we can open up for questions.

Makhlouf Thank you very much, Mr Chair, and good morning everybody. If I could introduce: I’ve got Bill Moran, my chief operating officer, to my left, and Dr Girol Karacaoglu, my chief economist, to my right. And I’d like to begin by just giving a brief update on the current state of the global and domestic economies, and, as showcased in the annual report itself, what the Treasury’s doing to contribute to keeping the New Zealand economy on track.

I mean, globally we face some uncertainty. The IMF and World Bank have lowered global growth forecasts for 2015 and 2016. And, while the US and the UK economies are strengthening, growth in emerging economies is slowing. The weekend terrorist atrocities in Paris have created additional uncertainty, but the reaction in global markets has been subdued, and we’re monitoring the situation closely. China’s growth has slowed, which has flow-on impacts to other important trading partners for us, including in Asia and Australia.

Here at home, we are experiencing lower growth than expected at the time of the Budget, but it is important to stress that our economy remains in a relatively solid position. The US saw annual jobs growth in October rise by
2 percent and its unemployment rate fell to 5 percent—the lowest level since the global financial crisis in early 2008. On the flip side, recovery in Europe and Japan is best described as sluggish, with September quarter GDP growth weak at 0.3 percent in the eurozone, and Japan seeing a second quarter of contraction in GDP—down 0.2 percent. This slow-down is affecting developing commodity exporters, such as Brazil, and their more developed counterparts, such as Canada and Australia. Weak demand in Japan and Europe for China’s manufactured exports is also playing its part.

However, China itself is relatively insulated from the developments as it does not have large external debt. It lends to the rest of the world, especially the US. It also has a partially closed capital account and internal controls over both interest and exchange rates. None the less, China does have to contend with high internal debt and an oversupply of overvalued housing, which of themselves create financial stability risks. Elsewhere, higher interest rates could affect developing economies, such as Brazil, South Africa, Indonesia, and Turkey. Any emerging market debt crisis would have implications for the global economy. In summary, the diverging trends in the world economy between a recovering US economy and slower growth elsewhere brings increased risk, as the US federal reserve prepares to raise interest rates, thereby increasing the cost of world capital.

Following the overnight global dairy trade auction, prices remain above their August post-GFC low. The auction saw prices fall some 8 percent—the third consecutive fall. And here in New Zealand recent economic data points to a stabilisation in the outlook, with growth in the second half of 2015 expected to return to trend, albeit weaker than forecast in the Budget update. Growth of around 0.6 percent per quarter in the second half of 2015 means that increases in the December quarter, year on year, may fall below 2 percent compared to the Budget update forecast of 3 percent. Inflation remained at 0.4 percent in the year to September, but is expected to pick up as a result of higher tradables inflation, as petrol price falls a year ago drop out of the annual figure, and as a result of the lower New Zealand dollar.

Housing demand has been boosted by historically fast population growth and low interest rates, while annual house price growth has been driven not just by price increases in Auckland but also a strong pick-up in other regions, especially the North Island, where buyers sought more affordable options. Auckland demand showed signs of easing ahead of the Reserve Bank’s regional loan-to-value restrictions, which came into effect earlier this month, and tighter taxation rules on investment properties, which applied from 1 October.

Export values grew solidly in the September quarter, lifted by a lower New Zealand dollar, and, if sustained, this will support export revenue in the December and March quarters. Falls in the terms of trade will subtract from nominal GDP growth in the second half of 2015. Services export levels were up during the September quarter with arrivals in September up 12.2 percent from the same time last year, led by Australian and Chinese visitors.
Annual employment growth has eased from the 3.5 percent pace in 2014 to 3 percent in the year to June. And, in combination with a solid labour force growth, this has led to unemployment rising to 6 percent. However, we mustn’t lose sight of the fact that New Zealand has had relatively high labour supply and participation rates in recent times.

So what has the Treasury been doing? Well, amidst the range of factors which influence our economic position, there’s one thing we have firmly in our sights, which is namely to manage the nation’s finances effectively and to maintain a strong balance sheet that can withstand any shocks that might come our way. We recognise the need to maintain a strong understanding of the things that matter most to New Zealand’s economic performance, and during the past year we published a narrative on the opportunities and challenges for the country’s economy, developed using our Living Standards Framework, and maintaining a strong balance sheet and the way we are managing capital remain top priorities. We need to remain resilient to shocks and stay on course with a fiscal strategy that aims to reduce debt while sustaining value from operating and capital spending. And part of that entails using our social investment work to support our vision of working towards higher living standards for New Zealand, where data and analytics tools are proving invaluable. And it also means investment can be targeted where it is needed most. That’s my introduction, Mr Chairman.

Robertson Thanks very much for that introduction. I would like to ask you a couple of questions about those broader economic issues, but first I want to ask a couple of questions about performance issues for the Treasury itself. In your annual report you state that 44 percent of new spending proposals as part of the Budget process were subject to a cost-benefit analysis. This is against a target of having 100 percent of new spending proposals being the subject of a cost-benefit analysis. How did that happen?

Makhlouf It happens for a variety of reasons, some of it because of pressure of time, some of it because people don’t necessarily have the information to do a proper cost-benefit analysis, and sometimes because people are disinclined to do a cost-benefit analysis. We encourage all proposals to go through a thorough process, and we’ve upped our efforts for the coming Budget, and hope that we’re going to get a much better result. I mean, we’ve also introduced—in the last month we’ve put on our website a new tool, called CBAX, to help in the development of proposals in social spending in particular. But it’s much wider. So, hopefully, this might actually make it easier for people to understand how to use the tools.

Robertson How is it acceptable that less than half of new Budget proposals that came through to the Budget—this last Budget—had a cost-benefit analysis? I mean, because this is your job, and I respect the fact that the proposals are coming from elsewhere, but, ultimately, this is what we trust the Treasury to do—is to tell us whether or not these proposals are actually valuable. And less than half of the new proposals are getting the analysis. How’s that acceptable?

Makhlouf I didn’t say it was acceptable.
Robertson: Well, how did you let it—

Makhlouf: No, firstly, I think it’s important to bear in mind that proposals that have cost-benefit analysis are more likely to succeed in being accepted by Ministers. So I’m afraid I don’t know the proportion of proposals that went through the proper process and got accepted, but, I mean, we’ve published all our Budget advice so that no doubt that’s accessible.

Robertson: You have. And on that point: in your report you say: “This was often owing to initiatives for new funding which were developed late, or outside of, the planned Budget process.” Were there major initiatives that did end up being part of the Budget that weren’t? I, for instance, know—obviously from the papers you’ve released—that the brightline tax and a couple of the other housing related things fall into this category. Were there other major initiatives that did make it all the way through that weren’t subject to this?

Makhlouf: Not to my recollection.

Robertson: So it was just the housing ones that were the major ones that made it through?

Makhlouf: And it’s important to bear in mind that those particular ones, by their nature, were relatively straightforward compared to some of the more complicated packages which did go through a more thorough process.

Robertson: And they didn’t take your advice on those ones either. Relatedly—I mean, I guess, from my point of view, I would hope that when you come back next year we would see a much larger figure than 44 percent, because that just, to me, seems like the core task’s not being done. But, relatedly, on the regulatory impact statements, 63 percent of regulatory impact statements met requirements compared with a target of 90 percent. And you’ve noted yourself that there’s no perceptible improvement in the quality of regulatory impact statements across Government. What action are you taking about that?

Makhlouf: I mean, if I can just sort of go back to your previous point, I too would be very disappointed if in a year’s time we’re sitting here and that 44 percent number hasn’t been improved, because we are making quite an effort this year to do that. The regulatory impact results are—well, actually, they’re not acceptable. And, unfortunately, the figures are a bit distorted, because we tend to see in the Treasury the most complicated of cases, so it’s not necessarily representative of the overall picture. But I, you know—we need, as a Public Service, to do a much better job in stewarding our policy work.

Robertson: I’m conscious of the time. I just want to move on to some of those bigger issues that you raised, and, in particular, around dairy. You forecast an average in the Global Dairy Trade index for this quarter of 920. As at this morning it’s 692. What impact does that—and, I mean, I’m not criticising you as such for the forecast because everybody is struggling with it, but what impact does that have on your view in terms of the overall state of the Government’s books heading into this year?

Makhlouf: The easy answer to that question is that you should wait 4 weeks for us to publish our half-year forecast when we’ll give you a sense of, you know,
what we think. But, you know, the reality is that dairy’s an important part of the economy, falls in farmers’ incomes have an impact on nominal GDP, falls in farmers’ incomes and a lower nominal GDP have an impact on tax revenue, so they’ll have an impact on the Government’s books. Precisely how that plays out—at this stage I’d rather not be drawn on it, because it is, you know, it is actually one of the things that we’re looking at as part of our HYEFU. But it will have an impact.

Robertson Yeah, right. And as I was going to say, because quite clearly if you were thinking of an average of 920 over a quarter, and it’s 692, that’s a significant change, and, presumably, you will reflect that in the advice and forecasts that you make from here on.

Makhlouf Yeah.

Robertson Can I ask you about your views around forecasts you have made about—and, again, you might have the same answer, and just tell me and I’ll move to something else—around unemployment. So, you had forecast unemployment going under 5 percent this year. I presume that you don’t think that’s the case any longer?

Makhlouf Well the numbers—I mean unemployment has gone up. And we would expect in the near term that trend to continue, in the view of a softer economy. But the likelihood is—and as I said earlier, we think the economy’s basically in pretty solid shape. We think the short-term track is likely to change, but by how much is something that we’ll be saying at HYEFU.

Robertson You haven’t given any advice to the Government that it might be a good idea for them to maybe bring forward some projects to try and stimulate a bit more in the economy?

Makhlouf No, we are actively considering our position on that, but we haven’t given the—

Robertson But you are considering that, you think that’s some—

Makhlouf Well it’s part of the assessment process that we go through as part of arriving at our forecasts and deciding what advice to give to the Government as it prepares its Budget Policy Statement.

Robertson One last question, Mr Chair. Are you doing any specific work around regional development? Have you started looking and working with others in Government about specific initiatives in the regions?

Makhlouf We’re certainly working with others in Government as part of the Government’s current programme of regional development initiatives. We’re working with MBIE and other agencies across the Public Service, yep.

Robertson Would you care to elaborate on any elements of that?

Makhlouf Well, I mean, I think it’s no secret the Government’s had, you know—it’s published regional studies, it’s working with communities and businesses actually in those regions. We’re working with other agencies on probably
three levels. Some of it is what you might call the, sort of, purely economic. Some of it is to do with how we can support social investments in those areas and make sure it’s integrated into the economic side. And the third area, which is the complementary one, is the work that Minister Flavell is doing on Māori economic development, which also supports the regional work.

Cosgrove I just want to go back to Grant’s question about the cost-benefit analysis. You use some interesting language. You said that—two points you made: one was that staff were disinclined—I wrote it down—and, secondly, you said you were hopeful this would change. That’s rather loose language. Could you explain to us how you would, or what measures you would put in place, one, to incline staff to do them, and, secondly, can you give us slightly more confidence than hopefully you’ll do better. Have you got a formal procedure, perhaps?

Makhlouf Well, the formal procedure is that all policy ideas, all Budget ideas, are evaluated by us, and we then give advice to Ministers on that basis. And proposals that aren’t backed up by evidence and by good cost-benefit analysis stand very little chance of getting through our process. It’s, of course, completely up to Ministers if they want to endorse something, but we would—you know, unless there’s some exceptional reason—we would as a rule not support something that’s not backed up by evidence and that hasn’t gone through some sort of cost-benefit analysis process.

So, you know, I’m hopeful that people will spot the benefit of actually having some rigour in their analysis and something backing their proposals. Because that’s the best incentive, you know. The stronger your case, the more likely it is that it might succeed. Bearing in mind that as with every Budget in the history of Budgets, and every Budget going forward for ever, there are finite resources and every bid is competing against some other bid. So people putting forward ideas want to make sure that they stack up.

Cosgrove I suppose the point I’m getting to is that that’s all well and good, but you’ve committed to a target, you’ve explained in part why that hasn’t been met, and you’ve told us you’re hopeful that you’ll do better next time. I would have thought that—

Makhlouf No, I said I would be very disappointed if we didn’t, because we’re making quite an effort.

Cosgrove OK. But I would have thought, being Treasury, and being the agency that examines, checks, with such rigour that you’d come to us and say “We haven’t met our target. We’re going to either recalibrate it, and there will be a formal process to ensure that cost-benefit analyses are done in respect of policy proposals.” But to come to us and say “Well,” in effect, “staff thought, well, you know, disinclined,” which is another way of saying they didn’t bother, and that you’re hopeful that it might change. This is the Treasury, this is—you’re the keeper of the keys.
Makhlouf: I mean, I can’t control the disinclination that exists in other—you know, outside of the Treasury. So, bear in mind, these ideas tend to come from elsewhere, right?

Cosgrove: Have you communicated to your departmental colleagues to say: “Lift your game.”?

Makhlouf: Yeah, we have. We’ve made—as I said earlier, we’re making extra special efforts to highlight the importance of cost-benefit analysis, including by improving the tool kit, through the publication—you know, which is available to the public and it’s being used, actually, by lots of people at the moment. It’s had lots of interest, this tool called CBAx. And I’m hoping that it’s—you know, the fact that it’s relatively easy to use will encourage people to—again, because of the carrot—that you’re more likely to get your ideas listened to if you put a bit of rigour behind it.

Robertson: Did you ask your Minister to raise it with his ministerial colleagues, given that they ultimately sign off all of these?

Makhlouf: My Minister’s extremely keen that there’s analysis and evidence and data backing up ideas.

Robertson: But you’ve specifically had a chat with him about it.

Makhlouf: I think—sorry?

Robertson: You have had a chat with him about it.

Makhlouf: Oh, absolutely.

Bishop: Just related to cost-benefit in some ways, actually, I just want to ask you about the social investment approach, which you made brief mention of. The Minister has given speeches about how it’s starting to become embedded in the Budget process, and the last Budget, and will be further embedded, presumably, in the 2016 Budget.

I just wondered if you could comment on how other agencies are responding to that—this new approach that the Government’s adopting—because, certainly, on other committees I’ve been on, I think it’s fair to say the level of engagement and perhaps the understanding of what the Government’s trying to do varies depending on who you talk to. So I just wanted your comment on how you’re working with other agencies to adopt that approach.

Makhlouf: We’re absolutely working with other agencies to adopt that approach. Just to, sort of, broaden the thing a little bit, I see social investment as a process of modernising policy making and modernising Budget making. It’s about how do we use increasingly a lot of the new tools that are available to better understand what drives demand for Government services, what drives cost, and to get a much better appreciation and understanding of what it is that—what the best solutions could be to make a difference.

The focus at the moment is in the social sector because that’s where the huge five-sevenths of Government spending is, in the social sector, which is why social investment has got such a profile. But we’re absolutely working
I have a whole floor in No. 1 The Terrace, on the top floor of the Treasury, which is actually hosting a social sector investment change programme team that’s led from somebody that’s come from MSD that has a whole range of participants, a cross-agency team. Essentially it’s a cross-agency exercise, the social investment work at the moment.

Bishop

I know that one of the interesting things that you’ve been doing is getting out into communities and talking to sectors and organisations that the Treasury perhaps wouldn’t have talked to in the past or engaged with. What are the things you’ve learned from that process? Are there any particular insights that we could take?

Makhlouf

Well, it’s doing two things really in the main, that process of engagement. It’s actually helping us get a much richer appreciation of the issues that a lot of the NGOs—and some of them are actually providing services on behalf of Government—what they face. When we meet some of their clients directly it just gives us a much better, again, appreciation of the issues that you can’t just simply tell from reading a piece of analysis or a report.

But the other thing it’s doing as well is, it’s helping NGOs and others actually understand the sorts of things that we think about. It’s helping them understand us. And I think the combination of the two, that greater understanding on both parts, I hope is going to lead to better policy advice from us and a better appreciation from others about where we’re coming from and actually how they can help us in doing the work that we’re doing.

Genter

Thanks very much. Coming back, very quickly, I have a small question about the regulatory impact statements and cost-benefit analysis. I’m just wondering what the trend has been. So have we seen a decline in the quality of regulatory impact statements in the last few years or is it staying the same? And, likewise, for the percentage of Budget proposals that haven’t been through a cost-benefit analysis: is that lower than usual—44 percent?

Makhlouf

I don’t know the answer to that last question offhand. I think the Public Service is getting—it’s growing in its understanding of how to get the regulatory quality system working. I think the standards are either—well, they’re variable but generally speaking they’re not going backwards, but we’d like more coverage of policy issues. The Productivity Commission’s work on regulation was actually an important milestone, which we are now implementing in different ways. So, I mean, my feeling is that we’ve got a job to do to continue to promote what is actually good policy stewardship, and that increasingly my colleagues across the Public Service are understanding that. So I remain pretty positive, actually, about the potential of RISs. And I know the Minister for Regulatory Reform remains pretty focused on improving the standards of regulation across all policy making.

Genter

On a different topic, but related, there’s a fairly large capital spend in the National Land Transport programme, about $1 billion to $1.5 billion, that doesn’t have to go through Treasury’s approval to get spent. I note that in the last few years the economic efficiency, according to NZTA’s evaluations, has been, on average, low. Does Treasury have any concerns
about the quality of infrastructure spending that is happening through the National Land Transport programme?

Makhlouf No, not really. We are always obsessed with the quality in infrastructure spending, full stop, irrespective of where it’s happening. But we don’t have any particular issues with NZTA spending.

Genter I note that there was some advice provided to the Government about KiwiRail funding, and whether or not KiwiRail should have ongoing Government support for investment and infrastructure. Given that the tracks and the part of the company that’s basically related to infrastructure—you know, tracks, bridges, infrastructure and engineering—is part of our national transport network, and influences the use of the roads, which are evaluated on a wide cost-benefit analysis. Do you think that there’s some merit in the rail infrastructure being evaluated and funded on the same basis as the rest of the transport network, the State highway network?

Makhlouf We haven’t considered that in detail, but there could very well be some merit in that.

Genter And finally, one final question. As you know, there are UN climate talks coming up in a few weeks in Paris. There’s quite a bit of urgency, I think, from global leaders to reduce climate pollution, greenhouse pollution. And at the same time, there have been a lot of people doing work on the economic opportunity of switching to a lower-pollution economy. But, of course, that requires some Government policy. Do you think that there’s a risk to New Zealand’s economy of not facilitating that transition sooner through Government policy than what we’re currently doing?

Bennett I think we also need to look at what we’re doing here, Julie Anne. I’m not sure if that’s quite in the brief.

Makhlouf I’m happy to answer the question.

Genter Or to make it more specific—

Makhlouf I’m happy to try and answer the question.

Genter More specifically, do you think that the advice provided by Treasury to the Government on policy and infrastructure should be taking into account the impact, in terms of our greenhouse pollution over time, in order to mitigate that risk?

Makhlouf I think the infrastructure plan has actually got that in mind as we put it together. Those sorts of things are important to think about. I’m sort of hesitating about your initial question, simply because climate change action really will only succeed if it happens on a global scale. That’s why the Paris conference is so important. So I think New Zealand accelerating something on its own may not really be particularly optimal for New Zealand, or also for global climate change. I think it’s the global focus that’s the absolutely critical thing. That’s why these talks are so important.

Moran In terms of the work that Dr Karacaoglu has been doing over the last 3 years, he’s been developing what we call the Living Standards Framework,
and we encourage all our staff to apply it to any policy analysis they do. And one of the corners of that relates to natural capital. So in terms of doing our assessments of policy, things such as the environment are part of that. We’re in a process of basically embedding the framework into the stuff we do day to day in terms of our analysis.

Scott  Balance sheet capital utilisation; balance sheets, agencies’ balance sheets. How are you engaging with the various agencies to make sure that they don’t have a lazy balance sheet? You talked about engaging with social investment, you talked a little bit about infrastructure, but taking a step up from the infrastructure question, regarding the balance sheets of these agencies, how are you engaging and encouraging, compelling—

Makhlouf  Actively, I think, is probably the one word that I’d like to use in response to that. I mean, ever since we published the investment statement last year, we’ve made a step change in our focus on capital and, in particular, on the use of capital for investment. Cabinet, actually, published new guidelines for capital investment. We’ve increasingly published quite a lot of information on our website on how capital is being used. And we’re working extremely closely with, certainly, the big users of capital on making sure they understand their own balance sheets, as well as growing our own understanding. In many ways this is probably—looking at the last 12 months—this is probably the area that we’ve made the biggest step jump; in terms of our investment, our focus, and our engagement with other agencies, is on capital.

Bayly  I’m just wondering whether you—turned your mind to the question of the employment rate, we’ve seen it pick up slightly to 6 percent. I acknowledge that we’re near highest level of participation. As you said before, it’s still ticking along quite strongly, you know, 2 to 2.5 percent is still fairly good and robust. But we’re not seeing a real decline in unemployment nor forecast. Just, it’s interesting you talk about America dropping down to 5 percent. I just wondered whether you’d started to look at that—are we seeing more capital expenditure going into more productive type plant? Are we seeing changes in the way that people will use staff? Because it just seems that the unemployment rate is probably not dropping as quickly as you might expect, even, you know, with this robust economy as it is.

Karacaoglu  The equation is quite simple in the sense that the economic growth and its relationship to employment growth is pretty stable and easy to explain—there is no surprise there. But what is happening is, because we have performed relatively well to other countries, we have attracted net immigration into New Zealand on the supply side and as the economy gets better our participation rate is rising. So these are the factors that are, in the short term, explaining the rise in the unemployment rate. But when you look at our forecast going a few years forward, then, especially with the net migration story correcting itself and so on, then the unemployment rate does come down below 5 percent over the next 3 or 4 years. So that will be the normal one. So the short-term influences are mainly on the participation and supply side.
Seymour: Thank you, Mr Secretary. I just want to know—I admire the Treasury’s initiative and the long-term fiscal outlook, because I think it’s alerted the country to some challenges that are far away but none the less important. I just wonder if anyone—well, I guess your Minister—has asked you to look more broadly at the questions of intergenerational equity. So, you know, you’ve done that to an extent with fiscal issues, but there’s also things such as the way the housing market’s changed; infrastructure, particularly at the municipal level; some people would argue, liabilities for things like climate change, although it is very difficult to know the net present value of future carbon costs with so much uncertainty to calculate that, but that’s another thing you might add. There’s kind of a suite of costs and benefits and transfers across generations, and I just wondered if you had done any work or intended to do any work comparing that kind of question.

Makhlouf: I will ask Bill to start, or Girol. Because we are, the answer is yes.

Seymour: Thank you. See, I told you.

Moran: Girol can talk about what we’re specifically doing at the moment and will be doing in our next long-term fiscal—in the last long-term fiscal statement we published around 40 working papers and a good portion of those did focus on intergenerational issues, so it is a big focus for us. And looking at inequality and equity issues through time, so Girol can probably pick up on what we’re doing going forward.

Karacaoglu: In doing that we actually again used our broader Living Standards Framework and said that given the pressures that are arising due to, primarily, ageing, which was the primary focus of the long-term fiscal statement I have in front of me, Affording Our Future document. We looked at about 10 to 15 options. And in each case we did look at intergenerational equity as one of the key dimensions of that. What we are doing now is broadening that and saying, let’s not focus only on the fiscal side, albeit looking at it from a broader living standards perspective, but consider the other social, economic, and environmental challenges that we may be facing as an economy going forward. So the next statement, while it will deliver what is required as part of the long-term fiscal statement will also take a much broader canvas. So in that context we will keep returning to intergenerational equity issues.

Seymour: Well, thank you. I’ve got to start reading the working papers as well as the headline. Just one other different question, Secretary. There’s a bit of a tension that’s come out, and perhaps it’s just because the Minister couldn’t sit before you guys today, but it seems that sometimes you’re expected to give advice and serve the elected Government of the day, but there is also an expectation that through regulatory impact statements the CBA will also be the kind of traffic cop for bad policy. And I just wondered if you had a—I think everyone’s sort of wondering about that tension—I wondered if you had a succinct way of how you navigate that tension between being an adviser and a traffic cop, for want of a better term.

Makhlouf: I’m not sure that “traffic cop” quite captures it, but I think I know what you’re saying.
Seymour: We have traffic economists, why not traffic cops?

Makhlouf: Let’s not go down that road. It’s our job, I think, is the simple answer to that. I mean, Parliament has given—all chief executives, actually, have got responsibility for the stewardship of their agencies. So we’ve all got a statutory responsibility to be thinking about, essentially, what a future Government, you know, how would our agency be fit for purpose for a future Government. Part of our job is navigating those sorts of avenues.

With the Treasury itself, it’s got some very specific responsibilities that Parliament has placed on us. We talked about the Long-term Fiscal Statement, we’ve got the Investment Statement, and we’ve got our economic and fiscal updates. You know you have to, like a traffic cop standing in front of a very, very busy intersection, you’ve just got to do this stuff carefully. But you’ve got to be focused on doing it well, because it matters.

Peters: Tell me, are you happy with the way unemployment or employment is measured in this country?

Makhlouf: I’ve got no reason to, sort of, doubt the information I get that Statistics New Zealand put together. That’s not to say that there may not be, you know, better ways of doing it, but I mean at the moment they’re meeting international standards, so I’ve got no reason to—

Peters: So you’re happy with it?

Makhlouf: Yeah.

Peters: In short, Treasury hasn’t made any submissions that the way we measure employment in this country is inadequate.

Makhlouf: No.

Peters: OK. Do you ever think that Treasury will get around to recommending that we do annualise GDP per capita comparisons with other countries like, for example, Singapore?

Unidentified: We do.

Peters: Excuse me. I’m not asking you. I’m asking him. He’s the authority, you’re not. Sir, when are you going to put out GDP comparisons per person with other countries, like Singapore, Scandinavia, or Australia?

Makhlouf: Well, that information is available. I mean we publish our GDP per capita numbers.

Peters: I know you publish your GDP figures—

Makhlouf: You want us to—

Peters: When are you going to put a chart up in your annualised documentation to show how, for example—[ Interruption] Mr Chairman, can I ask this question?

Bennett: Yeah, go for it.
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Peters Can you tell “Junior” to keep quiet? Excuse me. Other countries actually put this out so that their citizens can read a document and see easily, by way of charts, where they are performing. Why don’t we?

Makhlouf We couldn’t—look, the OECD does it so you can look at the OECD’s last report on New Zealand and it’s got our GDP per capita in comparison to—

Peters I know that.

Makhlouf You want me to do it?

Peters No, I’m asking you why you don’t do what other countries do—inform, in their primary documents, their citizens of how they are going. This would be an essential piece of information; not ask them to go and find what the OECD says.

Makhlouf Look, I’m very happy to take that away as a good suggestion—

Peters Thank you very much.

Makhlouf —and to look to incorporate that.

Peters Just one thing, when this 2 percent represented pretty solid progress—

Unidentified You’re talking GDP too?

Peters No, well, I’m talking about GDP growth. It’s forecast to be 3. It’s failed, it’s down to 2, maybe worse, and some say it would be maybe much worse. How would you describe that as solid progress?

Makhlouf Well, I think if you take a medium-term perspective—I mean, part of the answer is that trend growth in New Zealand is 2.7 percent to 2.8 percent. That’s part of the answer. The other one is that when you’ve got Europe levels of growth, and Japanese levels of recession, and other countries, actually, we’re doing pretty well compared to others. Developed economies basically grow at those levels, between 2 percent and 3 percent, sometimes 4 percent. But it’s sort of expected, from a developed economy. Has it been high in New Zealand? Absolutely. And will it be higher? Yes.

Peters What is Treasury’s view of the last two quarters, in terms of the surplus and deficit statements made by the Minister of Finance, no doubt provisioned by yourselves? What has Treasury said about the quality of that sort of surplus? It’s lasted a flimsily short time and we’re back into deficit again, and much higher.

Makhlouf Achieving a surplus in 2014/15 was an important milestone for the Government, and actually for all the public service agencies that contributed to making sure that they played their part in getting there.

Bennett Sorry, Mr Makhlouf. We’re going to have to wrap it up there, because members have got to go to the House.

conclusion of evidence
2014/15 Annual review of the Auckland District Health Board

Report of the Health Committee

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Auckland District Health Board

Recommendation
The Health Committee has conducted the annual review of the 2014/15 performance and current operations of the Auckland District Health Board and recommends that the House take note of its report.

Introduction
Auckland District Health Board (Auckland DHB) is the country’s fourth-largest DHB by population (serving 478,000 residents) and the largest by budget (because it provides many national services).

The Ministry of Health funds Auckland DHB to provide emergency, medical, surgical, maternity, community health, and mental health services. The DHB also provides specialised tertiary services for people outside the Auckland region. The DHB is one of the fastest-growing in New Zealand and expects population growth of 15 percent by 2025.

Financial performance
In 2014/15, total revenue and total expenditure were both slightly more than $1.917 billion, with a modest surplus of $355,000—slightly more than the previous year.

The Office of the Auditor-General (OAG) noted that the surplus would have been $8.4 million if the DHB had adjusted its financial statements to correct immaterial errors identified during the audit.

The OAG rated Auckland DHB’s management control environment, financial information systems and controls, and performance information and associated systems and controls as good. The OAG made several recommendations for improvements in these areas, and we hope to see signs of progress at our next review.

Financial sustainability
Auckland DHB has reported surpluses for the past eight years, after several years of large deficits. The 2014/15 savings are the result of the DHB managing hospital beds better and making savings in surgical and theatre services, suppliers’ contracts, and human resources.

We hope to see these savings maintained and will be interested to see where the DHB may find further savings.

National services
The DHB receives almost half its funding from other DHBs because it is the national provider of many specialist services, including cardiac surgery and heart and lung transplants. It also provides tertiary services relating to neurology and cancer to the Northern region.

We heard the DHB’s view that it is a challenge to make pricing fair so that Auckland does not subsidise the rest of the country.
Population changes

About a third of Auckland’s population identifies as Asian, and it includes many recent immigrants. We heard that new immigrants are often not used to enrolling in primary care and instead tend to come to a hospital for what would be considered basic healthcare services.

Auckland DHB is working to educate new immigrants about how the New Zealand health system works. The DHB also considers that it needs to learn more about how the new immigrants would like to engage in healthcare in order to serve their needs better.

Emergency departments

The 2015 winter saw six percent more people turn up at emergency departments than the previous winter. This was because of both population growth and changing needs. This included an ageing population and people coming to emergency departments who could have gone to primary care.

We heard that many admissions could have been prevented if people had received support a week to ten days earlier. The DHB’s rapid response service provides home support after hospitalisation so people can be discharged sooner. The service has also been extended to provide primary care. The DHB hopes that an early intervention can prevent some admissions to the emergency department and hospitals.

Planning for the future

Auckland DHB completed a health needs assessment in 2015. It has recently produced a detailed demographic profile based on Statistics New Zealand projections. This will help the DHB plan services for the next 10 years.

Growth for Auckland DHB is projected at a much faster rate than the rest of New Zealand. The fastest growing age group is the over 65s. However, Auckland DHB has a lower proportion of over 65s (11 percent) than the rest of New Zealand (15 percent). This lower proportion is projected to continue.

Auckland has a large proportion of those in the 20 to 39 year-old age group. With the exception of obstetrics, this population generally has fewer health needs. The large proportion in this age group is expected to continue over the next 10 years.

Population-based funding formula

The population-based funding formula is used to allocate most of the funding from Vote Health to DHBs. We asked what input Auckland DHB, as a provider of highly specialised services, had into the formula’s recent review. We heard that the DHB had representatives on the formula review working groups.

The Auckland DHB believes that it is a challenge for it to get paid the correct amount for the work it does for other DHBs. Funding for these services is dealt with through the tertiary adjuster and not the formula; the tertiary adjuster compensates DHBs for the additional costs of providing tertiary services.

The tertiary adjuster is not part of the formula review and will not be reviewed until 2017/18. The DHB has been concerned about the accuracy of the tertiary adjuster because only 14 DHBs provide their cost data. Work is being done to get the data from the other six DHBs, and, when the review is conducted in 2017/18 the data is likely to be more accurate.
Auckland’s rapid population growth makes it especially important to have up-to-date baseline population figures. The Ministry of Health and Statistics New Zealand have agreed that, for 2016/17, population figures will be taken from October. For previous years, the information had been from June. Taking the figures from October will mean that the information used to determine funding is a lot more accurate.

We asked whether the DHB had asked for any adjustment to the formula to meet the health needs of Auckland’s growing Asian population. We heard that it had not asked for an adjustment, because the DHB believed that health outcomes for Asians are similar to those for non-Māori and non-Pacific people.

**Additional revenue**

The government provided an additional $10 million of revenue in 2014/15 for Auckland DHB. We were told that this was a one-off payment for 2014/15 to ensure that the DHB could continue to run all of its national services. The DHB said that a decision was made to split the implementation of the revised tertiary adjuster increase over three years. The impact of this decision for the first year was a shortfall of $10 million. The DHB asserted that other DHBs with tertiary hospitals did not have this issue because their funding share nearly matches their overall costs, but Auckland only receives around two-thirds of its costs.

