APPENDIX TO THE JOURNALS
OF THE
House of Representatives
OF
NEW ZEALAND
2014–2017
VOL. 3
I—REPORTS AND PROCEEDINGS OF SELECT COMMITTEES
IN THE REIGN OF HER MAJESTY
QUEEN ELIZABETH THE SECOND
Being the Fifty-first
Parliament of New Zealand

0110–3407
WELLINGTON, NEW ZEALAND
Published under the authority of the House of Representatives—2018
ARRANGEMENT OF THE PAPERS

I—Reports and proceedings of select committees

VOL. 1
Report of the Education and Science Committee
Reports of the Finance and Expenditure Committee
Report of the Government Administration Committee
Report of the Health Committee
Report of the Justice and Electoral Committee
Report of the Law and Order Committee
Reports of the Social Services Committee
Reports of the Officers of Parliament Committee

VOL. 2
Reports of the Regulations Review Committee
Reports of the Privileges Committee
Report of the Standing Orders Committee
Reports of select committees on the 2015/16 Estimates
Reports of select committees on the 2016/17 Estimates

VOL. 3
Reports of select committees on the 2017/18 Estimates
Reports of select committees on the 2013/14 annual reviews of Government departments and Offices of Parliament

VOL. 4
Reports of select committees on the 2014/15 annual reviews of Crown entities, Government departments and Offices of Parliament, public organisations, and State enterprises

VOL. 5
Reports of select committees on the 2015/16 annual reviews of Government departments, Offices of Parliament, Crown entities, public organisations, and State enterprises

VOL. 6
Reports of select committees on the 2013/14 annual reviews of Crown entities, public organisations, and State enterprises
J—Papers relating to the business of the House

**VOL. 7**
Government responses to select committee reports
Inter-parliamentary relations reports

**VOL. 8**
Inter-parliamentary relations reports
Reports of the Attorney-General under the New Zealand Bill of Rights Act 1990
Summaries of annual returns to the Registrar of Pecuniary and Other Specified Interests of Members of Parliament
Prime Minister’s Statements to Parliament
Prime Minister’s Notification of General Election 2017
State Opening of Parliament 2014, Speech from the Throne
Report by the Speaker on Accessibility of Services to Parliament
Attorney-General, Revision Bill Programme 2015 to 2017
Certification under section 33 of the Legislation Act 2012
Certification under Standing Order 327(1)
## CONTENTS

### VOLUME 3

<table>
<thead>
<tr>
<th>Shoulder Number</th>
<th>Title</th>
<th>Date Tabled</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.19C</td>
<td>Reports of select committees on the 2017/18 Estimates, July 2017</td>
<td>–</td>
</tr>
<tr>
<td>I.20A</td>
<td>Reports of select committees on the 2013/14 annual reviews of Government departments and Offices of Parliament, April 2015</td>
<td>–</td>
</tr>
</tbody>
</table>
Reports of select committees on the 2017/18 Estimates

Fifty-first Parliament
July 2017
## Contents

<table>
<thead>
<tr>
<th>Vote</th>
<th>Administrator</th>
<th>Select committee</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Development and Infrastructure Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business, Science and Innovation (excluding appropriations relating to Science and Innovation)</td>
<td>Ministry of Business, Innovation and Employment</td>
<td>Commerce</td>
<td>9</td>
</tr>
<tr>
<td>Business, Science and Innovation ( appropriations relating to Science and Innovation appropriations only)</td>
<td>Ministry of Business, Innovation and Employment</td>
<td>Education and Science</td>
<td>31</td>
</tr>
<tr>
<td>Labour Market</td>
<td>Ministry of Business, Innovation and Employment</td>
<td>Transport and Industrial Relations</td>
<td>37</td>
</tr>
<tr>
<td>Transport</td>
<td>Ministry of Transport</td>
<td>Transport and Industrial Relations</td>
<td>47</td>
</tr>
<tr>
<td><strong>Education Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>Ministry of Education</td>
<td>Education and Science</td>
<td>55</td>
</tr>
<tr>
<td>Education Review Office</td>
<td>Education Review Office</td>
<td>Education and Science</td>
<td>63</td>
</tr>
<tr>
<td>Tertiary Education</td>
<td>Ministry of Education</td>
<td>Education and Science</td>
<td>67</td>
</tr>
<tr>
<td><strong>Environment Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conservation</td>
<td>Department of Conservation</td>
<td>Local Government and Environment</td>
<td>73</td>
</tr>
<tr>
<td>Environment</td>
<td>Ministry for the Environment</td>
<td>Local Government and Environment</td>
<td>81</td>
</tr>
<tr>
<td>Parliamentary Commissioner for the Environment</td>
<td>Parliamentary Commissioner for the Environment</td>
<td>Local Government and Environment</td>
<td>89</td>
</tr>
<tr>
<td><strong>External Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customs</td>
<td>New Zealand Customs Service</td>
<td>Foreign Affairs, Defence and Trade</td>
<td>91</td>
</tr>
<tr>
<td>Defence</td>
<td>Ministry of Defence</td>
<td>Foreign Affairs, Defence and Trade</td>
<td>99</td>
</tr>
<tr>
<td>Defence Force</td>
<td>New Zealand Defence Force</td>
<td>Foreign Affairs, Defence and Trade</td>
<td>99</td>
</tr>
<tr>
<td>Foreign Affairs and Trade</td>
<td>Ministry of Foreign Affairs and Trade</td>
<td>Foreign Affairs, Defence and Trade</td>
<td>107</td>
</tr>
<tr>
<td>Official Development Assistance</td>
<td>Ministry of Foreign Affairs and Trade</td>
<td>Foreign Affairs, Defence and Trade</td>
<td>107</td>
</tr>
<tr>
<td><strong>Finance and Government Administration Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit</td>
<td>Controller and Auditor-General</td>
<td>Finance and Expenditure</td>
<td>115</td>
</tr>
<tr>
<td>Communications Security and Intelligence</td>
<td>Government Communications Security Bureau</td>
<td>Intelligence and Security</td>
<td>117</td>
</tr>
</tbody>
</table>
## Vote

<table>
<thead>
<tr>
<th>Vote</th>
<th>Administrator</th>
<th>Select committee</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the Clerk</td>
<td>Office of the Clerk of the House of Representatives</td>
<td>Government Administration</td>
<td>157</td>
</tr>
<tr>
<td>Ombudsmen</td>
<td>Office of the Ombudsmen</td>
<td>Government Administration</td>
<td>159</td>
</tr>
<tr>
<td>Parliamentary Service</td>
<td>Parliamentary Service</td>
<td>Government Administration</td>
<td>161</td>
</tr>
<tr>
<td>Prime Minister and Cabinet</td>
<td>Department of Prime Minister and Cabinet</td>
<td>Finance and Expenditure</td>
<td>163</td>
</tr>
<tr>
<td>Revenue</td>
<td>Inland Revenue Department</td>
<td>Finance and Expenditure</td>
<td>183</td>
</tr>
<tr>
<td>Security Intelligence</td>
<td>New Zealand Security Intelligence Service</td>
<td>Intelligence and Security</td>
<td>117</td>
</tr>
<tr>
<td>State Services (excluding Social Investment appropriations)</td>
<td>State Services Commission</td>
<td>Government Administration</td>
<td>203</td>
</tr>
</tbody>
</table>

### Health Sector

- **Health**
  - Ministry of Health
  - Health
  - Page: 205

### Justice Sector

- **Attorney-General**
  - Crown Law Office
  - Justice and Electoral
  - Page: 215
- **Corrections**
  - Department of Corrections
  - Law and Order
  - Page: 221
- **Courts**
  - Ministry of Justice
  - Justice and Electoral
  - Page: 229
- **Justice**
  - Ministry of Justice
  - Justice and Electoral
  - Page: 229
- **Parliamentary Counsel**
  - Parliamentary Counsel Office
  - Justice and Electoral
  - Page: 215
- **Police**
  - New Zealand Police
  - Law and Order
  - Page: 238
- **Serious Fraud**
  - Serious Fraud Office
  - Law and Order
  - Page: 243

### Māori, Other Populations and Cultural Sector

- **Arts, Culture and Heritage**
  - Ministry for Culture and Heritage
  - Government Administration
  - Page: 247
- **Internal Affairs**
  - Department of Internal Affairs
  - Government Administration
  - Page: 253
- **Māori Development**
  - Te Puni Kōkiri
  - Māori Affairs
  - Page: 255
- **Pacific Peoples**
  - Ministry for Pacific Peoples
  - Government Administration
  - Page: 268
- **Sport and Recreation**
  - Ministry for Culture and Heritage
  - Government Administration
  - Page: 274
- **Statistics**
  - Statistics New Zealand
  - Government Administration
  - Page: 278
- **Treaty Negotiations**
  - Ministry of Justice
  - Māori Affairs
  - Page: 284
- **Women**
  - Ministry for Women
  - Government Administration
  - Page: 297
<table>
<thead>
<tr>
<th>Vote</th>
<th>Administrator</th>
<th>Select committee</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lands</td>
<td>Land Information New Zealand</td>
<td>Primary Production</td>
<td>299</td>
</tr>
<tr>
<td>Primary Industries and Food Safety</td>
<td>Ministry for Primary Industries</td>
<td>Primary Production</td>
<td>305</td>
</tr>
<tr>
<td><strong>Social Development and Housing Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building and Housing</td>
<td>Ministry of Business, Innovation and Employment</td>
<td>Social Services</td>
<td>313</td>
</tr>
<tr>
<td>Social Development</td>
<td>Ministry of Social Development</td>
<td>Social Services</td>
<td>319</td>
</tr>
<tr>
<td>Social Housing</td>
<td>Ministry of Social Development</td>
<td>Social Services</td>
<td>327</td>
</tr>
<tr>
<td>State Services (Social Investment appropriations only)</td>
<td>State Services Commission</td>
<td>Social Services</td>
<td>333</td>
</tr>
<tr>
<td>Vulnerable Children, Oranga Tamariki</td>
<td>Ministry for Vulnerable Children, Oranga Tamariki</td>
<td>Social Services</td>
<td>337</td>
</tr>
</tbody>
</table>
Introduction

This is a compendium of all the select committee reports presented as of 19 July 2017 on the 2017/18 Estimates. It has been structured to reflect the organisation of the Estimates of appropriations into 10 sectors, each of which covers one or more votes.

Other Budget-related reports

The Fiscal Strategy Report 2017 and the Budget Economic and Fiscal Update 2017 are included in the Finance and Expenditure Committee’s report on Vote Finance. The Finance and Expenditure Committee’s report on the 2016/17 Supplementary Estimates will be printed in the Appendix to the Journals – Select Committee Reports 2017.

Security and intelligence appropriations

The votes for the security agencies are examined by a statutory committee, rather than a select committee. The Intelligence and Security Committee was established by the Intelligence and Security Committee Act 1996. The committee’s report on the examinations of Vote Communications Security and Intelligence and Vote Security Intelligence is included in this compendium for ease of reference. Its report on the 2016/17 Supplementary Estimates for Vote Communications Security and Intelligence and Vote Security Intelligence will be printed in the Appendix to the Journals – Select Committee Reports 2017.
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation</td>
<td>3</td>
</tr>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td><strong>Introduction to the Commerce and Consumer Affairs appropriations</strong></td>
<td>4</td>
</tr>
<tr>
<td>Current work of the Commerce Commission</td>
<td>4</td>
</tr>
<tr>
<td>The Financial Markets Authority</td>
<td>5</td>
</tr>
<tr>
<td>Update on progress regarding copyright law</td>
<td>6</td>
</tr>
<tr>
<td><strong>Introduction to the Communications appropriations</strong></td>
<td>7</td>
</tr>
<tr>
<td>Ultra-fast broadband phases 1 and 2</td>
<td>7</td>
</tr>
<tr>
<td>Internet access in rural areas</td>
<td>7</td>
</tr>
<tr>
<td>Delivering fibre internet through electricity lines</td>
<td>7</td>
</tr>
<tr>
<td>Initiatives to address the digital divide</td>
<td>8</td>
</tr>
<tr>
<td>Computer Emergency Response Team</td>
<td>8</td>
</tr>
<tr>
<td>Crown Fibre Holdings</td>
<td>9</td>
</tr>
<tr>
<td><strong>Introduction to the Economic Development appropriations</strong></td>
<td>10</td>
</tr>
<tr>
<td>Business Growth Agenda</td>
<td>10</td>
</tr>
<tr>
<td>Regional Growth Programme: growth opportunities and initiatives in regional New Zealand</td>
<td>10</td>
</tr>
<tr>
<td>Holiday pay and payroll issues</td>
<td>11</td>
</tr>
<tr>
<td>Funding for the New Zealand Venture Investment Fund</td>
<td>12</td>
</tr>
<tr>
<td>Continued support for international screen productions</td>
<td>12</td>
</tr>
<tr>
<td>Move toward becoming a “Digital Government”</td>
<td>13</td>
</tr>
<tr>
<td><strong>Introduction to the Energy and Resources appropriations</strong></td>
<td>14</td>
</tr>
</tbody>
</table>
Warm-Up New Zealand: Healthy Homes rental extension programme 14
Delays to transmission pricing review 15
Petrol pricing and rising margins 16
Issues with oil exploration in New Zealand 16
Increasing the amount of electric vehicles 16
Monopoly of electricity distribution companies and cost efficiencies 16
Energy Star programme to be discontinued 17

**Introduction to the Tourism appropriations** 18
The new Tourism Infrastructure Fund 18
Funding for mobile network coverage in remote areas 19
The possibility of imposing tourism levies 19
Targeting specific markets with direct promotions 19
Funding for the New Zealand Cycle Trail 20
The importance of building cruise-related infrastructure 20
Appendix 21
2017/18 Estimates for Vote Business, Science and Innovation (excluding Science and Innovation appropriations)

Recommendation

The Commerce Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Business, Science and Innovation (excluding Science and Innovation appropriations) as set out in Parliamentary Paper B.5 Vol.1, be accepted.

Introduction

Vote Business, Science and Innovation is the result of a merger of votes, and includes the appropriations relating to Commerce and Consumer Affairs, Communications, Economic Development, Energy and Resources, and Tourism.

This report excludes Science and Innovation appropriations, which are being examined by the Education and Science Committee.

The total appropriations sought for Vote Business, Science and Innovation in 2017/18 are $2.208 billion.
Commerce and Consumer Affairs appropriations

Introduction to the Commerce and Consumer Affairs appropriations

Vote Business, Science and Innovation contains Commerce and Consumer Affairs appropriations which total $186.590 million in 2017/18 (a 6.2 percent increase from the $175.616 million final budgeted in 2016/17). The appropriations fund the administration of the business regulatory environment, and the work of the Commerce Commission and the Financial Markets Authority (FMA), among other work programmes.

Current work of the Commerce Commission

Funding levels for the commission

Commerce and Consumer Affairs appropriations total $186.590 million in 2017/18 (a 6.2 percent increase from the 2016/17 $175.616 million final budgeted).

We asked the Minister whether she was confident that the Commerce Commission was adequately resourced, both in terms of personnel and competency in an ever-changing global environment. We asked this following a particularly busy period, during which the commission blocked the Sky TV and Vodafone merger, and the New Zealand Media and Entertainment (NZME) and Fairfax merger.

The Minister said that the commission conducts its work to a very high standard and she is confident the commission is sufficiently resourced. Acknowledging that the commission has been particularly busy recently, the Minister informed us that an additional $15.2 million would be provided over the next four years to specifically ensure that competition and consumer law is effectively implemented.

We noted the decision by Sky TV and Vodafone to challenge the decisions by the commission. The Minister said that all applicants have the right to challenge decisions, and this demonstrated that a good and robust process was in place.

Review of the Commerce Act 1986

We were interested in the progress of the review of the Commerce Act 1986 initiated by a Productivity Commission report in 2014. The Minister said that the matters being considered in the review are important for the market competition environment in New Zealand. The Minister was happy with the progress, and she was not too far away from making some recommendations.

Some of us felt that progress on the review had gone through a hiatus under the previous Minister. The Minister explained that the matters in the review are weighty and could have an impact on New Zealand’s economy, so it was important to undertake a substantial amount of consultation. The Minister will take the recommendation to Cabinet when she is ready.

Implementation of the Credit Contracts and Consumer Finance legislation

We were interested in the impact of the Credit Contracts and Consumer Finance legislation, which came into effect in 2015. Specifically, we were interested in the funding the Commerce Commission had received to implement and enforce this legislation.
We heard that there are a number of New Zealanders who are affected by untrustworthy dealers such as those who own “truck shops”. Truck shops are mobile shops whose business model is based on selling goods on credit at higher prices, and typically charging no interest. In some cases these businesses employ hard-sell tactics that can result in hardship.

Truck shops are not only prevalent in Auckland, where most of the funding was allocated, but all around New Zealand. The Minister told us that the commission had undertaken 11 or 12 successful prosecutions against truck shops based in Auckland, with one prosecution still ongoing.

We were informed that the prosecutions would send a strong message to untrustworthy dealers that unfair practice towards consumers is not acceptable and would be dealt with by the Commerce Commission. The Minister said that the Commerce Commission makes prosecutions publicly available by putting them on its website.

While New Zealanders have a reasonable understanding of their rights in terms of consumer protection, the Minister said that there is a much lower level of understanding about where to go and what to do about consumer protection. We heard that the Commission for Financial Capability will receive $10.2 million over the next four years to help those New Zealanders who do not know where to go to enforce their own consumer rights.

The Financial Markets Authority

Resourcing levels for the authority

Budget 2017/18 proposes an increase of $9.816 million per annum for 2017/18 and out-years to ensure that financial markets are appropriately regulated. We asked the Minister whether the FMA was sufficiently resourced and had the capacity and capability to carry out its work. The Minister said that the work carried out by the FMA was very strategic, and did contribute to the performance expectations set by the Minister.

The Minister said that the role of the FMA has expanded as a result of the Financial Markets Conduct (FMC) Act 2013 which increases the responsibility and functions of the FMA. This is why it has received an increase in funding. Implementation of the FMC Act has involved the licensing and authorisation of a significant population of previously unregulated financial services providers.

We questioned whether the FMA had been operating on a deficit over the last three years. We were told that it had been running a small surplus, which was possible because of the reserves available to it. The increase in baseline funding would enable the FMA to front-foot its commitments to the Financial Markets Conduct legislation and allow it to enable more front-line functions.

We heard that New Zealand has seen a lot more entrants into the market, resulting in the FMA increasing its level of monitoring. According to the Minister, an increase in entrants into the New Zealand market has not caused growth in non-compliant behavior.

The FMA has indicated that it is not under any stress in terms of staffing on the front line. Over the next financial year the additional funding has enabled the FMA to budget for 25 new staff positions. Of these new roles, 19 are in front-line functions within the Regulation, Capital Markets, and General Counsel functions.
Increased funding for a new IT intelligence and knowledge system

The Minister is confident that the proposed one-off investment of $2.250 million for a new IT intelligence and knowledge system is sufficient. This system is intended to improve the FMA’s effectiveness and efficiency in collecting, accessing, and analysing data to support its risk-based and intelligence-led approach.

This will allow the FMA to apply information and tactical and strategic intelligence to its work, to better understand the populations and sectors it regulates, to analyse change, to respond to those it regulates, and to address market conduct.

Update on progress regarding copyright law

We asked for an update on the progress being made in the area of copyright law. The Minister informed us that a creative sector study had been initiated under the leadership of the previous Minister. This took about two years to complete. From this study, the report acknowledged that copyright settings were no longer as fit for purpose as they could be.

We heard that copyright laws had last been reviewed in 2008 and that the environment in which copyright laws functioned had changed significantly. The Minister is considering the future of copyright legislation, particularly in the modern world of Internet Protocol and the streaming of web content.

We asked when the Minister would be likely to make any decisions regarding copyright legislation. She said that she wanted to take her time to consider the issues before making any conclusions on the Copyright Act. We heard that the Minister would not put in place a legislative programme that would divide or inhibit this exciting growth sector.
Communications appropriations

Introduction to the Communications appropriations

The appropriations within Vote Business, Science and Innovation relating to communications total $209.659 million, up from $39.720 million in 2016/17. Non-departmental appropriations increase to $188.596 million in 2017/18, up from $17.516 million in 2016/17. The increases fund ultra-fast broadband (UFB), the Rural Broadband Initiative 2 (RBI2), and the Mobile Black Spot Fund.

Ultra-fast broadband phases 1 and 2

The second phase of the Government’s UFB programme, UFB2, was announced in January 2017 and will see UFB extended to 151 more towns. It will allow 85 percent of New Zealanders to access fibre by the end of 2024.

The first phase of the UFB programme, UFB1, is nearing completion. The Minister told us that, as of March 2017, 73.8 percent of the UFB1 build is complete and 1.1 million households have access to speeds close to 1,000 megabits per second.

The savings made in UFB1 were able to be transferred to UFB2. Cabinet has instructed Crown Fibre Holdings (CFH) to investigate how to increase the roll-out speed and renegotiate contracts to get tighter time frames.

The Government aims to update time lines. The current aim is to have 99 percent of New Zealanders able to download at 50 megabits per second by 2025.

Internet access in rural areas

We expressed to the Minister the dissatisfaction we have heard from those in rural areas who do not have access to high-speed internet through UFB2 or RBI. We noted the implications this has had for businesses in trying to attract skilled staff in areas with low speeds. The Minister acknowledged that there is still progress to be made but reiterated that the Government and CFH are committed to completing all stages of the UFB roll-out in a timely manner.

We asked the Minister whether the current allocation of $100 million for RBI2 and $50 million for the Mobile Black Spot Fund will be reallocated to allow more money to be given to the Mobile Black Spot Fund. The Minister said that he does not envisage a major change in the allocation but said that there is flexibility to ensure that CFH can achieve the best outcomes possible.

We asked whether it is fair that people who qualify for RBI2 will receive a lesser service than those with UFB2. The Minister responded that, although it would be “fantastic” to be able to offer UFB to everyone in New Zealand, the level of internet connectivity available to those in rural communities will still be a lot faster than it is in rural communities in other parts of the world.

Delivering fibre internet through electricity lines

When we asked about delivering fibre internet through electricity lines, we heard that the Government does not have a specific preference about the technology used to meet RBI2’s
objectives. We were told that lines companies are “perfectly able” to bid into the process and that the recently passed Telecommunications (Property Access and Other Matters) Amendment Bill enables lines companies and their infrastructure to provide fibre connectivity to rural areas.

We were also told that engaging with lines companies has been part of CFH’s procurement process for several months and that engagement had been “at a very local, regional level”. We were told that, although it is unclear at this stage how many lines companies will bid, removing property access barriers may foster more interest.

**Initiatives to address the digital divide**

We asked the Minister what specific initiatives in the Budget deal with the digital divide and the problems that arise when some children are not able to access the internet at home because of poverty and other reasons.

We asked specifically about the discontinuation of the Computers in Homes programme. The Minister said that Computers in Homes is funded through Vote Education but agreed that it is a cross-portfolio issue. He noted that, being new to the communications portfolio, the digital divide is something he is interested in learning more about.

The Minister also said that, currently, the Government’s primary focus is on ensuring that the infrastructure is in place to enable households to connect to high-speed internet, before it addresses the digital-equity divide.

**Computer Emergency Response Team**

The Minister told us that the Computer Emergency Response Team (CERT), which was set up in April 2017, had recorded 338 cyber-security incidents in the last year. The Minister also told us that, because half of all small to medium-sized enterprises have been affected by cyber-security incidents, the Government is testing a cyber credentials package targeted at this group.

The Minister also highlighted that there is a medium-term need for thousands more people to work in the cyber-security area and that a task force is establishing a level 6 cyber-security diploma to meet this need.

We asked for an overview of how CERT works. We were told that, although CERT has been operating only for eight weeks and is still testing its procedures and processes, it performs five foundation services. These services are:

- threat identification, which involve analysing the international cyber-security landscape and reporting on threats
- vulnerability identification services, which involve analysing local data and reporting on vulnerabilities
- incident reporting services, which involve triaging reported incidents and assisting businesses, organisations, and individuals in getting help
- response coordination services, which involve coordinating responses between several organisations when incidents require it
- readiness support services, which involve raising awareness of the effects of cyber-security breaches and best practice.
We heard that all of these services are performing as expected. Although CERT has received hundreds of calls so far, there has not been time to analyse them yet. However, the incidents have mainly fallen into four broad categories: phishing, ransomware, malware infection, and unauthorised access or use of computers.

**Response to “WannaCry” cyberattack**

We heard that CERT’s response to the worldwide ransomware cyberattack “WannaCry” was successful. The attack highlighted the importance of making sure CERT’s connectivity with its overseas counterparts is strong. The fact that the incident occurred during the weekend gave CERT time to minimise the attack’s effects on New Zealand businesses.

**Managing demand**

We asked whether a small to medium-sized enterprise should treat CERT as a first point of contact if it experiences a cyber-security issue. We were told that, although CERT is “not a hands-on remedial service”, it would be appropriate for a small to medium-sized enterprise to contact CERT in the first instance. CERT is able to receive information, offer technical advice, and refer the issue to another appropriate agency if necessary.

The Minister said that part of the reason why CERT was introduced with minimal publicity in April was that the Government was unsure what level of demand for it there would be. The Government will look at the demand for CERT over time to work out an appropriate funding level.

We have initiated a briefing on CERT.

**Crown Fibre Holdings**

Noting that it had a specific role when it was set up, we asked what CFH’s purpose is going to be in the future. The Minister expressed the Government’s satisfaction with its successful commercial negotiations and told us that, although CFH’s core skills are in communications, its effective commercial negotiation skills could be applicable to other infrastructure requirements. He also said that no decisions about CFH’s future role have been made at this stage.
Economic Development appropriations

Introduction to the Economic Development appropriations

The appropriations within Vote Business, Science and Innovation relating to economic development total $503.093 million. This includes the estimated actual of $154.453 million for the 2017/18 portion of the four continuing multi-year appropriations. The total is $23.957 million (4.5 percent) less than the 2016/17 final budgeted amount.

The main reasons for the reductions are the expiry of the Seed Co-Investment Fund appropriation, a reduction in the International Business Growth Services appropriation, and lower estimated 2017/18 expenditure on the international screen production grant multi-year appropriation than under the preceding multi-year appropriation that expires on 30 June 2017.

Economic development appropriations fund advice and services designed to promote economic development throughout the economy as a whole, as well as through firms, sectors, and regions. Through the appropriations, the Ministry of Business, Innovation and Employment (MBIE) supports the Government’s Business Growth Agenda and Regional Growth Programme, and leads the Procurement Reform Agenda.

We are aware that David Smol’s five-year term as chief executive of MBIE ends in June 2017. We thank him for his stewardship of MBIE and his contribution to the public service.

Business Growth Agenda

Performance against the Government’s export target

The Business Growth Agenda (BGA) aims to build a stronger economy by creating conditions for firms to be more productive and internationally competitive. It has set a target for exports to reach 40 percent of gross domestic product (GDP) by 2025. We asked what is being done to achieve this goal, given that, currently, exports make up less than 30 percent of GDP.

The Minister believes that persisting with the programme of microeconomic reform as set out by the BGA is important in efforts to increase GDP growth. The Minister also highlighted some of the key themes that will be the focus of the upcoming refresh of the BGA, including diversification of New Zealand’s markets, investment in infrastructure (including “smart” infrastructure), and inclusive growth across all regions.

The chief executive of MBIE added that, in hindsight, there are issues with the design of the target. He explained that exports have been growing but that the ratio has not improved because GDP (the denominator) has also been growing.

Regional Growth Programme: growth opportunities and initiatives in regional New Zealand

The multi-year appropriation Economic Development: Regional Growth Initiatives (2016–2021) began on 1 July 2016. The appropriation was established to contribute to economic development initiatives that have been identified through the Regional Growth
Programme. Estimated expenditure for this appropriation is $11 million per year, until 2021. We asked how effective the implementation of the regional growth initiatives has been so far.

The Minister pointed out that, according to Statistics New Zealand, 12 out of 15 of New Zealand’s regions experienced increases in GDP in the period ending March 2016. However, he said that this can by no means be solely attributed to the Regional Growth Programme. The Minister told us that economic challenges and opportunities are identified and then plans are developed and put forward. He acknowledged that some plans have been more successful than others.

We asked how MBIE is enabling the economic development agencies to implement strategies to help regions diversify and to be more economically resilient if commodity prices drop or there are unexpected seasonal changes. We heard that the “ethos” of the programme is for the Government to support the regions in leading the local initiatives to leverage economic opportunities.

The Minister also referred to the importance not just of diversification but also of aiding New Zealand’s exports in “moving up the value chain”. He noted the Government’s investment in horticultural science, particularly in the Bay of Plenty, as an example of this.

**Initiatives in the Regional Growth Programme**

We heard about two specific initiatives in the Regional Growth Programme that seek to increase employment opportunities. Action Plans are developed by regions as part of the programme’s engagement process.

Project 1000 is a scheme that is part of the Matariki–Hawke’s Bay Regional Economic Development Strategy and Action Plan 2016, which aims to provide 1000 new jobs for unemployed Hawke’s Bay workers during the next three years. The Minister told us that this includes “NEETs” (youth not in education, employment, or training).

The Ōpōtiki Harbour Development Project is a key action of the Toi Moana Bay of Plenty Economic Action Plan, which aims to create a year-round navigable harbour entrance. When the validation study for the project concludes, the Government may decide to provide the requested $26 million to support construction of the entrance. The Minister explained that the project has the potential to create a viable aquaculture industry for the area.

**Holiday pay and payroll issues**

MBIE released a report in 2016 stating its awareness of possible widespread non-compliance with the Holidays Act 2003. This Act provides employees with minimum entitlements to annual holidays, public holidays, sick leave, and bereavement leave. The concerns are primarily about miscalculations of leave payments, resulting in underpayments.

**Ongoing payroll remediation project at MBIE**

We note that MBIE has been working on its payroll remediation for some time. We asked about this earlier in the year during the 2015/16 annual review of MBIE and sought a further update. We understand that an enforceable undertaking has been signed with the Labour Inspectorate, which requires MBIE to carry out remediation to become compliant. We were told that MBIE is on track to meet the requirements of the enforceable undertaking.
We heard that it is complex work but that MBIE is committed to resolving the issues as soon as possible. The Minister accepts that it is a fraught issue, but he is confident that all affected staff will receive details of their individual remediation calculations by the end of 2017.

The chief executive told us that it does not have an estimate of the financial exposure yet, because MBIE needs to do the back calculations first. He also said that MBIE expects to manage the financial implications within its existing budget.

We will continue to monitor this issue and hope that it will be resolved soon.

**Payroll compliance with the Holidays Act**

MBIE is responsible for administering the Holidays Act, and we discussed non-compliance with the Act more generally. We heard that MBIE will soon release guidance that will help employers and employees understand their respective obligations and entitlements under the Act.

MBIE is attempting to implement tools that will help issues to be resolved as quickly and accurately as possible. Alongside this, the Labour Inspectorate will continue to do selective audits to ensure compliance. The chief executive said that the Act is not straightforward to implement and suggested that there would be value in Parliament reviewing the legislation.

**Funding for the New Zealand Venture Investment Fund**

The New Zealand Venture Investment Fund (NZVIF) was established by the Government in 2002 to build an early-stage-investment market in New Zealand. All of its investments are made either through privately managed venture capital funds or in collaboration with experienced angel investors.

We note that the Crown capital underwrite of $100 million was confirmed in July 2015 and that this underwrite was extended to June 2018. The level of support will drop to $60 million from 2018 on. We understand that this underwrite was put in place to allow NZVIF to commit capital with confidence, on the expectation that the capital for new commitments would be funded from returns. MBIE commented that it is possible that the capital underwrite will be required in a low-returns scenario, between 2018/19 and 2020/21. It identified this as a financial risk.

The Minister pointed out that the Government has contributed capital to the venture investment fund for several years. We asked about the Government’s involvement going forward. The Minister told us that the Government’s future involvement is “under consideration” and that it needs to be respectful of taxpayer money in this area.

**Continued support for international screen productions**

The New Zealand Screen Production Grant—International provides grant assistance to screen productions that are internationally focused and produced in New Zealand. $323.112 million is allocated over four years (2017–2021) under the multi-year appropriation. MBIE anticipates a call of $120 million on the grant in 2017/18.

The Minister believes that the screen incentives regime has been successful in attracting high levels of international interest in New Zealand as a place to do screen business.

We asked how New Zealand is benefiting from relationships with international partners in the film industry. We were told that, in addition to what is offered under the international grant, there is a 5 percent uplift available for productions that have potential to bring
significant economic benefits to New Zealand. Examples of additional value that have been negotiated as part of this additional grant are: establishing a permanent film set with a water tank in Kumeu, script development workshops, and secondments to Los Angeles studios.

Support for the video game industry in New Zealand

We asked what is being done to reduce inequities such that the video game production industry is unable to use the same grants or support that the film industry receives, despite using similar technology and skills.

Labour Party and Green Party members of the committee were disappointed to hear that the Minister is not aware of the issue and that it is an area that is unlikely to receive direct government funding.

Move toward becoming a “Digital Government”

The Minister said that New Zealand should aspire to be “a leading digital nation” and mentioned several programmes that aim to reduce compliance costs on businesses to enable a more digital government. He recognised that, although significant progress has been made, it is an area that requires continuous improvement.

Involvement with the Result 9 programme

The Result 9 programme involves 10 government agencies working together to make government services better for business. We heard that much of this work involves digitising individual services. Within this is the R9 Accelerator, a GovTech accelerator that facilitates government agencies working with private sector entrepreneurs and staff from the public sector to solve complex problems that businesses face when dealing with the Government.

Update on Inland Revenue’s business transformation

Inland Revenue’s business transformation aims to modernise New Zealand’s tax service to make it simpler and faster for New Zealanders to pay their taxes and give more certainty that they will receive their entitlements. One of the results it aims to achieve is that most people will interact through simple and secure digital services.
Energy and Resources appropriations

Introduction to the Energy and Resources appropriations

The appropriations for Energy and Resources for 2017/18 total $158.640 million. This is an increase of 1.1 percent on the final budgeted figure for 2016/17 spending of $156.859 million. Most of the Energy and Resources appropriations fund the work of the Electricity Authority and the Energy Efficiency Conservation Authority (EECA).

The Minister of Energy and Resources is responsible for appropriations of:

- slightly more than $76 million for the Electricity Authority
- slightly more than $32 million for EECA
- slightly less than $14 million to continue the Warm-Up New Zealand initiative, administered by EECA.

The Minister of Energy and Resources is also responsible for slightly more than $296 million of tax and non-tax revenue in 2017/18. This is made up of petroleum and other Crown mineral royalties, levies from the Electricity Industry, coal and gas energy resource levies, and repaying energy efficiency loans.

Warm-Up New Zealand: Healthy Homes rental extension programme

The $13.678 million appropriation Energy and Resources: Home Insulation is limited to grants towards insulation targeting low-income households, as part of EECA’s Warm Up New Zealand: Healthy Homes insulation retrofit programme. The appropriation expires on 30 June 2018.

A limited number of grants are available through the rental extension programme. The grants provide 50 percent of the cost for ceiling and underfloor insulation for rental properties occupied by low-income tenants. Rental properties must meet the following criteria to be eligible for funding:

- the rental property was built before the year 2000
- the named tenant has a community services card or has been referred by the Ministry of Health’s Healthy Homes programme
- the rental property is not owned by a government agency.

Changes to obligations under the Residential Tenancies Amendment Act 2016 mean that, by 1 July 2019, all rental properties must have ceiling and underfloor insulation that meet a set standard where reasonably practicable.

The rental extension programme has a target of installing insulation into 20,000 low-income rental properties by 30 June 2018. EECA acknowledged that, based on the current levels of uptake, there is a possibility that it may not meet this target.

We heard that, as at 31 May 2017 (inclusive of the first 11 months of the financial year), 3,682 rental properties had been retrofitted. We asked why the target would not be met.
EECA explained that it had done market research about why uptake has not been at anticipated levels. One reason is that landlords believe that they already comply with the law that will be in place by 2019.

EECA told us that there is probably a lack of understanding about the standards that will be required. It recognised that it needs to better educate landlords about the specifications for compliance.

The Minister added that, until landlords are aware that they will have to insulate rental properties to a required standard but will no longer be able to access a subsidy, uptake will not increase. The Minister told us that officials have been directed to look at options for improving the uptake of the programme, including the eligibility criteria.

We note that, following the hearing, the Minister announced that eligibility would be extended to low-income home owners to encourage uptake.

**Delays to transmission pricing review**

The Electricity Authority is an independent Crown entity established under the Electricity Industry Act 2010 to oversee the governance and operation of New Zealand’s electricity market.

One of the Electricity Authority’s top priorities is its review of transmission pricing. This is a wide-ranging review of options for the allocation methodology for transmission costs. It continues the work that the Electricity Commission started in 2009.

We note that the Electricity Authority intended to finalise transmission pricing methodology (TPM) guidelines by the end of the 2016/17 financial year. We are aware that the Electricity Authority announced in April this year that it will prepare a new cost–benefit analysis (CBA) for the review of the TPM guidelines because of errors in earlier analysis. We asked for an update on the status of the review.

The chief executive told us that he was “very unhappy” that there were errors in the CBA prepared by Oakley Greenwood. In a recent announcement, the Electricity Authority stated that it has decided to postpone procurement of the new CBA so that new members of the board are able to understand the complexities of the TPM review and the process so far. The Electricity Authority acknowledged that this would affect the timelines of the TPM review and the corresponding decision about the TPM guidelines. It said that “the impact on the overall timeline is unclear” and that it will provide a further update when it can.¹

When asked about the timing of the review, the Minister indicated that she understood why the board of the Electricity Authority decided to prepare a new CBA. She said that the electricity industry is a “litigious sector” and that litigation may have resulted if the Electricity Authority had proceeded based on the wrong information.

She acknowledged that “it is disappointing” and that the Electricity Authority was “let down”. The Minister assured us that she had not had any conversations with Electricity Authority board members about delaying the decision until after the 2017 election.

We will continue to monitor this issue with interest.

¹ Electricity Authority (20 June 2017), “Market Brief”. 
Petrol pricing and rising margins

New Zealand Fuel Market Financial Performance Study

On 9 February 2017, the Minister announced that the Ministry of Business, Innovation and Employment would carry out a study into the financial performance of New Zealand’s fuel market.

We look forward to the release of the results of the study, which we heard will be released this month.

Issues with oil exploration in New Zealand

We asked the Minister whether oil exploration in New Zealand should continue, in light of comments that, to avoid serious negative effects on climate change, about 70 to 90 percent of the known reserves worldwide cannot be burnt.

The Minister considers that, as the world’s population increases, there will be less need for oil for burning. However, she said that New Zealand will still need to produce a certain amount of oil, because oil and gas is used to make a large number of everyday products such as aspirin and clothing. We heard that the use of natural gas, which is a cleaner burning fuel, will become more prominent.

Hydraulic fracturing

Hydraulic fracturing, commonly known as “fracking”, is a process used to extract oil or gas from dense rock.

We asked whether the Minister was happy for fracking to continue in Taranaki. We were told that New Zealand has high standards for fracking and that there is no indication that aquifers have degraded. We heard that the Minister is comfortable with the assurances about fracking she has received from officials.

Increasing the amount of electric vehicles

The Government has a target to double the fleet of electric vehicles each year, with a goal of 64,000 electric vehicle registrations by the end of 2021.

The Minister mentioned that, currently, about 3,000 electric vehicles are in New Zealand and suggested that an increase in electric vehicles could play an important role in reducing emissions.

We asked whether the Minister is an advocate of converting the Crown’s fleet of cars to electric vehicles. We heard that the Minister supports the idea, provided that there is technology in place to facilitate it. However, the policy decision is ultimately the Prime Minister’s responsibility.

We discussed the use of electric vehicles in New Zealand more generally. The Minister talked about the subsidies for electric vehicle users and the use of priority lanes. The Minister acknowledged that the cost of purchasing electric vehicles is still a key issue.

Monopoly of electricity distribution companies and cost efficiencies

Electricity is distributed throughout New Zealand by 29 distribution (“lines”) companies. The lines companies are a natural monopoly, because there is no local competition. We asked the Minister what work is being done on achieving cost efficiencies in this area.
The Minister said that she has encouraged lines companies to work together where possible. The Minister believes that it would be beneficial for lines companies to use similar products to provide some consistency. This would also enable different lines companies to help each other without having to use unfamiliar products or operating methods.

The chief executive of the Electricity Authority explained that the Commerce Commission regulates 17 of the 29 lines companies. The remaining distributors are exempt from regulation because they are consumer-owned.

The Commerce Commission also offers incentives for lines companies to find ways of being more efficient. We heard that there has been an increase in collaboration and standardisation to reduce costs. The chief executive believes that this will be essential for lines companies to adapt to changing technology and is pleased to see some of the distributors recognising this and acting accordingly.

The Minister considers that lines companies will have to evolve or consumers will pursue other options, such as peer-to-peer power trading and producing their own power.

**Energy Star programme to be discontinued**

EECA awards the Energy Star mark to products and appliances with superior energy efficiency within their category. We note that EECA has decided to exit the programme by the end of 2017 and asked why.

The chief executive of EECA told us that findings from a review of the Energy Star programme showed that it has served its purpose. He added that the energy efficiency rating labels on appliances that prompt consumers’ buying behaviours will be retained.

Furthermore, we heard that the regulations about minimum energy performance standards have been fundamental in improving the efficiency of appliances and have driven savings and improvements for consumers.
Tourism appropriations

Introduction to the Tourism appropriations

The total of the 2017/18 tourism appropriations in Vote Business, Science and Innovation is $172.261 million, an increase of 21 percent on estimated actual spending of $142.136 million in 2016/17.

The main funding includes $117 million for marketing and promoting New Zealand as a tourist and business destination, slightly more than $25 million for tourism facilities, and slightly less than $26 million for tourism infrastructure.

The Minister of Tourism, Hon Paula Bennett, appeared at our hearing, with Tourism New Zealand.

The new Tourism Infrastructure Fund

The Tourism Infrastructure Fund is a major new initiative. It is allocated $25.5 million a year for a combined $102 million over four years.

The funding for 2017/18 comes from two sources: $14.449 million is funding for new or enhanced tourism infrastructure, and $11.051 million comes from transfers from the Tourism Facilities multi-category appropriation. This new fund is a demand-driven, “contestable” fund designed to support communities to respond to tourism-related pressures on existing infrastructure.

We wanted to know what initiatives, if any, are missing out on funding because of the transfer of funds from the Tourism Growth Partnership into the new Tourism Infrastructure Fund.

The Minister told us that the Regional Mid-size Facilities Grant is very similar to the new Tourism Infrastructure Fund, which is why they were combined. The Tourism Growth Partnership was originally designed for large projects that will attract international visitors. The Minister decided to transfer this money to the new fund because she believes that improving facilities is more important than attracting new visitors.

We asked what is expected to be achieved with the Tourism Infrastructure Fund in the next year. The Minister said that she plans to spend about $25 million in two rounds in the next year. She told us that $5.2 million was spent on 28 projects last year but that she expects about 100 new projects next year. These will be on a larger scale and more expensive.

The Minister estimated that about $28 million would move from the Tourism Growth Partnership into the new Tourism Infrastructure Fund. Given that, we asked whether any large projects currently in development will have their funding discontinued.

We were pleased the Minister assured us that this would not be the case. She explained that funding for projects that are under development and that have been approved is being retained for the next two to three years. She said that these projects will not be affected or receive a “nasty surprise”.
Funding for mobile network coverage in remote areas

The Mobile Black Spot Fund (MBSF) and the Rural Broadband Initiative 2 (RBI2) have both been funded in the 2017/18 Budget. The MBSF is intended to improve mobile connectivity, particularly on main highways and in key tourist areas, while the RBI2 is focused on non-urban end users. A combined total of $150 million—$50 million for MBSF and $100 million for RBI2—is allocated over the next four years, which includes $30 million this year.

We asked about the funding for the MBSF. Allowing digital communication in the more remote areas of our country is especially important in emergencies. The Minister told us that this is a “priority area” of “huge investment”.

In the previous year, these initiatives appeared as two separate multi-category appropriations with two separate totals, but this year they were replaced with one multi-year appropriation and one sum total. Although this funding is now part of the Communications appropriations, it is also very important to the tourism sector.

In responses to written questions, we learned that Crown Fibre Holdings released requests for proposals for these two programmes in October 2016, which closed in April 2017. How the programmes are rolled out and which areas will be covered will be announced once the commercial negotiations have been completed.

The possibility of imposing tourism levies

We asked the Minister whether she still opposed a tourist levy. She said that she has not changed her view at this stage and is eager to see how the planned infrastructure investment works out before re-evaluating the need for a levy.

We asked whether it was fair to have local councils come “cap in hand” to the Government for funding, since the local regions do not collect GST directly. The Minister noted that central government now funds such things as carparks and footpaths, which have not traditionally been its responsibility, because it cares about regional growth.

The Minister said that she is worried about the cost of visiting New Zealand and noted that tour packages from China to New Zealand are sometimes more expensive than similar packages to Melbourne or parts of Europe.

Targeting specific markets with direct promotions

Tourism New Zealand continues to try to expand visitors arriving outside of peak times, during what is known as the “shoulder seasons”. We asked about the recent initiatives to target specific areas of New Zealand to specific international markets.

We heard about two recent pilot programmes Tourism New Zealand has implemented, with the goal of affecting those travellers’ itineraries. One is in Northland and is aimed at Australians, and the other is in Wellington and the top of the South Island, aimed at Chinese visitors. Both campaigns are relatively new so no results are available yet, but Tourism New Zealand has high hopes for their success.

We heard that social media has made a big difference in these promotions because advertising can be targeted and those clicking through from a specific ad can be identified. This allows a better understanding of what is being spent on marketing and the return on investment.
We look forward to hearing about the results these initiatives achieve, and we will monitor them with interest.

**Funding for the New Zealand Cycle Trail**

This year, $4.4 million has been allocated for Maintaining the Quality of the Great Rides of Nga Haerenga, the New Zealand Cycle Trail. We were informed that an independent 2015 evaluation of the programme showed that every $1 invested generated $3.35 in revenue and that maintenance to a high standard is important to retain that level of return on investment.

We asked about the maintenance of the cycle trail. The Minister told us that underspending of $1.675 million in 2015/16 led to that money being rolled over into the next year, largely because of the timing of the rounds.

Tourism New Zealand told us that most of the maintenance happens on the Department of Conservation (DOC) estate. It noted that there are discussions between DOC and the Ministry of Business, Innovation and Employment (MBIE) to determine the best way to ensure that all DOC sections of Great Rides are built and maintained to a world-class standard.

We were further informed that several trails are owned by small, community-based trusts that need government co-funding to maintain the trails’ standards. This year, to further assist with trail maintenance, the Maintaining Great Rides Fund will receive the final $2 million of an overall $8 million four-year initiative begun in Budget 2014.

**The importance of building cruise-related infrastructure**

We asked the Minister about the importance of cruise-related infrastructure in domestic tourism. The Minister said that this is a very important area and that she is worried because New Zealand faces “big challenges” in this area.

In the last year, the number of cruise travellers was down slightly. The Minister believes that, although this is not significant, it is concerning. She said that cruise operators are currently booking to New Zealand only until the end of 2018 because they want to know New Zealand is serious about them and investing in the infrastructure they need.
Appendix

Committee procedure
The committee met on 8 June, 19 June, 29 June and 6 July 2017 to consider the 2017/18 Estimates for Vote Business, Science and Innovation (excluding Science and Innovation appropriations). We heard evidence from the Minister of Commerce and Consumer Affairs, Hon Jacqui Dean; the Minister for Communications, Hon Simon Bridges; the Minister for Economic Development, Hon Simon Bridges; the Minister of Energy and Resources, Hon Judith Collins; and the Minister of Tourism, Hon Paula Bennett. We received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Clare Curran
Brett Hudson
Gareth Hughes
Raymond Huo
Hon Peseta Sam Lotu-Iiga
Stuart Nash
Simon O’Connor

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:
Minister for Communications, Opening statement.
Minister for Communications, responses to additional written questions.
Minister for Communications, responses to written questions, 1–115 CFH responses.
Minister for Communications, responses to written questions, 1–115 MBIE responses.
Minister for Economic Development, responses to additional written questions.
Minister for Economic Development, responses to written questions, 1–115 MBIE.
Minister for Economic Development, responses to written questions, 1–NZVIF responses.
Minister for Economic Development, responses to written questions, Appendix MBIE responses.
Minister for Economic Development, responses to written questions, Appendix NZTE responses.
Minister of Commerce and Consumer Affairs, Opening statement.
Minister of Commerce and Consumer Affairs, responses to additional written questions.

Minister of Commerce and Consumer Affairs, responses to written questions, 1–115 CC responses.

Minister of Commerce and Consumer Affairs, responses to written questions, 1–115 Commission for Financial Capability (Retirement Commissioner).

Minister of Commerce and Consumer Affairs, responses to written questions, 1–115 External Reporting Board responses.

Minister of Commerce and Consumer Affairs, responses to written questions, 1–115 FMA responses.

Minister of Commerce and Consumer Affairs, responses to written questions 1–115 MBIE responses.

Minister of Commerce and Consumer Affairs, responses to written questions, 1–115 Takeovers Panel responses.


Minister of Energy and Resources, responses to written questions, 1–115 EECA responses.

Minister of Energy and Resources, responses to written questions, 1–115 Electricity Authority responses.

Minister of Energy and Resources, responses to written questions, 1–115 MBIE responses.

Minister of Energy and Resources, responses to additional questions.


Minister of Tourism, Powerpoint presentation.

Minister of Tourism, responses to written questions, 1–115.

Minister of Tourism, Tourism New Zealand responses to written questions, 1–115.

Minister of Tourism, responses to additional written questions, 116–120.

Ministry of Tourism, 6 monthly report December 2016.

Ministry of Business, Science & Innovation, Four year plan.