We acknowledge the need for the additional funds but query whether it should have been included as part of the surplus.

**Health inequities**

The gap in health outcomes for Māori and non-Māori is closing, and we asked what indicators Auckland DHB uses to measure this. We were told that life expectancy is the main indicator, but access to elective surgery and immunisation rates are also relevant. The DHB said it is analysing health needs to better understand why certain indicators are improving.

The DHB told us it now tries to adapt its approaches to suit different communities. For example, it has worked with churches to improve Pacific people’s immunisation rates. It is now working with churches to reduce obesity.

We were disappointed to hear that cancer mortality and cardiovascular mortality rates for Māori are not improving. The reasons for this are complex but are largely because of access to services and health literacy. We heard that cancer statistics will not be improved until smoking rates for Māori are reduced. This is a long-term project and is expected to take 10 to 20 years.

**Oral health output measures**

We are concerned that Auckland DHB met none of the targets for its oral health measures and that its performance against many of these targets was lower than the previous year. This was caused by a reduction of pre-school coordination staff during this period, and fewer appointments because of dental therapy vacancies. The community oral health service also encouraged the reporting of complaints, which resulted in an increase in the number of complaints.

The key to good oral health is an early start, so babies are now enrolled in oral health services while on the maternity wards. These enrolments are matched against birth lists and parents are contacted directly if their babies are not enrolled. The DHB will develop a
A strategy for 2016/17 to improve pre-school oral health. We look forward to being updated on this strategy.

A strategy for adolescent oral health is being consulted on. This includes increasing the number of adolescents seen by mobile dental services and the community dental service, and following up with adolescents who have not attended appointments.

A review of the community oral health service is planned for 2016. We hope to see improvements in the oral health targets.

**Hip fracture registry**

Everyone who comes into a hospital is screened for fall risks and a care plan is developed where necessary. All falls within the hospital are investigated even if they do not result in serious harm to a patient. Auckland DHB is working jointly with ACC and has been screening people in the community about their risk of injury from falling.

The DHB is also developing a neck of femur (hip) fracture pathway. This will look at the entire treatment process and how to improve treatment for these patients. Data will be recorded on the hip fracture registry. The DHB is identifying which staff will record this data.

**Health and wellbeing strategies**

We asked what Auckland DHB is doing to promote wellness in the community. We heard about its work with the Tamaki Redevelopment Agency in Tamaki, an area with high health needs. The DHB is leading the good health programme, with a focus on dry homes. It is also working to identify the community’s greatest health needs and how people wish to be supported in health services. This work includes tailoring the DHB’s strategies to different localities and working more closely with primary health and non-governmental organisations.

Another strategy is the Healthy Workplace Programme. This is based on evidence that, if you can persuade an employee to live a healthy life, they can influence 10 people in the community. This gives the DHB, as an employer of 10,000 people, a great opportunity to influence many people.

**Smoking rates**

Auckland DHB has the lowest smoking rate of all DHBs, at 11 percent of the population. The DHB acknowledged the influence of socio-economic status and health literacy on the prevalence of smoking. The DHB provides patients in hospitals and primary care with smoking cessation information care, which has helped reduce the rates of smoking.
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Committee procedure
We met on 10 February, 2 and 16 March 2016 to consider the annual review of the Auckland District Health Board. We heard evidence from the Auckland District Health Board and received advice from the Office of the Auditor-General.

Committee members
Simon O’Connor (Chairperson)
Jacqui Dean
Kevin Hague
Hon Annette King
Barbara Kuriger
Dr Shane Reti
Scott Simpson
Barbara Stewart
Poto Williams

Evidence and advice received
Auckland District Health Board, Responses to written questions, received 5 and 26 February 2016.

Office of the Auditor-General, Briefing on the Auckland District Health Board, dated 10 February 2016.

Organisation briefing paper, prepared by committee staff, dated 26 January 2016
The Health Committee has conducted the annual reviews of the 2014/15 performance and current operations of the Bay of Plenty District Health Board, the Capital and Coast District Health Board, the Hawke’s Bay District Health Board, the Hutt District Health Board, and the Lakes District Health Board, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O’Connor
Chairperson
2014/15 Annual review of the Canterbury District Health Board and West Coast District Health Board

Report of the Health Committee

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Canterbury District Health Board and the West Coast District Health Board

Recommendation

The Health Committee has conducted the annual reviews of the 2014/15 performance and current operations of the Canterbury District Health Board and the West Coast District Health Board and recommends that the House take note of its report.

Introduction

Canterbury District Health Board (Canterbury DHB) is the primary planner and funder of health services in Canterbury. It is the second-largest DHB by geography and population, serving about 482,000 people. Canterbury DHB provides hospital and specialist services in Canterbury and to other regions where specialist services are not available.

The West Coast is the most sparsely populated, isolated, and rural district in New Zealand. This makes providing health services challenging. The West Coast District Health Board (West Coast DHB) serves a population of about 34,000 people. The Chief Executive of both Canterbury and West Coast DHBs is David Meates. The DHBs share some executive functions.

The five DHBs in the South Island have collectively identified four long-term outcome goals that will show whether they are improving the health of their population. These are that

- people are healthier and take greater responsibility for their own health
- people stay well in their own homes and communities
- people with complex illnesses have improved health outcomes
- people experience optimal functional independence and quality of life.

Financial performance

In 2014/15, Canterbury DHB’s total revenue was $1,588.651 million and its total expenditure was $1,576.587 million resulting in a deficit of $17.936 million. The budgeted deficit was $12.5 million. Factors contributing to the deficit include an increase in population for the Christchurch rebuild and an increased demand for mental health services as a result of the 2010 and 2011 earthquakes.

West Coast DHB’s total revenue was $139.861 million and its total expenditure was $140.908 million, resulting in a deficit of $1.047 million.

Effects of the Canterbury earthquake

We commend Canterbury DHB and its staff for the work it has done in coping with extraordinary pressures caused by the earthquakes. We acknowledge that Christchurch does not expect to return to business as usual for another 10 years.
Canterbury mental health services

Since the earthquakes, Canterbury DHB has seen increased demand for mental health services. The DHB has the highest numbers of emergency department presentations, and inpatient admissions for mental health issues. It is also seeing an increase in middle-aged women with anxiety and depression.

Canterbury DHB has noted the learnings from Hurricane Katrina and is seeing similar issues in child mental health. These include increases in mental health, developmental, and learning problems, disruptive behaviour disorders with underlying mood or anxiety disorders, and an increased need for intensive case management. The DHB is supporting 84 schools for anxiety, depression, and other behaviours. Although it expects demand for adult mental health services to plateau in the next 12 months, child and adolescent mental health issues will be long-term.

The DHB has innovated in how it provides mental health services. For example, non-governmental organisations and primary care staff now provide services that were provided by specialists. Innovations like this have meant that, until now, the services have been able to meet demand. However, the services are now at maximum capacity and sustainability.

We were concerned to hear that Canterbury is the second-lowest-funded DHB for mental health. The DHB told us that it is disappointed that, five years after the earthquake, it still has to provide evidence of increased demand for mental health services to secure more funding and support. This is despite the universal acknowledgement that demand for these services increases after a natural disaster.

In 2012, the Mental Health Commission published Blueprint II: Improving health and wellbeing for all New Zealanders. This provides guidance on what is needed to meet New Zealanders’ mental health and wellbeing needs over the next 10 years. We note that the earthquake has given Canterbury DHB the opportunity to test the mental health Blueprint. We heard that, for extraordinary events, the Blueprint became a barrier to effectively providing services. An example of this was the move from specialists to NGOs for mental health services. This would have been difficult to do under the Blueprint model.

Workforce mental health

We were concerned to hear about the increasing, though predictable, pressures on the workforce. Since the earthquakes, every clinical service has moved at least once. In the next three years, 50 percent will have moved at least four times. Staff commonly work 14 or 15 hours a day. Based on the World Health Organisation wellness model, Canterbury DHB would consider doing an intervention on about 35 percent of its staff.

Population changes

Since the earthquake Canterbury DHB has been dealing with population changes. These include an influx of international workers and people moving from other parts of New Zealand for the rebuild, an ageing population, and people moving to different areas of Christchurch because their houses have been demolished. Canterbury DHB’s main focus is on understanding the population, which now has different characteristics and is more ethnically diverse. The DHB noted that a lot of international workers are on three-year work permits and are entitled to health services. The DHB is also good at identifying people with health insurance.
Financial review of Canterbury DHB

We asked for an update on PwC’s financial review of Canterbury DHB. This was commissioned in June 2015 in response to a higher-than-projected deficit. We heard that the DHB will meet with the Ministry of Health to progress several elements. The PwC report noted that Canterbury DHB believes that Health Benefits Limited procurement directives added costs of between $3 million and $6 million to what it could have paid for the same services. The report highlighted that Canterbury DHB is on track to be $70 million to $80 million ahead of forecasts for the detailed business case. It is also eight years ahead of performance indicators.

Elective surgery

More than 14,000 of Canterbury DHB’s rooms needed repair after the earthquakes. We were told that a lot of minor surgeries, such as removing skin lesions, are now done in general practice. The surgery does not count towards the elective target if it is not done in an operating theatre. There is still a shortage of operating rooms and this is expected to continue until 2019. The DHB has been using private sector operating rooms. However, this increases the costs for the DHB and is at the outer limits of safety.

We heard that Canterbury DHB is struggling to meet the demand for complex surgeries but Canterbury patients are not brought to the West Coast for surgery because the surgeries are too complex.

Falls prevention

We were pleased to hear about the results of Canterbury DHB’s falls prevention programme. Since February 2012, 1,083 fewer over-75-year-olds have presented at the region’s emergency departments as a result of falls, compared with the expected trend. In the same period, 373 fewer fractured neck of femur operations have been done and, in the 180 days after discharge, there have been 80 fewer deaths, compared with previous trends.

Grey Base Hospital rebuild

Grey Base Hospital is a serious earthquake risk. The Ministry of Health recently announced that construction on the redevelopment of Grey Base Hospital has been delayed by six months.1 This is because there are concerns that the project will not come within the $68.1 million budget. Advice from the Ministry of Health and the Treasury was that the project should not proceed without greater certainty that the project would come within the budget. We asked why there was division in the West Coast Hospital Redevelopment Partnership Group over the decision to delay the project. We heard that this was a voting matter for the group and that the vote does not need to be unanimous.

We asked why $700,000 will be spent on consultants’ fees to save $1.3 million off the budget of the project. The Ministry of Health indicated that this is the amount that would need to be spent to make the savings and the consultants’ fees would come out of the total budget. If the costs are managed, construction is expected to start in late May or early June.

Some of us were concerned that the cost of the project was based on West Coast DHB’s ability to pay rather than the infrastructure required. Given that the budget was made in

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2013, we asked whether any adjustments had been made for inflation and what services would need to be reduced because of a reduction in capital. The DHB assured us that, as long as the project is not delayed for more than 12 months, the design would continue to meet West Coasters’ needs and required models of care, and that no services currently provided on the West Coast will need to be provided elsewhere. If the project is delayed by more than 12 months, decisions about reducing services would likely need to be made.

The Australian/New Zealand Standard on Structural Design Action assigns buildings an importance level (IL) based on the likely outcome if they fail structurally. IL3 buildings are considered important to society or can provide shelter for large numbers of people and IL4 buildings have special functions during a disaster. There have been some compromises made around IL3 and IL4 buildings for the rebuild. This is because the West Coast has a range of IL4 structures that are appropriate post-disaster. These include the Grey Sports Centre and the St John facility. Experience from the Canterbury earthquake has shown that most healthcare after a disaster takes place in a community setting.

Transalpine services

We asked whether West Coasters will continue to have the same or improved access to the specialist services that they currently receive under the transalpine collaboration. This is a formal arrangement with Canterbury DHB for the provision of specialist services on the West Coast, or if necessary at Canterbury DHB. Very few people now have to travel to Canterbury for paediatric, chemotherapy, palliative care, general medicine, orthopaedics, or general surgery. More complex care is still done in Canterbury, but this is provided sooner than previously. We heard that the long-term plan is for general surgery, orthopaedics, general medicine, mental health, and maternity services to stay in the region.

Technology is also used to reduce travel, and allow people to be treated closer to home. Telehealth services continue to be developed. Remote virtual paediatric services mean that most children on the West Coast no longer need to travel. This has saved 39,000 hours of patient travel time. The amount of travel time saved or added for other services varies, depending on the service.
Appendix

Committee procedure
We met on 10 February and 2 March 2016 to consider the annual reviews of the Canterbury District Health Board and the West Coast District Health Board. We heard evidence from the Canterbury District Health Board and the West Coast District Health Board and received advice from the Office of the Auditor-General.

Committee members
Simon O'Connor (Chairperson)
Jacqui Dean
Kevin Hague
Hon Annette King
Barbara Kuriger
Dr Shane Reti
Scott Simpson
Barbara Stewart
Poto Williams

Evidence and advice received
Canterbury District Health Board, Responses to written questions, received 5 February 2016.

Canterbury and West Coast District Health Board, responses to post-hearing questions, received 29 February 2016.

Office of the Auditor-General, Briefing on Canterbury District Health Board and West Coast District Health Board, dated 10 February 2016.

Organisation briefing paper (Canterbury District Health Board), prepared by committee staff, dated 9 February 2016.

Organisation briefing paper (West Coast District Health Board), prepared by committee staff, dated 9 February 2016.

West Coast District Health Board, Responses to written questions, received 5 February 2016.
2014/15 Annual review of the Counties Manukau District Health Board

Report of the Health Committee

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Counties Manukau District Health Board

**Recommendation**

The Health Committee has conducted the annual review of the 2014/15 performance and current operations of the Counties Manukau District Health Board and recommends that the House take note of its report.

**Introduction**

The Counties Manukau District Health Board (Counties Manukau DHB) provides health services to about 524,500 people in Auckland, and the Waikato and Hauraki District territorial authorities.

The Counties Manukau DHB has an ethnically diverse population. It has high levels of socio-economic deprivation. The DHB has the highest number of under 15-year-olds of all DHBs, comprising 24 percent of its population. It also has the largest percentage growth of all DHBs in the over 65 population, at 4 to 5 percent per year.

The DHB’s strategic goal was to be the best health care system in Australasia by December 2015. It would achieve this through

- improved health and equity for all populations
- improved quality, safety, and experience
- best value for public health system resources.

**Financial performance**

In 2014/15, the Counties Manukau DHB’s total revenue was $1,485.966 million. Its total expenditure was $1,482.949 million, resulting in a surplus of $3.017 million. This was slightly less than the previous year.

The Office of the Auditor-General (OAG) notes that its audit identified some balances included with provisions and accruals that, in its opinion, did not meet the definition of a liability. Had Counties Manukau DHB made the adjustments that the auditor recommended, the surplus may instead have been $7.7 million. The discrepancy was small relative to the total budget and did not affect the audit opinion.

The OAG graded the Counties Manukau DHB’s management control environment, financial information systems and controls, and performance information and associated systems and controls as good. The OAG made recommendations for improvements to the procurement of health services, and to information systems and information technology controls.

We hope to see signs of progress with these recommendations at our next review.

**Strategic goals**

We asked whether the Counties Manukau DHB had achieved its goal of being the best healthcare system in Australasia by December 2015. A University of Otago report on service-level measures recommended that organisations score themselves on what they set
out to do. The DHB’s initial findings identified that, for several measures, it is the best hospital in Australasia. It is in the top quartile for most other measures.

We asked whether the gains that could be made by working across the sector reflected a change in attitude for the DHB. We were told that a key focus for the DHB is that it has to do things differently, rather than just being slightly more efficient.

The DHB now has a new set of strategic aims, Healthy Together 2020. This will concentrate on health inequities and population health improvements. One of the targets is that, by 2020, the DHB can demonstrate that it has given back 500,000 years of health to the people of Counties Manukau.

**Ko Awatea**

Counties Manukau DHB established Ko Awatea in 2011 as an innovation and system-improvement service. We commend the DHB for the work that Ko Awatea does. Ko Awatea’s key successes include

- reducing the rates of Central Line Acquired Bacteraemia in New Zealand intensive care units
- leading a national programme on enhanced recovery after hip and knee joint surgery
- collaborating with other social sector agencies on work to prevent disease
- initiating a Faster Cancer Treatment programme
- providing an e-learning service to over 20,000 users from nine DHBs.

**Project SWIFT**

Project SWIFT stands for “system wide integration for transformation”. The project aimed to reduce “the need for capital and reliance on bricks and mortar for a large proportion of services”. This would have been achieved by improving Counties Manukau DHB’s information technology systems and by providing services for patients in the community by giving community teams access to information.

The DHB completed the first two phases of the project last year. Project SWIFT was meant to take place over four years but ended after two years. Phase 2 showed that the DHB is not big enough to afford the level of investment needed to fund the information technology infrastructure.

Project SWIFT has now moved to a general integration programme. This focuses on population health, the development of integrated health, and how to deliver efficient health care services. We heard that South Auckland has a high number of smartphone users. The DHB considers that smartphones will be the most effective way of keeping people involved in their healthcare in the future.

**Cultural competency**

The Counties Manukau DHB provides services for 167 ethnicities and speakers of 121 languages. The DHB needs meaningful ethnicity data to help plan health services. This is because different ethnicities have different health needs.

It can be challenging to get this data because Statistics New Zealand’s ethnicity classifications are very broad. For example, Statistics New Zealand classifies Middle
Eastern, Latin American, and African as one group. The DHB is working with Statistics New Zealand to amend these classifications.

The Counties Manukau DHB is working with the Tindall Foundation on a project called Grow Your Own. The New Zealand healthcare system has traditionally recruited from other parts of New Zealand and overseas. This is becoming unsustainable. We heard that future doctors, nurses, and therapists should come from the community.

The DHB has set up health science academies in the community. These link with hospitals and encourage children to study the health services, with the aim of them going on to tertiary education. The DHB hopes to eventually have a health worker in every family in South Auckland.

This will help the community economically and in health literacy. We were pleased to hear that about 35 people from this programme have gone on to tertiary education and that they are guaranteed a job at Counties Manukau DHB when they qualify.

We asked how the DHB meets its health targets given the cultural diversity of its population and a shift to more care being provided in the community. The DHB told us that it achieves this through understanding the community and their needs. The immunisation rate was about 67 percent several years ago; the rates for Pacific people are now about 97 percent and 95 percent for the whole population. The DHB identified the communities and the best way to reach them, such as on a marae or in churches.

We were pleased to hear that the Counties Manukau DHB has cultural competency programmes for its workers to understand the needs of Māori and Pacific people. It is now working on programmes for the Asian population.

**Locality model**

Counties Manukau DHB has been using a locality model for the past few years. The DHB split the population into four geographical areas, each with unique populations and health needs. Four Locality Clinical Partnerships work with primary care providers to design and deliver health services. These services are tailored to each community.

We were interested in how the Counties Manukau DHB measures the success of the locality model. The DHB has 15 system-level measures and at least 15 benchmarks—for example, emergency department admissions and ambulatory sensitive hospitalisations. These demonstrate how the whole DHB is performing. The DHB then adds measures specific to a locality. For example, Franklin has a large portion of over 70-year-olds, so there is a focus on dementia care.

Ambulatory sensitive hospitalisations are hospital admissions that could have been potentially reduced by preventative measures or interventions in primary care settings. We asked whether the DHB has evidence that this indicator has improved in all four localities. We were told that the number of people coming to emergency departments in Franklin last winter had significantly declined.

The DHB has continued to build on the success of the 20,000 bed-day campaign. This programme aimed to give 20,000 healthy days back to the community by reducing the projected hospital bed-days. It did this by treating people in the home or the community before they needed hospital services. The programme was measured by comparing the actual bed-days used with the predicted bed-days used. The success of this programme has removed the requirement to build new hospital wards for the time being.
We were interested to hear about how the DHB has identified people with more than three chronic diseases. There are 27,000 people in this group. The DHB is working with these individuals to redesign their care. It is now starting to see an improvement in the management of type 2 diabetes, but there is still a lot of work to do.

**Maternity services**

The 2012 External Review of Maternity Care in the Counties Manukau District report identified some significant challenges for maternity services in Counties Manukau DHB. We asked what progress the DHB has made in implementing the review’s recommendations.

Counties Manukau DHB has worked on increasing the capacity of the midwifery workforce. An experienced midwife now runs a programme to induct new midwives as lead maternity carers. The programme includes information on clinical practice and business practice. To date, four teams have been inducted. This has increased the availability of lead maternity carers in Counties Manukau.

Another programme focuses on registering pregnant women with a midwife or GP earlier in their pregnancy. This is a challenge culturally because some of the population are not familiar with early registration.

We were pleased to hear that there have been reductions in teen pregnancies and significant reductions in rates of Sudden Unexplained Death in Infancy.

**Mental health services**

The Counties Manukau DHB has received capital funding to rebuild Tiaho Mai, the Middlemore Hospital inpatient mental health facility. Construction of a new purpose-built facility will begin this year and is expected to be completed by the end of 2017.

The DHB is continuing to develop community mental health teams. It is aware of the importance of access to good quality housing for mental health recovery. The DHB is working with non-governmental organisations and Housing New Zealand to ensure that mental health patients have warm and secure homes.

**Children’s health**

The number of children enrolled in oral health services has reduced, and we asked how the DHB would address this. The DHB does not know the cause of the decrease but is monitoring it.

The Counties Manukau DHB is discussing the possibility of establishing a branch of the dental school in South Auckland in the next two years with the University of Otago. The university hopes to bring fourth and fifth year students to Auckland to provide dental services to the community. The DHB hopes that this will improve child oral health. We will follow this with interest.

The Mana Kidz programme aims to reduce rates of rheumatic heart disease in children. In the programme, nurses care for specific families. This means that there has been more of a focus on skin disease, oral health, and basic nutrition because families have regular contact with a nurse. This is a model that suits South Auckland compared with the traditional public health nurse model. We look forward to seeing other improved health outcomes from this service.
Māori Health Plan

The Counties Manukau DHB failed to achieve more than half of the Māori Health Plan indicators. We were concerned that the measures for child health and oral health were significantly below the targets.

We asked whether a transient population and poor-quality housing made it difficult to achieve the targets. We heard that the Counties Manukau Māori population is in two distinct groups. These are the mana whenua and the mobile population. The DHB does a lot of work with the mana whenua through marae-based services.

Although primary health organisations are responsible for the mobile population, the DHB has found that a lot of this group does not have a GP. The DHB has identified education as a way to reach transient children. This is because they will always be connected to the education sector even though they may change schools frequently.

We heard that a lot of health challenges are not related to poor housing. Counties Manukau DHB said that it needs to work with other government agencies to find ways of integrating their services. The Director of Strategic Development at the DHB is doing a lot of work on achieving this. The DHB said it needs to move from an “ambulance at the bottom of the cliff” approach.

Hip fracture registry

We were pleased to hear that the hip fracture registry is progressing well and is adequately funded. The registry is now well established, and useful information is now being generated.

Workforce

There has been more mobility in the Counties Manukau DHB workforce than before the global financial crisis. We heard that the workforce is generally sustainable. The turnover rate of 11 percent is quite low and the vacancy rate is only 1 percent. Psychiatry and senior medical officer positions can be difficult to recruit. In the past year, Counties Manukau DHB has increased the number of people moving from part-time to full-time work.

Communication spending

In 2014/15, Counties Manukau DHB spent about $730,000 on public relations and communications staff and contractors. Communications includes all media, internal communication with staff, and public health messaging.

We were told that the communications team is outsourced at the moment. The DHB wants to set up a communications team because this was an area of weakness in the past. Four contractors have been brought in to establish the team. When it is established, the DHB will decide on the number of staff it needs.
Appendix

Committee procedure
We met on 17 February and 16 March 2016 to consider the annual review of the Counties Manukau District Health Board. We heard evidence from the Counties Manukau District Health Board and received advice from the Office of the Auditor-General.

Committee members
Simon O’Connor (Chairperson)
Jacqui Dean
Kevin Hague
Hon Annette King
Barbara Kuriger
Dr Shane Reti
Scott Simpson
Barbara Stewart
Poto Williams

Evidence and advice received
Counties Manukau District Health Board, Responses to written questions, received 15 February and 9 March 2016.

Office of the Auditor-General, Briefing on the Counties Manukau District Health Board, dated 17 February 2016.

Organisation briefing paper, prepared by committee staff, dated 15 February 2016.
The Health Committee has conducted the annual review of the 2014/15 performance and current operations of the Health and Disability Commissioner, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O’Connor
Chairperson
2014/15 Annual review of the Health Promotion Agency

Report of the Health Committee

The Health Committee has conducted the annual review of the 2014/15 performance and current operations of the Health Promotion Agency, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O’Connor
Chairperson
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Health Quality and Safety Commission

Recommendation

The Health Committee has conducted the annual review of the 2014/15 performance and current operations of the Health Quality and Safety Commission and recommends that the House take note of its report.

Introduction

The Health Quality and Safety Commission is a Crown entity that was established in 2010 under the New Zealand Public Health and Disability Act 2000. Its objectives are to

- organise quality and safety work in the health and disability sector
- measure, evaluate, and improve the quality and safety of health and disability support services
- help providers improve health services.

The commission’s key programmes include reducing harm from falls, surgery, and high-risk medications; reducing surgical-site infections; and mortality reviews.

Financial performance

In 2014/15, the commission’s total revenue was $14.463 million. Its total expenditure was $14.500 million, resulting in a deficit of $37,000. The Office of the Auditor-General issued an unmodified audit opinion on the commission’s financial statements and non-financial performance reporting.

Adverse event reporting

There were 525 adverse event reports in 2014/15. This is an increase on the previous year. We asked whether this was because of a shift from a “name, blame, shame” culture to a more open culture, or whether it was because there were more adverse events to report.

We heard that the culture is changing, but there is still some work to do. New Zealand’s accident compensation scheme and the work of the Health and Disability Commissioner promote open reporting and transparency to the public. We were pleased to hear that adverse event reports are prompting hospitals to identify areas for improvement, and that the private sector is now voluntarily reporting adverse events.

There is increased pressure on health staff in Christchurch, particularly in mental health services. We asked whether adverse event reporting for Christchurch reflects this pressure. We were pleased to hear that Christchurch is performing well in terms of quality and is making innovations in mental health that are going well.

Evidence-based activities

We asked whether the commission would stop any activities that were not soundly based on evidence. We were told that evidence is a core part of the commission’s work and it uses tools to gather evidence. For example, the Choosing Wisely project run by the Council of Medical Colleges is an international programme that aims to limit unnecessary
interventions. The commission will work with the colleges to choose particular interventions to investigate and provide evidence on.

Another example is the Atlas of Healthcare Variation, an interactive web tool that provides information on how specific health services in different geographic locations vary. This tool is used to consider the evidence of variation rates.

**Atlas of Healthcare Variation**

In 2014/15, four new Atlases of Healthcare Variation were released. These were opioids, falls, cancer, and infection and antibiotic use after major surgery.

We asked whether any atlases would be removed as new ones are generated. An expert steering group provides advice on the atlases. About four have been added every year, and three have been updated.

In the next few years, the commission may add fewer atlases as it focuses more on engaging with clinicians to improve clinical behaviour.

**Mortality review committees**

**Child and Youth Mortality Review Committee**

In December 2014, the Child and Youth Mortality Review Committee published a report on child and youth mortality from motorcycle, quad bike and motorised agricultural vehicle use, with a focus on deaths under age 15 years. This report showed that 33 children were killed in off-road vehicle accidents between 2002 and 2012.

We were interested in how the cycle safety message could be promoted. The commission works with several groups on regulation and education about this issue. This includes Federated Farmers, rural government agencies, and rural communities.

We heard that, as with drowning and Sudden Unexplained Death in Infancy, the rates may take several years to decrease. We stressed that influence and education is as important as regulation in rural areas.

**Suicide Mortality Review Committee**

The commission has been trialling a Suicide Mortality Review Committee. This is an important committee, and the commission hopes that it will become permanent.

This is particularly important because of New Zealand’s high youth suicide rates. A major advantage of mortality committees is that they can focus on a specific issue and can generate useful recommendations.

**Clinician engagement**

We were interested in whether clinician and DHB engagement had improved and how the commission could measure this. We were told that people are now engaged and thinking about quality and safety initiatives.

Students at the third-year quality and safety programme at Auckland University are now being taught ideas that they will use in hospital settings. This was not happening when the programme started 10 years ago. Some data also shows increased engagement.

We asked whether there was evidence of increased use of the surgical checklist. Auckland Hospital has separated the surgical checklist into three phases. Anaesthetists, surgeons, and nurses now share responsibility for signing the checklist. A group that evaluated the use of
the checklist found that there was improved engagement and that this was coming “from the ground up”.

Need for the commission

The commission is often asked if there is a future where it can go out of business. It believes that quality in healthcare is a “journey without a destination”. Although the New Zealand healthcare system is very good, it needs the commission to keep focus on the long-term journey to continue getting better.
Appendix

Committee procedure
We met on 17 February and 16 March 2016 to consider the annual review of the Health Quality and Safety Commission. We heard evidence from the Health Quality and Safety Commission and received advice from the Office of the Auditor-General.

Committee members
Simon O’Connor (Chairperson)
Jacqui Dean
Kevin Hague
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Barbara Kuriger
Dr Shane Reti
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Barbara Stewart
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Evidence and advice received
Health Quality and Safety Commission, Responses to written questions, dated 15 February and 11 March 2016.


Organisation briefing paper, prepared by committee staff, dated 15 February 2016.
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Health Research Council of New Zealand

Recommendation
The Health Committee has conducted the annual review of the 2014/15 performance and current operations of the Health Research Council of New Zealand, and recommends that the House take note of its report.

Introduction
The Health Research Council of New Zealand was established in 1990. Its purpose is to improve human health by promoting and funding health research. A 10-member board appointed by the Minister of Health governs the council. It employs 25.4 full-time equivalent staff. Its chair is Dr Lester Levy, and the chief executive is Professor Kathryn McPherson.

Financial overview
The council had total revenue of $85.013 million in 2014/15 and expenditure of $85.250 million. Of this expenditure, $80.960 million funded research grants. The council reported a deficit of $237,000 (in contrast, it had a surplus of $4.745 million in 2013/14). After the budget was allocated, the council decided to increase its research grant expenditure and to reduce its equity balances, leading to the deficit.

Equity position
Historically, the council has built up funding reserves, but it now has a three-year plan intended to reduce its $12.5 million reserves to about $3 million. Under this plan, the council will move reserves put aside previously to fund research with its partners into the main contestable funding round, increase in the short term the number of applications it approves, and implement a new research contract with universities.

Review
The Ministry of Health and the Ministry of Business, Innovation and Employment (MBIE) have completed a review of the council. As a result, the council will now focus on measuring the effects and outcomes of the research it funds, rather than the funding itself. Researchers will now report on the results and effects of their research shortly after the research concludes (within two years) and possibly further down the track (at five years).

We were interested to hear an example of the effects of research funded by council funds. Research on intensive care disproved that an expensive fluid replacement therapy is better than saline. Intensive care units’ subsequent use of saline is safer and saves the New Zealand health system about $150 million a year.

The review identified a lack of connection between people involved in health research. The council now has relationships with other funders of health research, including Callaghan Innovation and the National Science Challenges (administered by MBIE). The council intends to take a leadership role in the health research sector.
These relationships will aid the development of New Zealand’s first health research strategy. The strategy is being developed by the Ministry of Health, MBIE, and the council, in consultation with the business community and the public.

**Criteria for council funding**

We heard that the council has traditionally reserved about 5 to 10 percent of its funding for “mission-led” work. This involves the council working with partners who have identified major issues that need research. The remaining funding goes to researcher-driven areas of work.

The council also allocates funds to build capability and capacity for New Zealand’s research needs during the next 15 to 20 years. The council has created fellowships that focus on mid-career researchers—a group with proven high productivity.

The council’s focus on the likely effects of research contributions will aim to ensure that researchers target existing health priorities in New Zealand. In some cases, however, allocation of funding to explore new areas enables the council to benefit from scientific innovation.

**Commercialisation of council-funded research**

The council’s legislative mandate is to work for the public good. With that in mind, the council is not interested in owning intellectual property. However, it is very concerned that any intellectual property commercialisation has a clear benefit for New Zealand. We were advised that the council is redrafting its legal contracts to make this expectation more explicit.

We heard that sometimes slightly delaying the publication of research can benefit the commercialisation of intellectual property arising from it. The council is working with universities to manage this process better.

**Collective use of research and data**

Health researchers internationally are working towards open access to group data, particularly in the field of public health. Dunedin’s long-range study of childhood and adolescence was an example of data becoming a national resource. The council’s policy team is looking at international data-sharing and gene-banking with a view to developing New Zealand’s position on these issues.

**Communications strategy**

The council will spend about $50,000 on updating its communication strategy. The new strategy will focus on promoting health research as a career option for young people and providing leadership to the health research sector.
Appendix

Committee procedure
We met on 2 and 16 March 2016 to consider the annual review of the Health Research Council of New Zealand. We heard evidence from the Health Research Council of New Zealand and received advice from the Office of the Auditor-General.