Standard Estimates Questionnaire, responses to questions 1–22 (Vote BSI).
2017/18 Estimates for Vote Business, Science and Innovation (Science and Innovation appropriations only)

Report of the Education and Science Committee

Contents
Recommendation  2
Introduction  2
Measuring innovation after R&D grants  2
Regional research institutes  3
Scientific collaboration with Australia  3
Gracefield Innovation Quarter  4
National Science Challenges  4
Post-doctoral fellowships  4
Appendix  5
Vote Business, Science and Innovation (Science and Innovation appropriations only)

Recommendation

The Education and Science Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Business, Science and Innovation (Science and Innovation appropriations only), as set out in Parliamentary Paper B.5, Vol.1, be accepted.

Introduction

The appropriations sought for science and innovation in Vote Business, Science and Innovation amount to $1.19 billion in 2017/18, a 16 percent increase from a final budgeted amount of $1.02 billion in 2016/17.

There are six new policy initiatives in these appropriations:

- **Research and development (R&D) Growth Grants**: a renewed multi-year appropriation for 2017/18 to 2021/2022 for $802.860 million that is intended to meet the growing demand for Callaghan Innovation’s Growth Grants.

- **Antarctic science platform**: $21 million over three years from 2018/19 to 2020/2021 dedicated to Antarctic research.

- **Development of hazards response capability**: funding to improve New Zealand’s resilience to tsunamis, volcanoes, earthquakes, and other hazards. This funding includes $3 million for 2017/18 and further funding of $16.5 million from 2018/19 to 2020/2021.

- **Multinational corporation R&D attraction programme**: funding of $2 million per year from 2018/19 to 2019/20 for the Innovate Partnerships team for the goal of attracting 10 multinational companies to New Zealand to conduct R&D by 2020.

- **The Endeavour Fund**: allows allocation of funding to support research, science, or technology with potential to transform New Zealand’s economic performance. A total of $81.9 million spread across four years from 2017/18 to 2020/2021.

- **Establishment of regional research institutes**: $20 million funding each year from 2017/18 to 2019/2020.

The Minister of Science and Innovation, Hon Paul Goldsmith, is responsible for the Science and Innovation appropriations within Vote Business, Science and Innovation. We heard from the Minister of Science and Innovation, from the Ministry of Business, Innovation and Employment, and from Callaghan Innovation.

**Measuring innovation after R&D grants**

We are aware that both the New Zealand Productivity Commission and Motu Economic and Public Policy Research have published papers that claim there is little evidence that
R&D funding leads to increased innovation. We asked what objectives the Minister has set for R&D funding and how the Minister is measuring funding against those objectives.

The Minister told us that the broad objective for government-funded R&D is to increase New Zealand business investment in R&D. Part of Callaghan Innovation’s purpose is to encourage companies who receive R&D subsidies to invest more in R&D.

We heard there has been a 29 percent industry increase in R&D spending between 2014 and 2016, from $1.246 billion to $1.602 billion. Callaghan Innovation grant recipients increased their R&D spending by 46 percent. The Minister reminded us of the Government target of increasing business expenditure on R&D to 1 percent of GDP.

Some of us are concerned that the objective for Growth Grants is for businesses to spend more, and that there is no outcome-based objective on what spending will achieve for business growth. The Minister said that investment in R&D can take time to show results, and that increased investment in R&D also increases overall innovation as well.

**Tax credits in R&D spending**

We asked the Minister whether R&D grants are more beneficial than tax credits for R&D spending. The Minister told us that tax credits were used intermittently in New Zealand from the 1950s to the 1980s. We heard that the challenge with tax credits is that it becomes hard to determine how much will be spent over time, whereas specific funding for R&D grants allows for more certainty and transparency of spending.

**Regional research institutes**

In Budget 2017, the funding for regional research institutes will increase to $23.6 million for 2017/18, up from an estimated actual $1.4 million in 2016/17. This funding allows regional research institutes to be created to maximise business, technology, and economic growth opportunities in their respective regions. We asked the Minister if more institutes are expected, based on the performance outcomes of the established institutes in Marlborough and Central Otago.

The Minister told us that a second round of funding for another regional research institute was made available in 2016 and that 15 proposals had been received. From the 15 proposals, two were shortlisted. The results of the funding will be announced in late June 2017. We will await this announcement with interest.

**Scientific collaboration with Australia**

On 17 February 2017, New Zealand and Australia signed the Australia-New Zealand Science, Research and Innovation Cooperation Agreement that creates a framework for future initiatives on common science priorities, and the promotion of a trans-Tasman innovation ecosystem, and sets out a work programme for increased collaboration in science and innovation. An example of scientific collaboration is New Zealand’s investment in the Australian Synchotron. The Australian Synchotron is a research facility

---


based near Melbourne, Victoria that uses unique technology like microscopy to produce a powerful source of light to view the structure of very small material.

The Minister told us that New Zealand has contributed 5 percent of investment towards the Syncatron, allowing New Zealand to access and benefit from the technology.

**Gracefield Innovation Quarter**

Gracefield Innovation Quarter is one of Callaghan Innovation’s R&D facilities. Located in Lower Hutt, Gracefield gives businesses access to specialist facilities to help fast-track development of technology.

Since 2014/15, the capital expenditure appropriation for Callaghan Innovation relating to Gracefield has continued to be transferred forward each year because of a delay in finalising Gracefield’s plans. For 2017/18, the appropriation has increased from $8 million in Budget 2016, to $18 million in Budget 2017. We note that drawdown for Gracefield is not expected to start until 2018.

We heard that $10 million has been sought from Callaghan Innovation’s establishment capital for 2017/18 to cover costs of remediation work for Gracefield. This includes repairing damage sustained from the 2016 earthquake and addressing other health and safety concerns. We were told that this work is to start in 2017, as soon as the drawdown is approved.

**National Science Challenges**

The National Science Challenges were announced in 2013 and 2014 and are intended to be cross-disciplinary programmes that are designed to address New Zealand’s biggest scientific challenges. There are 11 challenges that require collaboration between researchers and institutes, and other organisations to achieve programme goals. Vote Business, Science and Innovation includes funding of $140.557 million for these challenges.

The Minister told us that all challenges are underway and are at different stages of progress. The challenges are intended to be long-term programmes, with a mid-point review after the first five years of operation. The review would evaluate whether a challenge should change, be stopped, be combined with another challenge, or whether there should be a change in funding. We are very interested in the review of the challenges and its results in the coming years.

**Post-doctoral fellowships**

Some of us are concerned that no funding has been allocated for post-doctoral fellowships in the Science and Innovation appropriations for 2017/18. The Minister is confident that overall investment in science capability will provide more opportunities for post-doctoral research in New Zealand.
Appendix

Committee procedure
We met on 7 June and 5 July 2017 to consider Vote Business, Science and Innovation (Science and Innovation appropriations only). We heard evidence from the Minister of Science and Innovation, Hon Paul Goldsmith, the Ministry of Business, Innovation and Employment, and Callaghan Innovation, and received advice from the Office of the Auditor-General.

Committee members
Dr Jian Yang (Chairperson)
Todd Barclay
Catherine Delahunty
Hon Jo Goodhew
Chris Hipkins
Hon Peseta Sam Lotu-Iiga
Tracey Martin
Todd Muller
Adrian Rurawhe
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper, prepared by committee staff, dated 6 June 2017.
Office of the Auditor-General, Briefing on Vote Business, Science and Innovation (Science and Innovation appropriations only), received 6 June 2017.

Minister of Science and Innovation, Standard Estimates questionnaire response, received 26 May 2017.

Minister of Science and Innovation (4 Year Plan, Ministry of Business, Science & Innovation), received 26 May 2017.

Minister of Science and Innovation (responses to questions 1-115 (Ministry of Business, Science and Innovation)), received 2 June 2017.

Minister of Science and Innovation (responses to questions 1-115 (Callaghan Innovation)), received 2 June 2017.

Minister of Science and Innovation (6 monthly report to Ministers), received 2 June 2017.

Minister of Science and Innovation (responses to post-hearing questions 116 - 124), received 23 June 2017.
# Contents

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td><strong>Accident Compensation Corporation appropriations</strong></td>
<td>2</td>
</tr>
<tr>
<td>Miriam Dean report</td>
<td>2</td>
</tr>
<tr>
<td>Treatment injuries</td>
<td>3</td>
</tr>
<tr>
<td>Injury prevention</td>
<td>3</td>
</tr>
<tr>
<td>Shaping Our Future</td>
<td>4</td>
</tr>
<tr>
<td>Collaboration with district health boards</td>
<td>4</td>
</tr>
<tr>
<td><strong>Immigration appropriations</strong></td>
<td>5</td>
</tr>
<tr>
<td>Global Impact Visa</td>
<td>5</td>
</tr>
<tr>
<td>Skill shortage lists</td>
<td>5</td>
</tr>
<tr>
<td>Preventing workplace exploitation</td>
<td>5</td>
</tr>
<tr>
<td>Consequences of reducing immigration levels</td>
<td>6</td>
</tr>
<tr>
<td>Changes to the skilled migrant category</td>
<td>6</td>
</tr>
<tr>
<td>International students</td>
<td>7</td>
</tr>
<tr>
<td><strong>Workplace Relations and Safety appropriations</strong></td>
<td>8</td>
</tr>
<tr>
<td>Progress of health and safety reform</td>
<td>8</td>
</tr>
<tr>
<td>Reduction in fatalities and serious harm in workplaces</td>
<td>8</td>
</tr>
<tr>
<td>Risk status of the agricultural industry</td>
<td>8</td>
</tr>
<tr>
<td>Engagement with ethnic communities</td>
<td>9</td>
</tr>
<tr>
<td>Appendix</td>
<td>10</td>
</tr>
</tbody>
</table>
Vote Labour Market

Recommendation
The Transport and Industrial Relations Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Labour Market, as set out in Parliamentary Paper B.5, Vol. 1, be accepted.

Introduction
The Ministers for Accident Compensation Corporation (ACC), Tertiary Education, Skills and Employment, Economic Development, Immigration, and Workplace Relations and Safety are responsible for the appropriations in Vote Labour Market. The Ministry of Business, Innovation and Employment administers the appropriations in the vote.

For 2017/18, the total appropriations sought for Vote Labour Market increase by 7.5 percent to $1.834 billion from estimated actual expenditure of $1.707 billion in 2016/17.

We heard from the Minister for ACC, Immigration, and Workplace Relations and Safety. Hon Michael Woodhouse is the Minister for all three portfolios. He considers that the portfolios are very complementary because they share the common goal of keeping workplaces fair, flexible, and safe.

Accident Compensation Corporation appropriations
The ACC appropriations fund the ACC’s non-earners account. This covers injuries, other than those involving motor vehicles, to people who are not in paid employment.

In 2017/18, the total appropriations are $1.357 billion, an increase of about 10 percent of final budgeted expenditure of $1.234 billion in 2016/17. The increase is primarily from the annual revaluation of ongoing liabilities, assets, and forecast costs based on updated historical performance and economic factors.

Miriam Dean report
In September 2016, the previous Minister for ACC released an independent report by Miriam Dean on ACC’s dispute resolution processes. The report made 20 recommendations about access to law, medical evidence, and representation; being heard; and improving the collection and analysis of data about claims and disputes. The Minister told us that he has delegated authority for implementing the report’s recommendations to his Associate Minister.

ACC is committed to implementing the recommendations of the Miriam Dean report. It is working on simplifying its processes. On 1 July 2017, it will launch a website that will be more user-friendly for ACC customers. Other actions include introducing a model litigant policy that ACC’s lawyers must apply in all of its litigation and providing public access to court decisions about ACC cases on the Legal Information Institute website.
Access to medical evidence

We note that there has been criticism and concern from ACC claimants about the independence of the medical evidence advice. In response to a recommendation in the Miriam Dean report, ACC has introduced a Medical Issues Working Group to address access to medical evidence issues. The working group convened in December 2016 and has met twice. As a result of discussions at these meetings, ACC has drafted a guideline for medical experts about their independent and objective role when providing medical reports on ACC clients. The working group expects to finalise the guideline at its next meeting, along with exploring further how to improve access to medical evidence for ACC claimants.

Treatment injuries

Since 2012, treatment injuries have increased significantly. We heard that that there is a range of factors for the increase. Since 2005, the number of treatments has increased, along with the rates of complex treatment and the risk factors for complications in the people receiving healthcare. This includes age, the level of frailty in an ageing population, and obesity and diabetes. All of these factors increase the risk of complications and treatment injuries.

In addition, the rates have increased as awareness of treatment injuries has grown and clinicians better understand their reporting responsibilities. ACC views this positively because it can address treatment injuries only when it has good reporting.

The Minister told us that ACC has invested about $45 million in its treatment injury prevention strategy. This focuses on targeted, evidence-based strategies to prevent injuries from occurring. Several months ago, ACC published treatment injury statistical data with district health boards (DHBs). The Minister believes that this will help ACC health providers and DHBs better understand and manage the risks with treatment injuries.

We asked whether the Minister considers it acceptable that providing more treatments would inevitably result in more treatment injuries. We heard that an increase in reporting is expected when there is a focus on any health and safety area.

We were told that ACC is focusing on infections, pressure injuries, medication safety, and brain injuries at birth. This is because it knows that any investment in these areas has a very high return, at about $2 for every dollar invested.

ACC considers it appropriate to invest in prevention because ACC benefits when there are fewer treatment injuries. It also believes that joint investment and partnership with the health sector is needed. The Minister agreed with this, noting that DHBs gain from investment because readmission rates, extended stays, and managing ulcers and pressure sores is expensive.

Injury prevention

In 2017/18, $24.2 million has been allocated to injury prevention activities for non-earners. This compares with $19.1 million in 2016/17. ACC uses a formal cost–benefit analysis to target the areas that have the most effect on people’s lives in its injury prevention programme. This is not purely a financial cost or benefit.

ACC has 110 injury prevention programmes being delivered or designed. As at 31 March 2017, its return on investment was $1.87 for every dollar invested.
RugbySmart

RugbySmart, which has been operating for about 15 years, is an example of a successful injury prevention programme. Until recently, the programme focused on reducing spinal injuries in rugby league and rugby union, an area that was considered high risk and high cost during that period.

RugbySmart was relaunched earlier this year because the focus of the programme has shifted. As players have become heavier and the impact has increased, the risk is now from concussion injuries and other tissue injuries.

The Minister told us that ACC used the relaunch of RugbySmart to deliver messages about healthy relationships. This is because family violence is another area of cost and risk for ACC. We were pleased to hear about ACC taking an innovative approach to simultaneously target several areas of injury prevention.

Injury prevention in the sporting sector

We were interested in ACC’s work in injury prevention in the sporting sector, particularly in whether the messages are reaching down to club level. ACC’s SportSmart programme, which covers the major sports, focuses on effective warm-ups, cool-downs, and processes for playing the sport.

We heard that ACC has increased its SportSmart investment to $8 million over the next four years. ACC believes that it is important that its programmes focus not only on the elite level but also on the grass-roots level. In the last financial year, ACC’s injury prevention programmes have directly covered nearly 470,000 New Zealanders.

Shaping Our Future

The Shaping Our Future programme is ACC’s transformation project. It aims to improve customer experience and outcomes, improve trust and confidence in ACC, and increase productivity through the use of data.

We were pleased to hear that ACC is progressing well with the programme. It will introduce a simplified website soon. It has been able to reduce the amount of time that it takes to begin weekly compensation for clients from an average of 10 to 11 days, to two to three days in some cases.

The early phases of the programme focus on simplifying processes and improving experiences for ACC’s business customers. It is on target to replace its levy billing platform by the end of the year. This will affect 535,000 New Zealand businesses. ACC has launched a self-service portal for business customers to manage their accounts and levy payments online. It has also simplified the levy invoice for business customers.

Collaboration with district health boards

We asked whether there is an opportunity for ACC to work closer with the health sector, either through DHBs or the Minister of Health, to ensure that ACC is not paying for work that should be done by DHBs. The Minister agreed that there will always be a boundary between an injury that is covered by the ACC legislation and medical treatment generally.

The Minister said that this is often an area of contention for claimants who believe that ACC should provide certain treatment. The Minister does not believe that structural change will improve this. He expects that staff will make decisions in a fair, transparent, and timely manner.
Immigration appropriations

For 2017/18, the total appropriations sought for immigration are $305.651 million. This is a decrease of 4 percent from the estimated actual expenditure of $318.339 million in 2016/17.

Global Impact Visa

In September 2016, the Minister announced that Immigration New Zealand would partner with the Edmund Hillary Fellowship on a new Global Impact Visa, a three-year open work visa that enables participants to live and work in New Zealand. The visa is targeted at entrepreneurs and investors to create or significantly contribute to innovative ventures in New Zealand. The scheme, which is running as a four-year pilot, is limited to 100 visas each year.

The Minister and Immigration New Zealand have been impressed with the level of interest and quality of applications it received in the first year of the programme. Immigration New Zealand received more than 300 applications from 52 countries for the 100 places this year. These were from a range of areas, including augmented reality, virtual reality, biotech, and agritech.

We were pleased to hear that New Zealand is well placed to attract entrepreneurs and investors. This is because, increasingly, entrepreneurs and investors are interested in areas that New Zealand is good at, such as agritech and biotech. We look forward to receiving updates about the Global Impact Visa programme as it progresses.

Skill shortage lists

We were interested how the skills on the skill shortage list are decided. Immigration New Zealand manages the immediate skill shortage list, and the Minister manages the long-term skill shortage list. Immigration New Zealand assesses the skill shortage list annually and consults with industry bodies and unions.

The strategic workforce engagement programme is investigating five sectors of the New Zealand economy that are increasingly reliant on greater numbers of migrants. The sectors are road transport, aged care, hospitality, dairy, and horticulture and viticulture. The programme involves working with the sectors to help them work towards employing more New Zealanders in the medium to long term.

Phase two of the review of the temporary migration settings will start later this year. This will examine the way that industries and occupations get on the list, how long they stay, and what they need to solve their labour shortages domestically. We look forward to an update on this review.

Preventing workplace exploitation

Some of us are concerned that the sectors with high levels of low-skilled migrant workers are areas where a lack of compliance with minimum reporting standards is high. We asked what is being done to ensure that there are protections for these workers. The Minister told us that he shares this concern and has disdain for anybody that treats workers badly, particularly migrant workers, who are often vulnerable.

The Minister has encouraged the Labour Inspectorate and Immigration New Zealand to cooperate and collaborate in their work. He told us that both organisations have received significant increases in funding in two of the last three budgets. The Minister expects that
they will target these resources to prevent and prosecute migrant exploitation. He is pleased that Immigration New Zealand, the Labour Inspectorate, Inland Revenue, and the Police are working more closely to share information about potential cases of worker exploitation.

**Sanctions for breaching employment standards**

The Minister explained that the 2016 changes to the employment standards legislation set clear expectations that non-compliance with standards required greater sanctions. The Labour Inspectorate is now able to issue infringement notices, with prosecution being more appropriate for breaches that provide serious harm. In the last two to three years, there have been 33 prosecutions with a 95 percent success rate. These were for more serious breaches, such as serious trafficking, migrant exploitation, and people smuggling.

The Minister considers that access to the international labour market is not a right but a privilege. He believes that those who abuse that privilege can expect to lose it. Therefore, he introduced stand-down periods of between six months and two years for workplaces proven to be in breach of an immigration or labour law. We heard that, for industries or organisations that rely heavily on overseas workers, this could have a “devastating impact” on their business. The Minister hopes that this will have a preventative rather than a punitive effect.

**Consequences of reducing immigration levels**

There have been some suggestions that net migration should be capped at about 20,000 per year. We were interested in the Minister’s thoughts on this proposal. The Minister told us that it would be easy to do if “you just turn the tap off”. However, he asked which industries “do you want to decimate along the way?”

The Minister acknowledged that there has been an increase in long-term migration. However, a large part of this is New Zealanders coming home. In addition, in the period where net migration has “turned around”, working holiday makers have increased by 20,000 and international students have increased by about 30,000.

The Minister is not prepared to remove rights to working holiday visas and international student visas. He said that this would “destroy relationships with other countries”, prevent New Zealanders from taking working holidays in other countries, and reduce New Zealand’s fourth-largest export earner, which employs 32,000 people.

Although net migration has increased, the number of people coming to New Zealand on the essential skills visa has decreased by about a third while the Government has been in office. The jobs on the essential skills visa list relate to where the demand and work is. The Minister told us that cuts to labour-market-tested work visas would be “devastating” for some industries.

**Changes to the skilled migrant category**

In April 2017, the Government announced changes for people applying for residence under the skilled migrant category. This is because demand for residency exceeds the number of places that New Zealand can offer. Remuneration thresholds have been introduced.

One threshold is the median wage combined with certain qualifications. The second threshold is being paid one and a half times the median wage. This acknowledges that, although a person may not have qualifications, they are considered skilled if they are valued enough by their employer to be paid this wage.
We heard that, if a person is earning less than the median wage, it will be “impossible” for them to get skilled migrant residency in the future. The Minister emphasised that it is important that people who come to New Zealand on temporary visas understand the conditions under which they are coming to New Zealand. He believes that it is unfair to set an expectation of residency that no longer exists.

**International students**

Some of us are concerned about the lack of support for international students and asked whether the Government is considering a more consistent approach.

The Minister believes that it is important that international students have a positive experience in New Zealand. He works closely with the Minister for Tertiary Education, Skills and Employment to ensure that migration policies and the international student experience are aligned.

The previous Minister for Tertiary Education, Skills and Employment updated a code of conduct for education providers about their responsibilities to support international students. The Minister is confident that providers are aware of these expectations. In the past several years, more than 30 tertiary education providers have been shut down because they were not meeting these expectations.

The Government will soon launch an international student wellbeing strategy. This is because of some issues last year with international students. Immigration New Zealand has worked with the education agencies and the Human Rights Commission on this strategy. We look forward to receiving an update on the implementation of the strategy.

We note that the Immigration New Zealand website aimed at international students specifies that being an international student can be a pathway to residency. We asked whether this would be updated after the changes to the skilled migrant visa.

The Minister told us that, although some international students gain residency, 80 percent do not. He does not believe that there is anything on the Immigration New Zealand website that implies that study in New Zealand is an automatic pathway to residency. He would advise international students with a goal of residency that they need to study a higher-level course.
Workplace Relations and Safety appropriations

In 2017/18, the total appropriations sought for workplace relations and safety total $163.952 million, an increase of 10.3 percent from final budgeted expenditure of $148.667 million in 2016/17.

Progress of health and safety reform

The Health and Safety at Work Act came into force in April 2016. We were pleased to hear about the progress in some organisations and industries, such as the construction and farming industries, which have established industry safety groups. These are modelled on the Forest Industry Safety Council, which was established in 2013.

The Minister is encouraged that the level of worker participation in health and safety is gaining momentum. He considers it important that WorkSafe is “seen as an enabler of that momentum”. We were pleased to hear that, in the past year, more organisations have made changes to workplace health and safety as a result of interactions with WorkSafe, and that people are more satisfied with their contact with WorkSafe.

The Minister told us that it feels as if the workplace is changing its behaviour, which he believes will result in an acceleration of harm reduction.

Reduction in fatalities and serious harm in workplaces

The Minister told us there has been a reduction in fatalities and serious harm over the three-year moving average. Some of us queried this, noting that fatalities rose in the calendar year after the Act was passed.

The Minister cautioned against placing too much emphasis on year-to-date numbers. He said that it is important to follow trends rather than clusters of serious harm and fatalities. The Minister considers that the best measure is a three-year moving target that is indexed to the size of the economy, measured by 100,000 FTEs.

Progress against targets to reduce workplace harm

The Government has set a target of a 25 percent reduction in death and serious harm in workplaces by 2020. The interim target for 2016 was a 10 percent reduction. We heard that, at the end of 2016, the number of fatalities was already below the target for 2020. Serious harm is below the 2016 target but has not yet met the 2020 target. The Minister is confident that this target will be reached.

We asked how the Government could meet the targets when the number of fatalities in the workplace increased in the last calendar year and looks likely to increase this year. We heard that this is because the targets are indexed to the size of the economy, which is growing. Some of us believe that the total number of fatalities should also be considered in the targets.

Risk status of the agricultural industry

In 2016, 40 percent of workplace fatalities were in the agriculture industry, despite it accounting for only about 7 percent of the New Zealand workforce. We asked how it could continue to be considered a low-risk industry. The Minister told us that he does not define it as low risk.
The Minister said that the legislation talks about “the upper quartile of risk when related to the number of people in the workforce”. Therefore, “agriculture is going to have a high harm rate, because it is our single largest industry.”

**Engagement with ethnic communities**

We asked how WorkSafe engages with ethnic communities to strengthen understanding of its standards and regulations. We heard that, in Auckland, WorkSafe is working with the Chinese building sector, both one-on-one and as part of a broader construction priority sector prevention programme. It has also launched a pilot programme in Ruatoria. This targets Māori marae-based programmes and is seeking to improve outcomes for the forestry sector.
Appendix

Committee procedure
We met on 8 and 29 June 2017 to consider Vote Labour Market. We heard evidence from the Minister for Accident Compensation Corporation, Minister of Immigration, and Minister for Workplace Relations and Safety, Hon Michael Woodhouse, the Accident Compensation Corporation, the Ministry of Business, Innovation and Employment, and WorkSafe and received advice from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Hon David Bennett
Kris Faafoi
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Alastair Scott
Hon Maurice Williamson
Dr Jian Yang

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Labour Market, prepared by committee staff, dated 6 June 2017.
Minister for ACC, Response to additional questions, received 7 June 2017.
Minister for Workplace Relations and Safety, Responses to additional questions, received 7 June 2017.
Minister responsible for Vote Labour Market, Responses to additional questions, received 7 June 2017.
Minister responsible for Vote Labour Market, Responses to post-hearing questions, received 23 June 2017.
Office of the Auditor-General, Briefing on Vote Labour Market: ACC appropriations, received 8 June 2017.
Office of the Auditor-General, Briefing on Vote Labour Market: Immigration appropriations, received 8 June 2017.
Office of the Auditor-General, Briefing on Vote Labour Market: Workplace Relations and Safety appropriations, received 8 June 2017.
Vote Labour Market, Response to standard Estimates questionnaire.
2017/18 Estimates for Vote Transport

Report of the Transport and Industrial Relations Committee

Contents
Recommendation 2
Introduction 2
Auckland Transport Alignment Project 2
Auckland City Rail Link 3
Rail 4
Resilience of rural regions 5
Road policing 5
Fraud at the Ministry of Transport 6
Ministry of Transport finance team 6
Appendix 7
Vote Transport

Recommendation

The Transport and Industrial Relations Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Transport, as set out in Parliamentary Paper B.5, Vol. 1, be accepted.

Introduction

The appropriations sought in 2017/18 for Vote Transport increase by 40.15 percent to $5.257 billion from estimated actual spending of $3.751 billion in 2016/17. The increase primarily relates to funding for the Auckland City Rail Link (CRL), reinstatement of State Highway 1 in the South Island, and capital investment in KiwiRail.

In 2017/18, the Crown is forecast to collect road tax revenue of $3.572 billion. This comprises road user charges, motor vehicle registration fees, and fuel excise duty.

Funding for roads makes up most of the Vote (81 percent). This is primarily the funding for the National Land Transport Programme, which is funded from road tax revenue collected by the Crown ($3.226 billion or 61 percent of the Vote).

Funding for rail makes up 16.4 percent of the Vote. The remainder is split between Ministry of Transport departmental funding, transport Crown entities, SuperGold Card public transport concessions, and weather forecasting services from the Meteorological Service of New Zealand.

The Minister told us that his main priorities are supporting economic growth and productivity, continuing to improve safety, and ensuring value for money.

Auckland Transport Alignment Project

In September 2016, the Auckland Transport Alignment Project (ATAP) published its Recommended Strategic Approach report. This outlines Auckland’s transport priorities for the next 30 years.

The report recommended that the Government and Auckland Council adopt an approach that focuses on making better use of existing networks, targeting investment to the most significant challenges, and maximising opportunities to influence travel demand.1

Funding gap

The ATAP report identified a funding gap of about $4 billion between the estimated expenditure from 2018 to 2028 and the expected funding available over this period. In responses to written questions,2 the Minister noted that the Crown and Auckland Transport are working on an approach to address the shortfall. This is in advance of key statutory funding documents, which will be developed by the end of 2017.

---

2 Standard Estimates Questionnaire response, Vote Transport 2017/18, p. 3.
The Minister told us that the Mayor of Auckland maintains that, based on population increase, the shortfall is more than $4 billion. Officials are considering information to test the accuracy of the estimated funding gap.

The Minister believes that the funding shortfall will be addressed with a “team effort”. Although the Government will “need to do the most”, he expects to see the council work alongside the Government with funding increases from Auckland that are “somewhat commensurate”.

We asked the Minister why he does not favour a regional fuel tax for Auckland to meet the funding gap. The Minister does not think that this is an effective tax. He believes that there would be ways of avoiding it, such as commercial fleets using petrol stations outside the area. The Minister is concerned that it would set a precedent and raise equity issues nationally.

**Demand management**

The ATAP report concluded that continued investment, including adding car lanes and increasing rail, will not improve congestion as the population rises, unless demand management is addressed.

In June 2017, the Government and Auckland Council agreed on terms of reference for the Smarter Transport Pricing Project. Representatives from the Ministry of Transport, Auckland Council, Auckland Transport, the New Zealand Transport Agency (NZTA), Treasury, and the State Services Commission will investigate whether to support the introduction of pricing for demand management in Auckland.

The first phase of the project involves gathering evidence. Officials will consider congestion data and analyse successful and unsuccessful international policies. We look forward to receiving updates about possible options.

The Minister emphasised that demand management pricing is about reducing congestion. Although it will raise revenue, he views the pricing as a replacement to other charges such as road-user charges and the petrol tax. The Minister provided examples of varying the price of travel, according to location, distance travelled, and time of day, resulting in people using alternative transport or varying their time of travel.

The Minister acknowledged that it is important that there are viable alternatives. These include CRL, options for buses, and ride-sharing.

**Auckland City Rail Link**

The Vote includes an appropriation of non-departmental capital expenditure of $436 million. This represents the Crown’s share of costs in 2017/18 for the CRL project, an underground rail line linking Britomart and the city centre with the existing line near Mt Eden. The Minister told us that this is a six to seven-year project, which he expects to be completed in the early to mid-2020s.

NZTA and Auckland Transport are working together to manage the disruption to transport throughout the city. Auckland Transport is focusing on the CBD and is closely monitoring how the construction affects traffic in the area.

We asked about the governance arrangements for CRL. Sir Brian Roche, the former chief executive of New Zealand Post, has recently been appointed as chair of CRL Limited. The Government and Auckland Council are working through the process of appointing board
members who the Minister expects will have commercial and rail expertise. We heard that the board will report back to the Mayor of Auckland, the chief executive of Auckland Council, the Minister of Finance, and the Minister of Transport.

Rail

Replacing electric freight trains with diesel locomotives

In December 2016, KiwiRail announced that it would replace its electric trains on the North Island Main Trunk line with diesel locomotives. The electric trains, which are almost 30 years old, operate between Hamilton and Palmerston North.

In answers to written questions,³ the Minister stated that KiwiRail’s business case did not include details on the cost of several shortlisted options. This included the upfront capital costs of purchasing new diesel locomotives, purchasing new or second-hand electric locomotives, and refurbishing existing electric locomotives.

We asked how the Minister could be confident in the KiwiRail board’s decision when the business case did not contain the relative costs of the different options. The Minister is confident in KiwiRail’s decision because it was a very thorough process involving “a huge amount of information and analysis”.

The Minister said that the decision was not simply an economic decision but also had social, environmental, and commercial implications. He believes that, although it was a difficult decision, on balance, it was the correct one. Some of us consider that this decision was made with insufficient information about the possible options.

We asked about the reason for choosing diesel, considering that the board did not have information about the cost and that electric trains have lower emissions than diesel. The Minister told us that this was an operational decision for KiwiRail. He said that KiwiRail decided that there would be disruption to its commercial business over several years while the trains were being replaced, which would mean that it lost customers. The Minister noted that there are 66 percent to 70 percent fewer emissions with freight on rail than the equivalent by road.

Third Main rail line

The Third Main rail line would enable freight and passenger trains to be separated between Wiri and Auckland’s Westfield train station. This would allow services to run more frequently. We asked how passenger services could be increased if there is not funding in the Budget for the Third Main rail line. The Minister told us he is confident that the Third Main will be completed over time.

We asked whether the Third Main rail line was a failed Budget bid. The Minister told us that it is his recollection that he did not sign paperwork about a Budget bid on this project. The Minister considers that it is important to review rail and is expecting draft Terms of Reference. He anticipates that a review will consider issues such as how rail projects are funded. We await the results of this review with interest.

³ Julie Anne Genter to the Minister of Transport, 4768–4779 (2017).
Resilience of rural regions

We note the importance of rural regions for primary production. We were interested in the resilience in these regions, given recent events such as the Kāikoura earthquake in November 2016 and the inaccessibility of the Manawatu Gorge Road.

Reinstatement of State Highway 1 in the South Island

Vote Transport includes a new appropriation for the cost of reinstating the South Island transport corridor after the Kāikoura earthquake. The cost of reinstatement is estimated at between $812 million and $912 million. A more accurate estimate will be known when the project design has been completed.

The appropriations include $69 million for 2016/17 and $325 million for 2017/18. A further $418 million is tagged as contingency funding.

The Minister acknowledged that, within reason, no design will survive a 7.8 earthquake. We heard that the Kāikoura earthquake demonstrates the importance of having a strong economy and financial resilience.

Improving road design

We asked whether, given our topography and recent history of seismic events and flooding, new techniques were being learned about road designing and building. We heard that resilience has always been an important factor for NZTA in designing, delivering, and maintaining roads, particularly for the regional State Highway network. Having alternative routes, where possible, is an important part of a resilient network. Given the recent events, NZTA is now reassessing how it is building and what it can protect against.

NZTA reiterated the Minister’s statement that, realistically, the whole network cannot be protected against a 7.8 seismic event. It acknowledged that the rebuilt State Highway 1 down the South Island would not stand up to a similar event. NZTA is putting the road back with much more protection from slips.

Manawatu Gorge Road

The Minister told us that he understands the frustration about the closure of the Manawatu Gorge Road because this is a road that has been out of action for long periods. Although the road does not have high traffic volumes, it is a vital link for those people that use it.

The Minister has asked NZTA to assess the road to determine whether there is a more resilient option.

Road policing

In 2017/18, the Crown is forecast to collect $3.572 billion in road tax revenue. Although most of this is spent within Vote Transport, about 9 percent is transferred to Vote Police to fund the road policing programme.

In 2017/18, funding for road policing will decrease to $321.807 million, from an estimated actual expenditure of $333.503 million in 2017/18. Some of us are concerned about the decrease in funding, given that the road toll has been trending upwards in recent years.

The Minister disagreed that there had been a cut, telling us that that there had been a 7 percent increase in the road policing budget from the previous National Land Transport

---

Programme (NLTP) to the current one. This equates to $900 million in the 2012–2015 NLTP and $965 million in the 2015–2018 NLTP. He also pointed out that the amount has subsequently increased by $10 million to $975 million. Some of us are unhappy that the Minister did not clearly explain the reason for the drop in 2017/18.

Further to our questions to the Minister, he responded by saying that the ministry understands that the Police will request a carry-forward of unspent funding to correct the allocation between years. Thus the 2016/17 appropriation is currently overstated by funding that will be carried forward to 2017/18 and the 2017/18 appropriation will increase by that amount.

Fraud at the Ministry of Transport

The Minister noted that, at this stage, none of the money stolen by Joanne Harrison, a former Ministry of Transport manager, has been recovered.

The ministry is supporting the Police in the asset recovery process on behalf of the Crown. The chief executive of the ministry told us that, in July 2016, the Police put in place processes for asset recovery that are before the courts at the moment. The ministry is unable to talk about the processes until the court proceedings are complete.

Ministry of Transport finance team

In 2017/18, the forecast expenditure for temporary and contract employees in the Finance Department at the ministry is $350,000. We asked why there was an increase in expenditure, given the amount two years ago was $21,000 and the organisation has recently suffered a major fraud. We were told that the increase is not connected to the fraud. The chief executive is reviewing the organisation, part of which includes considering the composition of the finance team.

During 2015/16, three finance team positions were disestablished as the result of a review that introduced an automated invoicing system. Three staff members were made redundant at a cost of $164,000. The ministry told us that contracting staff are unrelated to the automated invoicing system.

The ministry told us that the finance team has some permanent staff with strong financial skills. However, it has had high staff turnover, which means that temporary and contract staff are required to perform functions including managing financial transactions with Crown entities, preparing for Estimates, and providing financial information to management and Parliament.
Appendix

Committee procedure
We met on 8 and 29 June 2017 to consider Vote Transport. We heard evidence from the Minister of Transport, Hon Simon Bridges, and the Ministry of Transport, the New Zealand Transport Agency, the Civil Aviation Authority, Maritime NZ, and the Transport Accident Investigation Commission, and received advice from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Hon David Bennett
Kris Faafoi
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Alastair Scott
Hon Maurice Williamson
Dr Jian Yang

Julie Anne Genter replaced Denise Roche for this item of business.

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Transport, prepared by committee staff, dated 6 June 2017.

Office of the Auditor-General, Briefing on Vote Transport, received 8 June 2017.

Minister of Transport, Response to standard Estimates questionnaire.

Minister Transport, Response to additional questions, received 6 June 2017.

Minister of Transport, Response to post-hearing questions, received 26 June 2017.
2017/18 Estimates for Vote Education

Report of the Education and Science Committee

Contents

Recommendation 2
Introduction 2
Developments in early childhood education 2
Managing school capacity 3
Developments in Communities of Learning—Kāhui Ako 4
Progress in partnership schools 5
Increase in operational grant funding 5
Support for students with behavioural or learning difficulties 5
Extra support for Kāikoura schools 6
Students handling guns at school 6
Appendix 7
Vote Education

Recommendation
The Education and Science Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Education, as set out in Parliamentary Paper B.5, Vol.2, be accepted.

Introduction
The appropriations sought for Vote Education in 2017/18 total $11.612 billion, an increase of 2.7 percent from estimated actual spending in 2016/17 of $11.312 billion.

Vote Education includes the following approximate appropriations:

- $2,143 million for services from the Ministry of Education—the most significant costs are depreciation and capital charge on school accommodation and special education services
- $7,815 million for educational services from schools, including teacher salaries, early childhood education providers, and other education providers
- $1,028 million for capital expenditure by the Ministry of Education, mainly related to school-sector property
- $550 million for educational services from central education Crown entities (New Zealand Qualifications Authority and Careers New Zealand) and other non-departmental providers—the most significant costs are for professional development in the school and early childhood education sectors, and school transport services
- $43 million for allowances, bursaries, scholarships (including national study awards for teachers), and grants
- $33 million for capital expenditure for Crown entities and schools.

Developments in early childhood education

Budget initiatives for disadvantaged students
Budget 2017 provides $35.5 million of additional funding over four years for about 2,000 early learning services with at-risk children. We asked how these children are identified for the services to access the funding. We heard that it is largely based on whether a child comes from a benefit-dependent household.

For a service to be eligible for funding, at-risk children must make up 20 percent or more of the service’s attendance. About 33,000 children will generate extra funding for these services. We heard that, on average, a service will receive an extra $5,000 for each of these children.

We asked whether this will enable these services to employ more qualified early childhood education (ECE) teachers to work with at-risk children. We were told that it is up to the individual services to decide how to spend the extra funding they receive. However, the ministry offers support to ECE services through a professional development programme called “Strengthening early learning opportunities”.

Affordability of early childhood education

We heard that the cost of ECE is now 33 percent more affordable than in 2007, allowing for the increase in the average wage, and that New Zealand is in the top third of the OECD for affordability of ECE.

We were told that, for every dollar parents pay for ECE, the Government puts in $4.80. The proportion of the average wage that is spent on ECE in New Zealand is about 12 percent, compared to 16 percent in Australia and 34 percent in the United Kingdom.

The Minister said that this lower percentage is because New Zealand has 20 hours’ free ECE, because of the Childcare Subsidy, and because the average wage has increased faster in New Zealand than in other OECD countries.

Mapping of early learning centres

We asked what work was being done to map the network provision of early learning centres throughout New Zealand, particularly in rural areas where there may be fewer centres than in urban areas.

We were told that the ministry does not do this. However, it does recommend that anyone wanting to open a new centre should conduct a community needs assessment to ensure that there is a need in the community for one.

The ministry said that, if a child aged three to six years old is unable to attend a licensed ECE service, they may be able to enrol in a programme at Te Aho o Te Kura Pounamu, the Correspondence School.

Early childhood education teachers

Some of us have heard that ECE teachers must write down what each child is doing every 15 minutes and asked how this contributes to quality teaching practice.

The ministry said that it does not require teachers to do this. However, it does require a record of when a teacher is teaching and when they have breaks or other non-contact time.

Parent-led early childhood education

We asked what support is given to parent-led ECE—for example, Playcentre and kōhanga reo services. Centres run by parents are funded differently from ones run by teachers.

We were told that more than 90 percent of kōhanga reo centres will receive a funding increase from Budget 2017 to recognise the challenges these organisations face.

Managing school capacity

We are aware of reports that 214 schools are over capacity and that hundreds more are considered at risk of becoming overcrowded. We asked what planning the ministry is doing to accommodate future roll growth.

We heard that the ministry has to be more responsive and that Budget 2017 provides $8 million over four years for the ministry to better forecast and plan for future growth. The Minister believes that this funding needs to focus on 20- to 30-year plans. We heard that new building is already happening in Auckland and Wanaka but that the Minister would like to see it done throughout the country.

We will continue to monitor the work the ministry does to manage constraints on school capacity.
Enrolment schemes

We heard that some schools taking out-of-zone students do not receive property funding for these students and are now over capacity. We asked why the enrolment schemes have not been adjusted to ensure that this does not happen. We heard that action is being taken to address the issue but that changes in enrolment schemes can take 18 months to implement.

Two-yearly roll returns are also an issue, and more real-time information would help with planning.

Metro schools

We were interested to know the rationale behind the development of metro schools. These schools are on a smaller site that may be leased, and use community parks and gyms.

The Government recently announced a policy with a set of principles on what constitutes a metro school. We heard that this was to signal that it wants to invest in additional recreational facilities in inner-city areas.

The Minister said that only a few of these schools will be created in the next few years and that they will focus on inner-city areas.

Developments in Communities of Learning—Kāhui Ako

A Community of Learning—Kāhui Ako (CoL) involves a group of schools or kura formally getting together with the aim of raising achievement. There are currently almost 200 CoLs involving more than 500,000 students.

We heard that this new model is a shift in the way schools operate from competition to collaboration. CoLs now focus on developing achievement challenges, which are shared goals for the schools. The Minister then endorses these challenges. The ministry's focus has been on academic partners to support these achievement challenges, and a large number of expert advisers are working with the schools.

We asked why it is a legal requirement for the Minister to endorse the achievement challenges. The Minister said that she is impressed with the high standard of achievement goals that she has endorsed. However, the goals must also be realistic, and she will give feedback to CoLs when necessary.

We were interested to know what role boards of trustees play in a CoL. The Minister said that the New Zealand School Trustees Association is going to work with boards to ensure that they are more involved in the governance of CoLs.

Budget spending

We asked how much has been spent on creating CoLs in the past two years. We were told that, in November 2016, the ministry had a budget of $121.146 million to spend creating CoLs. By May 2017, the ministry had spent $42.099 million.

The underspending is a result of a one-year delay in implementation because union negotiations meant that there were fewer staff appointments than expected. The ministry expected to spend $51.293 million by the end of 2016/17.
Progress in partnership schools
About 1,200 students are in partnership schools. We heard that there has been positive student engagement and progress in pastoral care in these schools but that there is more work to do to make improvements.
We will continue to monitor partnership schools against their stated aims of helping students most in need, such as those with disabilities.

Increase in operational grant funding
Budget 2017 provides $60.5 million over four years to increase schools’ operational grant funding. This is an increase of 1.3 percent for all schools and a further 2.67 percent increase to the Targeted at Risk Grant (TARG) component, which is for students at most risk of under achieving.

We asked whether this increase was keeping up with inflation. We heard that, since 2010, the overall increase in the funding has been 16 percent while inflation has been 11 percent.

We asked whether the ministry collects information on the effect of the extra funding for at-risk students. We were told that there are no plans to collect information on the effect of TARG funding. However, the ministry is currently evaluating the effectiveness of all funding for schools and services, which includes TARG, through the Funding Review.

Support for students with behavioural or learning difficulties
Specialist behavioural services
There is $34 million in the Budget for about 1,000 more young people with behavioural issues to access specialist services. There is also additional funding for teacher aides to work with these students.

We asked what information is collected about these at-risk students and whether their privacy is being maintained. We heard that it is an anonymised process and that schools are not told who the students are.

Support for students with learning difficulties
We asked what support is available for students who have learning difficulties but who may not have behavioural issues as well. We heard that the ministry looks at barriers to learning rather than individual learning difficulties.

The ministry’s main focus is on completely reforming how learning support is assessed and delivered to remove any barriers. It gave us the example of a pilot programme in the Bay of Plenty where the ministry is working with three CoLs to identify students with learning difficulties and to bring in other social agencies early in the process when needed.

Some of us are concerned that there is a lack of data available about students with learning difficulties.

Response to the committee’s inquiry report
In November 2016, we published a report examining the delivery of education for students with three particular support learning needs: dyslexia, dyspraxia, and autism spectrum
2017/18 ESTIMATES FOR VOTE EDUCATION

disorder.1 We asked for an update on the implementation of the 46 recommendations we made in that report.

We were told that the ministry is finalising an implementation plan to respond to the recommendations. It is also currently:

- trialling a dispute resolution process in three regions
- working with resource teachers: learning and behaviour and the New Zealand Qualifications Authority to improve access to special assessment conditions
- trialling a new one-stop model for children and their families to access specialist support.

Extra support for Kāikoura schools

An additional $810,000 over two years has been allocated in the Budget to support Kāikoura students and teachers after the November 2016 earthquake. Schools can use this funding to help with such things as relief teachers, mentoring support for principals, and well-being support for students.

We heard that it is important to provide ongoing help because children can be affected long after a natural disaster.

Students handling guns at school

We are aware of media reports that a primary school in the Manawatu had a Defence Force education experience that involved students handling assault rifles. We asked whether the Minister thought this was appropriate.

The Minister said that, in this case, the school was operating within the law. However, the Minister has asked for guidelines about handling firearms in schools to be developed.

---

Appendix

Committee procedure
We met on 7 June and 5 July 2017 to consider Vote Education. We heard evidence from the Minister of Education, Hon Nikki Kaye, and the Ministry of Education, and received advice from the Office of the Auditor-General and the Office of the Clerk

Committee members
Dr Jian Yang (Chairperson)
Todd Barclay
Catherine Delahunty
Hon Jo Goodhew
Chris Hipkins
Hon Peseta Sam Lotu-Iiga
Tracey Martin
Todd Muller
Adrian Rurawhe
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper, prepared by committee staff, 2 June 2017.
Office of the Auditor-General, Briefing on Vote Education, received 6 June 2017.
Minister of Education, Response to standard Estimates questionnaire, received 2 June 2017.
Minister of Education, Response to additional questions, received 6 and 23 June 2017.
# Contents

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>New policy initiative for early learning service evaluations</td>
<td>2</td>
</tr>
<tr>
<td>Monitoring how well schools meet the needs of students with learning difficulties</td>
<td>2</td>
</tr>
<tr>
<td>Improving the digital literacy of teachers</td>
<td>3</td>
</tr>
<tr>
<td>Improving access to digital technology</td>
<td>3</td>
</tr>
<tr>
<td>Dealing with bullying in schools</td>
<td>3</td>
</tr>
<tr>
<td>Appendix</td>
<td>4</td>
</tr>
</tbody>
</table>
Recommendation

The Education and Science Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Education Review Office, as set out in Parliamentary Paper B.5, Vol.2, be accepted.

Introduction

The appropriations sought for Vote Education Review Office in 2017/18 total $29.6 million, a decrease of 3 percent from estimated actual spending in 2016/17 of $30.4 million. This is mainly because of a decrease in capital expenditure. There were two building re-fits in 2016/17.

Vote Education Review Office includes the following appropriations:

- $28.7 million for evaluations of education service providers
- $830,000 for departmental capital expenditure.

New policy initiative for early learning service evaluations

Budget 2017/18 proposes a new allocation of $5.5 million over four years to go towards additional early learning service evaluations to meet the growth in this sector and address wage cost pressures.

We asked how many additional evaluations the Education Review Office (ERO) expects to carry out as a result of this new initiative. We were told that the new funding was based on an additional 140 early childhood reviews. ERO expects that the cost of doing the additional evaluations will be $2.8 million and that the cost of addressing wage cost pressures will be $2.65 million over four years.

Monitoring how well schools meet the needs of students with learning difficulties

We asked what monitoring there is of how well schools meet the needs of students with learning difficulties. We heard that ERO assesses schools on their policies to meet the needs of all students.

During the last eight months, ERO has had a specific focus on Māori and Pasifika students and students with learning difficulties. As part of this focus, it ensures that schools are able to align the resources they receive with good classroom practice. We heard that schools are required to report not just on the academic achievement of these students but also on their well-being and participation at school.

We have heard that some students with high needs are unable to go to school for the full week because of a lack of support staff. ERO said that this was not an issue it has seen in its reports. We asked whether it would consider looking at the number of hours students with high needs spend in the classroom. ERO said that this was something it should look at.
Improving the digital literacy of teachers

The Minister told us that digital fluency is one of the five priority areas for teachers’ professional learning and development. We heard that it is critical for teachers to understand the online environment and to tailor their lessons for students.

ERO is about to look at whether the curriculum is suitable for the 21st century. This includes investigating whether teachers have enough digital literacy skills and whether there are professional development opportunities for teachers who need to improve their skills in this area.

Improving access to digital technology

We asked whether ERO is aware of a “digital divide” both between and within schools. ERO said that this is not something it has reported on. However, it found that most teachers adapt their lessons and homework expectations to accommodate students who may not have their own device to work on.

The Minister said that many schools received more money in their ICT operations grants when the Government introduced the Network for Learning (N4L) managed network. N4L is a Crown company that pays for more than 2,400 schools’ internet and uncapped data. This extra funding enabled some schools to buy devices for students who otherwise could not afford to.