Committee members
Simon O’Connor (Chairperson)
Jacqui Dean
Kevin Hague
Hon Annette King
Barbara Kuriger
Dr Shane Reti
Scott Simpson
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Evidence and advice received
Health Research Council of New Zealand, Responses to written questions, received 26 February and 11 March 2016.

2014/15 Annual review of the MidCentral District Health Board, the Nelson Malborough District Health Board, the Northland District Health Board, the Tairawhiti District Health Board, and the Taranaki District Health Board

Report of the Health Committee

The Health Committee has conducted the annual reviews of the 2014/15 performance and current operations of the MidCentral District Health Board, the Nelson Malborough District Health Board, the Northland District Health Board, the Tairawhiti District Health Board, and the Taranaki District Health Board, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O'Connor
Chairperson
2014/15 Annual review of the Ministry of Health

Report of the Health Committee

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Ministry of Health

Recommendation

The Health Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry of Health and recommends that the House take note of its report.

Introduction

The Ministry of Health’s five core functions are to

- provide advice to the Minister of Health and the government on health issues
- provide regulatory functions that protect the public
- purchase national health and disability support services
- provide health sector information and payment services
- support the development, consultation, and implementation of legislation.

We would like to acknowledge the contribution and legacy of Don Gray, Deputy Director-General of Policy, who passed away several months ago. Don, who served successive governments, was a dedicated public servant and fine example to many. He is a sad loss to the sector.

Financial performance

In 2014/15, the ministry’s total income was $192.581 million and its total expenditure was $193.186 million, resulting in a deficit of $605,000. The Office of the Auditor-General noted that a deficit was slightly unusual for a Government department but that the ministry was generally performing well against other measures.

In 2014/15, the ministry administered $14.828 billion of non-departmental appropriations, including $11.444 billion to district health boards (DHBs).

Third party performance reporting

Performance reporting is a crucial part of the parliamentary accountability system. It helps to demonstrate efficiency, effectiveness, and value for money in the public sector.

The Office of the Auditor-General issued a non-standard audit opinion on performance information because the ministry has limited controls over much of the performance information from third-party health providers. This issue affects the entire health sector, and the ministry has put considerable effort into developing an effective response.

We will continue to take an interest in the ministry’s progress with this issue.

Christchurch rebuild

The ministry is leading the rebuild of the Christchurch and Burwood Hospitals for the Canterbury DHB. We note that the planned dates for completion are late March 2016 for Burwood Hospital, and July 2018 for Christchurch Hospital.

We will follow the progress of the rebuild with interest.
Update of the New Zealand Health Strategy

The ministry is carrying out consultation on its draft revised New Zealand Health Strategy, which has the vision of “all New Zealanders living well, staying well, and getting well”. To support the implementation of the updated strategy, the ministry is consulting with senior staff on a change-management process. We look forward to hearing about the outcome of this process.

We asked for reassurance that the new strategy would provide DHBs with strong direction on how they should deliver services to large rural populations. We heard that the message of communities having different needs had been strongly communicated at public consultation meetings.

We were pleased to hear that the new strategy does not have a “one size fits all” approach and will allow for flexible delivery of health services. We were also pleased to hear about the opportunities for using technology, particularly in rural areas. Paediatric services on the West Coast are now being delivered by telehealth. This means that children no longer need to travel to Christchurch to receive treatment.

Population-based funding formula

The ministry has completed the technical work for the population-based funding formula review and the work is going through an approval process. The formula is used to determine funding to each DHB. The main contributing factors of age, ethnicity, gender, and social deprivation are likely to be reconfirmed. The most likely change to the formula will be to do with dealing with the costs associated with sparsely populated rural areas.

The ministry considers that it needs to collect more quality data on those on long-term work permits who are not covered under the formula. This is unlikely to be covered in the current review but may be implemented as an interim update, rather than waiting for the next review of the formula. We were pleased to hear that an allowance for new refugees to New Zealand is included in the formula as part of the overseas eligible and refugees’ adjuster.

DHBs’ financial management

We were interested to hear that DHBs who work collectively to save money are more successful than DHBs that undertake the same work individually.

Community pharmacy contract

Twenty DHBs are working with the sector and the profession on the community pharmacy contract to save money and reduce waste. The DHBs had been looking at increased costs of at least eight percent. The DHBs have managed to save about $200 million in the past two years by being more efficient and focusing more on clinical services.

Two pharmacies are in dispute with their DHBs about adding an additional charge to prescriptions because the community pharmacy contract does not cover the cost of medicines. The ministry said that it has been closely monitoring the number of pharmacies charging additional costs.

The percentage of reimbursement from DHBs is two percent less than the cost of medicine from the wholesaler. A governance group that includes the ministry, DHBs, and the pharmacy sector is discussing this issue and whether the solution should be a change to the formula or to the amount of funding. We heard that some DHBs, particularly in rural
areas, top up the funding for community pharmacists because the small volume of medicines dispensed makes it difficult to run a sustainable business. The ministry is confident that agreement on an interim solution will be reached soon.

**Ageing population**

New Zealand’s population has increased by four percent during the last five years. People over the age of 65 now make up 14.6 percent of the population. This demographically is increasing faster than the rest of the population, but the growth is not spread evenly throughout New Zealand.

We asked what work the ministry is doing to address the ageing population, particularly in more remote areas. We heard that the ministry is updating the Health of Older People Strategy and that this will provide direction for services to this population. The ministry is working on this issue with other Government agencies and has had discussions with the Ministry of Transport, and the Ministry of Social Development.

The updated strategy will include a shift from caring for older people in hospitals to an emphasis on giving individuals more options for support and information on keeping themselves well. Additional strategies include standardising assessment processes for home support and aged residential care nationally and increased use of technology, including to guide people to self-monitor any physiological changes they experience.

**Disability support services**

The ministry is working with the disability sector on redesigning the provision of support services. The aim of the redesign is to ensure that people with disabilities receive the same services regardless of where they live. Work on the redesign includes preparing an action plan and a review of the agencies that provide Needs Assessment and Service Coordination services. Needs Assessment and Service Coordination services are organisations contracted by the Ministry to work with disabled people and their family or carers. These organisations identify disabled peoples’ support needs, provide information on available disability support services, and consider their eligibility for ministry-funded support services. The results of the work are expected towards the end of 2016.

**Childhood obesity**

The ministry has launched a package of over 20 initiatives aimed at reducing childhood obesity. This is based on recommendations from the World Health Organization’s Draft Final Report on the Commission on Ending Childhood Obesity.

Body Mass Index (BMI) will be used to measure obesity in four year olds at the B4 School Check. At this stage BMI is an appropriate measure at a population level rather than waist circumference or waist-to-height ratio. This is because there is no nationally agreed standard on what an appropriate waist circumference measurement or waist-to-height ratio is.

The Advertising Standards Authority is reviewing the Code for Advertising to Children and the Children’s Code for Advertising Food. The ministry has a representative on the review panel and will advise the Minister of Health on the results of the review. The Education Review Office is reviewing how early child education and schools promote healthy eating and exercise. This, along with a survey of food and nutrition in schools, will help identify what action is needed on child obesity.
The ministry continues to monitor the effectiveness of sugar taxes in other countries. The University of Waikato has received a Marsden Fund grant to investigate the impact of sugar taxes internationally. This will be reported on in 2018 and we await the results with interest.

**Child oral health**

The oral health of pre-schoolers is one of 27 health indicators of the Well Child Tamariki Ora programme. As part of this programme, DHBs have been asked to address issues with enrolment with oral health services for pre-schoolers. The Well Child Tamariki Ora programme providers and Plunket now also provide toothbrushes and toothpaste to children. We were pleased to see that the Community Oral Health Service, which provides dental care to children and young people has increased by 250 full-time equivalent staff in the past seven years. This includes twice as many dental assistants which helps make better use of dental therapists’ time.

We were pleased to hear that many children coming through the B4 School Check programme are already receiving dental care. We note that the percentage of children overdue for scheduled appointments reduced from 17 percent in December 2011 to 9.5 percent in December 2014. We are concerned about the subsequent effect of poor oral health on learning when pre-schoolers miss dental appointments.
Appendix

Committee procedure
We met on 2 December 2015 and 2 March 2016 to consider the annual review of the Ministry of Health. We heard evidence from the Ministry of Health and received advice from the Office of the Auditor-General.

Committee members
Simon O’Connor (Chairperson)
Jacqui Dean
Kevin Hague
Hon Annette King
Barbara Kuriger
Dr Shane Reti
Scott Simpson
Barbara Stewart
Poto Williams

Evidence and advice received
Ministry of Health, Responses to written questions, received 30 November 2015.
Ministry of Health, Responses to written questions, Appendices, received 30 November 2015.
Ministry of Health, Responses to written questions, post-hearing responses, received 9 February 2016.
Office of the Auditor-General, Briefing on the Ministry of Health, dated 2 December 2015.
Organisation briefing paper, prepared by committee staff, dated 25 November 2015.
2014/ 15 Annual review of the New Zealand Blood Service

Report of the Health Committee

The Health Committee has conducted the annual review of the 2014/15 performance and current operations of the New Zealand Blood Service, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O’Connor
Chairperson
2014/15 Annual review of the Pharmaceutical Management Agency

Report of the Health Committee

The Health Committee has conducted the annual review of the 2014/15 performance and current operations of the Pharmaceutical Management Agency, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O'Connor
Chairperson
The Health Committee has conducted the annual reviews of the 2014/15 performance and current operations of the South Canterbury District Health Board and the Waitemata District Health Board, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O'Connor
Chairperson
2014/15 Annual review of the Southern District Health Board

Report of the Health Committee

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Southern District Health Board

Recommendation

The Health Committee has conducted the annual review of the 2014/15 performance and current operations of the Southern District Health Board and recommends that the House take note of its report.

Introduction

The Southern District Health Board (Southern DHB) was formed in 2010. It is an amalgamation of Southland and Otago DHBs. It is responsible for planning, funding and providing health care services in the Southern region. It serves a population of 308,600 people. The DHB covers the largest geographical area of all DHBs, and 11 percent of the population lives more than two hours away from a hospital.

In June 2015, the board of the Southern DHB was replaced by a commissioner, supported by three deputy commissioners. This was because the board was unable to control the growth in the DHB’s deficit. The Chief Executive is Carole Heatly, and the Commissioner is Kathy Grant.

Financial performance

In 2014/15, the Southern DHB’s total revenue was $883.905 million. Its total expenditure was $911.085 million, resulting in a deficit of $27.180 million. The budgeted deficit was $14.800 million. The difference between the actual and budgeted deficit was because of overspending in the funder and provider arms.

The Office of the Auditor-General (OAG) notes that Southern DHB may require additional deficit support to remain financially viable. The Ministers of Health and Finance have provided a letter of support confirming that the Crown will provide this support where necessary.

The OAG graded Southern DHB’s management control environment and financial systems and controls as needing improvement. It recommended improvements to the DHB’s budget monitoring and forecasting, updates to the risk management framework, and a refresh of the DHB’s policies. The OAG graded the DHB’s performance information and associated systems and controls as good.

Forecast deficit

The Minister of Health and the commissioner have agreed on a deficit of $35.9 million for 2015/16. The current forecast is that the Southern DHB will deliver a slightly lower deficit than budgeted. The commissioner told us that a key deliverable for her team is to develop and deliver a budget over several years that is clinically and financially sustainable. The commissioner expects that the deficit will be reduced in the next few years.

Budget savings

Southern DHB aims to save $4.1 million from its budget. The savings will be from personnel costs, clinical supply contracts, and outsourcing services. There is concern in the
community that additional cuts may make it difficult for the DHB to provide health services.

The Southern DHB is trying to save about $800,000 in personnel costs. Clinical directorates assess vacant positions in their teams and decide whether the position should be filled at the same level. Each directorate has a management team consisting of medical, nurse, and allied health directors, and a general manager. These directorates are responsible for managing budgets and the workforce.

**Consultants**

We were told that Alma Consulting was paid $378,000 for developing the 2015/16 budget. We asked whether Southern DHB uses consultants for any other pieces of work. Southern DHB does not have a costing system, and it uses consultants for a piece of work on revenue and expenditure before it moves to a costing system environment.

**Dunedin Hospital upgrade**

Facilities at the Dunedin Hospital are dated and need upgrading. The Minister of Health set up the Southern Partnership Group in September 2015 to oversee the redevelopment of the hospital. The first stage of this is the redevelopment of the intensive care unit (ICU), gastroenterology unit, and audiology unit.

The group will also manage the replacement of the clinical services building. The building is being completely replaced because it has asbestos and redeveloping it is not feasible.

The group and Southern DHB have worked together for several months. The group has contracted Sapere Research Group to help develop the business case for the rebuild. Sapere will focus on designing a future-proof building and identifying what services are required before designing the facilities. Sapere’s strategic assessment report is due for the Partnership Group meeting on 28 June 2016.

The group will report to Cabinet on a strategic business case by the end of the year. Some of us were concerned at the slow progress and asked whether there was any possibility of an earlier report date. We were told that, although Southern DHB would like this, it was important to do the design right the first time.

We asked for an anticipated construction date if the strategic business case goes through Cabinet. No timeframe has been set for construction to commence and no targeted completion date has been set. The indicative timeline is 7 to 10 years to complete construction.

We asked how much had been spent on asbestos removal in the clinical services building. Since the discovery of asbestos-containing materials in October 2015, $642,662.55 has been spent.

**Clinician and community engagement**

We are pleased to hear that Sapere is engaging with clinicians and the community through the rural networks. The recommended process for a rebuild is that clinicians and the community decide what services are needed. Models of care are then developed, and the required infrastructure is agreed.

We asked whether Southern DHB is following this process, rather than a reverse process based on the DHB’s ability to pay. We were told that, although the engagement process is
an important part of the design, the DHB also needs to consider affordability when developing the business case.

**Serving rural populations**

**Population-based funding formula**

The population-based funding formula is the model used to allocate Vote Health funds to DHBs. The core weighting makes up 85 percent of the funding. This is based on a DHB’s population, with adjustments made for age, ethnicity, deprivation level, and gender.

The model also includes adjustments for populations that have difficulty accessing health services, to compensate for the extra costs of providing services in rural areas, and to refugees and eligible international visitors. The tertiary adjuster compensates DHBs with tertiary hospitals for the additional costs of providing more specialised care. The tertiary adjuster is not part of the formula.

We heard that a Ministry of Health paper on the review of the formula found that Southern DHB has missed out on correct funding for many years because the rural adjuster had not been correctly applied. Some of us were surprised that Southern DHB did not know what difference this would have made to its funding. The rural adjuster has fallen this year, which benefits Southern DHB.

One of the criticisms of the formula is that it is better suited to medium-sized DHBs. This is because it is more expensive to provide services to more spread-out rural DHBs or small DHBs with diseconomies of scale. It is also not as effective for DHBs with tertiary hospitals where the tertiary adjuster does not adequately compensate for the increased cost of providing tertiary services.

We asked how much of Southern DHB’s financial problems are because the funding formula does not suit its needs rather than because of poor financial management. We were told that it was a fair comment that the formula did not suit some elements of the population. More than 40 percent of Southern DHB’s population lives outside the urban centres, which increases the cost of delivering services.

The priority for the DHB is to ensure that the rural adjuster reflects the cost of delivering services. The tertiary adjuster also does not reflect the costs of tertiary delivery for a smaller tertiary provider like the Southern DHB.

**Use of information technology**

The Southern DHB is committed to treating people as close to their homes as possible. An important part of this is using information technology. For example, Frankton Hospital in Queenstown has large video screens that link to the ICU at Dunedin Hospital. This means that clinicians can speak directly to each other. Paediatric clinics in Clyde now have remote clinics with clinicians based in Dunedin.

The Southern DHB is also committed to providing healthcare in the community rather than in hospitals. The DHB and commissioners have strong relationships with Well South, which provides primary health care for people from Otago and Southland. The Southern DHB has a primary care advisor on the executive team.

Health Connect South will give general practitioners direct access to patients’ test results, x-rays, and blood results from the DHB. The service will be able to direct patients to clinics in the DHB. This is due to start in June 2016.
Food services

The Southern DHB aims to save $1 million from its food services budget. This is from hospital meals and the Meals on Wheels food service. We have heard that some people are cancelling their food service because they do not like the taste of the food and the portion sizes are smaller.

About 200 people receive Meals on Wheels in Otago and Southland. We heard that there have been 48 cancellations in Dunedin and two in Invercargill. The Southern DHB has contacted those who have cancelled, and we were told that only a small number of these were because of the taste of the food. Everyone who has been contacted has arranged an alternative meal.

The Southern DHB has passed on feedback about the taste of the food to Compass, the Meals on Wheels provider. The commissioner and the chief executive have attended focus groups where they tasted the food.

We asked whether the portion size of the new meals is the same as the old ones. Southern DHB does not know, but it said that Compass employs a team of nutritionists to ensure that meals meet national nutritional standards.

South Link Health

The DHBs in the South Island, including Southern DHB, believe that South Link Health has retained about $60 million in funds from an old contract. We have seen from public statements that Southern DHB is still attempting to recover some of that money.

We asked what the chances of success were given that the deadline for civil action has passed and recovering the funds is not a priority for the Serious Fraud Office. Southern DHB said that it continues to have discussions with South Link Health.

Health targets

We were pleased to hear that Southern DHB met its targets for access to elective surgery and stays in emergency departments. This was because of a concerted effort from the DHB.

Owning Our Future work plan

We asked for the detail that sat behind the Owning Our Future document. Some of us were concerned about the lack of detail provided in response. We intend to pursue the matter further as a committee.
Appendix

Committee procedure
We met on 17 February and 16 March 2016 to consider the annual review of the Southern District Health Board. We heard evidence from the Southern District Health Board and received advice from the Office of the Auditor-General.

Committee members
Simon O’Connor (Chairperson)
Jacqui Dean
Kevin Hague
Barbara Kuriger
Hon Annette King
Dr Shane Reti
Scott Simpson
Barbara Stewart
Poto Williams

Evidence and advice received
Office of the Auditor-General, Briefing on Southern District Health Board, dated 17 February 2016.

Organisation briefing paper, prepared by committee staff, dated 15 February 2016.

Southern District Health Board, Responses to written questions, received 15 February and 10 March 2016.
2014/15 Annual review of the Waikato District Health Board, the Wairarapa District Health Board, and the Whanganui District Health Board

Report of the Health Committee

The Health Committee has conducted the annual reviews of the 2014/15 performance and current operations of the Waikato District Health Board, the Wairarapa District Health Board, and the Whanganui District Health Board, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O’Connor
Chairperson
The Justice and Electoral Committee has conducted the annual review of the 2014/15 performance and current operations of the Abortion Supervisory Committee, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Jacqui Dean
Chairperson
The Justice and Electoral Committee has conducted the annual review of the 2014/15 performance and current operations of the Crown Law Office, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Jacqui Dean
Chairperson
2014/15 Annual review of the Department of Corrections

Report of the Law and Order Committee

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Department of Corrections

Recommendation

The Law and Order Committee has conducted the annual review of the 2014/15 performance and current operations of the Department of Corrections, and recommends that the House take note of its report.

Introduction

The Department of Corrections manages offenders who are sentenced to imprisonment or community sentences or held on custodial remand. It also provides rehabilitative programmes to address the causes of their offending. The department’s goal is to reduce re-offending rates by 25 percent by 2017, and so improve public safety.

In 2014/15 the department’s total operating expenses were $1.23 billion, which is a 3.5 percent increase from 2013/14. The department reported a net operating surplus of $14 million. In December 2015, the department received additional funding of $17.6 million, $15 million of which had been provided to address prison population growth.

Increasing prison population

The department reported that the average prison population in 2014/15 was 8732, which is an increase of 272 from 8,460 in 2013/14. This is largely the result of a steady increase in the population of prisoners on remand, and represented 23 percent of the prison population in 2014/15 up from 20 percent in the previous year.

The department told us that prisoners in remand are there because they were considered too dangerous to be in the community, and that Australia is experiencing the same, if not faster, growth rates in their remand population.

The department said the following four main drivers are behind the increasing prison population:

- alcohol dependence
- drug dependence
- gang membership
- mental health issues

We asked whether the prisons have the capacity to manage the increasing population. The department said there is constant development and planning for the increasing prison population.

The department aims to have a buffer of 1200 spare beds in the prison system. At the moment there are around 9300 prisoners accommodated, and in April 270 beds that are currently being redeveloped will be available for use.

We asked about the proposed use of double-bunking as a way of mitigating increasing prison population. The department said that double bunking will only occur in prisons that
have sufficient core infrastructure, and the department anticipated that only about 130 cells would actually be double-bunked.

**Mount Eden Corrections Facility**

The department has a contract with Serco, a private provider, to manage the operations of the Mount Eden Corrections Facility (MECF). In July 2015, the department stepped in to take over managing the prison after allegations of serious assaults and other violence issues. Serco was fined for failing to meet performance targets in accordance with the contract, and the department has decided not to renew the contract when it ends in March 2017. The Chief Inspector of Corrections is investigating the allegations about Serco’s management of MECF. We will be very interested in the findings of the Chief Inspector’s report.

Some members asked why it took the department so long to intervene after the allegations of serious assaults and other issues came to light. The department assured the committee that the Chief Inspector’s investigation was still ongoing and has not yet released the report on the incidents that occurred at MECF while under Serco’s control, so it would be inappropriate to comment on the timing of the intervention. The department acknowledged that it was responsible for overseeing the prison and emphasised that it was now focused on making future improvements to MECF.

Some members challenged the department on its decision to award Serco the contract to manage MECF when it has a questionable international reputation for prison management. The department said the contract was awarded to Serco in the usual tender process. Furthermore, the department pointed out that the international examples had not emerged until after the contract had been signed.

Some members asked whether the department would publicly release CCTV footage of the incident in which an inmate was allegedly thrown off a balcony. The department told the committee that as a general rule, video footage from prisons is overwritten after 14 days. This is because of the sheer number of recordings made. Typically if a complaint is made within 14 days, the relevant recordings are saved. The department was unsure of the status of any recordings in relation to the incidents, but stated that the Chief Inspector is still investigating the incident.

Some members asked about the ratio of inmates to staff members in MECF. On average, there are slightly more than four inmates per staff member, whereas other prisons have less than three inmates per staff member. Some members are concerned that this is a result of an attempt to maximise profits. The department maintained that it is satisfied with the way MECF is run, and that the Chief Inspector’s report will cover any staffing issues.

**Auckland South Corrections Facility**

We heard from the department that it has a contract with Secure Future to design, build, finance, operate and maintain the Auckland South Corrections Facility (ASCF). Secure Future has sub-contracted to Serco, which took over the operational management of the prison on 18 May 2015.

Some members asked why Serco was given the contract to manage ASCF after the issues that arose with the management of MECF. The department said that because the contract for ASCF is a consortium, which is an association of multiple entities who have pooled
resources to reach a common goal, Serco has a long term financial incentive to manage ASCF well.

When asked what support the department provides for the management of ASCF, the department said it supports ASCF like any other prison. The board of ASCF works closely with the department to ensure that the prison is managed correctly.

Staff from both the department and Serco undergo advanced control and restraint training together, and special monitors from the department go to the prison on a weekly basis and report to the department on the prison's conditions.

### Reducing re-offending

The department has a Better Public Services target of a 25 percent reduction in re-offending by 2017. The reduction rate peaked at 12.5 percent, but it has recently decreased and currently sits at eight percent.

The department acknowledged that it would be very hard to reach 25 percent by 2017, but said that it was positive about the progress it has made so far. The department defines "re-offending" as a conviction or re-imprisonment within 12 months of the original offence.

We expressed our disappointment in the halt in progress. The department agreed with us, and explained that a contributing factor to this is the proportion of offenders with more entrenched and complex issues as part of the reason why progress has slowed.

The committee questioned the department on the effectiveness of the rehabilitation programmes that offenders complete. The department was positive about the quality of its programmes. It said that although the success percentage rates may seem small, in the context of serious repeat offending small gains are quite significant. A five percent gain is good; a ten percent gain is excellent.

The department was positive about the success of its road safety programme which helps offenders get their driver’s licences. Driver’s licences are often a condition of employment, so the department sees this programme as an extremely important investment into an offender’s rehabilitation.

Prisoner education is crucial because without basic literacy and numeracy skills, offenders are limited in their ability to gain qualifications and secure employment. Of the prisoners participating in literacy and numeracy training, 75 percent have demonstrated measurable gains. A measurable gain is an increase of one of more steps up the continuum scale, which consists of six steps starting at a very poor level and progressing to a very high level.

We asked which programmes are not "statistically significant", and why the department continues with them. The department explained that some programmes, such as Tikanga Māori programmes, are the first step and build offenders' confidence to join bigger programmes.

Some members asked the department to explain the delay and backlog on the participation and completion of some rehabilitation programmes. The department acknowledged that there is still some delay, but pointed to its efforts in this area. This includes a policy change that allows a wider access to less intensive prison programmes. When we questioned the merits of this, because more intensive prison programmes are regarded as more successful, the department emphasised the importance of allowing more people access to rehabilitation programmes. The only way this is feasible is to decrease their intensity.
Reintegration efforts

Some members asked whether the department could spend more of its $1.25 billion operating budget on reintegration to the community. At the moment it spends about $10 million. The department said that it had attempted to reprioritise money into the reintegration area, and is focussing on building a strong case for further investment.

The department emphasised that the nature of reintegration is complex, and that offending patterns will sometimes remain ingrained despite the levels of rehabilitative care. However, this does not mean that rehabilitation programmes should be discontinued.

The department pointed to examples of its work in the area of reintegration, such as the 200 Memorandums of Understanding it has with employers willing to employ offenders once they have been released from prison. At the moment, there are 351 jobs available to be distributed between the 12 000 offenders released each year. The department was confident in New Zealand employers' willingness to employ offenders, and aims to support those offenders into employment as much as possible.

Returning offenders from Australia

Australia has made recent changes to its migration legislation, which includes the power to cancel visas for foreign nationals sentenced to 12 months imprisonment or more, or those convicted of sex offences. This means that offenders born in New Zealand will be returned, even if they have not lived in New Zealand for decades and actually identify as Australians.

We asked how the department was dealing with the returning offenders. The department said that it has to act quickly because it often receives information from Australia about returning offenders at short notice. At the moment, just under 80 offenders have returned to New Zealand.

The department was grateful at the speed with which the Returning Offenders (Management and Information) Act 2015 was passed into law. The Prisoners' Aid and Rehabilitation Society is the central helping organisation in the first instance. The department gave PARS $200 000 to help them manage the offenders, but said the biggest challenge is to keep those returning offenders out of the New Zealand corrections system.

Workplace morale

In light of prison closures resulting in a loss of 190 jobs, we asked the department what kinds of initiatives it has in place to boost workplace morale. We were assured that corrections staff are very resilient and are “in Intrinsically motivated” to be at work.

The department said it had invested in training, new equipment and uniforms, and increased security measures. The department also has excellence awards, and Whanganui prison received “prison of the year” last year.
Appendix

Committee procedure
We met on 17 February 2016 and 2 March 2016 to consider the annual review of the Department of Corrections. We heard evidence from the Department of Corrections and received advice from the Office of the Auditor-General.

Committee members
Kanwaljit Singh Bakshi (Chairperson)
Todd Barclay
Mahesh Bindra
David Clendon
Kelvin Davis
Hon Phil Goff
Ian McKelvie
Lindsay Tisch
Jonathan Young

Evidence and advice received
Office of the Auditor-General, Briefing on the Department of Corrections, dated 17 February 2016.
Department of Corrections, responses to questions 1–253, received on 15 February 2016.
2014/15 Annual review of the Electoral Commission

Report of the Justice and Electoral Committee

The Justice and Electoral Committee has conducted the annual review of the 2014/15 performance and current operations of the Electoral Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Jacqui Dean
Chairperson
The Justice and Electoral Committee has conducted the annual review of the 2014/15 performance and current operations of the Human Rights Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Jacqui Dean
Chairperson
2014/15 Annual review of the Independent Police Conduct Authority

Report of the Law and Order Committee

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Independent Police Conduct Authority

Recommendation

The Law and Order Committee has conducted the annual review of the 2014/15 performance and current operations of the Independent Police Conduct Authority and recommends that the House take note of its report.

Introduction

The Independent Police Conduct Authority (the authority) is an independent Crown entity. Its statutory functions are

- receiving and taking action on complaints alleging misconduct or neglect of duty by any employee of the Police, or concerning any practice, policy, or procedure of the Police; and
- investigating incidents involving death or serious bodily harm caused or appearing to have been caused by an employee of the Police acting in the execution of their duty, where it is satisfied it is in the public interest to do so.

In 2014/15, the authority received total revenue of $3.851 million, down $190,721 from the previous year. Its total expenditure was $3.859 million in 2014/15, resulting in a deficit of $7,546. This compares to a $151,158 deficit in 2013/14.

The authority employed 28 staff as of June 2015. The authority is governed by a Board that reports to the Minister of Justice. The Chair is Judge Sir David Carruthers.

Recommendations accepted and implemented by the Police

We were told that the authority now discusses its recommendations with the Police before it finalises them. It does this to ensure that its recommendations are practical and achievable. To ensure that this does not compromise its independence, we asked about the authority’s reasoning for this.

We were told that, although the authority considers it important to take account of the Police’s point of view, it does so in the spirit of an exchange of information and opinion – including the workability of mooted recommendations. In no way do its discussions with the Police compromise the independence of the authority.

Increased numbers of complaints

In the last year, the authority received 2,515 new complaints and referrals, a rise of 15 percent on the previous year. We asked what the possible reasons were for the increase.

The authority said it was hard to identify a cause for the increase. One possibility was that the 37 reports it had produced had increased its public exposure. It has an online complaint form and a Twitter account. It also issues media statements when it issues reports. All of these help raise the authority’s profile.

Although the number of complaints has increased, they follow similar patterns to previous years – mostly in the categories of attitude and language, failure to investigate, failure to prosecute, undue force, and performance and attendance of police.
Complaints upheld against the Police

The number of complaints upheld against the Police has risen from 98 in 2011/12 to 283 in the current financial year, representing an almost threefold increase.

We heard that this increase reflects the fact that the authority’s investigative processes have become more robust over time. The authority is now working more closely with the Police than it did previously. This approach allows the authority to alert the Police to any perceived shortcomings in their investigation at an early stage.

The authority also said that many of the upheld complaints reflect the Police’s own increased level of self-scrutiny.

People in Police detention policy

We asked for an update on the authority’s work with the Police to develop a new national standard that all custodial facilities can be assessed against.

We heard that the Police-led joint working group (comprising Police, authority, and Ministry of Justice representatives) had finished its work on schedule in June 2015. The standards it had established had been mostly implemented.

The only area that is not yet fully finalised is the revision of the accommodation code – the physical infrastructure. Work is now under way with the Police to finalise audit arrangements for the new standards.

Investigation time frame targets

The authority has set itself the goal of carrying out an independent investigation of 90 percent of complaints within 12 months, but in 2014/15 actual performance was just 64 percent. We sought an explanation of this performance gap and how the authority plans to address it.

We heard that, because the authority had been dealing with a backlog, it set the performance measure as a deliberately aspirational target rather than something that was achievable. However, the authority is on track to achieve or come close to the 90 percent target this year. Newly established early resolution processes are likely to reduce complaint time frames further in several cases.

Demands on services

The authority has had operating deficits for the last four financial years, putting significant pressure on the authority’s cash flow during the reporting year. It has responded to this by prioritising carefully and ensuring that appropriate cases are provided with significant investigative resource. However, efficiency measures have not been without opportunity cost in other areas.

Asked whether the current level of resourcing was sustainable for the next three to five years given the trend of increased demand, the authority said that “things are very tight” at the present time. Although this can be offset by declining to investigate independently, along with prioritising, a time would come when the authority may not be able to carry out its role properly.

Some of us were concerned to hear that the authority’s lack of resources may be hindering its ability to investigate cases and hold the Police to account. We will carefully monitor the revenue the authority receives.
Fleeing driver policy

We asked the authority about the difficult question the Police have to face when deciding to pursue fleeing drivers. We also asked whether the authority is looking at other jurisdictions to learn from their approaches.

The authority has been urging the Police to review their fleeing driver policy for some time, as it thinks they could do better. It understands that the Police have a new draft policy that is well advanced and to be considered soon. We are writing to the Police to confirm whether this is the case.

The authority had been trying to develop “rules of thumb” for the Police about when they are justified in pursuing fleeing drivers. There is little evidence to show that pursuing drivers who are determined to get away does anything to reduce the risks involved.

The authority noted that this is an international problem and that different jurisdictions have different approaches. For example, London has a strict “don’t pursue” policy unless there is an immediate serious danger. This is because the abundance of CCTV cameras allows the Police to identify and follow fleeing drivers.
Appendix

Committee procedure
We met on 10 February and 2 March 2016 to consider the annual review of the Independent Police Conduct Authority. We heard evidence from the authority and received advice from the Office of the Auditor-General.

Committee members
Kanwaljit Singh Bakshi (Chairperson)
Todd Barclay
Mahesh Bindra
David Clendon
Hon Phil Goff
Ian McKelvie
Su’a William Sio
Lindsay Tisch
Jonathan Young

Evidence and advice received
Office of the Auditor-General, Briefing on Independent Police Conduct Authority, dated 10 February 2016.

Independent Police Conduct Authority, responses to committee questions, received 5 February 2016.
# 2014/15 Annual review of the Law Commission

Report of the Justice and Electoral Committee

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2014/15 ANNUAL REVIEW OF THE LAW COMMISSION

Law Commission

Recommendation

The Justice and Electoral Committee has conducted the annual review of the 2014/15 performance and current operations of the Law Commission and recommends that the House take note of its report.

Introduction

The Law Commission (the commission) is an independent Crown entity that was established under the Law Commission Act 1985. The Crown Entities Act 2004 sets out the commission’s requirements for reporting and accountability. The commission is a small organisation with slightly more than 20 employees. It has four appointed commissioners.

The commission’s stated objective is to improve the relevance, quality, and effectiveness of New Zealand law. Its work can be distilled into the following two broad outputs:

- recommendations for law reform
- advice on the implementation of law reform.

In the year under review, the commission also provided advice on the quality of legislation. This responsibility transferred to the Legislation Design and Advisory Committee in April 2015.

Financial and service performance

In 2014/15, the commission received a total income of $4.165 million. Its expenditure was $3.928 million, resulting in a small surplus of $237,000. This is compared to a deficit of $230,000 reported in 2013/14.

The Office of the Auditor-General (OAG) rated the commission’s management control environment as “very good” and its financial information systems and controls as “good”. These were the same ratings it received in 2013/14. The commission’s performance information and associated systems and controls were rated as “needing improvement” with the OAG recommending the development of a clear performance framework, specific and measurable performance measures, and improved reporting of outcomes. We will continue to monitor this area with interest.

Progressing law reform

About 80 percent of the recommendations for law reform in the commission’s reports result in legislative change. We note that this is a high success rate compared with law commissions in similar jurisdictions such as Canada and the United Kingdom.

The commission is concerned at the length of time between its release of a report and Parliament enacting legislation. The Judicature Modernisation Bill, a significant piece of legislation, resulted from a 2012 commission report and remains on the parliamentary

agenda 18 months after it was reported on by the select committee.\(^2\) We consider that the priorities of the Government of the day should take precedence when the time of the House is in question. However, we agree with the commission that some important but low-profile reforms experience long delays. We discussed innovations in the parliamentary process and changes to the structure of the House as possible longer-term solutions.

**Developing the work programme**

We asked how the commission develops its work programme. Under the Crown Entities Act, Ministers are able to consult with the commission about the Government’s priorities. These directions account for most of the commission’s work. The President said that there were set time frames for delivering the commission’s work. However, it was becoming increasingly common for the commission to receive urgent requests that affected its programme.

The commission has powers under the Law Commission Act to initiate its own work. We heard, however, that the commission would require more funding and staff to undertake self-initiated work.

We discussed the importance of having avenues for the public to suggest areas for law reform. We were assured that individuals contact the commission and that consultation takes place when suggesting law reform. For example, when the commission was preparing advice on suicide reporting for the Coroners Amendment Bill it visited affected whanau.

**Capability to deliver outcomes**

We heard that the funding for the commission has remained fixed for several years. In recent years it has used financial reserves to carry out additional work. However, the President told us that the commission was in a stable financial position after reducing the number of its projects. The commission considers that it can achieve a balanced budget by 2018.

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Appendix

Committee procedure
We met between 11 February and 10 March 2016 to consider the annual review of the Law Commission. We heard evidence from the Law Commission and received advice from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
Jacinda Ardern
Chris Bishop
Marama Fox
Jono Naylor
Alfred Ngaro
Denis O’Rourke
Metiria Turei
Hon Louise Upston
Louisa Wall

David Clendon replaced Metiria Turei for this item of business.

Evidence and advice received
Law Commission, responses to written questions, received 15 January and 19 February 2016.
Law Commission, list of reports and their current status, received 11 February 2016.
2014/15 Annual review of the Ministry of Justice
Report of the Justice and Electoral Committee

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Ministry of Justice

Recommendation

The Justice and Electoral Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry of Justice and recommends that the House take note of its report.

Introduction

The Ministry of Justice is the principal ministry for the justice sector. Its primary functions include administering the court system, providing policy advice on the law, collecting court-ordered fines and reparations, and negotiating Treaty of Waitangi settlements.

The ministry’s mission is to provide modern, accessible, people-centred justice services that deliver better outcomes for New Zealanders. The ministry works to three outcomes: safer communities, a fairer and more responsive justice system, and that the integrity of our institutions is maintained.

The ministry employed 3,383 staff as at 30 June 2015. Andrew Bridgman is the Secretary for Justice and Chief Executive of the ministry.

Financial position

In 2014/15, the ministry’s total operating revenue was $565.097 million. Its total expenditure was $556.769 million, resulting in a net surplus of $8.328 million.

The ministry reported that its other revenue was $7.789 million lower than expected, mainly due to a reduction in the number of applications filed in courts for which fees are charged.

Total expenditure was $12.644 million below budget, largely because of changes to the phasing of some projects.

Audit report

The Office of the Auditor-General (OAG) issued an unmodified audit opinion on the ministry’s financial statements and non-financial performance reporting. The OAG graded the ministry’s management control environment, financial information systems and controls, and performance information and associate systems and controls as “good”.

The OAG reported that the most significant issue arising from its audit was concern about programme and project management, particularly in the context of the courts-modernisation programme. For example, the OAG identified risks because of the continued re-scoping of projects within the programme. We will continue to monitor this issue, and the OAG’s continued audit work of the ministry, with interest.

Staff engagement

We were concerned by the results of the ministry’s most recent employee engagement survey, conducted in May 2015. The survey showed that 9.5 percent of employees were engaged, 53.4 percent were ambivalent, and 37.1 percent were disengaged. We asked the
ministry why its employee engagement results were below the state sector benchmark and what actions it was taking to remedy this.

Although staff are committed to their teams and to their customers, the ministry believes that they struggle to identify with the ministry’s overarching purpose. The ministry is working to create a sense of connection and common purpose between its teams and itself. It is accomplishing this through initiatives such as improving its internal communication channels, and by identifying and linking staff achievements to the ministry’s strategy.

The ministry also piloted an expo event, where staff could showcase their work and understand how their work connects to different teams throughout the ministry. We asked whether staff engagement might better be addressed by improving staff satisfaction with the services they deliver, rather than by hosting expo events. The ministry said that the expo event improved staff satisfaction with the services they deliver, because staff were able to get a more comprehensive view of the ministry’s service delivery by networking with other teams at the expo.

The ministry noted that remuneration had also been an issue for some employees. However, in November 2015, the ministry ratified its two collective employment agreements. The ministry reported that many staff, especially those who draw salaries from the four lowest bands, will have a significant increase in their salary.

**Legal aid**

We observed that $130.360 million was spent on legal aid, approximately $4.805 million more than what was appropriated. The ministry said that a couple of fairly large cases had taken it over budget. However, it emphasised that no one would be denied legal aid because of demand for the appropriation and that it would speak to the Minister and the Treasury if it needed more funds.

**Legal aid for civil matters, and self-representation**

We noted that the number of people who placed a claim for legal aid funding for civil matters has decreased significantly in recent years, from 2,324 in 2012/13 to 1,424 in 2014/15. We wondered whether the thresholds for eligibility for legal aid were too high, and whether that might be causing people who did not qualify for legal aid to either represent themselves or abandon their legal case.

The ministry said that it regularly reviews its legal aid eligibility thresholds. It has not observed an increase in rejected applications for legal aid or that people were “giving up” if they could not get access to legal aid.

The reasons why people choose to self-represent are varied and include financial barriers (such as not being able to afford a lawyer or qualify for legal aid), inability to find a lawyer who will take on the case, or a belief that they could represent themselves better than a lawyer could.

The ministry could not say whether the eligibility thresholds for legal aid are generating more self-represented cases because it does not collect data on why people choose to self-represent. The ministry said that it is investigating options to improve the reliability of its data to ensure the availability of more accurate and timely information about self-represented litigants.
Legal aid for protection orders

We were concerned by the potential risk to 351 applicants who were denied legal aid for protection orders. The ministry noted that these applicants were denied legal aid for several reasons, including insufficient merit, not being financially eligible, and insufficient information provided.

If an applicant is ruled to be financially ineligible for legal aid, the Legal Services Commissioner can exercise a higher level of discretion in approving legal aid in special circumstances. These special circumstances take into account the likely cost of proceedings to the applicant and the applicant’s ability to fund the proceedings if legal aid is not granted.

Centralisation of justice services

The centralisation of justice services has resulted in several time, cost, and performance improvements. For example, providing an online facility to dispute fines has reduced the processing time of applications to 24 hours where it used to take three to four weeks.

However, we were concerned that the centralisation of services may make some justice services less accessible for customers; for example, they may have to drive further to access a service.

The ministry said that centralising services improves the quality of the service for the customer. For example, before centralisation, if a person phoned into a court, there was a 50 percent chance that the call would not be answered. After centralisation, the pick-up rate of phone calls is about 95 percent. Additionally, because specialised services are centralised at the court, there is a 67 percent chance that the caller’s issue will be resolved in that first contact.

Rates of domestic violence

The ministry continues to support the Minister of Justice’s priority to reduce family violence, a priority the committee supports. Key pieces of policy work include a review of family violence legislation and a response to the Law Commission’s report on justice and sexual violence.

Other initiatives include developing a national home safety service to secure the homes of victims of repeat domestic violence, and establishing the role of Chief Victims Advisor to the Government.

Family law reform

Family Court law reforms were introduced in March 2014 to help families resolve child arrangement matters outside of court, where possible. The reforms place an emphasis on mediation to resolve disputes. We asked for an update on the efficacy of, and any planned review of, the reforms.

The ministry has conducted an initial evaluation of the family dispute resolution proposals but plans to fully evaluate the reforms in 2017. A month-by-month comparison reveals that there are about 20 percent fewer Care of Children Act 2004 cases than before the reforms. The ministry reported that about 1,800 mediations have been referred. Of these, 65 percent have been fully resolved and 20 percent partly resolved.

The ministry reported that the number of “without notice” applications has increased, by as much as 30 percent. Some of us were concerned that this large increase was a sign of issues with the reforms, and a mechanism by applicants to avoid current court delays and to access legal representation.

The ministry was not able to provide data on the average age of without notice cases because disposal times since the reforms have not yet settled. However, the ministry said that a child is usually placed in a safe situation within 24 hours. We were also told that a working group, made up of members of the legal profession and the Principal Family Court Judge, meets regularly to discuss improvements to the operation of the Family Court system.

**Alcohol and Other Drug Treatment court pilot**

The Alcohol and Other Drug Treatment court pilot involves treating offenders whose crimes are judged to have been driven by their alcohol or drug dependency. Those who are selected and agree to take part enter an intensive programme to treat their dependency. This is factored into their sentencing.

The pilot began in November 2012 in the Waitakere and Auckland District Courts, and is being trialled for five years. We were pleased by the successful outcomes we had heard resulting from the pilot and asked whether the pilot’s initiatives could be rolled out to other regions before the lengthy trial period had concluded.

The ministry said that it set the trial period at five years to allow a statistically relevant number of people to complete the programme. This will enable the ministry to accurately evaluate the pilot’s effect on recidivism.

**Community law centres**

Community law centres are traditionally funded through the Lawyers and Conveyancers Special Fund. This has been topped up by government funding in recent years because of lower returns from the special fund. The funding has been capped at $10.97 million since 2008.

We were concerned that funding uncertainties and resulting cost pressures may affect the centres’ capacity to deliver services. The ministry acknowledged the cost pressures that community centres faced, and said that it is working to manage these.

In 2013/14, performance measures were introduced for the number of clients the community law centres served. The ministry reported that it has been supporting the centres in reporting on their performance measures with the exploration and scoping of a new client management system. However, the ministry stated that there is no agreement for it to provide funding to develop the system. Some of us requested that the ministry look into this situation, given the need for a client management system to fulfil the ministry’s reporting requirements.

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2 A without notice application is granted when the court is satisfied that the time needed for an on notice application could lead to serious injury, undue hardship, risk to the applicant or their children’s personal safety, or the applicant’s child being taken out of New Zealand without permission. A without notice application exempts the applicant from taking part in family dispute resolution mediation.
Sector partnership with Māori

The ministry is working with the New Zealand Police, iwi leaders, and the Corrections Department to develop a sector-wide strategy to focus on better outcomes for Māori. The ministry said that it hopes to develop the strategy during the coming year.
Appendix

Committee procedure
We met on 11 February and 10 March 2016 to consider the annual review of the Ministry of Justice. We heard evidence from the Ministry of Justice and received advice from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
Jacinda Ardern
Chris Bishop
Marama Fox
Jono Naylor
Alfred Ngaro
Denis O’Rourke
Metiria Turei
Hon Louise Upston
Louisa Wall

Evidence and advice received

Ministry of Justice, responses to written questions, received 4 February and 29 February 2016.
2014/15 Annual review of the New Zealand Police

Report of the Law and Order Committee

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New Zealand Police

**Recommendation**

The Law and Order Committee has conducted the annual review of the 2014/15 performance and current operations of the New Zealand Police and recommends that the House take note of its report.

**Introduction**

The New Zealand Police is the principal agency for preventing crime. Its priorities are protecting the community, improving road safety, reducing crime, and providing more valued services. The vision of the New Zealand Police is that it has the trust and confidence of all; and people are safe and feel safe.

In 2014/15, the Police received revenue of $1,527 million, up $16 million from the previous year. Its total expenditure was $1,524 million, up $33 million from the previous year. The Police reported a surplus of $2.7 million in 2014/15.

As of June 2015, the Police employed 11,980 full time staff, consisting of 9,048 constabulary staff and 2,932 other employees. The current Police Commissioner is Mike Bush, who assumed the role in April 2014.

We expressed our thanks to the Commissioner for the vital work the men and women of the Police carry out to ensure safety in our community.

**Human Resources Management Information System**

The Police are developing a new payroll system, the Human Resources Management Information System (HRMIS). This will replace their existing PeopleSoft system, which is becoming increasingly fragile. We raised concerns that the HRMIS project is over budget and behind schedule, and asked for details about the programme.

The Police confirmed that the project would not be delivered in April, as had been expected. The Police now believe that the project will be ready in July, with a final go-live date in September. The delays have incurred costs; we were told that the project’s costs will be more than $11 million over the budgeted amount during the project’s 10-year life.

Some members also noted their wider concerns about the Police’s IT projects. Of the 35 IT projects the Police completed last year, 28 were more than a month late. Sixteen were more than six months late. This year, 15 of 31 current IT projects are already six months late.

The Police said that they have an excellent IT team and good project management in their organisation. Although any programme that is behind schedule is of concern, the IT programme involves challenging work.

The Police said they are determined to deliver HRMIS to ensure that staff continue to be paid correctly. They said the project has a strong governance group chaired by the Deputy Chief Executive. We will monitor the progress of the HRMIS project and the Police’s IT projects.
Efficiency gains through technology

In recent years, the Police have provided all frontline staff with iPhones and iPads to allow them to do some Police work remotely. We asked about the effect this has had.

The technology allowed staff to carry out more of their work remotely and to do administrative work far more efficiently than was previously the case. The Commissioner told us it had made staff far more productive, with gains of about half an hour in time per shift.

Police staffing levels

We cited the results of a Police Association Survey in which 80 percent of its members said they were under-resourced. In response, the Commissioner told us that he pays close attention to the survey results but is not surprised by them. In his view, most frontline staff would naturally say that they would like more resources.

While he noted that Police are busier than previously, and his role is to pay close attention to the demand on Police services to ensure that staff are not too stretched. Under its new operating model, the Police executive leadership is required to have detailed knowledge of the demands placed on its staff, which was not previously the case.

The Commissioner told us that, if he thought that resources were under threat, he would immediately ask for more. However, he did not confirm whether he was seeking additional funding from the Minister in the next Budget.

The Commissioner also said that moving staff to front-office roles had resulted in more frontline staff and that recent measures to increase productivity had made staff more efficient.

Ethnicity profile of the Police force

We noted that Māori, Pacific Island, and Asian people continue to be underrepresented in the Police compared to their levels of representation in the population. The Commissioner told us that recruitment is now designed to reflect the community.

The Police are focused on having more Māori and Pacific representation and greater gender diversity in the force. This is reflected in the steadily increasing representation of these groups in the Police’s ethnicity breakdown.

The Commissioner noted that changing the demographics of the 12,000-strong force is a long-term strategy. He told us that two recent recruiting wings had been 50 and 36 percent women.

Turning the tide strategy

We asked what progress the Police have made on the turning the tide strategy. Iwi and the Police devised the strategy to address the over-representation of Māori in the criminal justice system by focusing on prevention.

We were told that the Police have brought in a new structure consisting of 12 Inspectors from each district, overseen by the Deputy Chief Executive. The group is working closely with the Ministry of Justice to provide a whole-of-justice-sector approach. The group has recently deepened its relationship with iwi to be more effective.

Under the strategy, restorative justice panels deal with minor crime. The Commissioner sees this as a way of looking at the cause of an offender’s behaviour and changing it.
Complaints to the Independent Police Complaints Authority

We noted that the Independent Police Complaints Authority (IPCA) upheld 283 complaints against the Police in the past year, compared with 190 in 2013/14. In response, the Police explained that the largest increase was in the “failure to investigate” category, and this was often because the Police failed to communicate with the people they were investigating for. Often, these complaints could be reconciled and not upheld.

Complaints made about Police language and attitude have also increased. The Police told us that these are lower-level complaints and that the Police self-reported seven percent of complaints to the IPCA.

Road safety

We were interested in the relationship between the Police and the New Zealand Transport Agency (NZTA) in regard to setting speed limits and deciding to alter them on variable speed roadways. The Police told us that they work closely with the NZTA on transport decisions, such as providing evidence of accidents in certain locations to help NZTA make decisions on setting speed limits on particular stretches of road.

The *555 system is also a good initiative, and its call volumes had been increasing. The Police try to respond to the public’s calls immediately, and its operators are able to dispatch Police vehicles to the calls.

Crime resolution rates

The Police supplied statistics indicating that the resolution rate for unlawful entry offences in Auckland is only 7.2 percent, a figure we were concerned about.

The Commissioner acknowledged that overall resolution rates are decreasing, but he attributed this to several factors. For example, a new crime reporting line had increased the reporting of minor crimes that had not been previously reported.

Some of us were not convinced by this reasoning and asked the Commissioner what the Police are doing to increase the resolution rate for crimes such as burglaries and car thefts.

The Police told us that they are focused on turning resolution rates around and that doing so is a priority for each district commander. Dwelling burglaries have decreased and the resolution rates for crimes against the person have increased, which the Police view positively. The Commissioner repeated an explanation given to us previously that the classification of burglary had been widened to include minor instances of property theft, which the Police would not ordinarily pursue.

Although the resolution rates for crimes against the person have increased by 0.7 percent in the last 12 months, the resolution rates for property crimes have decreased. Therefore, we urge the Police to prevent burglaries by placing a higher priority on catching the criminals who repeatedly commit these crimes.

Public satisfaction of the Police

According to survey results, 78 percent of people expressed full or quite a lot of trust and confidence in the Police. The Commissioner told us that this result compares very well to Police forces in other countries.

Maintaining these high levels of trust is vital to being able to engage with the community. The Police are embarking on a new values-based approach to interacting with the public,
by demonstrating empathy and that they value diversity. The Commissioner cited the recent TPPA protest in Auckland as an example of this approach, which had generated no complaints about Police actions.

**Fleeing driver pursuit policy**

The Commissioner told us that Police responses to fleeing drivers is a difficult question for law enforcement agencies worldwide and that there are no right answers to the problem at present. The Police are required to stop people suspected of committing crime. If drivers choose to flee the Police, they would pursue. However, the chase is called off as soon as it becomes dangerous.

We were told that the current fleeing driver policy is not under review and that it meets the current needs of the Police. However we understand from the Independent Police Complaints Authority that they have been urging the police to join in a review of the fleeing driver policy. The Police say they are continuing to monitor developments internationally and would adopt a suitable alternative strategy if it became available.
Appendix

Committee procedure
We met on 10 February and 2 March 2016 to consider the annual review of The New Zealand Police. We heard evidence from The New Zealand Police and received advice from the Office of the Auditor-General.

Committee members
Kanwaljit Singh Bakshi (Chairperson)
Todd Barclay
Mahesh Bindra
David Clendon
Hon Phil Goff
Ian McKelvie
Su’a William Sio
Lindsay Tisch
Jonathan Young

Evidence and advice received
Office of the Auditor-General, Briefing on New Zealand Police, dated 10 February 2016.

New Zealand Police, Responses to committee questions
The Justice and Electoral Committee has conducted the annual review of the 2014/15 performance and current operations of the Parliamentary Counsel Office, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Jacqui Dean
Chairperson
2014/ 15 Annual review of the Privacy Commissioner

Report of the Justice and Electoral Committee

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Privacy Commissioner

Recommendation

The Justice and Electoral Committee has conducted the annual review of the 2014/15 performance and current operations of the Privacy Commissioner and recommends that the House take note of its report.

Introduction

The Office of the Privacy Commissioner is an independent Crown entity that administers the Privacy Act 1993. The commissioner works to develop and promote a culture in which personal information is protected and respected.

The Privacy Commissioner, John Edwards, is supported by two Assistant Commissioners with offices in Wellington and Auckland employing 38 staff.

Financial and service performance information

In 2014/15 the total revenue of the Privacy Commissioner was $5.512 million, up $1.599 million (40.9 percent) from $3.913 million in 2013/14. Total expenditure was $4.871 million, up $922,000 (23.3 percent) from $3.949 million in 2013/14. The Privacy Commissioner reported a surplus of $641,000 in 2014/15.

The increased revenue for 2014/15 included funding for anticipated higher workloads resulting from law reform and approved information sharing agreements between government agencies. The surplus will be used to fund this work in the future.

Office of the Auditor-General findings

The Office of the Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance reporting of the Privacy Commissioner. The Auditor-General assessed the Office of the Privacy Commissioner’s management control environment and financial information systems and controls as “very good”. The office received a “needs improvement” rating for its service performance information and associated systems. The measurement of the satisfaction of the complaints handled by the Office of the Privacy Commissioner is raised as something to be considered as part of work to improve the Privacy Commissioner’s performance reporting.

Reform of the Privacy Act 1993

In May 2014, the Government announced proposals to reform New Zealand’s privacy law, following a 2011 Law Commission report. We wanted to know what the consequences are of not yet having the reforms in place. We heard that New Zealand is at risk of falling behind internationally because the office lacks powers that comparable jurisdictions use to good effect. There is also a need to assure the public that an effective oversight mechanism and modern data-protection regime are in place.

The commissioner said that because of the rapid rate of change it is important to make sure the proposed changes are still up to date.
Complaints

We heard that the office is transforming the way it approaches complaints and the resolution of disputes. This is enabling the office to reduce the average time taken to process complaints and to increase the proportion of matters resolved, ideally through settlement between the parties. For example, in 2014/15 the office closed 44 percent of complaints through settlement, up from 32 percent in 2013/14. In 2014, 31 percent of its complaints were over a year old; today that percentage is just 2 percent.

Work with security agencies

We wanted to know about the Privacy Commissioner’s work with the Inspector-General of Intelligence and Security, and the security agencies. We heard that there is statutory provision for consultation between the office and the agencies, and the commissioner is working with the Government Communications Security Bureau to develop a policy for personal information. Good progress has been made and the commissioner was expecting to provide final comments on the policy to the bureau in a week or two.

Oversight group

We discussed the oversight group made up of the Privacy Commissioner, the Ombudsman, the Inspector-General of Intelligence and Security, and the Auditor-General, which meets quarterly to compare notes and share experiences. While the group does not have a formal status, it has agreed on terms of reference. The group was convened to reassure the public that there is a degree of coordinated oversight and an awareness of each other’s activities. The group of agencies has extended their network internationally to include organisations in the Five Eyes countries (Australia, Canada, New Zealand, the United Kingdom, and the United States of America) and beyond.

Approved information sharing agreements

We discussed the number of new approved information sharing agreements following the introduction in 2013 of legislation allowing for these agreements. After surveying agencies about their interest in having an agreement, the office thought there may be 30 new agreements. However, for various reasons, only three have been implemented. Some organisations have realised they can do what they need to do without any special legal authority, while others have considered the process too hard.

The Privacy Commissioner considers that the approved information sharing framework imposes a discipline on agencies to define the parties to an agreement, the services they will deliver, and the information the parties need. The office can help with developing reporting and accountability functions and ways to deliver public services that give adequate respect to individual privacy.

We asked whether the process for creating an approved information sharing agreement is too complex, and heard that existing agreements, for example the one between the Inland Revenue Department and the New Zealand Police, demonstrate that it does not have to be.

One of the advantages of the approved agreements is that there is a statutory obligation to consult with the Office of the Privacy Commissioner. However, we heard that most organisations consult with the office anyway because they are concerned that if they get things wrong there might be a complaint for which they would be liable.
We heard that outside of approved information sharing agreements there are many lawful ways of sharing information. An organisation can make sure that a person understands the “information pathway” that is a consequence of them accepting services. Another way is by gaining a person’s informed consent.

**Charging for information**

We asked about Government departments charging people for information requested under the Official Information Act 1982. We heard that official information comes under the jurisdiction of the Ombudsman. There is a statutory ability to charge for official information and Cabinet guidelines provide charging details, for example hourly rates.

People have a right of access to personal information, and if they exercise that right in respect of a public sector agency then no charge can be made. Private sector agencies can charge a reasonable amount for providing personal information, and if the person does not think the charge is reasonable they can ask the Privacy Commissioner to investigate.

We heard that following investigations in the credit reporting area the commissioner found one company was making an excessive charge for providing personal information, and the commissioner took action to correct the situation. However, this issue has not been a feature in the provision of personal information unlike official information, where charging was discussed publicly following Dame Beverley Wakem’s report into the Official Information Act late last year.
Appendix

Committee procedure
We met on 18 February and 17 March 2016 to consider the annual review of the Privacy Commissioner. We heard evidence from the commissioner and received advice from the Office of the Auditor-General. The evidence, advice, and a transcript of the hearing are available on the Parliament website, www.parliament.nz.

Committee members
Jacqui Dean (Chairperson)
Jacinda Ardern
Chris Bishop
Hon Chester Borrows
Marama Fox
Jono Naylor
Alfred Ngaro
Denis O’Rourke
Metiria Turei
Hon Louise Upston
Louisa Wall

Clare Curran replaced Jacinda Ardern for this item of business

Evidence and advice received
Office of the Auditor-General, Briefing on the Privacy Commissioner, dated 18 February 2016.

Office of the Privacy Commissioner, Responses to written questions, received on 11 February, and 7 March 2016.
2014/15 Annual review of the Serious Fraud Office

Report of the Law and Order Committee

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Serious Fraud Office

Recommendation
The Law and Order Committee has conducted the annual review of the 2014/15 performance and current operations of the Serious Fraud Office and recommends that the House take note of its report.

Introduction
The Serious Fraud Office (SFO) is a specialised law enforcement agency that detects, investigates, and prosecutes serious or complex financial crimes.

In 2014/15 it had total revenue of $9.098 million, down $288,000 from the previous year. Total expenditure was $8.945 million, resulting in a surplus of $153,000. As of June 2015, the SFO had slightly more than 46 full-time equivalent employees. Its Director is Julie Read.

Allegations of individuals undermining the work of the SFO
Some of us noted allegations made in the book Dirty Politics suggesting that individuals were deliberately undermining the work of the SFO and asked whether Police had interviewed any SFO staff about the allegations.

The Director told us that she could not answer this question because she was not employed as Director of the SFO at the time and had not been interviewed. However, some of her staff, or former staff, may have been, although she was not aware of this occurring. She told us that the alleged activities of the individuals had not undermined the SFO investigations in any way.

Investigations and prosecutions conducted
The SFO has noted a rising tide of corruption around the world which will undoubtedly affect New Zealand through our various trading relationships and connections with other countries. In light of this rising tide of corruption, we asked why the number of SFO prosecutions appeared to have decreased by more than half from previous years.

This year, the SFO received 536 complaints. Of these, 46 were taken forward to either preliminary or substantive investigations. The office brought six cases to prosecution, down on the 8 it had last year. The Director told us the number of prosecutions can be easily skewed by one case taking a long time to go through the courts; this then slows its capacity to investigate and commence new prosecutions.

We were told that the SFO has changed the way it records its statistics. It can conduct investigations as either a Part 1 or a Part 2 investigation. Part 1 is limited in scope and intended to determine whether there is enough basis to conduct a full investigation. This full investigation is designated as a Part 2. Previously, the office counted and reported Part 1 and 2 investigations together as one figure. It now counts and reports the two types of investigation separately. It currently has 31 Part 1 enquiries and 15 Part 2 investigations open, which is consistent with previous years.
The SFO also referred 30 complaints to other law enforcement or regulatory agencies during the 2014/15 year. It has so far referred 9 complaints this current financial year.

**Obtaining custodial sentences from convictions**

We noticed that the frequency of custodial sentences from SFO convictions has been declining from 95 percent in 2011/12 to only 69 percent last year, below the SFO’s target of 75 percent. Given the high deterrence value custodial sentences have for white collar criminals, we asked why this was occurring.

The Director noted that sentences were a matter for the courts to impose, and that whether a person’s offending will warrant an imprisonment sentence was one of the criteria the SFO weighs up when it begins a prosecution. She also pointed out that the remaining 31 percent of convictions had received home detention.

The Director did not believe that the declining trend of custodial sentences warranted a legislative amendment to provide for more custodial sentences. She said that the SFO would try to collaborate more with referring agencies to provide more information to the courts on the seriousness of the offences. However, she said that, if the current trend did not show signs of improving, the SFO may seek the assistance of the Ministry of Justice.

**Levels of corruption**

We noted that New Zealand’s international ranking for very low levels of bribery and corruption had fallen to fourth in the world according to Transparency International. In previous years, the country had been rated as first equal. PwC had also assessed that the incidence of bribery and corruption increased from 11 percent in 2012 to 15 percent in 2014. We asked the Director what she thought the reasons were for the country’s decline.

She noted that the Transparency International Corruption Index works according to a scoring system, which allows a country to slip back if its anti-corruption systems are not as robust as they were previously. This also allows other countries to move ahead if they put additional protections in place, which is what happened this year.

The Director said New Zealand has recently taken steps that the Index takes into account, such as making amendments to foreign bribery provisions in the Organised Crime and Anti-corruption Legislation Bill. These steps were not picked up in the last survey.

She also mentioned that immigration brings different cultures to New Zealand. Conduct that would amount to corruption in this country is not considered corrupt in the countries some immigrants have emigrated from. There was a need to work to educate new arrivals so that those corrupt practices do not become established.
Appendix

Committee procedure
We met on 17 February and 2 March 2016 to consider the annual review of the Serious Fraud Office. We heard evidence from the Director of the Serious Fraud Office and received advice from the Office of the Auditor-General.

Committee members
Kanwaljit Singh Bakshi (Chairperson)
Todd Barclay
Mahesh Bindra
David Clendon
Su’a William Sio
Hon Phil Goff
Ian McKelvie
Lindsay Tisch
Jonathan Young

Evidence and advice received
Office of the Auditor-General, Briefing on Serious Fraud Office, dated 17 February 2016.
Serious Fraud Office, responses to committee questions.
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Recommendation
The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the Arts Council of New Zealand Toi Aotearoa and recommends that the House take note of its report.

Introduction
The Arts Council of New Zealand Toi Aotearoa, also known by its trading name Creative New Zealand, is an autonomous Crown entity. Its statutory purpose is to encourage, promote, and support New Zealand arts for the benefit of all New Zealanders. It has the following four goals:

1. Increase participation in the arts
2. Assist the development of high-quality New Zealand art
3. Increase audience numbers for art funded by Creative New Zealand
4. Assist New Zealand arts gain international success.

The Chairman of the Arts Council is Richard Grant, and the Chief Executive is Stephen Wainwright.

Performance in 2014/15
The Arts Council ran a deficit of $2.6 million in 2014/15. Its total revenue was $48.6 million, down from $54.2 million in 2013/14. Expenditure totalled $51.3 million, up from $50.5 million in the previous year.

Revenue declined because of decreased funding from the New Zealand Lottery Grants Board. The Lottery Grants Board provided a $31.1 million grant, down from $37.4 million in 2013/14. The Lottery Grants Board is the largest contributor to the Arts Council, with the Crown contributing $15.7 million.

In 2014/15, the Arts Council invested $43.6 million in the arts, its highest-ever amount. It has four major performance targets, which measure the four goals outlined in the introduction. Compared to 2013/14:

- More New Zealand works were made (outcome two).
- More people attended presentations funded by Creative New Zealand (outcome three).
- More New Zealanders presented at international events (outcome four).