However, internet access at home is still an issue for some students. Although some companies are helping with this, the Government established a digital technology fund in 2016 to engage students in digital technologies.

We heard that part of this funding went to the Manaiakalani programme, which operates in several Auckland suburbs. The programme supports parents to buy a personal digital device for each learner and provides wireless internet access at home and school.

Dealing with bullying in schools

We were told that the safety and well-being of students is ERO’s primary focus when it assesses a school. It tries to highlight good practice in dealing with bullying in schools so other schools can learn from that practice. It says that it would like to see schools anonymously survey their students on a regular basis about well-being and engagement at school.

We asked whether ERO would support an arbitration service for students who have been bullied and have not been able to resolve it with the board of trustees or the principal. ERO said that boards must have an active complaints policy that parents and students know about.

ERO said that the vast majority of schools that it reviews manage complaints very well. If there is an issue, the Ministry of Education can help. Complainants can also seek support through agencies such as the Ombudsman, the Privacy Commissioner, and the Human Rights Commission.
Appendix

Committee procedure
We met on 7 June and 5 July 2017 to consider Vote Education Review Office. We heard evidence from the Minister of Education, Hon Nikki Kaye, and the Education Review Office, and received advice from the Office of the Auditor-General and the Office of the Clerk.

Committee members
Dr Jian Yang (Chairperson)
Todd Barclay
Catherine Delahunty
Hon Jo Goodhew
Chris Hipkins
Hon Peseta Sam Lotu-Iiga
Tracey Martin
Todd Muller
Adrian Rurawhe
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper, prepared by committee staff, dated 2 June 2017.
Office of the Auditor-General, Briefing on Vote Education Review Office, received 6 June 2017.
Minister of Education, Response to standard Estimates questionnaire, received 2 June 2017.
Minister of Education, Response to additional questions, received 23 June 2017.
2017/18 Estimates for Vote Tertiary Education

Report of the Education and Science Committee

Contents

Recommendation 2
Introduction 2
Quantum Education Group 2
International education 3
Completion and employment rates 3
Shortage of engineering graduates 4
Appendix 5
Vote Tertiary Education

Recommendation

The Education and Science Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Tertiary Education, as set out in Parliamentary Paper B.5, Vol. 2, be accepted.

Introduction

The appropriations sought for Vote Tertiary Education increase 0.7 percent to $3.019 billion in 2017/18 from an estimated actual spending of $2.999 billion in 2016/17.

Vote Tertiary Education includes the following approximate appropriations:

- A total of nearly $2.907 billion, forming the bulk of the Vote, for tuition and industry subsidies, research funding for tertiary education organisations (TEOs), funding to help recruit academics in universities, and services from the adult and community education sector.
- A total of just over $47 million for services from the Tertiary Education Commission (TEC).
- A total of just over $31 million for services from Education New Zealand.
- A total of nearly $22 million for tertiary scholarships, international education, and other grants.
- A total of just over $12 million for services from the Ministry of Education for policy advice, research, and monitoring.

The Minister for Tertiary Education, Skills and Employment, Hon Paul Goldsmith, is responsible for Vote Tertiary Education. We heard from the Minister of Tertiary Education, Skills and Employment, from the Ministry of Education, and from the TEC.

Quantum Education Group

We are aware that the Intueri Education Group has received funding from the TEC for its subsidiary schools. One of the subsidiaries, Quantum Education Group, was under enquiry by the Serious Fraud Office. The enquiry closed in April 2017 with no further action taken. Quantum remains under investigation by the TEC for alleged manipulation of data relating to student numbers and course completions.

Some of us are concerned about whether appropriations in the Vote that are allocated to the TEC for funding education providers are being used as intended. We asked what changes have been made as a result of the investigation into the Quantum Education Group.

The Minister told us that funding for the tertiary education sector is being spent appropriately. The TEC and the New Zealand Qualifications Authority (NZQA) have robust systems in place to monitor reporting compliance of public and private training establishments in New Zealand.
These systems include active pattern-recognition software of enrolments that is cross-checked against Studylink every three months, and collaboration with NZQA and the Academic Quality Agency. The Education (Tertiary Education and Other Matters) Amendment Bill, currently before the committee, proposes additional monitoring and compliance mechanisms. These mechanisms allow the TEC to set conditions on funding for TEOs, and require TEOs to maintain accurate records of their use of government funding, and to make these records available to the TEC.

We are aware that Studylink will recover student tuition fees if a student withdraws from a course before the deadline date. We heard that the refund deadline date and the date by which a tertiary provider can claim Student Achievement Compensation funding are now aligned, to prevent further instances of non-compliance from occurring. This alignment of dates is made possible because all student data from the point of enrolment must be provided to the TEC immediately.

We will be interested in the results of the investigation into the Quantum Education Group, to be released later this year. We will continue to observe the TEC to ensure that it continues to monitor for compliance of correct reporting by all tertiary education providers.

**International education**

Vote Tertiary Education includes new funding of $6.8 million over four years to strengthen the foundations and growth of international education. We asked how the tertiary education sector is matching value to the growth of international education in New Zealand. The Minister told us that the international education industry in New Zealand has grown 6 percent to 131,609 student enrolments in 2016. The industry also supports roughly 33,000 jobs across New Zealand.

As a result of the growth, Education New Zealand is working with the Ministry of Education to develop a new international education strategy, to be launched late June 2017. The strategy aims to ensure the sustainability of international education and to increase the value over time to New Zealand. We look forward to seeing the new strategy and future objectives for growing and developing international education in New Zealand.

**Completion and employment rates**

The Minister told us that there were 42,000 bachelor completions in 2016, up 17 percent since 2010. There have also been significant improvements to completion rates for Māori and Pasifika students. Bachelor completion rates rose 46 percent for Māori students and 69 percent for Pasifika students from 2010 to 2015. We asked what the target is for completion rates. We were told that there is no specific percentage goal within the next five years. The focus within the last few years has shifted from enrolment rates to completion rates.

We are aware that for every 100 domestic students enrolled in 2009, the completion rate after six years is 57 percent, compared with 80 percent in Australia and 93 percent in Finland. The ministry also published a report for 2015 stating that the employment rate of young graduates, nine years after completing a qualification, ranged from 46 percent to 55 percent. We expect to see an improvement in domestic qualification completion rates and employment rates.
Shortage of engineering graduates

Vote Tertiary Education includes a $400,000 appropriation for the Engineering Education to Employment programme (E2E). The programme was created in 2014 to address the shortage of engineers at all levels in New Zealand by attracting more students into tertiary education in engineering. The allocation of funding is intended to boost the number of engineering graduates by an additional 500 students each year from 2014 to 2017. The TEC confirmed that the goal has been achieved, with 511 graduates from priority engineering courses, out of a total of 2,151 graduates in 2016.

We are pleased that the E2E programme has achieved its goal a year in advance of the deadline, ensuring that engineering graduates are supported through education to employment.
Appendix

Committee procedure
We met on 7 June and 5 July 2017 to consider Vote Tertiary Education. We heard evidence from the Minister for Tertiary Education, Skills and Employment, Hon Paul Goldsmith, the Ministry of Education, and the Tertiary Education Commission. We received advice from the Office of the Auditor-General.

Committee members
Dr Jian Yang (Chairperson)
Todd Barclay
Catherine Delahunty
Hon Jo Goodhew
Chris Hipkins
Hon Peseta Sam Lotu-Iiga
Tracey Martin
Todd Muller
Adrian Rurawhe
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper, prepared by committee staff, dated 6 June 2017.
Office of the Auditor-General, Briefing on Vote Tertiary Education, received 6 June 2017.
Minister for Tertiary Education, Skills and Employment (responses to questions 1 - 115), received 2 June 2017.
Contents
Recommendation 2
Introduction to Vote Conservation 2
Tourism infrastructure and growth 2
Managing our natural heritage 3
Conservation estate 4
Water 4
Reducing the number of wilding pines 6
Appendix 7
2017/18 ESTIMATES FOR VOTE CONSERVATION

Vote Conservation

Recommendation
The Local Government and Environment Committee recommends by majority that the appropriations for the year ending 30 June 2018 for Vote Conservation, as set out in Parliamentary Paper B.5, Vol.3, be accepted.

Introduction to Vote Conservation
Vote Conservation 2017/18 appropriates a total of $466,667 million. This is a 4.2 percent increase on estimated actual expenditure in 2016/17, although it is a 3.1 percent decrease on the 2016/17 initial budget.

The main elements of Vote Conservation 2017/18 are:

- $173 million for managing natural heritage, including maintaining, restoring, and protecting ecosystems, habitats, and species
- $147 million for managing recreational activities
- $36 million for the Department of Conservation’s capital expenditure
- $34 million for conservation with the community

The Minister of Conservation and the Minister for Treaty of Waitangi Negotiations are responsible for Vote Conservation. We heard from the Minister of Conservation. The Department of Conservation (DOC) administers the vote.

Tourism infrastructure and growth
DOC manages $6 billion in capital assets. We were told that increasing tourist numbers are placing increased pressure on some of DOC’s existing assets and creating demand for new assets. Vote Conservation 2017/18 contains two new policy initiatives aimed at addressing this challenge and ensuring biodiversity is not impacted. These initiatives are part of the Government’s larger $178 million tourism infrastructure package.

“Tourism Infrastructure – Maintenance” appropriates $10.8 million in 2017/18 and a further $43.4 million over the following three years. The initiative aims to increase maintenance of tourism and road infrastructure around popular tourism locations and build new tourism infrastructure in Northland.

“Tourism Growth Initiative – New Walks” appropriates $2.4 million and a further $19.4 million over the following three years. It proposes creating two new Great Walks and improving existing walks throughout New Zealand to bring them into the Great Walks network. We heard that the intention is that this initiative will relieve pressure on the well-known Great Walks.

We asked how the initiatives to engage with regions of New Zealand are going, and how DOC will prioritise this work. The Minister told us that some areas are easier to engage with than others.
For example, DOC is partnered with Taranaki’s Biodiversity Trust, known as Wild for Taranaki. We heard that this group is effective to work with because it combines many Taranaki organisations and provides a central point from which to address local issues. This allows DOC to easily allocate funding to the Taranaki region.

We know that freedom camping is a key issue for some councils. DOC’s Director-General told us that he is working with the Tourism Chief Executives Group to develop a prioritisation system for the Minister.

We support DOC’s commitment to welcoming people on to conservation land and into the outdoors. We will follow the development of DOC’s upgraded digital booking system, and how it will improve the customer experience for New Zealanders and tourists engaging with DOC.

Some of us remain concerned about the balance between tourism and conservation, and how DOC and Vote Conservation equalise these demands. The Minister told us that she works closely with the Minister of Tourism, and Hon Nicky Wagner, who is the Associate Minister of both Tourism and Conservation.

We were told that DOC spends about 40 percent of its budget on recreation and tourism, and about 45 percent on biodiversity. The Director-General is confident that this reflects global trends in conservation departments. He also told us that he has changed the structure of DOC to accommodate this division, appointing one deputy director-general for biodiversity and the other for recreation and tourism.

**Managing our natural heritage**

About $173 million, or 37 percent of Vote Conservation 2017/18, is appropriated by “Management of Natural Heritage”. This appropriation maintains, restores, and protects ecosystems, habitats, and species.

In addition to this, the Vote provides a $24 million multi-year appropriation for Predator Free New Zealand. The Battle for the Birds 2017 campaign will use $21.3 million in funds appropriated under Budget 2016/17.

We note the Parliamentary Commissioner for the Environment’s recent report, “Taonga of an island nation: Saving New Zealand’s Birds”. This report makes several recommendations to restore “abundant, resilient, and diverse birdlife” to New Zealand.

Nonetheless, some of us have concerns about the state of New Zealand’s natural heritage.

**Threatened species strategy**

In May 2017, DOC published its draft Threatened Species Strategy. This document sets out the Government’s plan to “halt the decline in our threatened species and restore them to healthy populations”. It builds on Predator Free 2050 and includes initiatives such as the War on Weeds, Battle for our Birds, Save our Iconic Kiwi, and the National Science Challenge. Consultation on the draft strategy is currently open.

We requested an update on the progress of the strategy. We heard that DOC is currently engaging with Treaty partners and other stakeholders. When the consultation period ends on 31 July 2017 DOC will analyse the submissions. Once this work is completed the final document will be released later in 2017.

We are pleased that DOC has, for the first time, identified all the New Zealand species that are at risk and the locations that they inhabit.
We were told that a significant proportion of threatened species do not require recovery plans. For example, they may adequately benefit from the management of the ecosystems they inhabit and do not require additional work to ensure their survival. DOC is taking a more holistic approach to managing our natural heritage, through large-scale predator control and habitat management.

Some of us wanted specific detail on which species have been identified as not requiring recovery plans. The Minister agreed to provide this information. We received lists from DOC identifying: species it has defined as not requiring recovery plans; ecosystem management units that are under active management; and 132 species management units that are under active management specifically to benefit the threatened species that inhabit them.

**Conservation estate**

**Mining on conservation land**

Some of us asked about recent proposals to mine areas of conservation land, including the Ministry of Business, Innovation and Employment’s report on regional economic development.

We were told that a regional economic development strategy is being developed for the West Coast, and is expected to be released in July 2017. We heard that consultation on this strategy was extensive. The Minister assures us that conservation values were at the forefront of the discussions. We look forward to reading the strategy.

Currently, 43 mines operate on conservation land. The Minister said that it is important to find a balance between environmental concerns and responsible mineral extraction for economic benefit. She told us that this is a delicate issue that DOC determines on a case-by-case basis, but that she is confident that the department can get it right. DOC works closely with other relevant ministries when considering these matters.

Some of us consider that DOC should have opposed the proposed Mount Te Kuha mine, 12 hectares of which would be in the Mount Rochfort Conservation Area.

**Land swaps**

In February 2017, the Minister took Forest and Bird New Zealand to the High Court. The case was about Forest and Bird blocking DOC from executing a conservation land swap. We were told that it was necessary to pursue this issue to the Supreme Court, because DOC needs clarity on its legal position. Land swaps are relatively rare—the Director-General approves about one or two a year.

We asked about the value of land swapping as a strategy. The Minister said that land swaps have delivered good outcomes for DOC in the past and can result in a better conservation estate. The Director-General added that they can create conservation opportunities by adding new habitats to the conservation estate.

**Water**

Water has been a major environmental theme in the last year. We have recently considered many items of business to do with water, and are very interested in DOC’s work in this area.
Freshwater biodiversity

New Zealand’s rivers and lakes are home to nearly 40 species of freshwater fish, a semi-aquatic frog species, more than 200 species of macroinvertebrates, abundant zooplankton, and freshwater plants such as algae and mangroves. We know that DOC has previously had a terrestrial focus and asked how it is incorporating freshwater biodiversity.

The Minister said that DOC is working closely with the Ministry for the Environment, because the ministry is responsible for the quality of the water—and therefore the quality of the habitat for New Zealand’s freshwater species. The Director-General added that he is investigating also working with the Ministry for Primary Industries (MPI). We were told that this work is in its early stages and that it is very complex.

We encourage DOC to continue engaging with other government organisations and look forward to hearing about its progress in this area.

We consider that freshwater biodiversity is an excellent opportunity for DOC to engage with iwi. Many iwi have very close relationships with freshwater and consider freshwater species taonga.

DOC considers its relationship with Waikato Tainui to be one of its strongest in this area. We think that DOC should consider developing a model of best practice for iwi engagement on freshwater issues.

New Zealand Sea Lion/Rāpoka

Vote Conservation 2017/18 includes $173.267 million for “Management of Natural Heritage”. This appropriation includes $750,000 to fund a new policy initiative for “Marine Protection and Development”.

The New Zealand Sea Lion/Rāpoka is one of the rarest seal species in the world, and is only found in New Zealand. Their population is declining and classified by DOC as nationally critical—the most severe category. A threat management plan for the species has been in development since 2014. In May 2017, the Government announced its intention to invest $2.8 million in this plan over the next four years.

Some of us feel that this investment should include funding more practical measures to reduce Rāpoka deaths in fishing nets. The Director-General responded that one of the biggest threats to Rāpoka is Klebsiella pneumonia. He is confident that the threat management plan should prioritise research into this bacterial disease, and indicated that Sea Lion Exclusion Devices (SLEDs) offer sufficient protection in the meantime.

We asked the Minister how she responds to Dr Bruce Robertson of Otago University, who has suggested that SLEDs may be seriously injuring Rāpoka, and is advocating for more research in this area. We were told that the draft threat management plan for New Zealand Sea Lions identified more research on SLEDs as a priority. MPI has formed a technical advisory group that will be reviewing the management of the Southern Squid fishery. The group has already begun discussing the research that needs to be conducted about SLEDS. DOC assured us that it will be engaging with MPI as this work progresses.

We will monitor the findings of this work with interest.
Exporting water

West Coast Regional Council has recently granted Okuru Enterprises Limited resource consent which enables a water export pipeline. The pipeline would take water from Tuning Forks Creek, a tributary of Arawata River, for export overseas.

We note that there are several ecological areas of note near the resource consent area, including a breeding ground for Hector’s Dolphins, Fiordland Crested Penguin habitat, and a population of Haast Tokoeka, one of New Zealand’s two most endangered kiwi species.

We asked about DOC’s participation in the resource consent and coastal consent consultations, particularly because both consent applications were processed on a limited notification basis. DOC gave a neutral submission on the coastal consent and did not submit on the resource consent. Both consent decisions include specific ecological conditions that Okuru Enterprises must meet.

We were subsequently told that DOC did not lodge a submission on the resource consent because it considered the potential effects were managed by the conditions of the consent and the deed of easement.

The Minister noted that DOC granted Okuru Enterprises an easement in 1994 that is due to expire in 2019. She said that she has signalled that a lot has changed since the 1990s and that any reapplication for an easement would be within her domain as Minister.

Reducing the number of wilding pines

DOC was allocated $16 million in Budget 2016/17 to reduce the number of wilding pines. This has been spent on projects throughout New Zealand.

The Minister is pleased with the progress that the Government has made in addressing this problem through new technology and new strategies. She emphasised that mature wilding pines can be an expensive problem and that it is important to “get in there early”.

We asked how DOC is working with other government departments to control wilding pines. MPI is the lead agency on wilding pine control. Government agencies are sharing technology and responsibility for the issue and are very engaged.
Appendix

Committee procedure
We met on 22 June and 6 July 2017 to consider Vote Conservation. We heard evidence from the Minister of Conservation, Hon Maggie Barry, and the Department of Conservation, and received advice from the Office of the Auditor-General.

Committee members
Andrew Bayly, Chairperson
Matt Doocye
Hon Craig Foss
Joanne Hayes
Tutehounuku Korako
Hon Tim Macindoe
Ron Mark
Mojo Mathers
Eugenie Sage
Meka Whaitiri
Dr Megan Woods
Hon Nanaia Mahuta and Hon Peseta Sam Lotu-Iiga participated in this item of business.

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Conservation, received 22 June 2017.

Minister of Conservation, Response to standard Estimates questionnaire, received 1 June 2017.

Minister of Conservation, Response to additional questions 1–157, received 22 June 2017.

Minister of Conservation, Response to additional questions 158–225, received 22 June 2017.


Minister of Conservation, Presentation, received 22 June 2017.

Department of Conservation, Draft four year plan, received 1 June 2017.

Department of Conservation, New Zealand’s Threatened Species Strategy, received 22 June 2017.

Department of Conservation, Output plan 2016-17, received 1 June 2017.

Department of Conservation, War on Weeds brochure, received 22 June 2017.
2017/18 Estimates for Vote Environment

Report of the Local Government and Environment Committee

Contents

Recommendation 2
Introduction 2
Climate Change 3
Fresh water management 4
Biodiversity protection 5
Waste minimisation 6
Appendix 7
2017/18 Estimates for Vote Environment

Recommendation

The Local Government and Environment Committee recommends by majority that the appropriations for the year ending 30 June 2018 for Vote Environment, as set out in Parliamentary Paper B.5, Vol.3, be accepted.

Introduction

Vote Environment provides funding to support environmental management systems, fresh water management, and to help New Zealand become a low carbon nation working to reduce climate change.

The total appropriations sought in 2017/18 for Vote Environment are $871.489 million. This is an 82 percent increase from the 2016/17 estimated actual expenditure of $478.992 million. The main reason for this increase is the increased forecast allocation of New Zealand Units (NZU) under the Emissions Trading Scheme (ETS).

Significant appropriations sought under the Vote are:

- $681 million for the allocation of New Zealand Units to the economy
- $23 million to provide advice on mitigating environmental hazards and waste, contribute to and administer the waste minimisation fund, and for impairment of debt relating to environmental activities
- $23 million to provide advice and implement tools to improve environmental management
- $20 million to provide advice and implement tools for water management.

The Vote includes five new policy initiatives:

- Domestic Emissions Reductions, which appropriates $1 million in 2017/18 and $3 million over the following three years. This initiative aims to provide policy advice and reduce New Zealand’s domestic emissions.
- Paris Agreement on Climate Change, which appropriates $924,000, and would fund ratification of the Paris Agreement and a plan for domestic action to mitigate climate change.
- Marine Protection: Advancing Regional Processes, which appropriates $250,000, and would fund policy advice about marine protected areas.
- National Policy Statement on Urban Development Capacity: Implementation, which appropriates $1.469 million in 2017/18 and a further $2.178 million over the following three years.
- Te Mana o Te Wai Fund, which appropriates $1 million, and aims to improve water quality for fresh water bodies that are important to iwi and hapū.
The Ministry for the Environment administers this Vote. The Minister for the Environment and the Minister for Climate Change Issues are responsible for the appropriations within the Vote. We heard from both responsible Ministers, and the Associate Minister for the Environment.

**Climate Change**

In 2017/18, about $713 million is budgeted for climate change appropriations. This covers nearly $681 million for the allocation of NZUs to the economy, $13 million for policy advice, and $19 million for administering the ETS.

The Minister for Climate Change Issues emphasised that New Zealand’s emissions have remained relatively stable since 2003. She said the plan is to start reducing these emissions.

**Paris Agreement on Climate Change**

New Zealand has committed to reducing emissions, by 2030, to 30 percent below our 2005 levels. This target is New Zealand’s first Nationally Determined Contribution (NDC) under the Paris Agreement on Climate Change. New Zealand ratified the Paris Agreement in October 2016.

In June 2017, the President of the United States announced that it would withdraw from the Paris Agreement. We were told that this decision could make negotiations of the agreement’s rules harder. After this announcement from the United States, many countries have expressed their ongoing commitment to the agreement and no other country has signalled they will withdraw from the agreement.

We note that the purchasing of international units is expected to make up a significant percentage of New Zealand’s 2030 target and asked if the withdrawal of the United States would affect progress around international carbon markets. The Minister said it is not clear what effect the United States’ withdrawal will have on international carbon markets. She also noted that, while international units would likely make up a percentage of New Zealand’s 2030 emissions target, she would like to see a significant amount of this met through domestic reductions.

We asked about the climate change action plan New Zealand has with China. We were told that China is very committed to domestic action to deal with climate change. China has also expressed its commitment to the Paris Agreement after the United States announced its withdrawal.

**Emissions Trading Scheme**

The Emissions Trading Scheme is the Government’s main policy for addressing climate change, and meeting its 2030 emissions target. In late 2015, the Government began a two-stage review of the ETS. Stage one of the ETS review concluded in May 2016, with the decision to phase out the one-for-two transitional measure for NZUs. Consequently, Vote Environment 2017/18 appropriates $680.925 million for granting NZUs. This is about a 110 percent increase on the estimated actual expenditure for this appropriation in 2016/17. We note that this increase accounts for the significant growth of Vote Environment 2017/18.

We asked whether there are plans to change the $25 cap for NZUs. In our 2016/17 Vote Environment report we noted that some research suggests behavioural change is more likely with a cap of between $50 and $100. We were told that there are no current plans, but an evaluation of the cap is part of the second stage of the ETS review.
The Minister told us that the allocation of NZUs after 2020 is the main challenge for the ongoing second stage of the ETS review. She noted the importance of providing certainty to businesses under the ETS as to what these allocations will be after 2020. Forestry rules and land use have also been identified as challenges for the ETS.

We were interested in whether the difference between short-term and long-term gases is being considered in the current ETS review. We heard that it will not be looked at this year, but we were advised it would be considered in the future.

**Climate change adaptation**

Under the Paris Agreement, New Zealand is required to make plans for adapting to the effects of climate change. A technical working group is looking into climate change adaptation, and will be releasing an interim report very soon. This report will consider the potential effects of climate change, and discuss what is already being done in the adaptation area. The working group will also release a further draft report in November, which will include recommendations for the Government about adapting to climate change.

We asked whether financial assistance would be provided to councils to help them adapt to the effects of climate change. The Minister told us that this has traditionally been the responsibility of local governments, and no funding has been allocated in this budget.

**Sea-level rise**

We asked what assistance would be given to communities effected by sea-level rise. The Minister told us that an updated version of the 2008 “Coastal Hazards and Climate Change” guidance manual for local government will be available soon. There is no financial support included in this budget, but the adaptation working group will provide recommendations about adapting to sea-level rise in its interim report.