The Arts Council did not measure whether participation in the arts increased (outcome one). It has created a new way of measuring participation, so no comparison was possible.

Reduction in funding
The Arts Council told us that it sees managing the decrease in funding, in the face of a high demand for art, as its biggest challenge. The reduction in Lottery funding happened with little warning and has had a major effect on the Council. As a short-term response, the Council ran a deficit of $2.6 million in 2014/15, which was funded by financial reserves. The deficit reduced the effect of the decreased funding on the arts sector.
The Council does not anticipate that the Lottery funding will increase. This means it needs to reprioritise funds to reduce expenditure. The Council has not yet met to discuss how it will achieve this, although it had previously decided that existing pilot programmes will not be continued once their funding is completed.

We were told the Council will revisit this decision if its funding increases. The Council has told the arts sector that its funding has decreased, which will reduce its ability to fund projects.

We asked whether the Council has looked for additional funding from the Crown. The Council has talked with the Minister for Arts, Culture and Heritage both formally and informally about the issue. The Council told the Minister that it would benefit from more funding. The Council also applied for more funding from the Ministry for Culture and Heritage through a budget proposal, but this was unsuccessful.

**Advocacy**

One of the Council’s legislative responsibilities is to advocate for the arts. We asked about the Council’s advocacy to central government. The Council said that the smaller Lottery grant has created an expectation that it would seek more funding from central government. Some of us believe that the Council needs to be more vocal in its advocacy. Although the Council has talked with the Minister, some of us believe that the Council has not adequately publicised these discussions.

Local authorities, trusts, and philanthropists are becoming increasingly important sources of funding. These funders are important for the Council because most of its projects are co-funded with such groups. For example, the Council co-funds the Auckland Theatre Company. The Council provides 20 percent of the revenue, Auckland Council provides 25 percent, and other sponsors and the community provide the rest.

After listening to the arts sector, the Council is now helping artists seek funding from other sources. The Council now provides toolkits and workshops to help artists build relationships with funders.

In 2013/14, the Council commissioned work on the economic benefit of the arts. The work pulled together economic arguments for art, to help artists to advocate to non-governmental funders. Contractors did this work, at a cost of about $100,000. The Council did not have the ability to do it in-house.

**Appetite for the arts**

Every three years, the Council surveys New Zealanders. The latest survey was released in 2014. It showed that 89% of people had attended, or participated in, arts events in the previous year. Of those who attended, 85% rated their experience as high quality. We were told that this shows a large appetite for the arts and that interest in all areas is stable or growing.

The Council views online content as a growth area. More online content may increase audiences for live events, because people often want to see an event online before seeing it live.

We asked whether high demand meant people were willing to pay for arts events. The Council works with artists to build business cases that assess the viability of charging for events. However, one of the Council’s goals is to make sure New Zealanders have access to
the arts. Therefore, part of its funding is to ensure that there is not a prohibitive cost for audiences.

**Information technology systems**

One of the major projects for the Council is to shift from a paper-based to online grant application and peer-review system. This required the development of an online Grants Management System.

We were told this system is exceeding expectations, and the Council is pleased with its development. The Council has been encouraging the use of the online system, and user feedback has been positive. We commend the Council for successfully implementing this system.

**Canterbury recovery**

The committee would like to thank the Council for its support of the Canterbury arts sector. The arts have been an integral and highly valued part of the recovery effort.
Appendix

Committee procedure
We met on 10 February and 9 March 2016 to consider the annual review of the Arts Council of New Zealand Toi Aotearoa. We heard evidence from The Arts Council of New Zealand Toi Aotearoa 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

Mojo Mathers was replaced by Denise Roche for this item of business.

Evidence and advice received
Office of the Auditor-General, Briefing on The Arts Council of New Zealand Toi Aotearoa, dated 10 February 2016.

The Arts Council of New Zealand Toi Aotearoa, responses to written questions, dated 10 February and 9 March 2016.
2014/15 Annual review of Heritage New Zealand Pouhere Taonga

Report of the Government Administration Committee

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Recommendation

The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of Heritage New Zealand Pouhere Taonga, and recommends that the House take note of its report.

Introduction

Heritage New Zealand Pouhere Taonga (Heritage) is a Crown entity. In 2014, the Heritage New Zealand Pouhere Taonga Act 2014 (the Act) revised Heritage’s roles. The Act changed the organisation’s name and structure, and added additional responsibilities. The Act states that Heritage’s purpose is to promote the identification, protection, preservation, and conservation of the historical and cultural heritage of New Zealand. Heritage has the following three key outputs:

- Knowledge/mātauranga: Places that contribute to New Zealand’s culture and heritage are identified and their stories made accessible
- Heritage survival/tiakina: Places that are significant to New Zealand’s culture and heritage survive
- Heritage engagement/hononga: New Zealanders engage with those places that contribute to New Zealand’s culture and heritage.

The chair of Heritage is Rt Hon Wyatt Creech, and the chief executive is Bruce Chapman. We note that Bruce Chapman is leaving his role after a decade as chief executive, and acknowledge his dedicated work to improving New Zealand's heritage.

Financial performance

In 2014/15, Heritage recorded a deficit of $863,000, after posting a surplus of $1.1 million in 2013/14. Total revenue was $16.4 million, lower than the $17.5 million recorded in 2013/14. The Crown contributed about $13 million in revenue, the same level as in 2013/14. Total expenditure was $17.3 million, higher than the 2013/14 result of $16.4 million.

Funding

The Act introduced new responsibilities for Heritage, including producing five statutory policies and helping fulfil Treaty of Waitangi settlement obligations. We were told that this has created a challenge, because the Crown has not increased its funding to Heritage. It is not expected to in future years.

Therefore, Heritage must meet its new obligations within existing funding arrangements. In its Statement of Intent 2015-2019, Heritage acknowledged “that we will be unable to deliver all that is expected of us within the resources available”.

The chair of Heritage is Rt Hon Wyatt Creech, and the chief executive is Bruce Chapman. We note that Bruce Chapman is leaving his role after a decade as chief executive, and acknowledge his dedicated work to improving New Zealand's heritage.
Models to support maintaining heritage

Some of us are concerned that there appears to be an acceptance that economic concerns are more important than maintaining New Zealand's heritage, and that this acceptance means public expectations about heritage are not being met. We were told this is becoming an increasingly important issue, as smaller cities and towns are facing a problem in maintaining their heritage.

We were told that economic activity is moving to fewer large cities and away from towns with Edwardian and Victorian heritage buildings. In these towns, rents are not rising enough to cover the buildings’ maintenance and insurance costs. These costs are increasing as earthquake-strengthening requirements become more stringent.

Heritage was pleased to note a recent decision by the Environment Court. Lambton Quay Properties Nominee Limited proposed demolishing the Harcourts building, a listed heritage building. Wellington City Council rejected the proposal, and Lambton Quay Properties appealed to the Environment Court. The Court rejected the appeal, stating that the Council was correct in supporting restoration, even if more money could be made by demolishing it. Heritage is pleased that the Court supported the heritage concerns, rather than prioritising economic returns.

We were told that Heritage supports a mixed-model approach to help change incentives so that they support heritage. One model is ensuring that buildings are maintained through the Resource Management Act 1991 (RMA). However, Heritage does not believe that preservation should be done exclusively through this process because it privatises the costs while socialising the benefits.

Another model involves Heritage working closely with local authorities. The aim is to roll out a red carpet rather than red tape. Small economic incentives are offered, and local authorities actively seek owners interested in maintaining the heritage of the building. This model has worked particularly well in Dunedin.

Heritage also has a Heritage Preservation Incentive Fund. Heritage provides funding for privately owned category-one heritage buildings. Category-one buildings are historic places of special or outstanding historical or cultural significance or value. Heritage contributes up to 50 percent of the total costs of conservation projects. This funding is intended to tip the economic incentive in favour of restoration rather than demolition. Local authorities also have small funds available for similar projects.

Heritage considers education an important tool in maintaining heritage. We were told that virtually all heritage buildings are in private hands. If the owners do not maintain the buildings, the buildings will degrade. Heritage believes that educating owners will produce positive outcomes.

Māori Heritage Council

The Act restructured the Māori Heritage Council. For the first time the council now has a separate board with set responsibilities. The council’s main role is to advise the board of Heritage on matters of interest to Māori and to ensure that Heritage conducts its business in a culturally-appropriate manner. The council has been in place for about one year and will review its strategic direction in 2016.

The Act increased Heritage’s obligations for Treaty of Waitangi settlements. As part of Treaty settlements, the Crown has made a large number of promises to help maintain
places of significance. Heritage has a specialist team that helps iwi and hapū preserve and restore the heritage of places of significance. This team is spread throughout the country and interfaces between Heritage and iwi.

**Advocacy and volunteers**

The Act disestablished the official branches of Heritage, which were regionally-based organisations of volunteers. Volunteers had to establish new organisations, which are not formally part of Heritage. We were interested in whether the reforms had destabilised Heritage’s volunteer base. We were told the reforms probably had. Heritage has now reconnected with the new volunteer groups, and has made rebuilding the network of volunteer groups a key goal for 2016.

Disestablishing regional branches has created opportunities for better advocacy. We were told that new volunteer groups can be more politically active, helping to build local support for maintaining heritage sites. This was not possible under the old branch system because the branches were officially aligned with Heritage.

Given this advantage, Heritage is prioritising mobilising local groups. Groups can advocate for local projects and gain funding from local sources. Heritage is trying to reprioritise funds so it can spend more on advocacy.

**Canterbury’s heritage buildings**

We were interested in the demolition of more than 300 heritage buildings since the Christchurch earthquakes. The Government introduced the Canterbury Earthquake Recovery Authority Act 2011, which allowed buildings to be demolished without going through the RMA process. We were told that the buildings would have been less likely to be demolished under the RMA.

Heritage was consulted when heritage buildings were scheduled for demolition. The Government did not always take its advice. Heritage estimated that it overturned 10 decisions to demolish category one buildings. This success was in part the result of the willingness of owners to protect their buildings and the support of other groups (such as the Christchurch City Council). We were told that, from an engineering perspective, all buildings could have been saved. However, this may not have been economically viable.

Heritage set up a subsidiary called the Canterbury Earthquake Heritage Building Fund. The fund was designed to help protect the heritage buildings that remain and has about $5 million in funds.

**Lyttelton Timeball Station**

We were interested in the rebuild of the Lyttelton Timeball. The Timeball was a landmark that was damaged beyond repair in the earthquakes. The building has significant heritage value, and Heritage decided to rebuild the Timeball. We were told that the project will cost $3.4 million. Heritage needs to fundraise a further $300,000 to be able to rebuild the Timeball.

**National historical landmarks**

The Act tasked Heritage with establishing and maintaining a list of places of outstanding national heritage value. We were told that Heritage has recommended six sites to the Minister for Arts, Culture, and Heritage.
Heritage considers that the sites have the highest heritage value. They are also some of the easiest sites to identify because they have already been well researched and maintained. The list will be publicly available once the Minister has approved it. Once this has been done, public consultation will begin. We look forward to the release of the list.
Appendix

Committee procedure
We met on 17 February and 16 March 2016 to consider the annual review of Heritage New Zealand Pouhere Taonga. We heard evidence from Heritage New Zealand Pouhere Taonga and received advice from the Office of the Auditor-General.

Committee members
Ruth Dyson (Chairperson)
Kris Faafoi
Paul Foster-Bell
Brett Hudson
Mojo Mathers
Mark Mitchell

Evidence and advice received
Heritage New Zealand (Pouhere Taonga), responses to written questions, received 17 February and 9 March 2016.

Office of the Auditor-General, Briefing on Heritage New Zealand Pouhere Taonga, dated 17 February 2016.
The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry for Culture and Heritage, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
Arotakenga ā-tau o Te Puni Kōkiri o te tau 2014/15

Te pūrongo a Te Komiti Whiriwhiri Take Māori

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Tūtohutanga
Kua oti te arotake a Te Komiti mō Ngā Take Māori i te pai me ngā mahi a Te Puni Kōkiri i te tau 2014/15; waihoki, ka tūtohu te komiti kia aro mai Te Whare ki tana pūrongo.

Kupu Whakataki
E whai ake nei ko ngā whāinga takekake e rua o Te Puni Kōkiri:

- te whai kia piki ake Te Māori i te mātauranga, te whakangungu me te whai mahi, te hauora me te whanaketanga o te taha ōhanga;
- te aroturuki me te whitiwhiti kōrero ki ngā tari me ngā pūtahi kei te whakarato, kei te kawe rānei i ngā ratonga ki te Māori, kia kite ai kei te pai aua whakaratonga.


Ngā panonitanga
I te tau 2013 ka tīmataria te whanaketia houtia o te tauira mahi. Kei te haere tonu tēnei whanaketanga. I rongo mātou ko te hiahia o te manatū kia āta haere tēnei whanaketanga, kia pai ai ki ngā kaimahi puta noa.

Ngā tūranga mahi wātea
Kua kite mā mātou i te māhi a te manatū i te tau kua hipa ake, ki te whakahaere i āna tūranga mahi wātea. Ko tāna ki a mātou, i te 30 o Pipiri, tau 2015, e 30 āna tūranga wātea, ā, kua whakahaeka tēnei ki ngā tūranga wātea e 11.

Te tiki ake i te hunga kaikirimana
Ka whāki mai te manatū, ka whirinaki atu ki ngā kaikirimana i roto i ēnei panonitanga. Kei te whai hoki te manatū kia whakapakari i ngā kaimahi tūturu i te taha ki te wānanga kaupapa, te tuhituhi me ngā mōhio tōta ki te pūnaha kāwanatanga.

Ka pakari haere te manatū, ka ruarau haere ngā kaikirimana. I rongo mātou e kore e mutu te tono atu ki ngā mātanga āhāpāi mō ngā wānanga mahi pukenga tohunga i tua atu.

Te aro turuki whakaotinga mahi, kaupapa here whakamaherehere
I putaina ā mātou āwanga whaoranga mō te āhua o te aro turuki a te manatū i ngā tari me ngā pokapū ka tuku rānei, kia kawe rānei i ngā ratonga ki te Māori.

I rongo mātou he nui ngā kaimahi kua tapahia, mai i te tīmatanga o te whanaketanga o te manatū. Whāia, kāore e tareka te aro turuki i ngā tari kāwanatanga me ngā pokapū katoa.

Inaiānei, kei te āta titiro te manatū ki te āhua o tana whakarato kaupapa here me te pai o ngā mahi aro turuki. Kei te hāngai te titiro ki ngā mahi me mahi i te tuatahi, me te whai kia haere ngātahi ēnei mahi i runga i ngā mea matua kua tohunga e Te Puni Kōkiri.
I puta tā mātou kōrero e mea ai, tērā pea nā ngā panonitanga ka heke te kaha o te manatū ki te māhi i ngā māhi, ki te whai wāhi ki ngā kaupapa here me ngā māhi o ētahi atu tari, ētahi atu pūtahi, inarā kua huri kē te māhi a te manatū mai te ‘kaiaro turuki’ ki te ‘kaitātari’.

E ai ki te manatū, ko te hiahia, mā tēnā wāhanga mā tēnā wāhanga o te rāngai kāwanatanga e hāpai i ōna ake kawenga ki te Māori. Kei te māhi te manatū me Te Kōmihana o Ngā Tari Kāwanatanga kia kaha ake ai te māhi a tēnā tari kāwanatanga, ā tēnā pokapū mā te Māori, e mārama pai ai rātou he aha ngā āhuatanga e piki ake ai ā rātou māhi mā te Māori.

I te āwangawanga mātou mō te tika o ngā arotake ā-roto mō te pai a ngā māhi a tēnā tari kāwanatanga a tēnā pokapū mā te Māori. Ka whakaee te manatū kei te taupatupatu ngā arotake ā-roto ki ngā arotake ā-waho.

**Te whakatakoto pūrongo mō te whakaotinga mahi**

I aro mātou ki te mea, kāore he tikanga i roto i te pūrongo ā-tau a te manatū, hei ine i te pai o ētahi o ngā māhi me ngā putanga. I whakaae mai te manatū, me te mea mai koinei anō te kōrero a te Tari o te Mana Arotake. Kei te ngana te manatū kia pai ake ngā tikanga ine.

Ka tiaki mātou kia puta te pou tarāwaho hou a te manatū mō te tau 2015/16.

**Whiwhinga whare**

**Kōtuituinga whiwhinga whare a Māori mā**

Kei te mōhio mātou kei te arotahi te manatū me Hikina Whakatutuki kia whanake Te Kōtuituinga Whiwhinga Whare a Māori mā. He āwhina i te rautaki a Te Kāwanatanga mō ngā whare mā Māori mā kīia ai, He Whare Ahuru He Oranga Tangata.

E ai ki te manatū kei te wātea ētahi huarahi ki te āwhina i ngā āwhānau kia pai ake ngā kāinga. Ko ētahi hōtaka ka tautoko i ngā āwhānau kia riro mai o rātou ake kāinga, ko ētahi hōtaka ka māhi tahi me ngā kaituku rīhi kia noho pai ake ai ngā whare rīhi.

I pātai mātou mō ngā hōtaka ka āwhina i ngā Māori noho ki taiwhenua. Ko te whakautu, kei te māhi te manatū i ngā rohe ki te tohu ko hea ngā wāhi ake hei whakapau kaha hei whakangao. Ka taka ki raro i tēnei ko ngā hōtaka whakapaiwhare me whare me te whakatū papakāinga.

E ai ki te manatū, mai i te marama o Whiringa-ā-nuku i te tau 2015, kua tae mai ki Te Kōtuituinga Whiwhinga Whare a Māori mā ngā tono e 300. He maha o ēnei tono i ahu mai i te taiwhenua. Ko te titiro, taea rawa ki te rā e 30 o Pipiri i te tau 2016, neke atu ki te e 90 ngā āwhānau ka whai āwhina i tēnei hōtaka.

Ka mātaki haere mātou i ngā māhi a Te Kōtuituinga Whiwhinga Whare a Māori mā.

**Papakāinga**

I pai mātou e hia ngā papakāinga i mahia e roto i te tau kua huri. I rongo mātou e 5 ngā papakāinga i whakaaetia i te tau 2014/15. Kua oti ētahi, ko te katoa ka oti i roto i te tau 2015/16.

**Pūtea Āwhina mō te whiwhinga whare a Māori mā**

I pātai mātou ki te manatū mō te tikanga aro turuki i Te Pūtea mō te whiwhinga whare a Māori mā. Ka whakaee te manatū kua tū ngā tikanga aro turuki, tae rawa ki te aro turuki i te taha pūtea kia kitea ai te tika me te hāngai o ngā whakapaunga.
Ngā tari ā-rohe

Ka mihi mātou ki te mahi a ngā tari ā-rohe a te manatū, pērā i te whakapakaritanga i te mahinga tahitanga ki ngā īwi me ngā Māori i ngā kaupapa pērā i te whakarato kāinga. I te wā e tuhia ana te pūrongo nei, ka poroporoaki mātou i a Roger Aranui o te tari ā-rohe i Tūranga-nui-ā-Kiwa i tōna matenga.

A Whānau Ora

Ka pātai mātou, tokomaha te hia kē o ngā whānau i haere atu i runga i te hiahia āwhinatanga, ki te āhuatanga o te tū motuhake katoa i roto i ngā tau e whā e mahi ana a Whānau Ora. Kihai te manatū i kaha i te hōmā i ētahi whika tūturu. Heoi, ko tāna ki a mātou, wawe rawa atu te papātanga o te aronga Whānau Ora, nā te pai ake o te putanga atu ki ngā ratonga.

Ka mea ake anō hoki, ēhara te whakaware wā roa i te taha o Whānau Ora i tētahi mea kikino nā te mea, ka puta ake ētahi atu rarururu whai muri i te pātanga tuatahi mai a te whānau mō ētahi take hauora. Āwhina ai ētahi wā whakaware roa rawa mā te whakatika rarururu whānau whānui kē atu.

Ka whakaae te manatū kū tā mātou, ko te tikanga o te whāinga mutunga mai a Whānau ora mā te whānau, ko te neke whakamua, mai i te whiwhi āwhinatanga ki te tū anō i runga i tōu ake mana motuhake.

Te tauira mō te kōmihana pokapū

Ka te tau 2014/15 te tau tuatahi mō ngā “pūtahi whakarite”. I pātai mātou ki te manatū mō tā rātou aroturuki i te pai o ēnei pūtahi whakarite. I rongo mātou me mātua tuku pūrongo aua pūtahi ki te manatū mō te pai me te hua o ērātou mahi ia hauwhā i te tau. Ka uru atu hoki ki tēnei te whakahaerenga o ngā papā kē te pānga.

Ka whakamahia e te manatū ētahi tikanga inge i e te pai o ngā mahi a ngā pūtahi, tae atu ki ētahi tikanga whakapumau i aua inenga.

Kei te mōhio mātou i tohu te manatū ki ngā tūponotanga ki te whāia te tauira o ngā putahi whakarite. I pātai mātou mēnā kua takoto he rautaki hei pare i aua tūponotanga. Ko te whakautu a te manatū kēa takoto he rautaki.

Ka whaiwhai haere mātou i ngā nekenekenhanga i a Whānau Ora.

Te tuhi me te pānui

I te āwangawanga mātou mō te kaha, te kore kaha ranei o te hōtaka FastForWord, he hōtaka hei whakapikī i te kaha o ngā tamatāne Māori ki te pānui me te tuhi. I pātai mātou mēnā i whakamāturi te hōtaka nei mē te mātaki i ētahi rōpū ākonga kia kitea ai he aha te wāriu o te hōtaka tērā i te wāriu ka hua i ngā pouako a ngā tamariki.

Ko te whakautu, kihai te hōtaka rā i whakamāturinga pērātia, kihai hoki i inea te pai o FastForWord tērā ki te pai o ngā akomanga ka hua i te pouako.

Heoi, ko te kōrero mai a te manatū, kua piki te taumata mō te pānui me te tuhituhi a ngā tamatāne i roto i te hōtaka mā te e rua tau.
Te oranga o ngā tamariki Māori

I te tau 2013 ka puta te pūrongo a te Komiti mō Ngā Take Māori, ko Te Rangahau be abā ngā āhuatanga e ora ai ngā tamariki Māori. I pātai mātou mēnā i mātaki te manatū i ahatia ngā whakamaherehere i roto i te pūrongo.

I rongo mātou, kāore i puta he paku aha hei whakautu i te pūrongo me ngā tūtohutanga. Heoi, kei te hāpai te manatū i a Whānau Ora hei tauira me pehea te whai i te oranga o te hunga tamariki me te whānau.

Ka mihi mātou ki ngā mahi a te manatū i te taha ki te oranga o ngā tamariki.

Te Pūtea Whanaketanga a ICTMāori

I puea ake te pūtea whanake Māori a ICT i te tau 2014, e $30 miriona mō te whā tau. I te tīmatanga nā Te Reo Whakapuaki Irirangi te pūtea i whakahaere. Heoi, nō muri ka kitea kāore he mana ā-ture o tāua pūtahi ki te whakahaere i tāua pūtea. E āia ki te kōrero, nā runga i tēnei, kāore anō kia tīmata te nanao ki te pūtea whanake Māori a ICT.

Ka mātaki mātou he aha ngā nekeneke i te Pūtea a ICT.

Te Ture Whenua Māori

Mahi tahi ai te manatū me ētahi atu tari kāwanantanga ki te tautoko i ngā iwi me ngā hapa me ngā whānau kia nui ai ngā hua ka puta mai i ngā whenua Māori. I te tau 2014/15, ko tētahi take nui ko ngā kaupapa hiki ake i te whenua Māori, mā roto i tētahi Pire Ture Whenua Māori hou.

Kei te mōhio mātou ka kuhuna te Paremata hei te tōmuatanga o te tau 2016.

Te whakamaherehere ā muri i Te Whakataunga Take Tiriti

I te whakataunga o tētahi kerēme Tiriti, ko te manatū me ētahi atu tari kāwanantanga ki te tautoko i ngā tari Kāwanantanga i a ētahi whiriwhiringa me te Māori.

I pātai mātou he aha ngā whakamaherehere ka hoatu e te manatū ki te wāhanga o te Kāwanantanga tiaki i ngā kerēme ina whakataunga ai. I rongo mātou kei te manatū te haepapa mō te katoa o te kāwanantanga i te whakatinatanga o ngā whakaaetanga mō Ngā Iwi o Te Awa o Waikato (ko Waikato-Tainui, Raukawa, Maniapoto, Tūwharetoa), a Taranaki Whānui ki Te Upoko-o-Te Ika me Ngā Rauru Kitahi. Tatū ki tēnei rā, kāore anō waitohungia he whakaaetanga i Tūwharetoa. Heoi, kei reira tētahi whakaaetanga e noho wātea ana.

Hei ngā wā ka arotahi tētahi hononga ki runga i tētahi wāhanga ake o te rāngai kāwanantanga, ka noho ko tāua wāhanga hei ārahi i te taha ki te kāwanantanga. Ka noho te manatū ki te tautoko i te taua wāhanga.
Tāpiritanga

Te huarahi i takahia e Te Komiti
I hui mātou i te 10 o Hui-tanguru, i te 9 me te 16 o Poutū-te-rangi, tau 2016 ki te whakaaroaroroi i te arotakenga ā-tau o Te Puni Kōkiri. I rongohia te taunakitanga a Te Puni Kōkiri, ā, i whihi i te whakamaherehere a Te Tari o Te Tumuaki. Kei te wātea te whakamaherehere me te taunakitanga i whiwhi i a mātou i te pae tukutuku Pāremata www.parliament.nz.

Ko ngā mema o te komiti, ko
Tūtehounuku Kōrako (Heamana)
Hōnore Chester Borrows
Mārama Davidson
Kelvin Davis
Mārama Fox
Joanne Hayes
Hōnore Nanaia Mahuta
Pita Paraone

Te taunakitanga me te whakamaherehere i whiwhi
Tā Te Puni Kōkiri, mō āna urupare ki ngā pātai i te whakawātanga-ō mua i whiwhi i te 9 o Hui-tanguru, tau 2016.

Tā Te Puni Kōkiri, mō āna urupare ki ngā pātai i te whakawātanga-whai muri i whiwhi i te 29 o Hui-tanguru, tau 2016.

Tā Te Tari o Te Tumuaki, mō tāna whakataktoranga tohutohu mō Te Puni Kōkiri i te 10 o Hui-tanguru, tau 2016.

Te pepa whakataktoranga tohutohu mō te rōpū whakahaere, nā ngā kaimahi o te komiti i takatū i te 5 o Hui-tanguru, tau 2016.
2014/15 annual review of the Ministry of Māori Development

Report of the Maōri Affairs Committee

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Appendix 7
Ministry of Māori Development

Recommendation

The Māori Affairs Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry of Māori Development and recommends that the House take note of its report.

Introduction

The Ministry of Māori Development, which is also known as Te Puni Kōkiri, has the following two core responsibilities:

- to promote increases in the levels of achievement attained by Māori with respect to education, training and employment, health, and economic resource development
- to monitor and liaise with each department and agency that provides, or has responsibility to provide, services to or for Māori for the purpose of ensuring the adequacy of those services.

The Chief Executive is Michelle Hippolite.

The ministry is funded mainly through Vote Māori Development. In 2014/15, its total income was $57.393 million, and its total expenditure was $55.650 million. This resulted in a surplus of $1.743 million.

Restructuring

Since 2013, the ministry has been restructuring and implementing a new operating model. This is still in progress. We heard that the ministry does not want to rush the process and aims to achieve a positive and consistent change throughout its office and staff.

Staff vacancies

We noted that the ministry had reduced its vacancies during the last year. It told us that it had 30 vacancies at 30 June 2015, and it has now reduced this to 11 vacancies.

Use of contractors

The ministry acknowledged that it has relied on contractors during its restructuring. It told us that this is because it has been investing in its permanent staff and building their capability in critical thinking, writing, and understanding of the government system.

As capability within the ministry grows, it will need fewer contractors. We heard that the ministry will always need consultants, especially in specialised areas.

Policy advice and performance monitoring

We raised concerns about how the ministry carries out its role to monitor departments and agencies that provide, or have responsibility to provide, services to or for Māori for the purpose of ensuring the adequacy of those services.
We heard that the ministry has had a large reduction in staff since restructuring began. Because of resulting resource constraints, it is not able to monitor the full range of government departments and agencies.

The ministry is now strategically deliberate with its approach to policy advice and effective performance monitoring. It is targeting where the needs are greatest and is aligning this targeting with the priorities identified by the Minister for Māori Development.

We commented that the restructuring may have eroded the role of the ministry, and its ability to affect policy and performance in other departments and agencies, because of the change from being an “auditor” to a “monitor”.

The ministry told us that it would like to see all parts of the public service take ownership of their requirement to be effective for Māori. It said it is working with the State Services Commission to build effectiveness for Māori into the expectations of each government department and agency so that the department or agency knows what is required for it to be effective.

We were concerned that internal reviews may not always be reliable indicators of how well departments and agencies are doing for Māori. The ministry acknowledged that there is a tension between internal and external reviews.

**Performance reporting**

We noted that some of the performance measurements included in the ministry’s annual report lack specific measures and results. The ministry agreed this was a valid comment that the Office of the Auditor-General has also made. It is working towards improving its measurements.

We look forward to the new performance framework that the ministry has established for 2015/16.

**Housing**

**Māori Housing Network**

We are aware that the ministry is working with the Ministry of Business, Innovation and Employment on the Māori Housing Network. This will contribute to the Government’s Māori housing strategy—He Whare Āhuru He Oranga Tangata.

The ministry told us that there are various models available to help whānau improve their housing. These include programmes that assist whānau towards home ownership or involve landlords upgrading rented homes.

We asked how housing programmes are helping rural Māori. The ministry told us that it is doing work regionally to identify specific areas for planning and investment. This includes programmes for housing repairs and papakāinga developments.

The ministry said that, since October 2015, the Māori Housing Network has received around 300 enquiries. Many of these have been from Māori living rurally. It is expected that up to 90 whānau will have received assistance from this initiative by 30 June 2016.

We look forward to the progress of the Māori Housing Network.
Papakāinga

We asked how many papakāinga developments there had been during the past year. We learnt that five papakāinga projects were approved in 2014/15. These have been completed or will be completed during 2015/16.

We are aware that there is a target to approve funding for 20 new papakāinga rental homes in 2015/16.

Māori Housing Fund

We asked the ministry what the monitoring process is for the Maōri Housing Fund. It said that a range of monitoring takes place, including financial acquittal to ensure that funding from the ministry is being used as planned.

Regional offices

We acknowledged the work of the ministry’s regional offices, particularly the effort they put into building effective partnerships with iwi and Maōri in regional developments such as housing. At the time of writing this report we acknowledge the passing of Roger Aranui from the Gisborne regional office.

Whānau Ora

We asked how many whānau have gone from needing assistance to being fully independent during the four years that Whānau Ora has been in operation. The ministry could not provide us with definite numbers. However, it told us that the Whānau Ora approach had an immediate effect, such as improved access to services.

The ministry also said that long-term engagement with Whānau Ora is not necessarily a bad thing. This is because other problems can emerge after a whānau has had initial contact for a health issue. A longer period of engagement can help solve wider whānau problems.

The ministry agreed with us that the ultimate goal of Whānau Ora should be for whānau to progress from receiving support to eventual self-sufficiency.

Commissioning agency model

In 2014/15, the three Whānau Ora “commissioning agencies” had their first year of operation. We asked the ministry how it is monitoring the effectiveness of the commissioning agency model. We heard that the agencies must report to the ministry quarterly and provide evidence of their efficiency and effectiveness. This also includes the management of conflicts of interest.

The ministry uses a range of key performance indicators to measure the effectiveness of the agencies, along with a verification process for the key performance indicators.

We are aware that the ministry identified risks in the transition to the commissioning agency model. We asked whether these risks had been mitigated. The ministry told us that it has addressed the risks.

We will continue to follow developments in Whānau Ora with interest.

Literacy

We were concerned that the Fast ForWord programme that was trialled as a way to improve the literacy of Māori boys was not robust. We sought clarification about whether
there was a control group for the trial and whether there had been any analysis of what Fast ForWord contributed compared to the value added by the children’s teacher.

We heard that there was no control group for the trial programme and that the ministry has done no comparative analysis of the Fast ForWord contribution against the teacher’s contribution.

However, the ministry told us that the boys involved in the programme had made an average gain in reading age of about two years.

**Wellbeing of tamariki Māori**

In 2013, the Māori Affairs Committee of the 50th Parliament reported on its *Inquiry into the determinants of wellbeing for tamariki Māori*. We asked whether the ministry was monitoring what had happened with the recommendations made in the inquiry report.

We heard that nothing official had been developed in response to the report and its recommendations. However, the ministry said that it championed Whānau Ora as a model of practice for achieving tamariki and whānau wellbeing.

We commended the extensive work that the ministry has done in the area of tamariki wellbeing.

**The Māori ICT Development Fund**

The Māori ICT Development Fund was a 2014 initiative that initially committed $30 million over four years. To begin with, Te Reo Whakapuaki Irirangi (the Māori Broadcasting Agency) administered the fund. However, it was subsequently determined that the agency did not have the statutory authority to administer the fund as intended. We understand that, because of this, the roll-out of the Māori ICT Development Fund has been delayed.

We will continue to monitor developments with the ICT Fund.

**Te Ture Whenua Māori**

The ministry works alongside other government agencies to support iwi, hapū, and whānau to improve the productivity of Māori freehold land. In 2014/15, a key area of focus was on advancing proposals to improve the use of Māori land through a new Te Ture Whenua Māori Bill.

We are aware that the bill is expected to be ready to be introduced into Parliament in early 2016.

**Post-Treaty Settlement advice**

The ministry leads and participates in a range of post-Treaty settlement relationships and supports post-settlement relationships between the Crown and Māori. The ministry is developing a Treaty of Waitangi Framework to support State sector agencies in their relationships with Māori.

We asked what advice the ministry gives the post-settlement Treaty unit on the Treaty settlement accords. We heard that the ministry is responsible for leading the whole-of-government implementation to give effect to the commitments in the overarching accords for the Waikato River Iwi (Waikato-Tainui, Raukawa, Maniapoto, Tūwharetoa), Taranaki Whānui ki Te Upoko o Te Ika, and Ngā Rauru Kitahi. To date, there is no overarching accord signed with Tūwharetoa. However, there is provision for one.
Where a relationship agreement focuses on a portfolio or sector, the lead agency for the agreement or accord is the agency responsible for the relevant portfolio or sector. The ministry provides support to the relevant agencies.
Appendix

Committee procedure
We met on 10 February and 9 and 16 March 2016 to consider the annual review of the Ministry of Māori Development. We heard evidence from the Ministry of Māori Development and received advice from the Office of the Auditor-General. The advice and evidence we received are available on the Parliament website www.parliament.nz.

Committee members
Tutakohounuku Korako (Chairperson)
Hon Chester Borrows
Marama Davidson
Kelvin Davis
Marama Fox
Joanne Hayes
Hon Nanaia Mahuta
Pita Paraone

Evidence and advice received
Ministry of Māori Development, Responses to pre-hearing questions, received 9 February 2016.

Ministry of Māori Development, Responses to post-hearing questions, received 29 February 2016.


Organisation briefing paper, prepared by committee staff, dated 5 February 2016.
2014/15 Annual review of the Ministry of Pacific Island Affairs

Report of the Government Administration Committee

The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry of the Ministry of Pacific Island Affairs, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
2014/15 Annual review of the Ministry for Women's Affairs

Report of the Government Administration Committee

The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry for Women’s Affairs, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the Museum of New Zealand Te Papa Tongarewa Board, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the New Zealand Film Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the New Zealand Lotteries Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson  
Chairperson
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Office of Film and Literature Classification

Recommendation

The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of the Office of Film and Literature Classification and recommends that the House take note of its report.

Introduction

The Office of Film and Literature Classification is an independent Crown entity under the Crown Entities Act 2004. It is governed by section 76 of the Films, Videos, and Publications Classification Act 1993 (the Classification Act). Its purpose is to provide and communicate impartial classification decisions and information about censorship.

The office is responsible to the Minister of Internal Affairs. The chief censor, Dr Andrew Jack, is also the office’s chief executive and the chairperson of the board. The deputy chief censor is Jared Mullen, who was appointed in July 2015.

Performance in 2014/15

The office achieved a small surplus of $3,000 in 2014/15. Its total revenue was $3.056 million, up from $2.928 million in 2013/14. Revenue from the Crown accounted for $1.960 million and revenue from the Labelling Body was $1.033 million. Crown revenue has remained static since 1998. Expenditure totalled $3.053 million, up from $3.039 million in the previous year.

Board of Review decision for “Into the River”

We asked about classification of the book “Into the River” by Ted Dawes. Published in 2013, the office initially classified the book as M (Unrestricted), with no restriction on its availability. The book was subsequently referred to the Board of Review on appeal, which gave it a restricted rating.

In 2015, the office decided to reclassify the book, again making it unrestricted. This was the first time the office has ever reconsidered a decision of the board. The chief censor noted that this situation resulted from an extraordinary set of circumstances. The chief censor also told us that the disparity between the ratings did not point to any problems with the classification system, rather it showed the strength of it.

We heard that the chief censor and the office stood behind the decision to reclassify the book and had stated publicly that the right decision was made. However, the office told us that the classification process should not have to involve a back and forth between the office and the board, and that the system would benefit from a separate appeal body for these situations, such as the Human Rights Commission.

Some of us asked whether political pressure had been applied in this case. The chief censor reassured us that he was not subject to political pressure, nor was there any indication that there was any political pressure on the board.

We asked whether the current Government review document “Content Regulation in a Converged World”, which is being led by the Minister for Communications, could address
Support for staff

We asked how the office supports the health of its staff, given their exposure to explicit material, which can include material of a violent and sexual nature. The chief censor told us that the office has a robust classification system and employs robust people within this system.

Staff and management work hard to prevent staff from normalising the content and have a strong focus on encouraging work–life balance. The chief censor stressed that officers classify rather than view the material and that this was an important distinction. The low turnover of staff in the office supports this approach.

We were told that management ensures an appropriate and fair allocation of the types of publications being classified. The deputy chief censor tries to watch all material before it is allocated to staff. Rotation between types of material is encouraged.

The Office has five clinical psychologists available to staff. We were told that, given the small size of the organisation, staff feel comfortable self-reporting and that this was encouraged. If staff are not able to deal with particular content, the office fully supports them in transitioning out of the office.

Content regulation

We asked the office about the review “Content Regulation in a Converged World”.

Two classification regimes currently operate in New Zealand, one under the Broadcasting Act 1989 and the other under the Classification Act. Under the Broadcasting Act, broadcasters assess and rate their own content and are responsible to the Broadcasting Standards Authority. This includes Sky, on-demand systems, and online systems, including Neon. New providers such as Netflix and Lightbox, which show similar content, go through the Classification Act’s regime. Each regime attracts different costs and processing times.

Some of us were concerned that neither the Broadcasting Act nor the Classification Act covers on-demand content. This means that there is no legal requirement for on-demand content to be classified. The chief censor told us that, in his view, online and on-demand is covered by the Classification Act.

We asked whether the office is currently classifying online and on-demand content. We were told that Netflix is still submitting material for classification. Lightbox ceased submitting just before Christmas 2015. The chief censor noted that harmful content is on the Lightbox site with inadequate descriptors. The office has raised this with Ministers.

The office expressed its disappointment in what it sees as irresponsible behaviour by providers in choosing not to classify content and in prioritising commercial interests. The office fully supports one classification regime and has provided this feedback as part of the review.

The Office noted that its role in the review was limited because of its status as an independent Crown entity. However, it was keen to be involved when and where appropriate.
Conclusion

The committee thanked the office for the work it does in keeping New Zealanders safe from harmful material and acknowledges the many difficulties in carrying out this role.
Appendix

Committee procedure
We met on 10 February and 16 March 2016 to consider the annual review of the Office of Film and Literature Classification. We heard evidence from the Office of Film and Literature Classification and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Kris Faafoi
Paul Foster-Bell
Brett Hudson
Mojo Mathers
Mark Mitchell

Evidence and advice received
Office of the Auditor-General, Briefing on the Office of Film and Literature Classification, dated 10 February 2016.

Office of Film and Literature Classification, responses to written questions, received 10 February 2016.
The Government Administration Committee has conducted the annual review of the 2014/15 performance and current operations of Sport New Zealand, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
Arotakenga ā-tau o Te Reo Whakapuaki Irirangi o te tau 2014/15

Te pūrongo a Te Komiti Whiriwhiri Take Māori

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Tūtohutanga

Kua whakahae te Te Komiti Whiriwhiri Take Māori te arotakenga ā-tau o te tau 2014/15 mō ngā otinga mahi me ngā mahi matua o te wā nei a Te Reo Whakapuaki Irirangi, ā, ka tūtohu kia arongia e Te Whare tāna pūrongo.

Kupu Whakataki

He hinonga Karauna Te Reo Whakapuaki Irirangi, e mōhiotia ana mā te ingoa Te Māngai Pāho, i whakaturia i raro i te Ture whakatikatika Pāhotanga tau 1993. Ko tōna tūranga matua he whakatairanga i Te Reo Māori me te ahurea mā te pāhotanga. Ko tōna Matakite, ko ahakoa kei whea, ahakoa āwhea, ahakoa pēwhea, kōrerotia Te Reo Māori.

Whakahaeretia ai Te Reo Whakapuaki Irirangi (te Pokapū) e tētahi Poari kopoua ai e te Minita mō te Whanaketanga Māori. Ko Ahorangi Piri Sciascia te heamana o te Poari, ā, ko John Bishara te Kaihautū.

I te tau pūtea 2014/15, e $57.650 miriona te katoa o te whiwhingga a te Pokapū ā, e $56.529 miriona te katoa o te whakapaunga. Ko te mutunga mai, i hua mai i tērā te hemihemi e $1.121 miriona.

Tauira nekenga-matau

I te tau pūtea 2012/13, i whakapūmautia e Te Māngai Pāho te aronga Huringa-matau. Ko te āhuatanga o tēnei, ko te tautoko i ngā tūmahi ka whai ki te panoni i ngā waiao o te hapori whānui, tae noa ki te whakatau i te whakamahia o Te Reo Māori i ia rā, ia rā, e ngā tāngata katoa o Aotearoa.

He mea hanga te aronga Huringa-matau i runga i tētahi tauira mō te panonitanga reo kua whakakauwhataitia. Ko te koronga o te pou tarāwaho hoko me te hoatu pūtea āwhina a te Pokapū, ko te whakarato i te 20 āora o ngā pūtea āwhina kairapu ki ngā minenga nohopuku, e 20 āora ki ngā ākonga reo tuarua, me te 60 āora ki ngā kaikōrero matatau ki Te Reo Māori.

Ka kōrero mai te pokapū, e hiahia ana ia ki te whakatairanga i te reo Māori ki a tauwi me te iwi Māori hoki, hei wāhanga o te mahi whakatau i te whakamahia o Te Reo Māori. Ka kī mai ia, ka whai haepapa te katoa mō te Huringa-matau me te whakatau i te whakamahia o Te Reo Māori.

Whakapono ai te pokapū, he pai te taumata arotau me te mau ake o te aria tauira nekenga-matau, kei reira kei waenganui i ōna kaiwhakanoanga tae atu ki te takiwā o te pāpāho mamati.

E mārama ana mātou kua kōmihanatia e te pokapū a TNS New Zealand ki te whakahaere i tētahi pūtere rangahau, tērā e whakahou ana i tētahi huarahi inenga mō tauira nekenga-matau, kia reri ai mō te horaina i te taha o tētahi tirohanga whānui o te hunga mātakitaki o te tau 2016. E koa ana mātou kei te whanakehia tonutia te huarahi inenga, ā, ka titiro whakamua atu ki te wā e puta ai ōna hua.
AROTAKENGA Ā-TAU O TE REO WHAKAPUAKI IRIRANGI O TE TAU 2014/15

Te Pire mō Te Reo Māori
I whakatakotoria Te Pire mō Te Reo Māori ki te Paremata i te mārama o Hōngongoi 2014. Kua whakatakotoria e te pire ētahi panoni ā-ture ki ngāanga whakahāere o ngā hinonga kua whakauru ki te mahi whakaraunora i te reo Māori. Ka whai wāhi anō tēnei ki te pokapū.
Ka whai anō hoki te pire ki te waihanga i ngā Rautaki Reo Māori hou, e rua. Nā te Karauna te haepapa mō tētahi, e arotahi ana ki ngā kaupapa ā-motu. Kei ngā īwi me ngāi Māori te haepapa mō tērā atu, e arotahi ana ki ngā kaupapa kei mua i te aroaro o ngā īwi me te hapori.
Ka kōrero mai te pokapū, kei te matapae ia, ka uru ia ki ngā mahi whakahānake i te Rautaki Reo Māori hou a te Karauna. I kaha tōna kī, he mea nui mō te pokapū kia mārama ia ki tōna tūnga i roto i te rautaki hou, me tōna whiwhi āheinga ki te tautoko me te whakahave, pēhea urupare aī te rāngai pāhotanga ki te rautaki hou. I kī mai anō ia, ka whakatairangatia e ia te tūria Huringa-matau i roto i te rautaki hou.
Ka pātai mātou mehemea ka hiahia ētahi panoni ki te Ture Pāhotanga tau 1989, hei hoatu mana pai ake ki te Rautaki Reo Māori hou a te Karauna me te tūria Huringa-matau. I kī mai te pokapū, tērā pea ka hiahia he he whakarerekētanga ēngari, ka hāngai te arotahi ki runga i te rautaki hou.
E harikoa ana mātou, kei te reri te pokapū ki te mahi i raro i te hanganga ture hou. Nā tō mātou whiwhia ka aha te aha, ka whai haere mātou i te whanaketanga o te rautaki hou me te wāhi o te pokapū i roto i taua mahi whakahānake.

Te Tahua Whanaketanga ICTMāori
He kaupapa kōkiri nō te tau 2014 te Tahua Whanaketanga ICT Māori, ā, i te tuatahi, e $30 miriona i herea hei whakawhanake ICT mō ngā tau e whā. I te tīmatatanga, nā te pokapū kē i whakahāere te tahua. Heoi anō, nō muri mai ka kitea, kihai ia i whai i te mana ā-ture ki te whakahāere i te tahua, e aī ki tērā i tūmanakotia.
I rongo mātou, i puta he whakatau e mea ana kua kore Te Reo Māori me ōna tikanga e whai wāhi nui i roto i te arotahi o te tahua. Nō reira, i whakaae te pokapū, kāore i te hāngai tika mōna ki te whakahāere i te tahua, ki te kore tērā wāhanga.
Nā runga i tēnā, i whakahokia e te pokapū ngā tahua i whiwhi ia, ki Te Manatū mō te Whanaketanga Māori, atu i te $29,000 i whakapauhia e ia mō ngā utu mō te whakatū kaupapa. I whenumi te pokapū i ēnei utu hei utu kaimahi, hei utu raruraru tari hoki.

Reo Irirangi ā-īwi
Whai putanga
I te māiharahara mātou, kei te tū tonu he wāhi kore whiwhi, kāore i te whai putanga ki ngā reo irirangi a-āwhi, huri noa i te motu. Ka pātai mātou mehemea kei te whakamahere te pokapū ki te whakatau i tēnei kaupapa. Ka kī mai ia, kua kore e whai kiko te whai putanga mā ngā tukupāho ā-papa.
I kōrero mai te pokapū, he ao mamati kē te ao e heke mai nei. Kei te arotahi kē ia ki ngā tahua mō te pāhotanga mā te ipurangi, āhunga te hanga i te kōtuinga ā-papa. Ka whakarite tēnei i tētahi huarahi pakari ake mō te whai putanga ki ngā irirangi, ngā kōnae ipurangi me ētahi atu hunga pāpāho mamati. Ka toro atu hoki ki tētahi minenga whānui ake ki ngā pāhotanga irirangi taketake.
Heoi anō, i ki mai te pokapū me puta he whakarerekētanga ki te mahi whakahaere i ngā reo irirangi ā-iwi, i a ia e neke ana ki roto i te ao mamati i ngā rā ki mua. Kua mate ngā teihana ki te whakarerekē i te āhua o ngā mahi whakahaere. Ko tētahi o ngā wero, ko te īmata o ngā kaiwhakaratanga ki te whakaaro, ka pēhea tā rātou hanga hōtaka, atu i tā rātou whakaaro, ka pēhea tā rātou pāhō i ēnei. I rongo mātou ko te hangarau kei te akiaki i te rerekētanga i roto i ngā pāḥotanga irirangi, ā, kua puta te hiahia mō ngā kaimahi kāore i te mau tonu ki ngā hātepe pāḥotanga taketake.

I ki mai te pokapū, he teihana irirangi ā-iwi tino pai, puta noa i te motu, kei te whakarato tauira whai kiko mō ētahi atu kaipāpāho, pērā ki Te Hiku o Te Ika e noho ana ki Kaitaia. Kei te whakapiki pai tēnei teihana i tōna mana i roto i te hunga pāpāho mamati me tōna arotahi ki tōna pūmanawa ki te whakarato rauemi ā-whatu tae noa ki ngā rauemi ā-taringa.

E harikoa ana mātou ki te rongo, kei te kaha te pokapū ki te whakarite whakamua mō te wā mamati. Ka kaingakau tā mātou whai i ngā whanaketanga mō tēnei kaupapa.

Te Reo Māori i roto

I matapaki mātou me te pokapū mehemea kei te pirangitia anō tētahi pūnaha motunga mō te ihirangi reo irirangi i roto i Te Reo Māori. I whakaaroaro te pokapū, he pai ake te whanake i te aronga Huringa-matau me te whakapiki i te whakatau mō te whakamahi i te reo i ia rā, ia rā, atu i te whakaware i tētahi motunga. Heoi anō, tērā pea ka whai ngā teihana ki te whakarato i te ītita noa iho mēnā kāre he motunga.

Mā mātou e arotake te hua ka puta ake i tēnei aronga ā te tau e tū mai nei.

Whakahaerenga tata whara

I te marama o Haratua 2015, i whakakotokotau pūrongo Te Tari o Te Tumuaki o Te Mana Arotake mō te tōtika o ngā whakariteenga whakahaere o ngā hinonga tūmatanui e ono, tae noa ki te pokapū nei.1 I kītea e te OAG, e ai ki te katoa, kei te whai ia o ngā hinonga e ono, i tētahi taumata tōtika mō ngā mahi whakahaerenga. I kītea e te pūrongo, kāore i tino kaha te putanga mahi a te pokapū i te taha whakahaerenga tata whara.

Kei te mārama mātou, i te whakawhanake te pokapū i tētahi pou tarāwaho whakahaerenga-tata whara i te wā i whakahaeretia te tātari kaute. Ka pātai mātou ki te pokapū mō te kaunekenga o te pou tarāwaho. I kī mai iai, he mahi e haere tonu ana tōna pou tarāwaho whakahaerenga-tata whara.

I tohu mai te pokapū, kihi te OAG i kōrero, kāore he pūnaha whakahaerenga-tata whara a te pokapū. Engari rā, i whakaaroaro mai te OAG, me tirotiro te pokapū ki ōna kaupapahe re e tū ana i tēnei wā, me tana whakawhanake i ēnei kia matawhānui ake ai, kia pakari ake ai, ā, kia mārama ake ai hoki.

I kaha te kōrero mai a te pokapū, kāore te OAG i titiro, i whakakotokotau tūtōhu rānei, mō ngā tata whara i te taha o te whakahaerenga pūtea me te whakahaerenga whakamatua i roto i tōna pūrongo.

Te whakahaere me te hunga whakahaere

I kōrero mai te pokapū ki a mātou, i mea ake te pūrongo a OAG, tērā pea ka nui rawa āna mahi whakahaere i te pokapū. I whai kupu whakatūturu mātou, e pūrata ana te raina i waenganui i ngā mahi whakahaere a te poari me te hunga whakahaere. I kī mai te pokapū,
mārama ana a ia ki te raruraru, ā, he kupu whakaurunga, he kupu tohutohu kei ngā mema poari kia noho mōhio ki ō rātou tūranga tika.
E hiahia ana mātou kia kite i te pokapū e aroturuki ana i te te raruraru nei, ā, ka āta whaīwhai haere ake kia mōhio ai ka aha ā muri atu.
AROTAKENGA ā-TAU O TE REO WHAKAPUAKI IRIRANGI O TE TAU 2014/15

Tāpiritanga

Te huarahi i takahia e te komiti
I hui mātou i te 17 o Hui-tanguru, i te 9 me te 16 o Poutū-te-rangi, tau 2016 ki te whakaaroaro i te arotakenga ā-tau o Te Reo Whakapuaki Irirangi. I rongohia te taunakitanga a Te Reo Whakapuaki Irirangi, ā, i whiwhi i te whakamaherehere a Te Tari o Te Tumuaki.

Kei te wātea te whakamaherehere me te taunakitanga i whiwhi i a mātou i te pae tukutuku Pāremata www.parliament.nz.

Ngā mema o Te Komiti, ko
Tūtehounuku Kōrako (Heamana)
Hōnore Chester Borrows
Mārama Davidson
Kelvin Davis
Mārama Fox
Joanne Hayes
Hōnore Nanaia Mahuta
Pita Paraone

Te taunakitanga me te whakamaherehere i whiwhi
Tā Te Tari o Te Tumuaki, mō ūna Whakataktoranga Tohuohu mō Te Reo Whakapuaki Irirangi, i te 17 o Hui-tanguru, tau 2016.

Te pepa whakataktoranga tohuohu mō te rōpu whakahaere, nā ngā kaimahi o te komiti i takatū, i te 15 o Hui-tanguru, tau 2016.

Tā Te Reo Whakapuaki Irirangi, mō āna urupare ki ngā pātai mua mai i te whakawātanga, i whiwhi i te 15 o Hui-tanguru, tau 2016.

Tā Te Reo Whakapuaki Irirangi, mō āna urupare whai muri atu i te whakawātanga, i whiwhi i te 4 o Poutū-te-rangi, tau 2016.
2014/15 Annual review of Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency)

Report of the Māori Affairs Committee

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Recommendation

The Māori Affairs Committee has conducted the annual review of the 2014/15 performance and current operations of Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency) and recommends that the House take note of its report.

Introduction

Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency), which is also known as Te Māngai Pāho, is a Crown entity established under the Broadcasting Amendment Act 1993. Its main role is to promote Māori language and culture through broadcasting. Its vision is ahakoa kei whea, ahakoa āwhea, ahakoa pēwhea, kōrerotia Te Reo Māori (Māori language—everywhere, every day, in every way).

Te Reo Whakapuaki Irirangi (the agency) is governed by a Board appointed by the Minister for Māori Development. The Chairperson of the Board is Professor Piri Sciascia, and the Chief Executive is John Bishara.

In 2014/15, the agency had a total income of $57.650 million and a total expenditure of $56.529 million. This resulted in a surplus of $1.121 million.

Right-shift model

In 2012/13, the agency adopted the Right-shift approach. This involves supporting projects that aim to change society’s attitudes to Te Reo Māori, including “normalising” the everyday use of Te Reo Māori by all New Zealanders.

The Right-shift approach is based on a staged model of language change. The agency’s purchase and funding framework is intended to distribute 20 percent of contestable funding to receptive audiences, 20 percent to second language learners, and 60 percent to fluent speakers of Te Reo Māori.

The agency told us that, as part of normalising Te Reo Māori, it wants to promote the Maōri language to non-Māori as well as Māori. It said that everyone has a responsibility for Right-shifting and normalising Te Reo Māori.

The agency believes that there is a good level of understanding and uptake of the Right-shift concept amongst its producers, including in the area of digital media.

We are aware that the agency has commissioned TNS New Zealand to carry-out a research project that is refining a measurement methodology for Right-shift in time for it to be rolled out with the 2016 TNS audience survey. We are pleased that a measurement methodology is being developed and look forward to the results of the 2016 audience survey.
The Māori Language (Te Reo Māori) Bill

The Māori Language (Te Reo Māori) Bill was introduced to Parliament in July 2014. The bill proposes legislative changes to the governance structures of entities involved in revitalising Māori language. This includes the agency.

The bill also seeks to create two new Māori Language Strategies. One, focusing on national-level issues, is the responsibility of the Crown. The other, focusing on matters at iwi and community level, is the responsibility of iwi and Māori.

The agency told us that it anticipates it will be involved in developing the new Crown Māori Language Strategy. It emphasised that it will be important for the agency to understand its place in the new strategy and to be able to support and influence how the broadcasting sector responds to the strategy. It also said that it would promote the Right-shift model within the new strategy.

We asked whether changes would need to be made to the Broadcasting Act 1989 to give better effect to the new Crown Māori Language Strategy and the Right-shift model. The agency said that there could be a need for change, but it depends on the focus of the new strategy.

We are pleased that the agency is ready to work under the new legislation. We will follow the development of the new strategy and the agency’s involvement in it with interest.

The Māori ICT Development Fund

The Māori ICT Development Fund was a 2014 initiative that initially committed $30 million to develop ICT over four years. To begin with, the agency administered the fund. However, it was subsequently determined that it did not have the statutory authority to administer the fund as intended.

We heard that a decision was made that Te Reo Māori me ōna tikanga were no longer to be a large component of the fund’s focus. Therefore, the agency accepted that it was not appropriate for it to administer the fund without that component.

As a consequence, the agency returned the funds it had received to the Ministry of Māori Development, apart from $29,000 that it had already spent on set-up costs. The agency absorbed these costs as personnel costs and office overheads. We commend the agency for its course of action.

Iwi radio

Access

We were concerned that there are still black spots around the country that do not have access to iwi radio. We asked whether the agency is planning to address this issue. It told us that access through terrestrial transmitters is no longer efficient.

The agency said that the future is digital. Instead of building the terrestrial network, it is focusing on funding for broadcasting through the internet. This will provide a faster and smarter way to access radio, podcasts, and other digital media. It will also reach a wider audience than traditional radio broadcasting.

However, the agency said that there must be change to the governance of iwi radio as it moves into a digital future. Stations will also have to change how they operate. One of the
challenges is for providers to start thinking about how they make programmes rather than how they broadcast them. We heard that technology is driving the change in radio broadcasting and that there is a need for staff who are not embedded in traditional broadcasting methods.

The agency said that there are excellent iwi radio stations throughout the country that provide effective models for other broadcasters, such as Kaitaia-based Te Hiku o Te Ika. This station has been effectively increasing its presence in digital media and focusing on its ability to offer visual as well as audio material.

We were pleased to hear that the agency is actively future-proofing for the digital age. We will follow developments in this area with interest.

Te Reo Māori content

We discussed with the agency whether there is a need for a quota system for radio content in Te Reo Māori. The agency suggested that, rather than imposing a quota, which could lead to stations providing the minimum level only, it would be better to develop the Right-shift approach and increase everyday normalisation.

We will review the outcome of this approach next year.

Risk management

In May 2015, the Office of the Auditor-General (OAG) reported on the effectiveness of the governance arrangements of six public entities, including the agency. The OAG found that, overall, each of the six entities has an effective level of governance. The report noted that the agency performed least well in risk management.

We understand that the agency was developing a risk-management framework when the audit was conducted. We asked the agency about the progress of the framework. It said that it plans to have both a risk-management framework and a risk register in place by the end of the 2015/16 financial year.

The agency pointed out that the OAG did not say that the agency does not have risk-management systems. Rather, the OAG suggested that the agency needs to examine its existing policies and develop them so that they are more comprehensive, robust, and transparent.

The agency emphasised that the OAG did not refer to, or make recommendations about, risks with financial management and control in its report.

Governance and management

The agency told us that the OAG’s report suggested that the board may be overly engaged in the operational matters of the agency. We sought assurance that the line between board governance and management is now very clear. The agency said that it is aware of the issue and that board members have inductions and reminders about their correct role.

We would like to see the agency monitor this issue and will follow the situation with interest.

2 http://www.oag.govt.nz/2015/arts-governance
Committee procedure

We met on 17 February and 9 and 16 March 2016 to consider the annual review of Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency) (Te Māngai Pāho). We heard evidence from Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency) (Te Māngai Pāho) and received advice from the Office of the Auditor-General.

The advice and evidence we received are available on the Parliament website www.parliament.nz.

Committee members

Tutehounuku Korako (Chairperson)
Hon Chester Borrows
Marama Davidson
Kelvin Davis
Marama Fox
Joanne Hayes
Hon Nanaia Mahuta
Pita Paraone

Evidence and advice received

Office of the Auditor-General, Briefing on Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency), dated 17 February 2016.

Organisation briefing paper, prepared by committee staff, dated 15 February 2016.

Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency), Responses to pre-hearing questions, received 15 February 2016.

Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency), Responses to post-hearing questions, received 4 March 2016.
Arotakenga ā-Tau o Te Taura Whiri i Te Reo Māori o te tau 2014/15

Te pūrongo a Te Komiti Whirihirihiri Take Māori

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**Tūtohutanga**

Kua whakahaere a Te Komiti Whiriwhiri Take Māori te arotakenga ā-tau mō te whakaotanga mahi me ngā mahi o te wā nei a Te Tauira Whiri i Te Reo Māori o te tau 2014/15, ā, tūtohu ai kia aronga tāna pūrongo e Te Whare.

**Kupu Whakataki**

He hinonga Karauna motuhake tonu Te Taura Whiri i Te Reo Māori, heke mai ai tāna pūtea āwhina mā roto i Te Pōti Whanaketanga Māori, ā, ko Te Punī Kōkiri tōnā pokapū aro turuki i ōna nekenekehanga. Whai aia ia ki te whakarauora, whakatairanga, whakawhakenganakanga, ā, me te rangahau i Te Reo Māori.

Hoatu kaupapa here whakamaherehere ai te taura whiri ki Te Minita mō Te Whanaketanga Māori, ā, whai ake i ngā mahi: whakahaire i te huhua o ngā tahuwhanga tautoko kōkiringa Reo Māori ā te hāporo, ko Māori mā nei te kaiaarataki, whakapūmāua pou rangahau hei rangahau i Te Reo Māori, te whakangungui, te whakamana i te hunga whakawhitihiti reo ā-tuhituhi, ā-waha i Te Reo Māori, te whakamātautau i te taumata maturanga o te hunga kaikōrero Māori, te tiaki i te mana o Te Reo Māori e pā ana ki te ahurea me wētere mā te mau tonu ki ngā paerewa kounga, te hoatu i te tautoko mō ngā āhuatanga hangarau o Te Reo, ā, me te tautoko i ngā tauwhāinga nunui o te motu.

I te tau 2014/2015, e $12.013 miriona, te katoa o te whiwhinga a te taura whiri, ā, e $10.446 miriona te katoa o te whakapauanga. E $1.567 miriona te hemihemi, tērā i matua hua mai ai nā ngā takaroatanga ki te whakatū i te wāhanga rangahau o te taura whiri.

Ko Wayne Ngata Te Heamana o Te Poari, ā, ko Ngāhiwi Apanui Te Kaiwhakahaere Matua. Ko Ērima Hēnare, i mate rā i te marama o Haratua tau 2015, Te Heamana ō-mua, ā, nā runga i tērā ka whakahia te pūrongo ā-tau 2014/15 ki a ia.

**Te taha ki ngā kaimahi**

Neke atu i te kotahi tau te tūranga o Te Kaivwhakahaere Matua e tū hāhā ana, ā, ka kohou a Ngāhiwi Apanui ki taua tūranga i te marama o Mahuru tau 2015. Kua arotakehia e Te Kaivwhakahaere Matua ngā tūranga katoa, ā, kua kapi katoa i nāianei. Tua atu i tērā, kua tirohia e rātou te wairua o ngā kaimahi, ā, e pehea ana tā te tari whakaotinga mahi me tā rātou nekenga whakamua ki te whakatutuki i ā rātou mahi i raro i te maru o Te Pire mō Te Reo Māori ka whakamahatia ana.

**Ngā takarepa i ara ake i te tātari kaute**

Ka matapakia e mātou ngā tūmomo takarepa i ara ake i roto te tātari kaute a Te Tumuaki mō te tau 2014/15. Nā tērā, ka kitea te tino hiahia mō te whakapai ake i tā te taura whiriwhiri whakahaire i te tika-tiwha whakaheraenga, ngā pūnaha mōhiohio e pā ana ki te taha moni, āna mōhiohio mō te taha moni, āna mōhiohio mō te whakaotinga mahi, ā, me aua pūnaha me aua whakahaire e pā ana. I kitea katoahia ērā i roto i te tātari kaute. Ka ki mai te taura whiri ki a mātou mō tana tino mātua katoa ki te ara me tino takahia e rātou, whai muri, i te mahi i te taha o Te Tari o Te Tumuaki o Te Mana Arotake, i te wā o te tātari.
kaute o te tau 2014/15. E mahi ana a ia ki te whakatika i ngā raruraru kua kītea, me te whakatakoto huarahi mō ngā tau kei te tū mai. I ki mai anō te taura whiri, waimāria rātou ki te whihiri kaimahi hou e tino whakapakaru werawera ana ki te whakatinana i tētahi mahere whakatika take kua roa kē nei e tū harehare ana. Kei te mahi ngā kaimahi hou i te taha o Te Punī Kōkiri kia mau tonu ai te tūranga o te taurāhuri, ka neke whakamua atu ana ki ngā rā kei mua i te araro, otiā, i te wā ka whakamanahia Te Pire mō Te Reo Māori. Ko tō mātou tūmanako ka taea te whakatika ngā takarepa i kītea ake rā e Te Tari o Te Tumuaki mēnā ka wawe rawa, ka pai rawa atu hoki pea.

Kua kite mātou, e hiahiaia ana te taura whiri kia whakawhitia e ia tāna pūtea hapori e $7 miriona ki Te Mātāwai.