**New technology and research**

New Zealand is a founding member of the Global Research Alliance, which funds research into emissions mitigation in the agricultural sector. Examples of this include research into a methane vaccine, and types of ryegrass, that could reduce the amount of methane emitted from pasture-based livestock systems.

We asked whether the mitigation potential of these new technologies is being used when calculating future emissions targets. We heard that these technologies are still being developed and it is still unclear how much they could contribute to reducing emissions.

**Fresh water management**

In February 2017, the Government announced its Clean Water Package 2017. This package:

- launches the $100 million Freshwater Improvement Fund
- sets out proposals to exclude stock from waterways
- proposes changes to the National Policy Statement for Freshwater Management 2014
- sets a target that 90 percent of New Zealand’s rivers will be “swimmable” by 2040, and an interim target of 80 percent by 2030.

Vote Environment 2017/18 includes several appropriations related to improving water quality. Some of these are regionally-based, such as the Lake Taupo Protection Programme.
(2.95 million) and Fresh Start for Fresh Water: Waikato River Clean-up Fund (5.3 million). Others are broader, such as the Te Mana o Te Wai appropriation noted earlier in this report, and the multi-category appropriation Improving Environmental Management, which includes a total of about $20 million for fresh water initiatives. Vote Environment 2017/18 also appropriates $7 million for the Freshwater Improvement Fund.

**Freshwater Improvement Fund**

In 2016 the Government committed $100 million over ten years to help communities improve fresh water quality standards. A panel is considering bids for this funding.

There are four key criteria for the funding:

- the panel must be satisfied that measures have been put in place to stop future pollution
- the project must be a minimum size of $200,000
- there must be collaboration with local tangata whenua
- there must be engagement with the regional council.

Some of us noted that the fund was announced in 2014, but no funding applications have been granted so far. We asked the Minister why it has taken three years for this funding to be made available.

The Minister noted that the funding was provided in last year’s budget. He told us that it has taken time for bids to be considered and independently reviewed. He expects that there will be announcements about this funding in a few months.

**Freshwater allocation**

We were interested in whether there has been progress around improving New Zealand’s fresh water allocation system. The Minister noted that the “first in, first served” approach to fresh water allocation under the Resource Management Act 1991 is not ideal, but currently there is no agreement on a system to replace it. The Minister told us that there is a technical advisory group, which is working with the Iwi Leaders Group, considering the issues around allocating and pricing fresh water.

The Minister also told us about three areas relating to water allocation where significant progress has been made in the last decade:

- 94 percent of water catchments are now measured
- 75 percent of water catchments have limits on the amount of water that can be taken
- 21 percent of New Zealand catchments now have limits on the amount of nitrate pollution allowed in the water.

Some of us believe that issues like over-allocation of fresh water, and policies regarding nutrient rights, require urgent attention, and are not sufficiently addressed in Vote Environment 2017/18.

**Biodiversity protection**

We are interested in what progress is being made around biodiversity protection. The Minister told us that this issue is complex and involves balancing the public good of biodiversity protection on private land against private property rights. He believes that the
most effective way of solving this challenge is through collaborative processes, and he has provided funding for a collaborative process, similar to the Land and Water Forum. This process will involve groups like Forest and Bird, the Environmental Defence Society, and Federated Farmers of New Zealand. The Minister added that the Resource Legislation Amendment Act 2017 includes a legislative framework for local communities to use a collaborative approach to resolve local environmental issues. We look forward to seeing this used for a variety of environmental challenges.

Some of us noted that the Minister had a similar response to biodiversity protection last year, and we asked what progress had been made in the area since then. We also asked whether there would be a National Policy Statement on biodiversity.

The Minister told us that the collaborative process has started in the past year. He believes there is a real willingness from the groups involved to provide national direction around biodiversity protection. We were told that the process will take about a year, and a National Policy Statement will not be set up until it has finished.

We asked whether aquatic biodiversity would be part of the future National Policy Statement on biodiversity. The Minister said it would be restricted to land-dwelling animals, and aquatic biodiversity will be covered by the Government’s planned reforms for marine protected areas.

**Waste minimisation**

Waste minimisation is an important issue, and we are currently considering items of business related to it. We asked what support is being given to recycling. The Associate Minister for the Environment told us the Waste Minimisation Fund is available to support recycling projects. For example, this fund supports investment in technology that would allow plastic bottles to be recycled and reused in New Zealand. The Associate Minister said that this would lower imports of new plastic and reduce the number of plastic bottles in landfills.

We asked how tyres are managed to reduce waste. The Minister told us that work is happening in this area, and it will fall under national environmental regulations under the Resource Management Act. This work is intended to address issues around the bulk storage of tyres, and their distribution and disposal.
Appendix

Committee procedure
We met on 8 June and 6 July 2017 to consider the 2017/18 Estimates for Vote Environment.

We heard evidence from the Minister for the Environment, Hon Dr Nick Smith; the Minister for Climate Change Issues, Hon Paula Bennett; and the Associate Minister for the Environment, Hon Scott Simpson. We received advice from the Office of the Auditor-General and the Office of the Clerk.

Committee members
Andrew Bayly, Chairperson
Matt Doocy
Hon Craig Foss
Joanne Hayes
Tutehounuku Korako
Hon Tim Macindoe
Ron Mark
Mojo Mathers
Eugenie Sage
Meka Whaitiri
Dr Megan Woods

Barbara Kuriger and Stuart Smith participated in the consideration of this item of business.

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:


Office of the Auditor-General, Briefing on Vote Environment, dated 8 June 2017.

Minister for the Environment, Response to standard Estimates questionnaire.

Minister for the Environment, Response to additional questions 11–51, received 1 June 2017.

Minister for the Environment, Response to additional questions 151–158, received 8 June 2017.

Estimate Questions Appendix One—question 85, received 8 June 2017.

Estimate Questions Appendix Two—question 86, received 8 June 2017.

Estimate Questions Appendix Three—question 108, received 8 June 2017.

Estimate Questions Appendix Four—question 108, received 8 June 2017.

Estimate Questions Appendix Five—question 148, received 8 June 2017.
2017/18 ESTIMATES FOR VOTE ENVIRONMENT

Draft Four Year Plan of the Ministry for the Environment 2017–2021, received 8 June.
2017/18 Estimates for Vote Parliamentary Commissioner for the Environment

Report of the Local Government and Environment Committee

The Local Government and Environment Committee has examined the 2017/18 Estimates for Vote Parliamentary Commissioner for the Environment and recommends that the appropriations in respect of Vote Parliamentary Commissioner for the Environment for the year ending 30 June 2018, as set out in Parliamentary Paper B.5, Vol. 3, be accepted.

Andrew Bayly
Chairperson
2017/18 Estimates for Vote Customs

Report of the Foreign Affairs, Defence and Trade Committee

Contents
Recommendation 2
Introduction 2
Dealing with increasing numbers of passengers 2
Upgraded and expanded SmartGate 3
Implementing the Joint Border Management System 4
Intercepting illicit drugs 5
Future use of technology at airports 6
Efforts to improve staff engagement 6
Appendix 7
Vote Customs

Recommendation

The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Customs, as set out in Parliamentary Paper B.5, Vol.4, be accepted.

Introduction

The Minister of Customs is responsible for the appropriations in Vote Customs, which are administered by the New Zealand Customs Service. The service’s main purpose is to stop possible dangers, hazards, and threats from entering New Zealand. Its core functions are to protect New Zealand’s borders, to promote and facilitate secure and efficient trade and travel, and to collect Crown revenue.

The total appropriations sought for Vote Customs in 2017/18 decrease by $1.99 million (0.9 percent) to $216.198 million, from estimated actual expenditure of $218.185 million in 2016/17.

This reduction in funding is due to departmental capital expenditure decreasing to $14.831 million in 2017/18, from $22 million in 2016/17. This is because the Joint Border Management System (JBMS) and the purchase of the next-generation technology SmartGates were completed in 2016/17.

Total departmental output expenses increase by $5.18 million (2.8 percent) to $193.307 million in 2017/18, from estimated actual expenditure of $188.125 million in 2016/17.

The increase is mainly due to:

- higher volumes of passengers and goods
- expanded use of SmartGate
- a change in capital charge
- expense transfers between years
- funding profiles of previous initiatives.

Large allocations are sought for clearance and enforcement services related to goods ($79.439 million), clearance and enforcement services related to passengers and crew ($68.071 million), and information and intelligence services ($14.436 million).

Dealing with increasing numbers of passengers

The Minister explained that the number of people crossing New Zealand’s border is increasing and that this increase is expected to continue. Most of those people (90 percent) are commercial air passengers.

In 2015/16, the number of people crossing the border increased to 11.761 million. In the first 10 months of 2016/17, the same number is up 9.7 percent, with 16 million passengers expected in 2021.
We heard that streamlined border processes are important for a traveller’s first impression of New Zealand. The Minister is pleased that the Government’s investment in SmartGate is significantly helping to manage the increasing numbers of passengers. Work with other border agencies and initiatives such as the Trusted Travellers programme are also increasing efficiency.

The Trusted Travellers programme identifies passengers with adequate information to assure Customs that they are suitable to be processed in a more streamlined way. The aim is to limit interaction with lower-risk people who comply with border requirements without compromising protection, safety, security, and biosecurity.

We heard that three new initiatives were announced in 2017 to make it easier for Chinese visitors to come to New Zealand. Multiple-entry visas have been extended from three years to five years, Chinese ePassport holders can now use SmartGate facilities, and people can now pay for visa applications online.

**Upgraded and expanded SmartGate**

SmartGate—also known as eGate—enables New Zealand, Australian, United Kingdom, United States of America, and Canadian ePassport holders who are over 12 years of age to process themselves automatically through passport control. The gates are located at Auckland, Wellington, Christchurch, and Queenstown airports. They are an efficient way to manage the increasing number of people crossing New Zealand’s border, while also freeing up Customs officers to focus on travellers of interest.

The Minister told us that funding was approved in 2015 to upgrade and expand the SmartGate system to make the process faster and more intuitive. He said that investing in technology will help Customs to cost-effectively meet the ongoing increases in passenger numbers. Nearly $5 million has been allocated for this in 2017/18, with an ongoing operating cost of $4 million per year.

SmartGate automatically processed 4.807 million passengers in the first 10 months of 2016/17, an increase of 29.8 percent on the total for the same period in 2015/16. The 23 millionth passenger will use the technology in June 2017. Currently, 50 of the 51 proposed gates are operational, with the project due to be completed by the end of 2017.

We asked what eligibility criteria must be met before ePassport holders of a certain country can use SmartGate. We heard that the gates’ identity-verification process requires a high level of visa information from Immigration New Zealand (INZ), to match it with data from airline reservation systems.

Australia has more accepted countries in its programme, and Customs is analysing Australian data to investigate potential risks with expanding New Zealand’s own system. In 2017, the programme is being extended to Chinese ePassport holders.

We discussed with the Minister the differences between the generations of SmartGate. The Minister said that the new-generation SmartGate replaced the existing multiple-step system, which relied on printed tickets to migrate passenger data through several stages. The new-generation SmartGate is a more accurate, efficient, and faster single-step process that uses passports in a near-instant transaction.

We heard that New Zealand’s use of SmartGate technology is world leading in terms of speed and efficiency. Nearly 95 percent of passengers are processed within 45 minutes. We heard that New Zealand’s data is compared with that of Australia and border agencies with
which we have close working relationships, and they are surprised by the level of uptake, speed, and efficiencies reached in New Zealand.

We asked whether SmartGate is used to process passengers arriving by cruise liner. We were informed that mercantile passenger data structures vary a lot in comparison to airline passenger data, which is relatively consistent and provided before the passengers arrive. This makes migrating data about cruise liner passengers through the SmartGate system difficult. However, we were told that improving technology and increasing passenger flows may make this possible in the future.

We asked whether the new-generation technology will have issues with prescription glasses. We were told that, although first-generation technology encountered issues with glasses and hats, this is not a problem for the new-generation technology.

The new-generation SmartGate’s effectiveness will be formally evaluated in late 2017/18 once the project is completed.

**Implementing the Joint Border Management System**

The Joint Border Management System (JBMS) is a collaborative programme between Customs and the Ministry for Primary Industries (MPI) to provide a single customs and biosecurity system. It shares processes, data, and technology collected and used at the border to improve processing of goods, people, and craft. Capital funding for the programme was completed in 2016/17, while operating expenditure is forecast to be within the approved available funding.

In 2016/17, a joint analytics team was established between Customs, MPI, and INZ to search for trends and anomalies in data. This is used to build predictive models able to direct their respective resources efficiently to best protect New Zealand’s border.

Customs is currently using this data while working with Australian counterparts towards the development of a secure trade lane that will remove unnecessary delays in goods crossing the border between our two countries.

The Minister told us that the new joint border analytics facility at Auckland’s Customs House allows new technologies and intelligence to be used. This is resulting in better targeting, improvements in operational efficiency, and an increase in drug interceptions.

We heard that a layered approach to risk assessment allows Customs to identify what looks normal and what is abnormal at the border. Compliance sampling of imports, data analytics, and intelligence work will ensure that Customs has a better understanding of compliance levels.

We asked whether the implementation of a joint border analytics team was recognition of risk intelligence failures by JBMS. We were informed that the data collected by JBMS and its analytical toolkit enable the joint border analytics team.

Customs told us that it is working on developing its risk assessment to ensure that alert engines are modern, effective, and appropriate. Work is being done to explore how this information translates into the actions Customs officers implement.

We asked which of the JBMS tools were currently operational. We heard that the historical data analytic components have now been released. We heard that Trade Single Window (TSW), a major component of JBMS, is an e-commerce platform that enables exporters and importers to meet border requirements in a single place. TSW was used to process five
million transactions in 2017. We were told that work was being done to develop modern and effective alert systems, Customs officers’ responses, and entity management.

We asked whether the JBMS software can provide biosecurity alerts to MPI and were told that it can. The joint border analytics team has been applying sophisticated tools to investigate biosecurity issues. As the historical data in the system grows, predictive analytics will become more effective.

**Intercepting illicit drugs**

The Minister told us that New Zealand remains an attractive market for illicit drugs, particularly methamphetamine, also known as “P”. He explained that direct imports of methamphetamine increased by nearly 63 percent from 199kg seized in the first 10 months of 2015/16, to 324kg in the same period in 2016/17. This total includes the largest-ever seizure of 176kg concealed in shipping container doors.

We heard that there is a general trend away from intercepting precursors to intercepting finished product at the border. Customs is working with agencies in New Zealand and abroad to target and disrupt illicit drug supply chains.

We asked why fewer precursors for methamphetamine were being intercepted, why seizures of finished product were increasing, and where the substance is coming from. We heard that there has been a general trend away from pseudoephedrine-based precursors towards higher-concentrated ephedrine precursors and finished product.

This has come with greater sophistication and methods of concealment. The origins of the product are mainly from China, particularly from Hong Kong, and from South America.

**Identifying the scale of the illicit drug market**

We asked whether Customs estimates or has a model to predict how much methamphetamine makes it through the New Zealand border. We heard that it is difficult to estimate the percentage of the illicit drug trade Customs has been unable to prevent, because it is not possible to know exactly how much is coming into the country.

We heard that waste-water testing takes place in parts of Auckland and Christchurch but that identifying the total size of the trade is difficult because gaining insight into illicit markets is challenging.

Some of us were surprised to learn that Customs does not use health and crime statistics to inform it of the methamphetamine market. We were told that its assurance programme collects information about what Customs can do differently at the border to intercept illicit drugs.

We heard that Customs continually refines and evaluates targeting strategies as traffickers adapt. This includes working with overseas partners to intercept imports and prevent goods arriving at the New Zealand border.

The Minister told us that Customs is becoming much more effective at identifying and targeting goods. We heard that, although Customs is intervening less in terms of stopping legitimate goods crossing the border, targeted activity is resulting in a higher success rate. Customs is now finding illicit goods at a rate of every two days, while two years ago it was every four days.
2017/18 ESTIMATES FOR VOTE CUSTOMS

Future use of technology at airports

We asked the Minister what technological progress would look like during the next five years and what we could learn from our counterparts. We heard that New Zealand is leading the field, with SmartGate technology already integral to processing passengers.

We heard that smart airports are likely to be the way of the future. These airports will be built using processing technologies designed to minimise queueing, that have the capability to identify passengers Customs wants to target as they move through the airport.

Efforts to improve staff engagement

We asked about staff engagement and were told that, during the 2015/16 Annual Review, Customs attributed a drop in the level of staff engagement to pay dissatisfaction and a perceived lack of career opportunity.

A new collective employment agreement has been negotiated to address remuneration concerns. No collective employment contract negotiations are planned for 2017/18. In 2017, there are 718 staff on collective employment contracts, an increase of 1 percent, and 493 staff on individual employment contracts, an increase of 14 percent.

We were told that Customs has also progressed the Operations Transformation Programme and is about to roll out a workforce management system that can provide easier rotation through several positions for career development. Customs anticipates that these actions will result in improved staff engagement levels.

We asked when results from a staff engagement survey we were informed of in December 2016 would be available. The Minister said that the survey’s results will be available in July.

We heard that the staff training budget for 2017/18 had not been finalised but that it would be in line with previous allocations for the last four financial years. These figures range from 1.5 percent to 2 percent of total Customs operating expenditure appropriation.
Appendix

Committee procedure
We met on 8 June and 6 July 2017 to consider Vote Customs. We heard evidence from the Minister of Customs and the New Zealand Customs Service, and received advice from the Office of the Auditor-General.

Committee members
Todd Muller (Chairperson)
Dr Shane Reti
Hon Jo Goodhew
Dr Kennedy Graham
Hon Annette King
Hon Hekia Parata
Hon David Parker
Stuart Smith
Fletcher Tabuteau
Lindsay Tisch

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Customs, prepared by committee staff, dated 6 June 2017.

Office of the Auditor-General, Briefing on Vote Customs, received 26 May 2017.

Minister of Customs, Response to standard Estimates questionnaire, received 26 May 2017.

Minister of Customs, Response to additional questions, received 6 and 23 June 2017.

Minister of Customs, Hearing presentation, received 8 June 2017.
2017/18 Estimates for Vote Defence and Vote Defence Force

Report of the Foreign Affairs, Defence and Trade Committee

Contents

Recommendation 2
Introducing Vote Defence and Vote Defence Force 2
Overview of procurement process 2
Plans to modernise the defence estate 4
Update on ANZAC frigate systems upgrade 4
The situation in the Asia-Pacific region 4
The situation in the Middle East 5
Role of Defence Force in natural disasters 5
Proposal for Singaporean F-15 fighter jet pilots to train at Ohakea 6
Plans for Defence Force to be smokefree by 2020 6
The military and domestic threats 6
Appendix 7
Vote Defence and Vote Defence Force

Recommendation

The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Defence and Vote Defence Force, as set out in Parliamentary Paper B.5, Vol.4, be accepted.

Introducing Vote Defence and Vote Defence Force

The Minister of Defence is responsible for all of the appropriations in Vote Defence and most of the appropriations in Vote Defence Force. In 2017/18, the Minister of Veterans’ Affairs is responsible for just under $127 million of appropriations in Vote Defence Force.

Vote Defence

The total appropriations sought for Vote Defence in 2017/18 are $286.5 million. This is 18 percent lower than the estimated actual expenditure of $349.5 million for 2016/17. The variation is because of the volume and timing of payments on specialist military equipment (included in the non-departmental capital expenditure).

Also of note is the $11 million sought in 2017/18 for departmental output expenses to manage the procurement of military equipment. This is a 24 percent increase on the 2016/17 estimated actual expenses of $8.9 million. The additional funding provides for the growth of the ministry’s Capability Delivery Division (previously known as the Acquisitions Division).

Vote Defence Force

The total appropriations sought for Vote Defence Force in 2017/18 increase by 8 percent to $3.388 billion from estimated actual expenditure of $3.138 billion in 2016/17. The increase will fund:

- introducing new and upgraded military equipment into service
- providing targeted personnel in critical military capabilities
- regenerating the defence estate.

Overview of procurement process

The Defence White Paper released on 8 June 2016 signals the Government’s commitment to invest close to $20 billion over the next 15 years in the capability of the New Zealand Defence Force. The Defence Capability Plan, which followed in November 2016, provides further detail on the initiatives in the Defence White Paper.

The $11 million sought in 2017/18 to manage the procurement of military equipment will ensure that the ministry has the staff to negotiate contracts that protect New Zealand’s interests. This includes providing for the necessary system upgrades and their ongoing maintenance. We asked for an overview of the procurement process, including the risks with, and safeguards for, contracts.
We heard that the ministry is halfway through its extensive change programme to significantly increase the number of experts working in the capability delivery area from 11 people in 2015 to 40 people (including fixed-term contractors). The ministry is employing people with skills and experience in managing complex protection projects, financial management, and risk management. Legal advice is being provided by two reputable firms in Wellington.

The Secretary of Defence said that the ministry has strengthened every aspect of its management and governance of capability development and delivery. It has also revised its guidance material, processes, templates, and procedures, according to international best practice.

We heard that most western jurisdictions responsible for military acquisition and capability delivery are going through similar programmes of work. The ministry works closely with the United Kingdom and Australia to benchmark against what defence organisations in those countries do. The ministry will have its progress reviewed externally.

We heard that implementing shared IT systems between the Defence Force and the Ministry of Defence is on schedule and that the benefits of this project are being realised.

**Developing good contracts**

We wanted to know whether safeguards would be built into contracts to avoid past situations where poor acquisitions have cost the taxpayer a considerable amount to put right. The Secretary of Defence said that she is very satisfied with the contracting element of the ministry’s work.

Past mistakes with military procurement were made where New Zealand sought to customise capabilities and to be an early adopter. Lessons from those mistakes have been learnt. Now, when looking at new equipment, a key consideration is whether it has been proven operationally. This approach significantly reduces the risk involved.

We heard that “optimism bias” is a feature of military acquisition and procurement to be guarded against internationally. Another element to be aware of is the whole-of-life cost of the capability during a 25- or 30-year period. The ministry has developed a whole-of-life costing model that the Treasury is happy with. The model will also be independently quality-assured and tested.

**Use of hedging**

We asked whether the ministry hedges. We heard that, when the ministry signs a contract, the Treasury holds it accountable for the base costs. The ministry then identifies the economic assumptions that could change over time, including monetary inflation, Consumer Price Index (CPI) changes, and foreign exchange. This allows it to provide whole-of-life costing for an acquisition. We heard that this approach allows for risks that arise from increases in operating costs to be managed much more effectively.

We asked what policies are in place to account for currency changes. We heard that the ministry uses Treasury metrics to calculate fluctuations in foreign exchange on an aggregated basis. The Treasury’s debt management office is involved once a contract has been signed.
**Plans to modernise the defence estate**

We asked how plans to modernise the defence estate are progressing. We heard that the Defence Force is trialling a public–private partnership outside Whenuapai Base. This provides modern houses on a five-year lease, with flexibility to accommodate changing demands for housing. The Defence Force also leases houses from Ngāti Whātau at Devonport.

We heard that the idea is to have the private sector provide a dynamic supply of housing that is fit for purpose and will meet defence personnel needs in the future.

We asked how the cost of the housing is being mitigated. From 1 July, an operating enabling allowance will help with the housing costs of defence personnel for a seven-year period. A supplement is also available for personnel in Auckland and other areas, depending on their trade and rank. This means that service people can be deployed where their skills are needed.

We heard that the housing scheme is flexible and allows frontline service people to choose whether to live in defence force housing, to rent their own accommodation, or to put the funds towards a mortgage.

**Update on ANZAC frigate systems upgrade**

We asked for an update on the project to upgrade the ANZAC frigate systems. In 2017/18, $67.3 million is sought for this project.

We heard that the ministry is working through three detailed design phases for installing the system and is awaiting the costs of this work. The ministry expects to have this information by the end of July. A period of contract negotiations with the preferred provider will then begin. This is expected to take four to six weeks.

At the moment, the ministry is on track to meet the revised schedule, which will see the first ship travel to Canada in October or November this year and the work completed in March 2018. The earlier completion date of March 2017 was unable to be met because the extent of work involved in the detailed design was found to be greater than had been estimated.

**The situation in the Asia-Pacific region**

We discussed the situation in the Asia-Pacific region, including the commitment from allies and partners to the region.

The Minister said that there are examples of violent extremism in the region. These include the recent terror attacks in Jakarta, the Jihadist militant group Abu Sayyaf’s efforts to form a caliphate in the Philippines, and the likelihood of more foreign fighters in Southeast Asia as the pressure on ISIS builds in the Middle East.

The Minister attended the recent Shangri La Dialogue on defence and told us that there will be a big focus on counter-terrorism and maritime security in the five powers’ (Australia, Malaysia, New Zealand, the United Kingdom, and Singapore) defence arrangements. This will be demonstrated in the pre-programmed exercises that will take place during the next two years.

We heard that, at the defence summit, the United States of America renewed its commitment to invest and to dedicate military assets and personnel in the region. There
was a strong sense of cooperation and a focus on dealing with the growing concern posed by terrorist groups.

We wanted to know how the situation in Iraq differs to events in the Asia-Pacific region. We heard that the fighting in Iraq takes the form of a conventional war where there is a clear enemy that holds ground, and efforts are made to retake that ground and eliminate the enemy.