**Te Rautaki Reo Māori**

Nō nā noa nei mātou i whakahoki pūrongo ai ki Te Whare e pā ana ki Te Pire mō Te Reo Māori. Ko tā te taura whiri ki a mātou, e noho reri ana a ia ki te hanga ture hou me te takahi huarahi hou. Hōmai aronga ai te pire mō ngā tūranga me ngā awhero o te taura whiri. Ka tautoko, ka āwhina a ia i Te Punī Kōkiri, i Te Tāhuhu o Te Matatanga, me ētahi atu pokapū kāwanatanga ki te arotake, aro turuki i te whakamahinga o ngā pūtea āwhina mō te whakarauora ki roto i Te Reo Māori. Ko te tino āki a te taura whiri, e kore tētahi hua whakarauora ki roto i Te Reo e puta ake i nāia tonu nei ēngari, kia āhua hia kē nei ngā reānga e puta ana, kātahi anō te hua o āna mahi ka kītea.

**He Puna Whakarauora**

Ko tēnei te wāhanga whanaketanga me te rangahau a te taura whiri, ā, nō te marama o Hakihea i te tau 2013 i whakatūria ai. Ko tērā kua kite mātou, e $1 miriona o tāna pūtea āwhina ka ngaro ki Te Mātāwai ā te tīmatanga o te tau 216/17 ēngari, ka rongo e pai ana te taura whiri ki tēnei. Nā te mea kua kapi katoa ngā tūranga a te taura whiri, ko tāna tūmanako ka haere whakamua ngā mahi a He Puna Whakarauora. Ka mea mai ki a mātou, he tūkaha ngā mema kaimahi mō te mahi kei mua i a rātou.

**Pāpōho ā-Mamati**

Kua whakahouhia e te taura whiri tāna pae tukutuku, ā, e rua ngā pukamata ka whakahaere. Ko tāna ki a mātou, e 30,000 tāngata i toro atu ki tāna pae tukutuku, ā, e 6,000 te hunga whai i runga pukamata. Ko tā te taura whiri anō i kī, kua tohaina he kaimahi wā kiki hei whakapakari ake i tōna kītea i roto āhuatanga pāpāho. He mea nui tēnei ki a ia kia hono atu a ki te ao o ō tātou hunga taiohī.
AROTAKENGA Ā-TAU O TE TAU  O Te Reo Māori O Te Tau 2014/15

Tāpiritanga

Te huarahi i takahia e te komiti
I hui mātou i te 17 o Hui-tanguru, ā, i te 9 me te 16 o Poutū-te rangi tau 2016 ki te whakaaroaro i te arotakenga ā-tau o Te Taura Whiri i Te Reo Māori. I rongohia te taunakitanga a te taura whiri, ā, i wiwhi i te whakamaherehere a Te Tari o Te Tumuaki.

Ko ngā mema o te komiti, ko
Tūtehounuku Kōrako (Heamana)
Hōnore Chester Borrows
Mārama Davidson
Kelvin Davis
Mārama Fox
Joanne Hayes
Hōnore Nanaia Mahuta
Pita Paraone

Te taunakitanga me te whakamaherehere i whiwhi
Tā Te Tari o Te Tumuaki, mō tāna Whakataktoranga tohutohu mō Te Taura Whiri i Te Reo Māori i te 17 o Hui-tanguru, tau 2016.

Te pepa whakataktoranga tohutohu mō te rōpū whakahaere, nā ngā kaimahi o te komiti i takatū, i te 12 o Hui-tanguru, tau 2016.

Tā Te Taura Whiri i Te Reo Māori, mō āna urupare ki ngā pātai tāpiritanga i te 17 o Hui-tanguru, tau 2016.

Tā Te Taura Whiri i Te Reo Māori, mō āna urupare ki ngā pātai i te whakawātanga-whai muri atu, i te 4 o Poutū-te rangi, tau 2016.
# 2014/15 Annual review of Te Taura Whiri I Te Reo Māori (the Māori Language Commission)

Report of the Māori Affairs Committee

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Introduction

Te Taura Whiri I Te Reo Māori (the Māori Language Commission) is an autonomous Crown entity funded through Vote Māori Development with Te Puni Kōkiri as the monitoring agency. It aims to revitalise, promote, develop, and research the Māori language.

The commission provides policy advice to the Minister for Māori Development and carries out the following functions: administering several funds to support community-led Māori language initiatives, establishing a research centre to research the Māori language, training and certifying Māori language translators and interpreters, testing the proficiency level of Māori language speakers, preserving the linguistic and cultural integrity of the Māori language by maintaining quality standards and providing technical language support, and supporting key national events.

The commission’s total revenue was $12.013 million in 2014/15 and total expenditure was $10.446 million, with a surplus of $1.567 million. The surplus mainly resulted from delays in establishing the commission’s research unit.

The Chairman of the Board is Wayne Ngata and the Chief Executive is Ngahiwi Apanui. The previous Chair, Erima Henare, passed away in May 2015; the 2014/15 annual report is dedicated to him.

Staffing

The chief executive’s role was vacant for over a year until Ngahiwi Apanui was appointed in September 2015. The chief executive has reviewed all roles and the commission is now fully staffed. Also, they have looked at staff morale and how the office is performing and how they can go forward accomplishing their work under the Māori Language (Te Reo Māori) Bill when it is enacted.

Deficiencies raised in audit

We discussed various deficiencies found in the Auditor-General’s 2014/15 audit. The commission’s management control environment, financial information systems and its performance information and associated systems and controls were all found to be in need of improvement. The commission told us that it is fully aware of the pathway it needs to take after working with the Office of the Auditor-General during the 2014/15 audit. It is working on correcting identified problems and paving the way for next year. The commission also said that they are fortunate to have new staff members who are working...
hard to implement a plan to correct outstanding issues. The new staff members are
working with Te Puni Kōkiri to maintain the commission’s role moving into the future,
especially when the Māori Language (Te Reo Māori) Bill is enacted. We expect that the
deficiencies identified by the Office of the Auditor-General will be rectified as soon as
possible.

We note that the commission will be required to transfer its community funding of $7
million to Te Mātāwai.

**Māori Language Strategy**

We recently reported back to the House on the Māori Language (Te Reo Māori) Bill. The
commission told us that it is prepared for the new legislation and ready to follow any new
pathways. The bill provides direction regarding the roles and expectations of the
commission. The commission is set to support and assist Te Puni Kōkiri, the Ministry of
Education, and other government agencies in reviewing and monitoring the use of funds
for the revitalisation of the Māori language. The commission stressed that any results in
revitalising the Māori language will not emerge now but will take a few generations to see
the result of its work.

**He Puna Whakarauora**

He Puna Whakarauora is the commission’s research and development unit, which was
established in December 2013. We note that the commission will lose $1 million of its
funding to Te Mātāwai at the start of 2016/17 and heard that the commission is
comfortable with this. Now that the commission is fully staffed, it expects He Puna
Whakarauora to progress with its work. It told us that its staff members are passionate
about the work ahead.

**Digital media**

The commission has redeveloped its website and runs two Facebook pages. The
commission told us that 30,000 people visited its website and that it has over 6,000
followers on Facebook. The commission also said that it has allocated a full time staff
member to strengthen its presence in social media. It considers this important to connect
with the world of our youth.
Appendix

Committee procedure

We met on 17 February and 9 and 16 March 2016 to consider the annual review of Te Taura Whiri I Te Reo Māori (the Māori Language Commission). We heard evidence from the commission and received advice from the Office of the Auditor-General.

Committee members

Tutehounuku Korako (Chairperson)
Hon Chester Borrows
Marama Davidson
Kelvin Davis
Marama Fox
Joanne Hayes
Hon Nanaia Mahuta
Pita Paraone

Evidence and advice received

Office of the Auditor-General, Briefing on Te Taura Whiri I Te Reo Māori (Māori Language Commission), dated 17 February 2016.

Organisation briefing paper, prepared by committee staff, dated 12 February 2016.

Te Taura Whiri I Te Reo Māori, responses to supplementary questions, dated 17 February 2016.

Te Taura Whiri I Te Reo Māori, responses to post-hearing questions, dated 4 March 2016.
The Primary Production Committee has conducted the annual reviews of the 2014/15 performance and current operations of Animal Control Products Limited, Land Information New Zealand, and Quotable Value Limited, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Ian McKelvie
Chairperson
2014/15 Annual review of AsureQuality Limited

Report of the Primary Production Committee

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The Primary Production Committee has conducted the annual review of the 2014/15 performance and current operations of AsureQuality Limited and recommends that the House take note of its report.

**Introduction**

AsureQuality is a State-owned enterprise that provides food safety and biosecurity services to food and primary production sectors worldwide. Its purpose is to support customers and regulators to ensure that food and other products are safe and meet specifications set by countries or standard-setting bodies.

In 2014/15, AsureQuality reported a net profit of $11.41 million. This was a decrease of nine percent from $12.54 million in 2013/14. This decrease was budgeted for and reflects an increased investment in people and processes to support future growth.

Total revenue for 2014/15 was $189.2 million, up $16 million (or 9.3 percent) from the previous year. AsureQuality attributes this to higher revenues within the Laboratories group, increased cattle export activities, and increased biosecurity response activities.

**AsureQuality’s role**

AsureQuality’s broader goal is to support New Zealand’s competitive advantage in food safety and quality. AsureQuality works with several agencies, and each has a different role to play to achieve this goal.

AsureQuality’s role is to independently audit and test food products. AsureQuality assesses whether food products are fit to export, according to local and international standards. The committee believes that its capability needs to be maintained at the highest level of international standards.

AsureQuality is not involved in setting standards or in identifying the best methodology to use for auditing. Local standards are set by agencies such as the Ministry for Primary Industries (MPI) or OSPRI New Zealand Limited.

The standard-setting agency also sets the methodology for auditing. The separation between the standard-setters and auditors is intended to maintain AsureQuality’s independence, which is considered the best model for the industry.

**Cost-effectiveness**

We followed up on our concern from the 2013/14 annual review of AsureQuality that its services are not as cost-effective as they should be for small-scale operations. For example, we had heard that quality testing for one operation cost $500 an hour.

AsureQuality disputed this, and emphasised that it has adopted approaches to reduce costs for customers. For example, it tries to increase the efficiency of its audits by visiting multiple sites on one trip and invests in new technology with the aim of reducing costs.
Major auditing and testing events in 2014/15

One of AsureQuality’s main roles is to work with the MPI to ensure New Zealand’s biosecurity. AsureQuality was involved in two major biosecurity threats in 2014/15.

The first was the potential contamination of dairy products with 1080. Working with MPI, AsureQuality developed a method to identify 1080 and helped deploy the method in both New Zealand and China. Subsequently, this testing method has been adopted globally.

The second incident was a Queensland fruit fly scare. These flies are a significant threat to fruit and vegetable crops. AsureQuality helped confirm that the flies had entered New Zealand and subsequently helped eliminate them. At its peak, the exercise involved 180 staff in the field each day, setting traps in about 7,000 properties.

We are aware of recent instances of bobby calf abuse and were interested in any role AsureQuality has in assessing or monitoring such abuse. AsureQuality previously provided this service but no longer does. AsureQuality told us that there are ongoing talks in the industry about reintroducing this service.

AsureQuality and China

We discussed AsureQuality’s operations in China, which it views as a growth area for its business. In 2014/15, part of the increase in AsureQuality’s revenue came from higher cattle exports to China, which increased demand for its services.

AsureQuality also helps other New Zealand businesses that export products to China. We were told that Fonterra has encouraged AsureQuality to establish laboratories in China, so Fonterra has access to high-quality lab testing. AsureQuality is considering this proposal. We look forward to any decision in this area.
Appendix

Committee procedure
We met on 10 December 2015 and 3 March 2016 to consider the annual review of AsureQuality Limited. We heard evidence from AsureQuality and received advice from the Office of the Auditor-General.

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O’Connor
Richard Prosser
Stuart Smith
Rino Tirikatene

Evidence and advice received

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

AsureQuality Limited, Responses to written questions 1 – 107, received 16 November 2015.

AsureQuality Limited, Responses to written questions 108 – 133, received 28 January 2016.
# 2014/15 Annual review of Crown Irrigation Investments Limited

Report of the Primary Production Committee

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Crown Irrigation Investments Limited

Recommendation
The Primary Production Committee has conducted the annual review of the 2014/15 performance and current operations of Crown Irrigation Investments Limited and recommends that the House take note of its report.

Introduction
Crown Irrigation Investments Limited (CIIL) is a limited liability company. The shareholders of CIIL are the Minister of Finance and the Minister for Primary Industries in their capacities as Ministers, with each holding 50 percent of issued share capital.

CIIL has the following three core functions:

- assessing proposals against investment criteria to select optimal schemes to invest in, as well as establishing and implementing strong contractual structures
- managing investments in accordance with the Crown’s investment requirements
- exiting schemes when commercial viability is reached.

The Government has committed to providing up to $400 million in direct capital investment to regional-scale irrigation schemes. CIIL implements this policy by supporting the schemes until they are ready to be constructed.

Financial Performance
In 2014/15, CIIL’s total income was $270,611 and its operating expenditure was $2.52 million. CIIL recorded a loss of $2.455 million. CIIL’s operating expenditure was financed from a Crown capital allocation. Its total equity for the reporting period was $10.084 million.

Irrigation schemes funded by CIIL
CIIL’s first investment was in the Central Plains Water Limited scheme in Canterbury. CIIL provided $6.5 million of subordinated debt finance to enable the construction.

CIIL has also supported two other irrigation schemes, the North Otago Irrigation Company and the Barrhill Chertsey Irrigation scheme in Mid-Canterbury, to reach construction readiness. CIIL agreed a term sheet with these two irrigation schemes. These discussions encouraged more private capital to invest in, and farmers to join, the schemes. As a result, CIIL did not need to invest in either scheme.

Four irrigation schemes are expected to be ready for investment during the 2016/17 financial year, and a further seven schemes could be investment-ready by the 2019/20 financial year.

We were interested to hear whether the schemes that CIIL fund make financial sense when assessed by cost per unit of water. CIIL assured us that it does not invest in a scheme unless an assessment suggests that the scheme will be profitable. CIIL told us that it is not designed to subsidise irrigation projects, and it has an explicit direction from Cabinet to not
“crowd out” banks or private equity. Cabinet has given CIIL a direction to get a real return on its investments.

We heard that the interest rate that CIIL charges depends on the commercial viability of the scheme. CIIL also has a mandate to preserve capital, so it sometimes structures its lending to incentivise early return of capital.

**Environmental benefits of storage**

We are aware that there are some environmental benefits from some irrigation schemes that the recipient of those benefits does not pay for. We were interested to hear that CIIL does not assess the downstream effects of water storage schemes before investing.

CIIL sees its role as confirming whether the scheme manages the consenting process in line with the environmental plans set by the local regional council. CIIL also ensures that the schemes have dealt with their stakeholders appropriately. The scheme is responsible for interacting with the regional council and ensuring that the scheme meets the council’s environmental standards.

Although the schemes have recreational, environmental, and commercial value, CIIL focuses solely on the commercial value of the projects. The regional council and the scheme are responsible for assessing the recreational and environmental value of the water storage plans.

**Co-funding with the Irrigation Acceleration Fund**

The Irrigation Acceleration Fund, administered by the Ministry for Primary Industries, primarily supports regional rural water harvesting, storage, and distribution infrastructure.

Grant contributions from the fund can provide for the staged scheme to be developed in a staged process from concept to being investment-ready. CIIL then acts as a bridging investor for regional water infrastructure development.

The fund provides grants, but CIIL lends money. We heard that CIIL is working to ensure that there is no gap for the customer when dealing with the two funding bodies.
Appendix

Committee procedure
We met on 10 December 2015 and 3 March 2016 to consider the annual review of Crown Irrigation Investments Limited. We heard evidence from Crown Irrigation Investments Limited and received advice from the Office of the Auditor-General.

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O’Connor
Richard Prosser
Stuart Smith
Rino Tirikatene

Evidence and advice received
Organisation briefing paper, prepared by committee staff, dated 10 December 2015.
Crown Irrigation Investments Limited.
Crown Irrigation Investments Limited appendix 1.
Crown Irrigation Investments Limited appendix 2.
2014/15 Annual review of Landcorp Farming Limited

Report of the Primary Production Committee

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Recommendation
The Primary Production Committee has conducted the annual review of the 2014/15 performance and current operations of Landcorp Farming Limited and recommends that the House take note of its report.

Introduction
Landcorp Farming Limited is a State-owned enterprise under the State-Owned Enterprises Act 1986. It is one of New Zealand’s largest farming organisations, farming about 140 properties.

Landcorp’s responsible ministers are the Minister of Finance and the Minister for State-Owned Enterprises. Steven Carden is the chief executive, and Traci Houpapa was appointed chair of the board in May 2015.

In 2014/15, Landcorp achieved a net operating profit of $4.9 million before revaluation gains and losses, down from $30 million in 2013/14. The decrease has been attributed to a tough year in New Zealand agriculture. Many regions were extremely dry during summer and autumn. There were also falls in milk and lamb prices, most notably a 49 percent cut in farmgate milk prices.

Dairy milk prices
Because of the low dairy pay-out, Landcorp expects to post a net operating loss of between $8 and $9 million in 2015/16. We heard that there is uncertainty about the dairy milk price for the 2016 season. Forecasts from one bank project a price of $6/kgMS (per kilogram of milk solids), and another bank projects $4.60/kgMS. Landcorp said that it has not started budgeting for next season yet but that it would take an extremely conservative view when it does. It noted that its forecast would most likely be similar to the bank projection of $4.60/kgMS.

We were pleased to hear that, although Landcorp is continuing to look for ways to be more efficient in its farming practices, it will not compromise on its health and safety spending.

We note that since the hearing with Landcorp, the dairy milk price has further dropped to $3.90/kgMS. Landcorp has announced that they will not be converting any further land to dairy on Wairakei pastoral land.

Offshore investment
We are aware that third parties such as iwi and private land owners such as Shanghai Pengxin own some of the land that Landcorp farms. These third party deals are contracted under leases or sharemilk deals. In a sharemilking deal such as that with Shanghai Pengxin, Landcorp manages the farm, owns the cattle, and shares milk revenue with the landowner.

We heard that Landcorp will not renew the contract with Shanghai Pengxin when it expires in May 2017. Landcorp told us that it was pleased with the gains it made from the contract. It is now exploring new partners to invest in New Zealand farming with.
We asked whether Landcorp was actively seeking offshore investment. Landcorp said that it was looking for a range of different investors and that there is a lack of people within the country willing to buy and invest in land. It added that this opens potential opportunities to partner with companies located offshore.

**Environmental work**

We were interested to find out more about what Landcorp is doing on its farms to improve its environmental footprint. Landcorp said it was important to consumers to know about where their food comes from and how it is produced, including if it is produced in an environmentally-sustainable way. This is an important consideration for Landcorp when it comes to running its farms and is ingrained in its company values.

Landcorp said it had several initiatives to improve environmental sustainability on its farms. These initiatives include

- becoming carbon neutral by 2025 (to do this, Landcorp needs to reforest 1,000 hectares of land per year)
- protecting 16,281 hectares of land considered to be of high conservation value under covenants with the Queen Elizabeth II National Trust, the Department of Conservation, and other organisations
- running a winter milking programme at some of its farms (milking in winter collects a premium milk price)
- building fences and riparian buffers throughout its farms to protect rivers (the riparian buffers between 30 and 150 metres in width on farms in the Wairakei Estate that are close to waterways are an example of this)
- exploring alternative land uses such as sheep milking (we have previously heard that sheep can produce similar kilograms of milk solids per hectare, but half as much urine as cows).

We asked why Landcorp was cutting down mature forest on land such as that in the Wairakei Estate and then planting new forests in other areas. Landcorp said it looks at its portfolio every year to see what land is best for planting trees and what land is best used for farming. If land is on steeper country that would hold less stock, then Landcorp will probably convert that land to forest.

**Conflicts of interest**

**Ngāti Hineuru settlement**

We are aware that Landcorp has sold its Woodstock station to Ngāti Hineuru. We are also aware that Landcorp’s chair was acting as an adviser to Ngāti Hineuru during its treaty settlement with the Crown. We sought clarification on the chair’s role in these negotiations.

Landcorp’s chair told us that she removed herself from all discussions and decisions about Woodstock station in meetings with both Ngāti Hineuru and Landcorp. She was not involved in the sale of the station to Ngāti Hineuru.

Landcorp clarified that Woodstock station is a Landcorp Holdings Limited property, meaning it is held separately from Landcorp’s portfolio and is owned on behalf of the Government to use in treaty settlements. We also heard that the chair was paid the amount usually paid to settlement advisors.
Partnership with the New Zealand Merino Company

We note that John Brackenridge, chief executive of the New Zealand Merino Company, is also on Landcorp’s board of directors. Because Landcorp has partnered with the company to provide it with premium and micron wool, we asked whether this was a conflict of interest.

We pointed out that government money could be used in any of the company’s partnerships, because it has a Primary Growth Partnership deal with the Ministry for Primary Industries. Landcorp pointed out that any wool provider has the opportunity to partner with the company. It assured us that Mr Brackenridge has removed and will remove himself from any discussions and decisions Landcorp’s board has about its partnership with the company.

We expect Landcorp to demonstrate high standards of transparency and disclosures where conflicts of interests exist.

Science and technology

Landcorp is looking to use innovative science and technology to improve its environmental processes. It has recently hired a science and innovation manager to its executive team who brings science, technology, and data into one business group. This role will look at the set-up of Landcorp’s “future farm”. This farm will prototype new ways to use technology to improve the profitability of farms and their environmental sustainability.

We asked Landcorp whether it would consider using genetic engineering technology on its farms. Landcorp said it is looking at what a consumer is willing to pay for, because products that are free of this technology are important to many people. Landcorp told us that the technology appears to show advancements in environmental benefits.

Landcorp is considering its stance on genetically-modified products and will release its stance mid-year. We look forward to seeing its decision.
Appendix

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

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O’Connor
Richard Prosser
Rino Tirikatene
Stuart Smith

Evidence and advice received
Committee staff briefing paper, prepared by committee staff, dated 17 November 2015.
Landcorp Farming Limited, Responses to written questions 1 – 107, received 17 November 2015.
Landcorp Farming Limited, Responses to written questions 108 – 114, received 8 March 2016.
Office of the Auditor-General, Briefing on Landcorp Farming Limited, dated 17 November 2015.
2014/15 Annual review of the Ministry for Primary Industries

Report of the Primary Production Committee

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Ministry for Primary Industries

Recommendation

The Primary Production Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry for Primary Industries and recommends that the House take note of its report.

Introduction

The Ministry for Primary Industries was established in 2011, merging three legacy agencies. The ministry provides policy and regulatory advice, market access, and trade services. It also operates biosecurity, food safety, fisheries management, forestry, and animal welfare programmes. The ministry’s work centres around four major systems: biosecurity, food safety, primary production, and trade.

The ministry is a major employer, with more than 2,300 staff. It reports to two ministers: the Minister for Primary Industries and the Minister for Food Safety. Martyn Dunne is the Director-General.

In 2014/15, total departmental expenditure was $416.219 million (an increase of nearly five percent from the previous year), with a net surplus of $8.855 million. The ministry attributes the increase in expenditure to several factors, including costs associated with the government inquiry into the whey protein concentrate contamination incident, eradication of the Queensland fruit fly in Auckland, and an increased presence in overseas markets.

Animal welfare

Mistreatment of bobby calves

We discussed the Sunday segment aired in late 2015 that showed bobby calves being mistreated while being transported and at processing plants. The ministry said that, along with those who saw it, it was appalled at such apparent cruelty. We share the ministry’s disappointment that the video of animal cruelty was not reported sooner to ensure that the animal cruelty was stopped immediately.

We heard that the ministry also received separate footage of calves being mistreated in September 2015. It told us that it immediately opened an investigation file and visited the premises in question. This investigation has now widened to include the behaviour covered in the Sunday programme. The ministry said that it visited the abattoir from the September footage again in late 2015 and took action to restrict the abattoir’s treatment of animals.

We heard that a broad industry-wide and ministry campaign will clearly state that such behaviour is unacceptable. The ministry assured us that the behaviour of a few should not be the measure of New Zealand’s primary industries. It said that farming in New Zealand is world-renowned for animal welfare, care, and innovation.

However, the ministry intends to implement further measures to ensure that farming practices meet strict code and regulatory requirements. We await the outcome of the ministry’s investigation with interest.
Prosecutions

We asked about the ministry’s recent prosecutions of the animal welfare complaints it receives. The ministry reported that, since 1 July 2015, it has received 361 complaints about welfare of animals. We heard that the ministry has already prosecuted or is in the process of prosecuting five people involved in these complaints, and it expects this number to rise significantly.

The ministry compared this with 2010/2011, when there were 572 complaints and seven prosecutions. In 2014/15, the ministry received 791 complaints, leading to 19 prosecutions.

Food safety

We heard that the Food Act 2014 and its associated regulations will come into force from 1 March 2016. This will bring New Zealand’s domestic food system in line with international best practice.

We were told that the ministry is setting up a new food safety compliance team and developing new guidance materials for food business operators to support the implementation of the Act.

Hepatitis A from frozen berries

We were interested to hear more about the recent outbreak of hepatitis A that has been linked to imported frozen berries. Five people have been diagnosed with the disease. The ministry told us that its investigation has determined that a significant risk exists from imported berries. However, it had not identified a specific brand or importer at the time of our hearing.

We discussed similar cases in Australia, which had 31 cases of hepatitis A earlier in 2015. We heard that Australia was able to identify the strain concerned and to trace it back to a specific brand. The ministry told us it carried out significant due diligence to make sure that the brand Australia identified was not supplying any part of the New Zealand market.

The ministry assured us that it is actively working with its colleagues in Australia and wider international markets, industry, and all stakeholders to ensure it has got as much intelligence and information to inform the public in real time.

Since our hearing, all five cases have been linked to the same berry supplier and the product has been recalled.1

We encourage the ministry to monitor standards of imported food to offer protection for New Zealand consumers.

Careers in primary industries

We are aware that about 50,000 new workers are needed in New Zealand’s primary industries by 2025. In 2014/15, the ministry worked with the Ministry of Education and industry groups such as DairyNZ to get positive stories about primary production into schools and to engage students into these careers as they go into further education.

The ministry said that, in 2015/16, it will have a stronger focus on tertiary education, including looking into primary industry courses in subjects such as engineering and food technology.

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We asked whether schools are implementing vocational pathways for the primary sector. The ministry said that these pathways varied greatly by region, with those living in rural areas more likely to look at careers in the sector. We heard that Auckland’s Mt Albert Grammar School farm is being very generously funded to show students potential careers in primary industries. However, there may be an assumption that primary industry roles are low-end jobs. The ministry reinforced that there is a need for people throughout the sector, including in engineering and science.

**Operation Conchord**

In early 2015, the Government announced that threats to lace infant formula with the 1080 toxin used for pest control were made in November 2014. The operation to identify the source of these threats was referred to as “Operation Concord”. We heard that the operation resulted in the arrest of an individual and that the matter is now before the courts.

We asked when we would likely hear who was responsible for the threats. The ministry responded that this is a decision for the courts, because the male suspect involved has ongoing name suppression. The ministry assured us that the police were treating the threats as serious criminal activity. We look forward to seeing the outcome of the court proceedings.
Appendix

Committee procedure
We met on 3 December 2015 and 3 March 2016 to consider the annual review of the Ministry for Primary Industries. We heard evidence from the Ministry for Primary Industries and received advice from the Office of the Auditor-General.

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O’Connor
Richard Prosser
Stuart Smith
Rino Tirikatene

Evidence and advice received
Office of the Auditor-General, Briefing on the Ministry for Primary Industries, dated 19 November 2015.
Office of the Auditor-General, Briefing on Ministry for Primary Industries, dated 5 February 2016.
Committee staff briefing paper, prepared by committee staff, dated 17 November 2015.
Ministry for Primary Industries, Responses to written questions 1 – 107, received 16 November 2015.
Ministry for Primary Industries, Responses to written questions 108 – 133, received 5 February 2016.
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Recommendation

The Social Services Committee has conducted the annual review of the 2014/15 performance and current operations of the Children’s Commissioner and recommends that the House take note of its report.

Introduction

The Children’s Commissioner is an independent Crown entity operating under the Children’s Commissioner Act 2003. The commissioner is supported by an office of 15 staff.

In 2014/15, the office’s revenue was $2.347 million, compared with $2.271 million the previous year. Of this, $2.157 million was from the Crown, the same as in 2013/14.

Expenditure was $2.180 million in 2014/15, down 5.6 percent from the previous year’s $2.308 million. It was spent in two areas:

- monitoring and investigations ($1.316 million), including monitoring Child, Youth and Family (CYF) residences through announced and unannounced visits
- individual and systemic advocacy ($864,000), including advocacy and investigation into the interests, rights, and wellbeing of children and young people; and raising awareness and understanding, and monitoring the application of, the United Nations Convention on the Rights of the Child.

The office had a surplus of $167,000. This compares with a deficit of $37,000 in 2013/14.

Role of the commissioner

The commissioner is Dr Russell Wills. His five-year term will end in June 2016.

We understand that the commissioner’s role might be affected by a report from an expert panel on modernising CYF. Dr Wills’ replacement is likely to be initially appointed for only one year, because of the uncertainty around CYF’s future arrangements.

Adequacy of funding

The commissioner told us that he doubts whether his office can continue successfully without an increase in funding.

The commissioner said that his office coped in 2014/15 on the same funding as the previous year by working more smartly and by partnering with others. The commissioner’s “other” revenue (that is, from sources other than the Crown and interest payments) was $150,000, compared with $76,000 in 2013/14.

We heard about a partnership with Philanthropy New Zealand, which produced “Giving2Kids”, a web-based tool to guide people wanting to give to children. And a partnership with the JR McKenzie Trust produced and disseminated information about child poverty in New Zealand.
Visits to CYF residences

Over the last two years, the proportion of funding the commissioner spends on monitoring has increased relative to his advocacy role. In 2014/15, 60 percent of expenditure was on monitoring, up from 53 percent in 2013/14 and 45 percent in 2012/13.

Although it has not cut resources from its monitoring budget, the office has reduced the frequency of site visits to CYF residences from once a year to every 18 months. These visits are more intensive and thorough than in previous years, and they take longer. The office engages more widely than it used to with the families, children, and young people who use the residences.

The commissioner said that his team has become expert in drawing out people’s stories and relaying their views back to the residence staff. It has changed the way it expresses its recommendations, so that they can apply to more than one residence. This encourages sites to learn from each other.

In 2014/15, care in two residences deteriorated substantially and rapidly, leading the commissioner to decide that visits should be more often than every 18 months.

The commissioner said that with full site assessments every 18 months, follow-up visits should be made in the following 12 months to see how issues are being addressed. However, he does not have the resources for this. He can, and does, contact residences to check on their progress since assessment. He also uses technology such as Skype, looks at data, and consults other stakeholders. However, he would prefer to have his team physically return to sites to verify independently that his recommendations have been implemented.

We heard that the commissioner cannot require CYF to take up his recommendations about its residences. However, his office maintains a constructive working relationship with CYF to encourage it to do so.

The commissioner pointed out that his office cannot afford to monitor other providers such as iwi social services, cultural social services, and child and family support services.

Child abuse

We were pleased to hear that fewer children are being admitted to hospital for inflicted injuries.

We noted that only 30 percent of the approximately 150,000 notifications to CYF in 2014/15 received further investigation, compared with 37 percent in 2013/14. The commissioner said he was not worried by this. He said that, in some families, problems stem from parents with severe, untreated addiction or mental illness. It has been found that outcomes can be better if CYF does not engage with these families, because the people who can best effect change are often health professionals and non-governmental organisations (NGOs) rather than CYF.

We heard that getting CYF involved can lengthen the time between identifying that a child is at risk and effecting change. In the commissioner’s view, coercive powers like CYF’s are useful (and essential) when health professionals and NGOs have not succeeded in engaging with the family.
The commissioner acknowledged that domestic violence is also harmful for children but does not always meet the threshold for CYF involvement. The commissioner regretted that his three and a half staff are unable to monitor care for those children.

**Poverty**

We heard that since the global financial crisis, the proportion of children living in poverty has increased. The commissioner said that the number of children being admitted to hospital has increased sharply, particularly preschool children and children with respiratory illness. He said studies show that poverty, and damp, cold, crowded housing, are largely to blame for poor health and education outcomes. Regrettably, he told us, it is not possible to undo harm caused by living in hardship in the first few years of life.

The commissioner noted that about half the number of children living in poverty have at least one parent who is working. Also, many are from two-parent households. He said the key drivers of poor health and education outcomes are material deprivation, relative poverty, very poor housing, and violence.

The commissioner is pleased that benefit rates were increased by $25 a week, but believes that this is not enough to change the material hardship of families.

The commissioner said he believes that the Government should set a plan and targets for reducing child poverty. He pointed out that some of the Government’s Better Public Services targets are aimed at supporting vulnerable children, but not at poverty or material deprivation.