In Indonesia or the Philippines, it is more of a guerrilla terrorist operation with low-tech attacks that are hard to defeat. The Minister said that there is not the clear delineation that you get in a more conventional fight, and that this needs different approaches.

### The situation in the Middle East

We asked how events are unfolding in the Middle East with the fight against ISIS and the instability in the region.

The Minister said that New Zealanders have trained more than 22,000 of the 90,000 Iraqi defence force personnel trained by all of the coalition partners. This significant contribution has enabled the Iraqis to liberate large areas that ISIS was controlling. This has allowed 1.7 million Iraqis to return to their homes and 250,000 Iraqi school children to get back to school.

We heard that, although the situation is becoming more geographically challenging as Iraqi forces are being forced into the Euphrates Valley, progress has been made. The capabilities of ISIS have been considerably degraded, along with the ideology that it could create a caliphate.

The Chief of Defence Force said that the military component is quite simple. After enabling the Iraqi troops, fighting the enemy on the battlefield has been quite successful. However, the real battle against the ideology and what is occurring in the world has not yet been fully developed as a comprehensive strategy.

The Minister said that the key is being able to change, adapt, and react to the evolving threat. One such evolving threat is low-tech attacks using vehicles, knives, and hammers.

### Role of Defence Force in natural disasters

We asked about the involvement of the Defence Force in natural disasters, such as earthquakes and flooding. We heard that defence force personnel play an important role during natural disasters by providing critical services, including logistics and medical support.

The Chief of Defence Force said, as a disciplined uniformed force available day and night, the Defence Force makes its platforms, people, and systems available in New Zealand and overseas.

We heard that defence force personnel are very adaptable—because they are used to frontline combat conditions, they are able to quickly meet the most basic needs in a natural disaster, as demonstrated in Christchurch, in Kaikōura, and during the more recent Edgecumbe floods.

The Chief of Defence Force said that, in the immediate hours, days, and weeks of chaos, the public like seeing uniformed people on the streets because it gives them a sense of reassurance.
We would like to thank the defence personnel for the important work they do.

**Proposal for Singaporean F-15 fighter jet pilots to train at Ohakea**

We asked where discussions between Singapore and New Zealand about using Ohakea Air Base as a potential training base for Singaporean air force pilots are at. We heard that a review of the proposal is in its early stages but that it is progressing well. The local community supports the idea and sees it as a great opportunity.

We wanted to know how up to 500 Singaporeans can be accommodated and what this will cost. We heard that a study to explore this in detail is under way. This will include examining social and economic factors. This work is expected to be completed and discussed with Singapore by the end of the year.

**Plans for Defence Force to be smokefree by 2020**

We discussed the plans for the Defence Force to be smokefree by 2020. The Minister said that the Defence Force will put in place policies and processes to allow people to choose to stop smoking. There are not expected to be any significant costs associated with the initiative but positive savings in terms of health costs.

**The military and domestic threats**

We asked whether any consideration has been given to changing the military’s involvement in New Zealand domestically, considering the evolving terrorist threat.

The Minister said that the Foreign Affairs, Defence and Trade Committee has been heavily involved in updating New Zealand’s legislation so that it is fit for purpose. This has included legislation about returning foreign terrorist fighters and the work of the intelligence and security agencies.

The Minister considers that having national police, defence, and intelligence services that work closely together is a big advantage. This provides a high level of protection in terms of being able to identify and react to threats.
Appendix

Committee procedure
We met on 8 and 29 June 2017 to consider Vote Defence and Vote Defence Force. We heard evidence from the Minister of Defence, Hon Mark Mitchell, the Ministry of Defence, and the New Zealand Defence Force. We received advice from the Office of the Auditor-General, and the Office of the Clerk.

Committee members
Todd Muller (Chairperson)
Hon Annette King
Hon Jo Goodhew
Dr Kennedy Graham
Hon Hekia Parata
Hon David Parker
Dr Shane Reti
Stuart Smith
Fletcher Tabuteau
Lindsay Tisch

Ron Mark replaced Fletcher Tabuteau for these items of business.

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Defence and Vote Defence Force, prepared by committee staff, dated 6 June 2017.

Office of the Auditor-General, Briefing on Vote Defence and Vote Defence Force, dated 8 June 2017.

Minister Defence, Response to standard Estimates questionnaire, received 26 May 2017.

Minister Defence, Response to additional questions, received 6 and 26 June 2017.
2017/18 Estimates for Vote Foreign Affairs and Trade, and Vote Official Development Assistance

Report of the Foreign Affairs, Defence and Trade Committee

Contents

Recommendation 2
Introduction 2
Closer Economic Relations Agreement between Australia and New Zealand 2
Nuclear weapons convention in New York 3
Support for United Nations Security Council resolution 2334 3
Measuring success of trade initiative 3
Greater focus on non-tariff barriers in Trade Agenda 2030 4
The Pacific Agreement on Closer Economic Relations Plus 5
Pacific Mission to the Cook Islands, Niue, and Tonga 6
Purchase of helicopters in Tokelau 6
Addressing the effects of climate change in the Pacific 6
Vote Official Development Assistance 7
Appendix 8
Vote Foreign Affairs and Trade, and Vote Official Development Assistance

Recommendation

The Foreign Affairs, Defence and Trade Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Foreign Affairs and Trade, and Vote Official Development Assistance, as set out in Parliamentary Paper B.5, Vol.4, be accepted.

Introduction

Vote Foreign Affairs and Trade

The Minister of Foreign Affairs is responsible for the appropriations in Vote Foreign Affairs and Trade. The total appropriations sought for the Vote in 2017/18 are $500.4 million. This is an increase of 8 percent on the estimated actual expenditure of $465.1 million in 2016/17.

The initiatives this will be used to fund include:

- the establishment of a High Commission in Sri Lanka
- the establishment of an Embassy in Ireland
- New Zealand’s presence at the Dubai Expo 2020
- the “Making New Zealanders more prosperous through trade” initiative
- logistics support to the New Zealand Antarctic Institute and the redevelopment of Scott Base.

Vote Official Development Assistance

The Minister of Foreign Affairs is also responsible for the appropriations in Vote Official Development Assistance. The total appropriations for the Vote in 2017/18 are $710.6 million. This is an increase of 18.1 percent on the estimated actual expenditure of $601.9 million in 2016/17.

This increase reflects the pattern of aid spending, including the cumulative carry-forward of under-spending in the first two years of the current three-year funding period.

Closer Economic Relations Agreement between Australia and New Zealand

The long-standing Australia–New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), more commonly known as Closer Economic Relations (CER), has been in place since 1983. However, we suggested that it is not well understood by many New Zealanders. We asked whether the Government has any plans to build on the agreement, perhaps by holding a summit, and whether any outstanding harmonisations need to happen.

The Minister said that the Prime Ministers of Australia and New Zealand have affirmed that they wish to meet more frequently to discuss matters of mutual interest. The New
Zealand Government has sought to engage with the Council of Australian Governments (COAG) arrangements and will continue to do so. COAG is an organisation consisting of the Federal Government, the Governments of the six States and two mainland territories, and the Australian Local Government Association.

We heard that New Zealand recognises the importance of having as much mutual recognition as possible in all spheres. The Minister said that the commercial arrangements between both countries have become very harmonised but that the people-to-people arrangements have perhaps been a bit neglected.

The Minister considers that all aspects of the CER could be enhanced—in particular, the work of the Australia New Zealand Leadership Council. It would be beneficial to discuss the issues between our countries with a larger number of people with influence in both countries.

We asked whether the Government was planning to place any reciprocal restrictions on Australians living here. The Minister said there are no plans for this. Australians living in New Zealand are a small part of the population (one in five migrant arrivals in the June 2016 year were from Australia, with just 5,000 of those people being Australian citizens). New Zealanders are able to travel freely to Australia and to work there. The Minister said that this is also positive for the Australian workforce and rather unique internationally.

We discussed a recent Lowy Institute poll on Australian foreign affairs that found that Australia now calls New Zealand its best friend.

**Nuclear weapons convention in New York**

We asked the Minister whether he supports a successful outcome of the ongoing nuclear weapons convention negotiations taking place in New York. The Minister said that he considers that a global treaty to ban nuclear weapons will be most successful when all countries that have nuclear weapons have signed up to it.

The Minister said that, while every endeavour should be encouraged, he is not optimistic about what concluding the negotiations would mean for a nuclear-free world.

**Support for United Nations Security Council resolution 2334**

We wanted to know whether the Minister supports United Nations (UN) Security Council resolution 2334, which reaffirmed that settlements established by Israel in the occupied Palestinian territory are illegal and a major obstacle to achieving a two-State solution.

The Minister said that adopting the resolution does not itself bring about peaceful progress on the matter for Israel or Palestine. The Minister is concerned that most commentators on this matter do not have a deep understanding of the two-State solution. He said that, in reality, the countries that are most affected need to reach a conclusion about their future.

**Measuring success of trade initiative**

Budget 2017 provided more than $20 million over the next four years ($2.9 million in 2017/18) for the “Making New Zealanders more prosperous through trade” initiative. We asked how the success of this initiative will be measured. The Minister said that trade figures would be used. For example, a free trade agreement with the Gulf countries would result in tariff reductions of $75 million per year.

The deputy chief executive of the Ministry of Foreign Affairs and Trade said that prosperity, stability, leadership, and kaitiakitanga are the four headline-level objectives for
the ministry. Underneath each of these is a set of hard objectives. The ministry’s strategic intentions document, which is yet to be published, will contain hard targets for the conclusion of free trade agreements. This will be supported by analysis of the gains to the New Zealand economy.

We suggested that $20 million over four years for the Making New Zealanders more prosperous through trade initiative is not much when you consider that $54 million is being provided for New Zealand’s participation at Expo 2020 in Dubai.

The Minister said the $20 million is for specific initiatives. It does not cover the costs of the machinery that already exists and can expand. He said that the ministry makes the dollars available to it go further than anyone else in the world. Evidence of this is how New Zealand secured a seat on the UN Security Council from 1 January 2015 until 31 December 2016.

The Trade Agenda 2030, launched earlier in 2017, sets a target that about 90 percent of New Zealand’s merchandise export goods should be covered by free trade agreements by 2030. At the moment, the figure is 53 percent. We heard that achieving the target would be quite a leap.

We discussed the Government’s target to increase exports as a percentage of GDP from 30 percent to 40 percent in 2025. We heard that this is also a tough target, particularly because the desire is for GDP to rise.

Greater focus on non-tariff barriers in Trade Agenda 2030

We discussed the Trade Agenda 2030’s greater focus on non-tariff barriers. Several agencies in the agriculture, service, commerce, and investment industries are working together to address these barriers. We heard that a 48-hour response line has been set up to address non-tariff barriers that businesses identify. Although some non-tariff barriers can be challenged, others, such as those about public health and environmental issues, are legitimate and cannot be challenged.

We asked the Minister whether the gains made by free trade agreements are now being overtaken by non-tariff barriers. We heard that non-tariff barriers have increased as tariffs have come down. The Minister said, as a nation that depends heavily on trade, we can never do enough. However, he considers that the work under way to reduce non-tariff barriers is encouraging.

We heard that free trade agreements provide an incentive and an opportunity for producers to export their goods. The Minister said there are about 85,000 exporting companies in New Zealand, which is an extraordinary number considering our population. The problem is always going to be other countries seeking to protect their domestic economies.

Concerns about non-tariff barriers

We heard that the value of TPP 11 (the Trans-Pacific Partnership Agreement without the United States of America) would be $222 million per year in tariff savings once the agreement is fully in force. On day one of the agreement, New Zealand will start saving $92 million per year. We understand that the projected gains of the original TPPA included benefits derived from non-tariff barrier savings.

However, some of us suggested that the faster movement of goods at the border brings genuine safety, health, and industry concerns. Some of us suggested that the occurrence of Myrtle rust, Velvetleaf, and pea weevil in New Zealand are examples of this.
The Minister said that Myrtle rust was brought to Raoul Island by the wind, rather than people, because the island is a nature reserve uninhabited by people. He said that climate change is affecting some of the movement of troublesome predators and diseases.

We heard that New Zealand has always had a huge amount of imported products and that we have to be constantly vigilant. Having strong phytosanitary and biosecurity rules is vital for New Zealand’s economic future.

Some of us suggested that TPP 11 identifies New Zealand’s Customs and border protections as non-tariff barriers and that the aim is to reduce these to make trade faster and easier. The Minister did not agree with this. He said that all of our international agreements contain savings provisions and that New Zealand will not relax its biosecurity rules to accommodate trade deals.

The ministry said the TPP 11 does not relax the existing sanitary, phytosanitary, and technical barriers to the trade regime at all. New Zealand has a robust, science-based system and that has not changed as a result of the TPP negotiations.

Non-tariff barriers imposed by New Zealand

We asked the Minister what non-tariff barriers New Zealand imposes on other countries. The Minister said some people would see New Zealand’s biosecurity rules as being a barrier to trade, rather than a protection of our economy.

We discussed the feta cheese issue, where New Zealand does not recognise feta as a “geographic indication”, but the European Union (EU) does. This means that, among the EU countries, only Greece can use the term feta to describe goat’s milk cheese. The ministry is aware that this is likely to be raised in the upcoming negotiations for a free trade agreement with the EU.

The Pacific Agreement on Closer Economic Relations Plus

We discussed why some of the larger Pacific region’s countries, including Fiji and Vanuatu, have not signed up to the Pacific Agreement on Closer Economic Relations Plus (the PACER Plus).

The Minister said that Fiji raised several issues towards the end of the negotiations that the other signatories to the agreement could not agree on. We asked whether Fiji is not willing to include the Most Favoured Nation clause in the agreement. The Minister said that this is one of its concerns.

However, we heard that Fiji wants to continue working through its issues and that it is not closed to becoming part of the agreement. The Minister said he will try to find out more about Vanuatu’s concerns about the agreement. He said that he is optimistic that Fiji and Vanuatu will, in time, join the agreement.

The Minister said that, as time goes on, the value of the agreement will be realised. It is up to Australia and New Zealand, as the two lead countries, to make sure there is a measurable gain for countries that participate in the agreement.

Some of us suggested that tying aid into the agreement could be seen as an inappropriate form of inducement. The Minister said that development is an important part of the agreement and that view is completely wrong. The agreement is committed to developing trading capacity, and trade itself, between the signatories.
Pacific Mission to the Cook Islands, Niue, and Tonga

We asked the Minister whether he would like to share with us any insights he gained from the recent Pacific Mission to the Cook Islands, Niue, and Tonga. The Minister said that each of the three Pacific countries is very vibrant and has a strong focus on its own self-determination.

For example, the small country of Niue is seeking to attract more tourism and to meet phytosanitary and biosecurity requirements that will enable it to export more produce to other countries in the Pacific, including Australia and New Zealand. The Minister said that this was encouraging to see. The mission sought to let the Pacific countries know that New Zealand is aware of their circumstances and is there to help.

The Minister noted the sense of progress in the Cook Islands with their drive to determine their own future. We heard that, in the next 12 months, the Cook Islands will likely be removed from the OECD register of developing countries that need aid. This would prove to be a challenge for New Zealand because the Cook Islands’ per capita GDP is still small in comparison to New Zealand’s.

Purchase of helicopters in Tokelau

We wanted to know whether a report into the purchase of helicopters by Tokelau is available. The Minister said that he has not seen the report but that there would be no desire to withhold it.

We asked the Minister whether he has visited Tokelau. He said that he has not but that he would commit to doing so if he is Minister of Foreign Affairs after the election.

Addressing the effects of climate change in the Pacific

We asked the Minister whether he feels a sense of urgency about the effects of climate change on the low-lying Pacific islands and whether we need to start planning for the effects by 2100. The Minister said that he is concerned for these people. Unfortunately, there is no easy fix and a massive international effort is needed to start arresting the effects of climate change.

The Minister said that he recently spoke with the Tuvaluan Prime Minister when he visited New Zealand. Solutions are needed for how people might live with the effects of climate change. We heard that moving the population has been suggested and that Fiji has offered to take a significant number of Tuvaluans. Some of the affected countries are buying land in other parts of the world and seeking to progressively raise the level of their islands.

The Minister said that people have a deep cultural commitment to a place, which we certainly understand in New Zealand. Therefore, it will be most important to help people to stay in their countries.

The possibility of displaced people

Given the possibility that climate change could displace 12,000 to 120,000 Pacific people, we asked the Minister whether he has a view about the role New Zealand needs to play.

The Minister said the Pacific countries do not want to reach this point of disaster. Their desire is to continue living in the country to which they are most connected. Therefore, considering solutions for the continued occupation of the Pacific countries is the right approach, and New Zealand is interested in providing whatever assistance it can in this regard.
We asked the Minister whether he sees value in planning for the disaster that might occur. He said that, for that to happen, the Pacific countries would need to have a very pessimistic view of their future and that this is not their preference. They want to have a positive outlook and to consider how they might deal with any issues as they arise.

The Minister pointed out that the COP23 Presidency (the 23rd annual Conference of the Parties to the 1992 United Nations Framework Convention on Climate Change) is now held by Fiji. This will provide a positive opportunity to focus the whole world on the acute challenges Pacific countries face.

**Vote Official Development Assistance**

New Zealand’s aid programme focuses on the Pacific, which receives about 60 percent of the aid budget. We pointed out that 2017/18 is the final year of the current triennium for funding development assistance.

We asked the Minister how successful the aid programme has been during the last three years and whether a three-year cycle is too short, considering most multi-year appropriations are for four years. The Minister said that, although a three-year cycle is a bit short, he considers it to be reasonable.

We heard that the ministry regularly discusses the funding cycle with the Government and that the aid programme involves long-term programmes. The ministry has been providing education in the Solomon Islands for 20 years and building solar energy projects that continue beyond the three-year cycle. The ministry said that it is important to give countries certainty about their future funding and support packages.

The Minister considers that the aid programme is working well. It has contributed, for example, to improved electricity reticulation using renewable energy. There has been a big reduction in the use of fossil fuels to produce energy, which is positive for climate change and for the Pacific economies that do not need to pay for imported diesel.

We heard that, in the last four to five years, Tokelau has gone from using no solar energy to having 100 percent of its power provided by solar energy. The country is realising massive savings in the cost of diesel. The people of Tokelau see using solar energy as a demonstrable response to the effects of climate change.

**Importance of small aid projects**

We are aware that New Zealand has small aid projects with some countries it is endeavouring to trade with. We asked the Minister whether he thinks it is important to maintain the arrangements involving trade and aid.

The Minister said that, although it might seem counter-intuitive, such arrangements can have a positive effect on small communities. Strengthening the infrastructure and capability of Pacific countries that depend on Australia and New Zealand has a greater long-term effect than a small immediate aid project.

The deputy chief executive of the ministry said that many of the countries New Zealand wants a positive trade relationship with are still developing countries. Therefore, it makes sense to help their economies transition.
Appendix

Committee procedure
We met on 22 June and 6 July 2017 to consider Vote Foreign Affairs and Trade, and Vote Official Development Assistance. We heard evidence from the Minister of Foreign Affairs, Hon Gerry Brownlee, and the Ministry of Foreign Affairs and Trade. We received advice from the Office of the Auditor-General.

Committee members
Todd Muller (Chairperson)
Hon Annette King
Hon Jo Goodhew
Dr Kennedy Graham
Hon Hekia Parata
Hon David Parker
Dr Shane Reti
Stuart Smith
Fletcher Tabuteau
Lindsay Tisch

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Foreign Affairs and Trade, and Vote Official Development Assistance, prepared by committee staff, dated 6 June 2017.

Office of the Auditor-General, Briefing on Vote Foreign Affairs and Trade, and Vote Official Development Assistance, dated 22 June 2017.

Minister of Foreign Affairs, Response to standard Estimates questionnaire, received 26 May 2017.

Minister of Foreign Affairs, Response to additional questions, received 16 and 21 June, and 5 July 2017.
The Finance and Expenditure Committee has examined the 2017/18 Estimates for Vote Audit and recommends that the appropriations in respect of Vote Audit for the year ending 30 June 2018, as set out in Parliamentary Paper B.5, Vol. 5, be accepted.

Chris Bishop
Chairperson
The Intelligence and Security Committee has examined the Estimates of Appropriations for Vote Communications Security and Intelligence and for Vote Security Intelligence for the year ending 30 June 2018. We heard from the Government Communications Security Bureau and the New Zealand Security Intelligence Service and received advice from the Office of the Auditor-General.

We recommend that the estimates of appropriations in respect of these Votes for the year ending 30 June 2018, as set out in Parliamentary Paper B.5 Vol 5, be accepted.

Rt Hon Bill English
Chairperson

Report of the Finance and Expenditure Committee

Contents

Recommendation 2
Introduction 2
Overview of Vote Finance 2
Economic outlook 2
Fiscal outlook 4
Risks to the economic and fiscal outlook 5
Fiscal strategy 5
Unappropriated budget initiatives 6
Infrastructure spending 7
Social investment approach 8
Earthquake Commission levy 8
Appendix A 9
Appendix B 10
Vote Finance, Fiscal Strategy Report 2017, and Budget Economic and Fiscal Update 2017

Recommendation

The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Finance, as set out in Parliamentary Paper B.5 Vol.5, be accepted.

We also recommend that the House take note of the matters we considered in our examination of the Fiscal Strategy Report 2017 and the Budget Economic and Fiscal Update 2017.

Introduction

As well as examining the appropriations sought for Vote Finance in 2017/18, we considered the Minister of Finance’s strategy behind the Budget, as outlined in his fiscal strategy report, and the Treasury’s economic and fiscal update on which the Budget forecasts are based. We met with the Minister of Finance and the Treasury to discuss these matters.

Overview of Vote Finance

The annual, permanent, and multi-year appropriations sought for Vote Finance in 2017/18 total $5,071 million. This is a 6.6 percent reduction on the estimated actual expenditure for 2016/17 ($5,427 million).

The bulk of this change is from expenses that will not occur in 2017/18, such as the impairment of investment in Southern Response Earthquake Services Limited, and increases in the annual appropriations for refinancing of Housing New Zealand Corporation and Housing New Zealand Limited debt, and for Greater Christchurch Anchor Projects.

The largest appropriations type in the Vote is non-departmental borrowing expenses, which accounts for $3,396 million, or 67 percent, of the Vote. This funds the costs of servicing Crown debt.

The amount sought under Vote Finance for the cost of services delivered by the Treasury is $93.945 million (less than 2 percent of the Vote). This is 4 percent higher than the estimated actual expenditure for 2016/17.

The Minister of Finance is responsible for most of the appropriations in the Vote. The Minister supporting Greater Christchurch Regeneration is responsible for annual and multi-year appropriations totalling more than $537 million. The Minister of Science and Innovation, the Minister for State-Owned Enterprises, and the Minister responsible for Housing New Zealand Corporation are each responsible for one appropriation in the Vote.

Economic outlook

The Treasury’s Budget Economic and Fiscal Update (BEFU) provides forecasts for the economy and the Government’s finances for the period to March 2021. The BEFU shows...
that real gross domestic product (GDP) growth is forecast to rise to 3.1 percent in 2017, from 2.7 percent in 2016. This rise is supported by migration inflows, investment, and a recovery in exports. Real GDP growth is projected to peak at 3.8 percent in 2019, before slower population growth, reduced construction growth, and rising interest rates contribute to growth moderating to 2.4 percent by 2021.

The unemployment rate is projected to remain at about 5 percent throughout 2017, with employment growth being balanced by high labour force growth. Unemployment is expected to steadily decline to 4.3 percent by 2021.

Consumers price index (CPI) inflation is expected to rise from 0.4 percent in 2016 to 1.8 percent in 2017 as spare capacity in the economy is used up, before stabilising at about 2 percent from mid-2019.

The Treasury projects the current account deficit to reduce slightly from 2.9 percent to 2.8 percent in 2017, before widening again to 3.9 percent in 2021.

**Per capita GDP growth**

The Treasury has forecast real per capita GDP growth of 0.9 percent for 2017. We asked whether the Minister would be satisfied with such a growth rate. The Minister said that it is important to see New Zealand’s growth numbers in the context of the world economy.

Many parts of the world have struggled to get much economic growth at all since the global financial crisis, and New Zealand is now growing faster than the United States of America, the United Kingdom, Europe, Japan, Canada, and Australia. The Treasury’s projections for real per capita GDP growth fluctuate between 1 and 2 percent from 2018 to 2021.

**Current account deficit**

New Zealand’s current account deficits have reduced from about 8 percent during the mid-2000s to 2.9 percent in 2016. We asked about the cause of this reduction and wondered whether it is sustainable.

The Treasury said that it would usually expect the deficit to be higher, but conditions in the current cycle are unusual for several reasons. Firstly, interest rates are usually much higher when the New Zealand economy has gone through a period of growth, but because interest rates are currently low, New Zealand’s interest payments to foreign banks are also lower. Secondly, New Zealand’s terms of trade is high at more than 1,200, mainly because of a recovery in dairy prices. Thirdly, New Zealand’s savings performance has been less negative than in previous cycles, which also lifts the deficit.