Poverty is a complex issue, encompassing housing, education, employment, income, and health services. The commissioner has estimated that planned, targeted action on all these fronts would help to reduce child poverty by half. Some of us concur with the commissioner that targets should be aimed at reducing poverty.

We asked the commissioner what he would do to improve hardship in Māori and Pacific communities. He said he would support local, bottom-up initiatives, and work to identify and share what has worked well for these communities. We agree with him that local initiatives should be supported and their successes built on.

**Moving to where the work is**

The commissioner said that it can be hard for families who move for employment reasons, because they can lose the support of extended family and friends. Also, some families have a high need for services dealing with mental illness, addiction, and violence. It can be hard for these families to locate government or NGO services in a new place.

The commissioner told us that decile 1 schools have a roll turn-over of 50 percent. Factors contributing to a high turnover include unstable work, and policies that dislocate families.

We suggested that the Government could improve the way it helps families to connect with services when they move to a new area. The commissioner agreed. However, he commented that the Government cannot do everything, and some solutions rest with local communities and services.
We note that moving away from home can have positive effects in some situations. For some young people, such as those completing a Limited Service Volunteer programme,\(^1\) moving to a fresh location can help to cement newly acquired habits.

**Child impact assessments**

Some of us agree with the commissioner’s suggestion that the Government should conduct a “child impact assessment” on every new policy. This would help to prevent unintended negative consequences for children.

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\(^1\) Limited Service Volunteer is a six-week residential programme for young beneficiaries. It is run by the New Zealand Defence Force on behalf of Work and Income.
Appendix

Committee procedure

We met on 17 February and 9 March 2016 to consider the annual review of the Children’s Commissioner. We heard evidence from the commissioner, 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

Alfred Ngaro (Chairperson)
Darroch Ball
Matt Doocey
Jan Logie
Todd Muller
Jono Naylor
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Evidence and advice received

Children’s Commissioner, response to pre-hearing questions, received 1 February 2016.
Children’s Commissioner, response to post-hearing questions, received 3 March 2016.
Office of the Auditor-General, Briefing on the Children’s Commissioner, dated 17 February 2016.
2014/15 Annual review of the Families Commission

Report of the Social Services Committee

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Families Commission

Recommendation

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

Introduction

The Families Commission is an autonomous Crown entity established by the Families Commission Act 2003. From 1 December 2014, the commission has operated as the Social Policy Evaluation and Research Unit (Superu). The commission’s role is to

- act as an advocate for the interests of families generally
- monitor and evaluate programmes and interventions in the social sector, and provide social-science research into key issues, programmes, and interventions across the sector.

Financial and service performance

The commission’s total revenue for 2014/15 was $11.4 million, down from $11.9 million in 2013/14. The decrease is largely explained by additional revenue in the previous year for a longitudinal study. The commission’s total expenditure was $11.7 million, 1.8 percent more than in 2013/14, resulting in a $390,000 deficit.

The Office of the Auditor-General assessed the commission’s management control environment and its financial systems and controls as “very good”.

Measuring performance

The commission is still developing its framework for measuring its impact on the social sector, however it is positive about the progress made thus far. It noted that 79 percent of respondents to its 2015 customer survey were satisfied or very satisfied with the overall quality of its products and services.

Collaboration in gathering information

The commission is building an “evidence base” for use in the social science system. The evidence base consists of research that the commission either funds or actively supports. The commission wants to increase accessibility to this evidence base by making people aware of its existence and actively supporting its use. To support the evidence base, the commission is also developing sustainable research assets and infrastructure.

We asked whether government agencies sufficiently use the commission’s evaluation skills and evidence base, in particular for Whānau Ora. The commission said it had made significant progress this year, collaborating with the Youth Mental Health evaluation, the Children’s Action Plan and the Tāmaki regeneration project. The commission is currently working with Te Puni Kōkiri to assist with developing the monitoring framework for Whānau Ora. Discussions about the commission taking a more active role are underway.
We asked what experience the commission had with collaborating with other agencies, and how important collaboration was in the context of gathering evidence. The commission said it found collaboration with other agencies in the context of gathering evidence very important, particularly to determine where the priority gaps across the social services sector are. Because the commission’s aim is for evidence to be included in all decision-making processes, it is focused on translating ideas into researchable questions.

**Linking international best practice in academia to New Zealand**

We commended the commission for its work towards providing a solid evidence base for social services. In relation to the social investment needed in New Zealand, we asked how the commission links international best practice in academia to New Zealand.

The commission explained that its social science expert panel consists of leading academics who have the confidence to engage in peer review work with other international experts. The commission’s modelling is based on an understanding of international best practice, and the commission travels to similar agencies in other countries to see how they operate.

**Evidence-based policy development**

The commission is committed to identifying evidence and research priorities to help the Government achieve its priorities. If the commission thinks a policy lacks an evidential basis, it can proactively contact the agency with its concerns and work with it on a cost recovery basis.

The commission can also focus its efforts on particular areas it deems important, which include social policy setting and service delivery. It examines whether the assumptions underpinning some of those policies and policy proposals are reflective of New Zealand society, and the likelihood of their success.

A challenge facing the commission is that often Ministers have to formulate policies within a particular timeframe. The commission aims to create an evidence base that anticipates issues, which can be drawn on quickly. In this context, the separation of agencies poses an issue because knowledge accumulated in one field may not be applied to another. The commission is committed to increasing the effective transfer of knowledge between agencies.

**Moving to an evidence-based social services sector**

The commission works with public sector agencies to fund, promote, and facilitate the use of evidence in the social science area. Understanding how citizens connect with public sector agencies is crucial to the development of an infrastructure to support the evidence base.

The commission said that pooling the resources in each public sector agency would increase their combined effectiveness and capabilities across the social services sector. It is working to build a resource pool that will allow the commission to accurately quantify the capabilities of each agency.

**Access to information**

The commission has a strong relationship with Statistics New Zealand and is able to use its data storage. However, data is usually collected from individuals or households, rather than families or whānau. The commission is engaged in ongoing discussions designed to improve data collection about families.
We asked whether the commission faces resistance to data collection. The commission said that, at the moment, it only directly collects data about its youth mental health evaluation. New Zealanders are generally happy to contribute to the commission’s research because the topics surveyed are of social importance, and the commission has a reputation as a robust agency. An example of this is the Growing Up in New Zealand study, which has retention rates among the best in the world. The commission feels it has a responsibility to use the data collected to inform wider society and advocate for change.

The complexity of social issues (wicked problems)
We sought the commission's views about how to approach “wicked problems”, as it seems that many social issues fall into this category. A wicked problem is one that is hard to solve because information may be incomplete or contradictory, and complex interdependencies mean that efforts to solve one aspect can create other problems.

The commission stressed the importance of basic research, particularly in areas where it is clear that existing policy approaches are not working. However, it said it is also vital to have insightful people who can take the data and findings from research and draw conclusions.

The commission noted that there is no single answer to a wicked problem. It said it is important to understand the outcomes you are trying to achieve, and to be sensible about how much a single provider can accomplish. Evaluation and monitoring are vital, as is a cross-agency view to assess where there may be gaps across government.

We note that many problems are interconnected, and asked how this is being addressed. The commission said there are not many examples of measuring effectiveness across the whole system. It has done some work to build models about family violence. While it will never be possible to model such issues fully, it believes there is value in taking such an approach. It stressed the need to shift from looking at individual programmes to looking at suites of programmes and gauging their effectiveness across the system as a whole.

Performance targets
The Salvation Army recently released a report called “Moving Targets” which questions the performance targets government agencies set for themselves. The report calls for more transparency around how results and outcomes from public services are reported.

We asked whether the commission thought that the Better Public Services targets accurately reflect the issues they are meant to address. The commission said that performance targets are often expected to also measure accountability, but the capacity to achieve change within an organisation does not often take the same form as accountability. New Zealand has very detailed standards for good performance measures, but does not seem to take into account other, less tangible, measures of achievement.
Appendix

Committee procedure

We met on 17 February and 9 March 2016 to consider the annual review of the Families Commission. We heard evidence from the commission and received advice from the Office of the Auditor-General.

Committee members

Alfred Ngaro (Chairperson)
Darroch Ball
Matt Doocey
Jan Logie
Todd Muller
Jono Naylor
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Evidence and advice received

Families Commission, responses to written questions, received 28 January and 29 February 2016.

# 2014/15 Annual review of Housing New Zealand Corporation

## Report of the Social Services Committee

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Recommendation

The Social Services Committee has conducted the annual review of the 2014/15 performance and current operations of Housing New Zealand Corporation and recommends that the House take note of its report.

Introduction

Housing New Zealand Corporation is the biggest residential property owner in New Zealand. It owns or manages about 67,000 properties (compared to 68,000 in 2013/14). About 46 percent of the corporation’s properties are in Auckland. Properties include about 1,500 houses for community groups providing residential services.

Approximately 192,500 people live in the corporation’s houses or flats (compared to 193,000 in 2013/14). Around 95 percent of tenancies attract the Government’s income-related rent subsidy.

The corporation owns about 63,000 of the 67,000 properties. At 30 June 2015, these were worth $20.9 billion (compared to a portfolio value of $18.7 billion at 30 June 2014).

Revenue in 2014/15 was $1.2 billion (compared to $1.1 billion in 2013/14). Most of this ($1.1 billion) came from rent and income-related rent subsidies. Expenditure was $949 million (2013/14: $924 million). The operating surplus after tax was $163 million (2013/14: $141 million).

At 30 June 2015, the corporation employed around 1,100 full-time equivalent staff members, in about 26 offices. Ten offices are in the greater Auckland area.

House maintenance

The average age of the corporation’s homes is 43 years. A quarter of its homes are more than 60 years old. We heard that “decades” of under-investment in its properties has meant that houses became run-down. The corporation said it is now making its houses “fit for purpose, warm, and dry”.

In 2014/15, the corporation spent $222 million on property maintenance. This included more than 400,000 maintenance interventions, involving 3,500 to 4,000 “close to full-time” contractors.

Methamphetamine contamination

Around three percent of the corporation’s homes are vacant at any one time. We were saddened to learn that 350, or 0.5 percent, of homes are vacant because tenants have consumed or manufactured methamphetamine in them. Remedial work on these houses costs $12–$13 million each year. Five of the houses are being demolished because the damage is beyond repair.

We encourage the corporation to continue working with the New Zealand Police and other social agencies on this issue. Also, we were pleased to hear that the corporation aims never
to knowingly sell or rent a home that could possibly have methamphetamine contamination.

**Maintenance contracts**

On 1 July 2014, the corporation entered into new, performance-based maintenance contracts with a large number of suppliers and tradespeople. Some of us are concerned that standards were not set before contracts were initiated.

The Auditor-General has reviewed the management control environment for the implementation of these maintenance contracts. The auditor recommended changing procedures, particularly for house repair scoping, assessing the quality of completed work, and comparing contractors’ performance.

During 2014/15, the corporation found that it was being charged for certain work that was not done. The corporation investigated, the sub-contractor in question was stood down, and the corporation is taking legal action.

The corporation said it is working to effectively manage the performance-based maintenance contracts. We heard that head contractors must audit and report on five percent of their work. In addition, the corporation’s auditors conduct “snap” audits. We were encouraged that the corporation has established a chief operations role to help apply rigour and focus to audit and quality assurance. We urge the corporation to continue work to tighten its procedures.

**Tenancy reviews**

Until 2014, the corporation managed the social housing waiting list. Since then, the Ministry of Social Development has managed it. This includes assessing the housing needs of applicants. The corporation’s main task since 2014 has been to find effective and sustainable homes for people from the waiting list.

The ministry told us that, by 31 December 2015, it had started 3,695 tenancy reviews. Of the tenants reviewed, 372 have moved into private accommodation. An unexpected—but welcome—outcome has been that 47 former tenants have moved into homes they purchased themselves.

Another 87 tenants have been found not eligible for social housing but have not moved out yet. The ministry expects them to transition into alternative accommodation. If they do not move eventually, they will be served with 90-day notices.

We heard that the ministry has 26 case managers working on tenancy reviews. The estimated annual cost of this is $1.482 million. Some of us would rather that this money was spent instead in other areas of housing.

**Waiting times for houses**

In September 2014, Priority A tenants spent 87 days on the waiting list before accepting a social housing place. By June 2015, this had increased to 119 days.

However, in Auckland, they waited 114 days in September 2014, increasing to 171 days in June 2015. The ministry said that waiting times are longer in Auckland because it is a pressure point for housing and additional social housing is needed there.
New houses

One of the corporation’s aims is to reconfigure its portfolio to meet demand, so that homes are in the right place and are of the right size. One strategy to help achieve this aim is to build new homes.

The corporation intended to complete 2,000 new homes over several years ending 31 December 2015. Only 1,038 were completed by then; the rest were under construction.

In the 2014/15 year, the corporation intended to complete 281 new houses in Christchurch and 549 in the rest of New Zealand. However, only 161 houses (57 percent of the target) were completed in Christchurch, and 247 (45 percent of the target) in the rest of New Zealand.

We were given several reasons for this failure to complete as many homes as expected. One was that it took time to engage with communities about new homes, to find out what they thought and wanted. In the Christchurch suburb of Aranui, for example, consultation took three to four months. We agree with the corporation that, although consultation slows down the building process, it is vital.

It also took time to move tenants out of the old properties. Other reasons for not meeting the target were consenting delays, and the high demand for building contractors.

Houses are being built in Auckland for the corporation to provide as social housing. We have asked how many are intended to be for social housing; we have not yet received the corporation’s response. We heard that, in McLennan, 600 homes are to be built and 180 of these will be social or affordable homes.

In the suburbs of Glenn Innes and Tamaki, over 100 old houses have been removed and sections are waiting for new homes to be built on them. Some sections have been vacant for months. We asked how long sections have been vacant, but we have not yet received an answer. We were pleased to hear that all the infrastructure and some buildings have been completed. However, we observe that this project started three years ago, and tenants have been waiting for these new homes.

Despite its failure to build houses as fast as intended, the corporation is reasonably pleased with its building performance. We encourage the corporation to progress its projects with urgency, particularly in Auckland, because vulnerable tenants are waiting for homes.

HomeStart

The corporation administers the HomeStart grants programme. This provides up to $10,000 for eligible individuals, and up to $20,000 for eligible couples, to help buy their first home. HomeStart provoked overwhelming interest when it was launched in April 2015. The corporation has processed around 19,000 applications, 84 percent of which have been approved or pre-approved, to a total of $32 million.

We were impressed to hear that the corporation can now process applications within two days, which is faster than required in its agreement with the Crown.

Staff turnover and morale

There has been considerable turnover of board members in the last year. In addition, the chief executive has resigned, and several senior manager positions were filled by staff acting in those roles.
We heard that board members had resigned for a variety of reasons. By October 2015, the board was again fully appointed, and the corporation told us that it is functioning well. There is now only one acting general manager. Staff engagement, measured by an annual survey, is in the top quartile of the public sector in New Zealand.

The corporation is proud that its people “really care” about providing homes for people. For example, tenant satisfaction surveys showed “overwhelming appreciation and support” for the way households were moved during the Christchurch repair programme.

The corporation’s board fees have increased. The Treasury told us that it reviewed the corporation’s fees, having regard for the skills needed, and comparing other boards in the public and private sectors. Even though the role of the corporation is now narrower—it is no longer involved in assessing people’s housing needs—the Treasury found that its fees should be in line with those of ACC board members.
Appendix

Committee procedure

We met on 10 February and 2 March 2016 to consider the annual review of Housing New Zealand Corporation. We heard evidence from the corporation, the Ministry of Social Development, and the Treasury, and we received advice from the Office of the Auditor-General.

The advice and evidence received in relation to this annual review is available on the Parliament website, www.parliament.nz.

Committee members

Alfred Ngaro (Chairperson)
Darroch Ball
Matt Doocy
Jan Logie
Todd Muller
Jono Naylor
Dr Parmjeet Parmar
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Stuart Smith
Phil Twyford

Evidence and advice received

Housing New Zealand Corporation, response to pre-hearing questions, received 8 December 2015.

Ministry of Social Development, response to pre-hearing questions transferred by Housing New Zealand Corporation, received 21 December 2015.


Office of the Auditor-General, Briefing on Housing New Zealand Corporation, dated 10 February 2016.
2014/15 Annual review of the Ministry of Social Development

Report of the Social Services Committee

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Ministry of Social Development

Recommendation
The Social Services Committee has conducted the annual review of the 2014/15 performance and current operations of the Ministry of Social Development, and recommends that the House take note of its report.

Introduction
The Ministry of Social Development provides social support services and social policy advice. It either delivers or purchases most of New Zealand’s social services. It also administers benefits and superannuation payments. It provides services and assistance to more than 1 million New Zealanders every year.1

In the year under review, the ministry administered Vote Social Development and Vote Senior Citizens, which allocated over $24 billion.

In 2014/15, the ministry’s total revenue was $1.392 billion, a 10 percent increase on the 2013/14 amount of $1.261 billion. Total expenses were $1.386 billion (compared to $1.25 billion in 2013/14), leaving a surplus of $5.3 million.

The ministry is the country’s largest government department. As at March 2015, it employed the equivalent of 10,100 full-time staff.

Focus of work in 2014/15
The ministry’s main work during the year included
- operating the benefit system and supporting people into work
- carrying out social housing assessments, and supporting projects relating to social housing reform
- working to protect vulnerable children.

Reducing welfare dependency and supporting vulnerable children are priority areas under the Government’s Better Public Services (BPS) results programme. The ministry leads and is directly responsible for two BPS targets: reducing long-term welfare dependency, and reducing the number of assaults on children. The ministry contributes to cross-agency work towards six other BPS targets.

The ministry told us about the importance of governance and leadership for cross-agency work. It also commented on the difficulty of being flexible enough to contribute to other parts of the social sector while continuing to work towards the ministry’s key performance indicators and targets.

Reducing welfare dependency

During the year to 30 June 2015, the number of people receiving a main benefit increased by 8,237 (2.8 percent) to 285,349. The most significant reduction was for sole parents: down 6.5 percent. Jobseeker numbers declined by 2.5 percent. Some of us are concerned that there is no tracking of those who go off benefit and no measure of employment outcomes.

In February 2015, the Government announced a revised BPS target for reducing welfare dependency. The target, to be achieved by June 2018, includes

- reducing the projected liability of the long-term cost of benefit dependency by $13 billion
- reducing the overall number of working-age clients by 25 percent.

We asked the ministry how it would achieve this target. Although it described the target as “aspirational”, it said it intends to do its best. The ministry is working closely with social sector agencies to identify a range of initiatives.

One likely strategy is putting more beneficiaries into active, work-focused case management. This is the most intensive of the ministry’s three streams for clients. The number of clients in work-focused case management has increased from 80,000 to 120,000.

The ministry has trialled intense wraparound employment services for mental health clients and for sole parents. However, the trials’ employment results were the same as for the standard Work and Income services. The ministry said it plans to carry out different trials based on what it has learned from the completed trials.

We heard that success with clients who are ill or disabled depends not only on finding a good match between the client and the role, but also on placing the client in a workplace with a supportive and flexible culture.

We look forward to hearing more about the reduction of welfare dependency.

Long-term beneficiaries

At 30 June 2015, 65,555 beneficiaries had been receiving Jobseeker Support for more than 12 months. This is three percent fewer than the previous year (67,531). The ministry believes this is a result of the support the active case-management approach provides.

Some of us raised concerns regarding an article challenging the interpretation of information about the likelihood of beneficiaries finding work after having been out of work for a long time. We understand the ministry has said that if a person is out of work for 70 days (10 weeks), the chance of ever working again is only 35 percent. We understand this is based on an incorrect interpretation of a graph from a previous study.

The ministry offered to look into this matter. It commented that there are “challenges” for people getting back into work if they have been out of work for 10 weeks or more.

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2 Under the Social Security Act 1964, a “main benefit” is one of the following: jobseeker support; emergency benefit; youth payment; young parent payment; sole parent support; supported living payments on the grounds of sickness, injury, disability, total blindness, or caring for a patient.

3 The other two streams are general case management, mainly for clients without work obligations or social obligations; and work search support, mainly for clients who have pre-employment obligations and preparatory obligations.

4 Purdie, G. Is the statement that if a person is off work for 70 days the chance of ever getting back to work is 35% is justified? New Zealand Medical Journal, 20 November 2015, Vol. 128, No 1425, p.84.
We look forward to receiving further information from the ministry on this.

**People who do not renew their benefit**

In the year under review, 11,300 benefits were stopped. Around 5,000 benefits were stopped because the recipients did not renew their benefit as is required every 52 weeks.

The ministry does not know how many of these people found work. It said that many former beneficiaries want no more to do with it after they have stopped receiving a benefit. However, the ministry has engaged SuPERU (the Families Commission) to conduct research into what people do after they leave the benefit system. We look forward to hearing about the results.

**Employment and youth service providers**

Contracted employment providers and youth service providers get success fees for certain outcomes. Youth service providers are paid for educational outcomes: the achievement of NCEA levels 1 and 2. They are also paid if clients do not return to a main benefit within three months of leaving the service.

Employment providers are paid for getting clients into training or jobs. If a client does not re-enter the benefit system after training ends, the ministry assumes they have moved into employment.

We appreciate that the success fee amounts are commercially sensitive; however, we think it would be appropriate to publish providers’ success rates.

Some of us consider that the success fees should be paid for actual employment or study outcomes, rather than simply for clients not going back onto a benefit. Safeguards should also be put in place to ensure that former beneficiaries are able to support themselves. These concerns are partly allayed by the information that in 2016, the Youth Service evaluation will look at outcomes such as employment, tertiary study, offending, and custodial sentences.

We asked about the Limited Service Volunteers Programme. This is a six-week residential programme for young beneficiaries, run by the New Zealand Defence Force. It aims to improve life skills, increase motivation, and improve employment prospects. We understand that it was suggested before the 2015 Budget that the intake be increased to 1200. However, it was decided that 800 was enough, and the ministry believes 800 is “about right”.

**Stand-down period**

In May 2015, a court ruled on the correct benefit start date. The ministry acknowledged that it should have changed its practice at that time, and paid benefits on the last day of the stand-down period, rather than continuing to pay from the day after the stand-down period ends. The ministry said it did not change its payment date because it anticipated new legislation that would change the start date. However, such legislation was not enacted until 24 November 2015.

We heard that between 29 September 2015 and the date that the legislation came into force, over 16,000 benefits were paid correctly on the last day of the stand-down period. In addition, there were more than 28,000 applications to review benefit commencement dates.

We were pleased to hear that the ministry intends to establish stronger processes for reviewing and changing its practices when appropriate. We were told the Social Security
Act 1964 is complex and contains a range of anomalies and it expects to complete its stocktake of anomalies in the first two or three months of 2016.

**Monitoring success**

**Social sector trials**

During the last two years, around 600 social sector initiatives have been trialled in communities in 16 areas in New Zealand. These trials aim to test alternative ways of delivering social services. A major focus of the trials has been to increase youth participation in education, training, and employment.

The trials have enabled local community members to come together in advisory groups and work out possibilities for achieving good outcomes. We were pleased to hear that, collectively, the trials have improved outcomes in their communities. However, we have yet to sight any formal evaluations of these trials. We look forward to seeing evaluations of the trials and the successful ones extended.

**Subsequent child policy**

People receiving sole parent support who have a subsequent child must become available for work when that child turns one year old. The ministry has not yet evaluated the effect of this policy on families. We look forward to seeing any evaluations when they are completed.

**Home for Life**

We asked about the Home for Life policy, under which children can end up living with their foster families permanently. The ministry is not currently reviewing the policy. We understand that the Expert Advisory Panel on Modernising Child, Youth and Family (CYF) may look at some of the issues with the Home for Life policy. We look forward to seeing the panel’s final report.

**Supporting vulnerable children**

Supporting vulnerable children is a priority BPS area, covering three result areas:

- increased participation in early childhood education
- increased infant immunisation and reduced incidence of rheumatic fever
- reduced assaults on children.

The ministry is the lead agency responsible for reducing assaults on children. The ministry’s chief executive chairs the Vulnerable Children’s Board, which oversees the Children’s Action Plan, children’s teams, and the Vulnerable Children’s Plan.

In 2014/15, the ministry received 150,905 notifications of child abuse or neglect. This was three percent more than in 2013/14. Thirty percent of notifications needed further action, compared to 37 percent in 2013/14. There were findings of substantiated abuse in 16,472 cases, which was 16 percent fewer than in 2013/14.

**Abuse of children in care**

In the year under review, 40 children in the custody of the chief executive were found to have been abused by 34 CYF caregivers. Some of us are concerned that this has increased since 2010. The ministry acknowledged that this is a shameful and unacceptable statistic. However, it said that it is roughly akin to that of the general New Zealand population.
Although we accept that all New Zealanders share responsibility for reducing child abuse, the ministry has a position of leadership in this area. We note that the State is legally responsible for the care of these children. We encourage it to do all it can to reduce the abuse rate of children in its care.

Regrettably, 20 of the 34 caregivers were victims’ family members, chosen because it is generally good practice for extended family to look after children in care. We strongly encourage CYF to carefully and thoroughly check children’s risk of harm from their family members when placing children into foster care.

**Children’s teams**

One of the main actions under the 2012 Children’s Action Plan was to introduce children’s teams in each region of New Zealand. The teams aim to support vulnerable children whose problems might not quite meet CYF’s statutory intervention threshold.

Team members are drawn from local professionals in the health, education, justice, and social sectors. Each child has one assessment, one plan, and one lead professional in the team.

There are plans to set up 20 children’s teams, one for each DHB area, by 2021. Nine teams have been established to date. We heard that about 770 children have been referred to teams; 650 have been accepted.

The teams require local commitment. This local emphasis means the teams are more likely to be sustainable. However, they take longer to set up than if they were centrally run. The ministry said it prefers to focus on doing the job well rather than doing it fast.

**Community investment**

The ministry told us that it purchases more than $330 million in services from thousands of non-governmental organisations in support of vulnerable children, young people, and their families. Under its Community Investment Strategy, launched in June 2015, the ministry plans to make these contracts results-based by 2017/18.

We asked about the pressure this change might put on smaller organisations that may have good innovation but could struggle with expectations about their capabilities. We heard that funding was made available in Budget 2012 for organisations to look at their strengths and weaknesses. The ministry aims to help some of them bring their capability up to an acceptable level.

A possible solution for some organisations is to share back-office services. Another is combining whole organisations. The ministry is aware that a potential unintended consequence is that the bureaucracy of larger organisations could stifle the innovation that can flourish in smaller organisations.

The ministry acknowledged that, in the past, it has encouraged organisations to join together to save overheads. This has led to loss of funding because there is now only one organisation. It noted that the amount of funding for a given outcome should remain consistent if organisations merge.

**Housing**

The function of assessing people’s housing needs transferred from Housing New Zealand Corporation to the ministry in April 2014. During 2014/15, the ministry carried out 29,273 housing needs assessments.
Numbers on the waiting list declined from 5,840 on 30 June 2014 to 4,541 on 30 June 2015. The reduction was most pronounced in Auckland: waitlisted applicants reduced from 3,339 to 2,267. However, some of us note that this does not include all those who applied to be on the register but were unsuccessful.

We were pleased to hear that an assessment of rheumatic fever risk is part of the housing needs assessment. We learnt that in 2014/15, 152 families were fast-tracked to the top of the housing waiting list because of increased risk of rheumatic fever.

The ministry has signalled a plan to deliver 3,000 more social housing places over three years. Of these, 1,800 will be in Auckland. We agree that the supply of social housing needs to increase. We will take a close interest in progress.

**Emergency accommodation**

In 2015, the ministry started a review of emergency accommodation policies. Its findings were to be presented to the Minister at the time of our hearing in December 2015. We heard that an extra $500,000 was provided for emergency accommodation when the review started. This was distributed to 16 organisations delivering intensive social work services for families in emergency housing. Also, $2 million has been allocated to provide up to 120 extra emergency housing places per year in Auckland. These new places are expected to become available from early 2016.

We note that clients who are put into emergency accommodation such as motels are funded through a special needs grant. The amount is treated as a loan, and they have to pay it back.
Appendix

Committee procedure
We met on 9 December 2015 and 2 March 2016 to consider the annual review of the ministry. We heard evidence from the Ministry of Social Development, and received advice from the Office of the Auditor-General.

The advice and evidence received in relation to this annual review is available on the Parliament website, www.parliament.nz.

Committee members
Alfred Ngaro (Chairperson)
Darroch Ball
Matt Doocey
Jan Logie
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Carmel Sepuloni
Stuart Smith
Phil Twyford

Evidence and advice received
Ministry of Social Development, Responses to pre-hearing questions 1–268, dated 9 December 2015.

Ministry of Social Development, Responses to post-hearing questions, dated 19 February 2016.

The Social Services Committee has conducted the annual review of the 2014/15 performance and current operations of the New Zealand Artificial Limb Service, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Alfred Ngaro
Chairperson
2014/15 Annual review of the Social Workers Registration Board

Report of the Social Services Committee

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Social Workers Registration Board

Recommendation

The Social Services Committee has conducted the annual review of the 2014/15 performance and current operations of the Social Workers Registration Board and recommends that the House take note of its report.

Introduction

The Social Workers Registration Board is a Crown agent established under the Social Workers Registration Act 2003. It is responsible for

- the registration of social workers
- setting the standards for social work education
- considering complaints and taking disciplinary actions about registered social workers
- promoting the benefits of registration
- enhancing the professionalism of social workers.

The board is appointed by the Minister for Social Development. It employs seven full-time and three part-time staff members.

Financial performance

In 2014/15, the board's income was $1.571 million (compared with $1.451 million in 2013/14). Most of this income—95 percent—was from application, registration, and practising fees.

Total expenditure was $1.522 million ($1.424 million in 2013/14). The resulting surplus was $48,000 ($27,000 in 2013/14).

Registrations

Social worker registration is voluntary.

We were told that, as at February 2016, 5,564 social workers were registered. The board said that the number of registered social workers is rising each year. It estimated that about 8,000 people could be eligible for registration.

The board is aware of Census statistics indicating that 18,000 people use the title “social worker”. However, the board believes that only 3,000 to 4,000 of those people would meet the minimum criteria for registration. It commented on the need to clearly identify qualified, experienced, and competent social workers, while also acknowledging the value of those in the wider social services sector.

We asked the board about the definition of social workers eligible for registration. Since 2006, the social worker qualification has been a degree. The board still recognises diploma qualifications held by people who became qualified before 2006. It noted that, to practice competently, people with a diploma would have engaged in professional development since they received their diploma.
Renewing practising certificates

The board aims to increase the number of registered social workers and to decrease the number of unregistered social workers who are practising. To this end, the board has focused on reducing the number of people who do not renew their practising certificates each year. Not all registered social workers are aware that they have to maintain their registration.

We were pleased to hear that, in 2014/15, the board introduced an efficient online process for renewing practising certificates.

The focus on renewing registrations has been successful, although costly. Renewing annual practising certificates is one of the board’s biggest costs.

The board intends to extend its online functions to include registration applications and receiving and managing complaints. We look forward to hearing about the success of these online processes.

Review of Social Workers Registration Act

The Minister for Social Development has asked the board to review the Social Workers Registration Act. At the date of our hearing, the report was being finalised for presentation to the Minister.

We heard that the review is likely to cover

- social work registration under the Act
- a stocktake of the workforce of social workers
- the differences between professional social work and social service work
- an analysis of the social services sector
- an analysis of legal barriers and contradictions in the Act
- mandatory registration.

We look forward to reading the report when it becomes available.

Mandatory registration

The board has been consistent in expressing its desire for mandatory social worker registration.

We heard that mandatory registration would likely increase the board’s workload. The board would become responsible for those who actively resist registration. It would also have to manage unregistered individuals using the title of “social worker” or carrying out social work tasks and functions. The board said it was prepared to take on this risk and mitigate it as much as possible through careful management of its processes.

The board considers that the current voluntary system is more expensive to manage than a mandatory system would be. It said that economies of scale would help to reduce costs to individuals: if registration was mandatory, the price of registration could drop.

We heard that making registration mandatory would remove the confusion, discussed above, around the requirement for registered social workers to renew their practising certificates.
Appendix

Committee procedure

We met on 17 February and 16 March 2016 to consider the annual review of the Social Workers Registration Board. We heard evidence from the board, and we received advice from the Office of the Auditor-General.

The advice and evidence received in relation to this annual review is available on the Parliament website, www.parliament.nz.

Committee members

Alfred Ngaro (Chairperson)  
Darroch Ball  
Matt Doocy  
Hon Paul Goldsmith  
Jan Logie  
Jono Naylor  
Dr Parmjeet Parmar  
Maureen Pugh  
Carmel Sepuloni  
Phil Twyford

Todd Muller and Stuart Smith were members of the committee for part of this item of business.

Evidence and advice received

Office of the Auditor-General, Briefing on Social Workers Registration Board, dated 17 February 2016.

Social Workers Registration Board, response to pre-hearing questions, received 1 February 2016.