The Treasury said that it would usually project the current account deficit to return to the long-term average, but because of New Zealand’s relatively low net external debt, it expects the deficit to settle at about 4 percent. The Treasury said that there is no cause for concern at the moment.

**Productivity**

We asked what initiatives in Budget 2017 will help to improve productivity in New Zealand. The Minister admitted that productivity needs to improve but said that many countries in the developed world are struggling to improve productivity. He said that there are significant initiatives in the Budget to help improve it here in New Zealand.

One example is the second stage of the Innovative New Zealand programme, which invests significantly in research and development. The Minister also spoke of the
Government’s commitment to establishing ways of measuring productivity improvements in the public sector, which the Productivity Commission will investigate.

Given that the Government does not have official measurements of productivity in the public sector, some of us questioned Government claims that the health budget has kept up with demographic changes and inflation through productivity gains.

The Minister said that Budget 2017 contains the highest single increase in health spending in 11 years and pointed to improvements in the number of electives, discharges, and first assessments as evidence of productivity improvements in the health sector.

**Changes to immigration forecasts**

We note that the BEFU projects immigration to drop off at a slower rate than in previous economic updates. We asked how the Treasury has revised its forecast. We heard that the change was mainly because Statistics New Zealand revised its projection for when immigration will likely revert back to the long-term average. The Treasury now predicts that this will take place in 2022, outside the forecast period.

**Fiscal outlook**

The Crown’s fiscal position has improved during the past five years, having recorded an operating balance before gains and losses (OBEGAL) surplus in the past two fiscal years. The Treasury expects the Crown’s fiscal results to continue to improve, reflecting growing tax revenue as a result of nominal economic growth.

New operating spending in Budget 2017 has increased to an average of $1.8 billion per year over the next four years. Future operating allowances have been set at $1.7 billion in 2018, increasing by 2 percent each year onwards.

New capital spending has increased to $4 billion, and the capital allowance for 2018 is set to be $2 billion, rising to $2.5 billion for Budgets 2019–21. Capital spending is estimated to be $28.4 billion over the forecast period, compared to $18.4 billion during the previous five years.

Net core Crown debt is expected to decline as a percentage of nominal GDP over the forecast period, to 19.3 percent. The Crown is forecast to restart contributions to the New Zealand Superannuation Fund as a result of meeting its aim of having debt fall below 20 percent of GDP.

Budget 2017 seeks to introduce a Family Incomes Package that reduces tax revenue and increases social assistance expenditure. The package, to come into force on 1 April 2018, will cost $6.5 billion in total to 2020/21.

**Tax revenue from multinationals**

We note that the Government expects further tax revenue from multinational corporations from 2018 onwards. The Minister said that the Inland Revenue Department (IRD) has released three discussion documents that outline the Government’s work to combat base erosion and profit shifting (BEPS) strategies. This work is expected to bring in an extra $50 million in 2018/19 and then $100 million per year in 2019/20 and 2020/21.

We asked whether the Minister was satisfied with those numbers, given that the IRD has estimated that the Government misses out on $300 million in tax revenue though BEPS strategies. We heard that the revenue estimates for this cycle are conservative, but the Minister is confident that this work will bring in the extra revenue.
We heard that New Zealand needs to work with other countries to be effective in combating multinationals’ BEPS strategies, because of our relative size compared with overseas countries and companies.

**Risks to the economic and fiscal outlook**

The Treasury considers domestic risks to New Zealand’s economic outlook to be balanced but international risks to be skewed to the downside.

Recent political developments in the United States and parts of Europe show a weakening of support for trade liberalisation. A rise in trade protection could significantly slow down international trade volumes and global GDP growth.

Chinese growth has been supported mainly by policy stimulus in recent quarters, adding to already high levels of debt. This, combined with excess capacity in some parts of the economy, could lead to slower Chinese growth, which would have negative effects on commodity prices, trade, and capital flows.

A rapid increase in investment in medium-to-high-density housing in Australia has raised the risk of a decline in housing market activity and a correction in houses prices. This could result in slower economic growth and higher unemployment. The strength of the Australian labour market is a major factor influencing trans-Tasman migration flows, so net migration to New Zealand could be much higher than anticipated if such conditions do come to pass.

**Interest rates rise**

We discussed the Reserve Bank’s recent analysis that suggested that some households and dairy farms are at risk of severe financial stress if interest rates were to rise. We heard that, since he first took on his role, the Minister has been saying that people should be careful about investing in what is likely now the peak of the housing market.

The current situation in the market is unusual, with a combination of historically low interest rates, quantitative easing, and high asset values. The Minister said that people wanting to borrow should consider the interest rate they are likely to get in three or four years’ time, rather than the present rates.

The Treasury said that it is very concerned about the level of household debt in New Zealand. Although the financial system is robust at present, a rapid rise in interest rates would have severe implications on households that are over-leveraged. However, the Treasury does not see any reason to assume that a sudden increase in interest rates is likely.

**Fiscal strategy**

The fiscal strategy report outlines the Government’s long-term fiscal objectives and short-term fiscal intentions.

The Government has updated its long-term debt objective to reflect the improved state of its finances. The Government now plans to reduce net debt to between 10 and 15 percent of GDP by 2025. This will allow the Government more room to borrow to support New Zealanders should a severe economic shock occur.

The Government’s other long-term targets, which remain unchanged, are to keep core Crown expenses below 30 percent of GDP and to ensure that operating balances are enough to meet net capital requirements.
The Government’s short-term fiscal priorities have been updated to reflect the new debt target. They are to:

- maintain rising OBEGAL surpluses over the forecast period so that cash surpluses are generated and net debt begins to reduce in dollar terms
- reduce net debt to about 20 percent of GDP in 2020
- invest in the public services and infrastructure needed for a growing country
- adjust tax and transfer settings, as fiscal conditions allow, to improve family incomes and simplify the income tax and transfer system.

The Government intends to use any positive revenue surprises to strengthen the resilience of its balance sheet.

**Unappropriated budget initiatives**

About $2.4 billion worth of expenditure contained within the summary of initiatives in Budget 2017 has been marked as “appropriation has not yet been sought.” We note that this is a significant increase from Budget 2016. In his responses to written committee questions the Minister said that these initiatives were set aside as contingencies, and that they will be appropriated once certain criteria have been met. We asked what these criteria are and why there are more instances of this spending in Budget 2017 than in recent budgets.

The Minister said that these initiatives are expected to proceed, but have not yet been signed off by Cabinet. All initiatives are subject to final business cases and the Minister said that Cabinet prefers to go through a robust process before approving new spending. The Treasury said that the level of unappropriated expenditure varies between budgets.

We asked why unappropriated initiatives had been allocated to budget votes in Table 7 of the summary of initiatives in the Budget. The Treasury said that it included such spending to be more transparent than it has been previously and that nothing contained in the Budget documents was unorthodox.

**Mental health contingency**

The Government has set aside $100 million in contingency spending for mental health in Budget 2017. We asked why the Government has not allocated this fund to any specific projects.

The Minister said that the Government is currently revising its mental health strategy. He said the Government could have forced the funding into a project for the purposes of the budget, but it is being transparent that it does not yet have a specific project to apply this funding to.

The Minister said that mental health issues affect multiple sectors, including housing, health, and employment. Therefore, the Government is using its social investment approach, bringing together multiple ministries to look at initiatives to address mental health problems.

Some of us think that it looks as though the Government recognised the growing political sensitivity of mental health, and included a figure in the budget in response, without having a programme to fund. The Minister refuted this claim, saying that this spending is related to the timing of the mental health strategy preparation.
2017/18 ESTIMATES FOR VOTE FINANCE AND RELATED ITEMS

Infrastructure spending

The Government has announced $11 billion in new infrastructure spending over the next four years, $4 billion of which has been allocated in Budget 2017. The Minister told us that the Government’s total spending on infrastructure over the next four years will now be $32.5 billion.

Auckland transport

We asked how some of this new spending will be used to meet the growing needs of Auckland. The Minister said that a significant portion of funds will be spent in Auckland.

The Minister referred to the Auckland Transport Alignment Project, a joint project between the Government and Auckland Council that aims to develop Auckland’s transport system over the next 30 years. The Minister said that the project’s first decade will cost $23.7 billion, split between the Government, which will pay two thirds of the cost, and Auckland Council, which will pay one third.

We heard that the Mayor of Auckland believes that the funding will need to be increased further to keep up with Auckland’s population growth, which the Minister is open to discussing, because some further funding is available that has not yet been allocated.

We discussed the constraining effect that Auckland Council’s financial position is having on infrastructure developments. The Minister said that he would like to see Auckland Council create a bigger budget surplus, so that the Council could provide a higher level of funding for joint projects and the Government could spend more funding elsewhere. We heard that conversations between the Government and Auckland Council on this topic are ongoing.

We asked how this spending will improve the current congestion problems in Auckland. The Minister said that, although it is important to have a discussion about the cost–benefit ratio of projects, some projects do not “stack up” on a traditional cost–benefit basis. He used the Auckland Central Rail Link as an example of a project that has generated a lot of debate about the wider economic benefits it provides.

Some of us are concerned that the large capital expenditure on significant motorway projects in Auckland is unlikely to reduce congestion.

On the other hand, the Minister told us that the Government is expanding almost every motorway in Auckland, either now or in the near future, and that this will give real benefits for the next few years.

Benefits to local economies

We asked how the Government’s infrastructure investment will benefit the local economies in regions outside of Auckland. We heard that the construction workforce in New Zealand is the largest it has ever been, at about 250,000 people, which is partly a result of the Government’s infrastructure investment. The direct benefits of this can be seen in areas such as Wellington, where the Kāpiti expressway, Transmission Gully, and Ōtaki expressway projects have provided significant local employment.

Obstacles to investment

We asked whether the Government has identified any obstacles that might prevent its infrastructure investment from being rolled out throughout the country. The Minister said that recent changes to the Resource Management Act 1991 removed many of the barriers
slowing progress on some transport initiatives, such as the Waterview project in Auckland and the Kāpiti expressway in Wellington. He said that he has received positive feedback on the consultation process from some of the people initially opposed to the Waterview project.

**Access to the National Land Transport Fund**

We discussed the prospect of making the National Land Transport Fund (NLTTF) available for rail and coastal shipping infrastructure. The Minister said that it would be difficult to do so because the fund is mainly paid for through road user charges.

The Minister thought it likely that some road users would object to using the NLTTF for rail or ferry projects that may not benefit them in any direct way. However, the Minister said that he does not think that the current funding model for KiwiRail is satisfactory and that the Government will be doing more work on this.

**Social investment approach**

We asked how the Government’s social investment approach has affected the budget process. The Treasury said that the social investment package is a good example of the way it would like to see agencies work together in the future to develop broad budget packages. It also said that future budgets are likely to feature more multi-category appropriations to allow more flexibility in where agencies spend their funds.

**Earthquake Commission levy**

The Government will raise the Earthquake Commission (EQC) levy under Budget 2017, from 15 cents per $100 of insurance cover to 20 cents per $100 of insurance cover. We asked whether this would replenish EQC’s Natural Disaster Fund.

The Minister said that the fund is nearly depleted after the Canterbury and Kaikōura earthquakes. This levy will lift the fund over a 10-year period to a level that will cover its excess. Beyond that, the fund is backed by about $5 billion in reinsurance and is financially guaranteed by the Crown. At present, the Government does not see the need to make any payment to EQC under section 16 of the Earthquake Commission Act 1993.
Appendix A

Committee procedure

We met on 7 and 28 June 2017 to consider Vote Finance, the Fiscal Strategy Report 2017, and the Budget Economic and Fiscal Update 2017. We heard evidence from the Minister of Finance, Hon Steven Joyce, and the Treasury, and received advice from the Office of the Auditor-General.

Committee members

Chris Bishop (Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Brett Hudson
Rt Hon Winston Peters
Grant Robertson
Alastair Scott
David Seymour
James Shaw
Michael Wood

Evidence and advice received

In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Finance, received 7 June 2017.
Minister of Finance, Response to standard Estimates questionnaire.
Minister of Finance, Responses to additional questions, received 2 June, 6 June, and 15 June 2017.
2017/18 ESTIMATES FOR VOTE FINANCE AND RELATED ITEMS

Appendix B

Transcript of the hearing from 7 June 2017

Members
Chris Bishop (Chairperson)
Alastair Scott (Deputy Chairperson)
Andrew Bayly
Barry Coates
Hon Clayton Cosgrove
Hon Craig Foss
Brett Hudson
Denis O’Rourke
Grant Robertson
David Seymour
James Shaw
Michael Wood

Witnesses
Hon Steven Joyce, Minister of Finance

The Treasury
Gabriel Makhlouf, Secretary
Struan Little, Deputy Secretary, Budget and Public Services
Tim Ng, Deputy Secretary, Chief Economic Advisor

Chair
Welcome along, we’ve got about an hour, and you’ve got some open preparatory remarks, so we’re in your hands.

Joyce
Well, thank you very much Mr Chair, thank you members. Just a quick update on where things are at, starting with the economic outlook. The economy’s performing pretty strongly, we’ve had positive growth in all but one quarter of the last 6 years, strong job growth. Our adult employment rate is now its highest ever—67.1 percent out of everybody over the age of 15. Low balance of payments deficit for this stage of the cycle. Lower international net liabilities.

And the outlook is pretty positive as well, forecasting annual average growth Treasury is over 3 percent over the next 5 years, peaking at around 3.8 which is slightly—sort of more of a—sort of up and down a little bit of it compared the Reserve Bank’s projection but they’re all much of the same. Unemployment expected to steadily decline and nominal GDP is now forecast to be a cumulative $24 billion higher than it was, over the next 5 years, than it was at the half yearly update.

That flows through to fiscals. We’ve made some changes to the operating allowances. We have increased the operating allowance for this year to 1.8
2017/18 estimates for vote finance and related items

billion, which is 300 million more than was previously allocated. We've also increased future operating allowances, next year at 1.7, and then adjusting upwards after that by 2 percent a year. The OBEGAL surplus for next year is expected to be around 2.9 rising to 7.2 billion. Now, these aren't significant surpluses, but it is important to note that with a very significant infrastructure spend through the capital account, the residual cash over the forecast thread, is almost exactly nil.

In terms of the Crown accounts just out, at the beginning of this week, it was actually better than expected, but a lot of that is expected to unwind next month.

Chair How much of that?
Joyce Up to a billion
Joyce That's what's expected to come out in May, so we'll just see how that runs.

In terms of the Government's plan, the accent is on sensible conservative fiscal policy, strong orthodox monetary policy, and an ongoing program of microeconomic reform. And that's, I think, very important for delivering confidence in the sort of growth that we're getting.

In terms of our investments in the Budget, I just wanted to highlight a couple of things. Firstly, allocating $7 billion over 4 years to sustain and expand public services in health, education, law and order, social development, and so on. It includes a $3.9 billion investment in the health sector, and very significant investments in education and justice as well. Of course, includes the social investment amongst those. That's $321 million invested through the social investment process, and that includes a very significant investment in mental health services. Our total mental health services additional spend over the next 4 years will be 224 million.

Infrastructure spend is very significant. We have lifted the infrastructure spend over the last Budget by quite a significant amount, and that's $4 billion in new capital in this Budget, which is the highest, I think, since records began. And then, it takes a run rate of $32.5 billion over the next 4 years, and that's about 40 percent more than the last 4 years, which itself was growth on the previous 4 years before that. And that includes some very big expenditure—for example, in the school sector, 4.85 billion in schools, a big expenditure in the health sector and so on, and that's all laid out in the Budget documents.

In terms of the debt targets, they are pretty important. We've made the judgment that we believe we've got to keep on bringing down debt as a percentage of GDP. We've had the two rainy days of the global financial crisis and the Canterbury earthquake and we've got to prepare ourselves for the next rainy day, whenever that comes. So at this stage, as I say, we've committed our target of 20 percent of GDP by 2020 and then, we've now got to look at the post 2020 period, because we're heading towards then, and so we've set a target of 10 to 15 percent by 2025, and that gives us the capacity, we believe, to be able to stand behind New Zealanders should
the—obviously we’re not looking forward to another shock but you have to be prepared for them.

Finally, it’s important to point out the Family Incomes Package. A number of people haven’t understood some of the details of that. It’s in four parts, and the first part is the tax threshold changes, that is the lifting the $14,000 income tax threshold to 22,000, and the $48,000 tax threshold to $52,000, and, of course, that changes the tax reduction of $11 a week for anybody earning more than 22,000 a year increasing to $20 a week for anyone earning more than 52,000 per year.

The second part of that is the removal of the independent earner tax credit, which paid up to $10 a week to provide a tax reduction to lower income people without families. It’s actually only claimed by about one third of eligible recipients during the tax year, and about 80 percent in total with a whole lot of people claiming it back through rebate companies and the like. And people who lose this credit are compensated in full by the lifting of that lowest tax threshold.

The third change is the family tax credits, and that’s a significant part of the simplification side of the story. Up until now we’ve had five different rates, depending on the age of the child and where they were born in the family. There’s now only going to be the two rates—the first child and the subsequent children—and the impact of that is that for children under the age of 16, the rates increase by $9 a week for the first child, and either $18 or $27 a week for the subsequent child. Now, we’ve also made the planned adjustments to Working for Families abatements. We’ve brought those forward with the family tax credit set to abate at 25c in the dollar above an income of $35,000 from 1 April next year.

And finally, the accommodation supplement, which, of course, has not been updated since 2005 and is currently based on 2003 rents. We increased the maximum available accommodation supplement, and also changed the accommodation supplement areas, and that’s quite important—a lot of people haven’t quite picked up on that. So for example, if you take Auckland, the South Auckland and west Auckland parts go from area 2 to area 1, so as well as the, if you like, the increase in the supplement within their area, they also get the increase in the supplement from moving from one area to the next in terms of the additional amount. So many families in those, for example, centres, will get over, say, for example, about $110 a week, so they’re quite significant increases from the accommodation supplement alone.

Also applies in places like the Wairarapa which some parts go from 4 to 3. Lower Hutt goes from 3 to 2, and so on and so forth, as well as a couple of other changes that are linked there. The changes to the accommodation benefit for eligible student allowance recipients who experienced housing stress—that’s increasing by up to $20 per week. And also there’s the flow-on effect for superannuitants, because superannuation, as you know, is linked to the after tax wages, which means that the couple rate for New
Zealand superannuation will increase by $13 a week from April 1, as well as their normal increase that will occur on April 1.

And there are some people that are negatively affected by this change, not very many—the overall package—and we’re putting in place a transitional fund of $2 million or $2.2 million a year over the next 4 years, which is set aside for anyone impacted by the changes by more than $3 a week.

Also announcing, finally, that the Pre-election Fiscal Update will be on Wednesday 23 August, exactly 1 month ahead of the election on September 23rd.

So Mr Chair, I think this is a good Budget that takes many significant steps to providing the benefits of a stronger economy for all New Zealanders, and happy to take, obviously, the questions of the committee.

Robertson

Thank you, Minister. I just want to start on a relatively technical matter around the number of instances where appropriations have not been sought for initiatives that are outlined in the Budget, and in Treasury’s answers to us in their supplementary estimate questions, they’ve said that these represent initiatives agreed through Budget 2017 which have been set aside as a contingency—these initiatives will be appropriated once certain criteria have been met. What are those criteria?

Joyce

Well, the normal criteria that apply every year which is: is the money set aside for initiative that perhaps hasn’t been finally signed off by Cabinet in terms of proceeding? It’s expected to proceed, so that’s why it’s preserved in the appropriation, and reserved in the accounts. And then, when Cabinet’s ready to make the final decision, it proceeds.

Robertson

There’s significantly more of those this year than there were last year. Why is that?

Joyce

I think it’s just, it varies from year to year, some a little bit higher and some are a little bit lower. I don’t think I’d read too much into that. I think that’s reasonably standard, is it?

Makhlouf

If I could just add—mental health in particular is one of those items. A lot of the work that went into the Budget has been very focused on making sure we meet high thresholds, high criteria, for good investments. And then until we are clear on precisely what we can meet—Cabinet Ministers decided not to make a decision on that but wanted to set aside some money. So that’s essentially—

Robertson

Yeah, I’ll come back to the mental health question in a minute if that’s all right. I mean, if we just take a couple of the examples of these, you’ve got $700-odd million of prison—

Joyce

That’s right.

Robertson

—contingency there. You’ve got $300 million for Defence capital. Are you really telling us you don’t know what you’re going to spend in those areas?

Joyce

Well, some of those are there for commercial reasons, Grant. We’re in the process of—Corrections is out there at the moment considering, I think it’s
expressions of interest stage for prison capacity and so it’s set aside as a contingent amount until such time as we know, for example, whether it’s going to be spent on a design and build or whether it could potentially be a PPP, and that hasn’t been finally decided yet. But those are the sort of things that set those things aside.

Similarly in Defence, it’s all subject to procurement. So before you go and appropriate and hand the money over to Defence, we like to see what the proposal is in detail and then pass it across.

Robertson

Yeah, I mean, I think what I’m struggling with here is that you’ve got a range of initiatives—and it is significantly more than in any previous year. You’ve got things like the national bowel screening programme, disability support services, Enabling Good Lives, and they’ve got reasonable specific numbers here, but you haven’t actually made the decision to do those programmes.

Joyce

Well, they’re all subject to final business cases. And, as I say, we like to adopt the process whereby we make sure that we—exactly what’s happening before we hand the money over. Call us old-fashioned. That’s sort of how you like to do it.

Robertson

But you haven’t—Cabinet could easily decide not to do them. Is that correct?

Joyce

That’s highly unlikely, Mr Robertson, before you set that hare running.

Robertson

But so—but Cabinet could, though, couldn’t they?

Joyce

It could, but it’s highly unlikely, thank you very much.

Robertson

So, right, yep, but let’s just—it could do it. And in the—

Joyce

It could decide to change anything.

Robertson

That’s correct. But at least in some of these you’ve actually appropriated the money and put them in a Vote. In the answers that Treasury have given us—answer 135—they’ve said to us: “The items have been allocated to a Vote this year in Table 7 of the Summary of Initiatives document.” That means that Table 7 in this document, which, incidentally, nowhere here
does it indicate that this includes funding that has not been appropriated. So this table here isn’t actually accurate, is it?

Joyce   Well, it is, actually. It’s trying to give the best indication of what the summary of initiatives is, and the initiatives are the initiatives that the Government—

Robertson Yes, but you haven’t appropriated expenditure—

Joyce   Well, let me put it this—

Robertson —for a large number, $2.4 billion worth, of these initiatives.

Joyce   Well, let me put it this way to you, Mr Robertson. If I hadn’t included it in the summary of initiatives, you’d accuse me of hiding them.

Robertson No. What’d I’d say is that you, when you put this table out, should actually give an accurate impression of spending. Does this table include spending that has not been appropriated? Table 7 on page 16 of the initiatives.

Joyce   It is the summary of the initiatives that the Government has committed to, subject to final appropriations, in some cases based on business cases.

Robertson Does it say here that that’s the case, Mr Joyce?

Joyce   Ah, well, no, but I don’t think it’s a great secret, Mr Robertson.

Robertson No. Well, it does not say here that that is what you’ve done. And the truth is that you have actually inflated these numbers, haven’t you?

Joyce   You can chase after that squirrel if you like but, actually, no. I’ve made it absolutely clear what the initiatives are. They’re listed clearly. They’re all
subject to business cases. But, you know, you’ve got 40 minutes left. Go for your life.

Chair Just as a supplementary, and maybe the chief secretary’s better to answer this, is there anything unorthodox in what’s in the Budget documents—the way this treatment of these particular appropriations have been dealt with?

Makhlouf I think we’re just being more transparent than we have before.

Chair More transparent?

Makhlouf Yeah.

Robertson And can we just be absolutely clear before we move to a different matter that this year there’s 11 significant initiatives totalling $2.4 billion and that there were four last year. That’s correct, isn’t it?

Joyce Oh, I haven’t checked last year, but OK. Good on you, Grant.

Robertson All right. Can I now return, then, to the mental health contingency? When was the decision taken in the Budget process that you would have that level of contingency for mental health?

Joyce Quite some time ago. It was taken through the normal Budget process.

Robertson Was it taken—you know, given the importance of mental health as an issue, not having specific projects that you want to fund on an important issue would be unusual, wouldn’t it?

Joyce No. I actually think it’s really important to make sure that we have sufficient capacities. The process that we’re going through is a process through the social investment area where we’re bringing the ministries together to—rather than just allocate money to them individually, that they work across the ministries. Mental health issues affect, for example, the housing sector, they affect the health sector, they affect the employment sector, as well as other sectors as well, and it is important that we get the agencies to effectively apply together.

And where we’re up to in the process—once again, we know that we have a number of initiatives coming. We’re mid-process in terms of the final allocation. We have a mental health strategy that’s currently being revised. We could’ve forced it into some particular project for the purposes of the Budget, but we’re being transparent that, actually, where we’re up to in the process—we want to get the mental health strategy out, and we want to ensure that the agencies are together looking at initiatives that apply to the population on the basis of a social investment basis, and we’re happy to do that.

Robertson If this truly was a priority for your Government, would you not have developed these projects by now? I mean, it truly does look, from the
outside, like you realised this was a political problem and you’ve plucked a number out of the air and put it in the Budget.

Joyce Well, I’m sorry. You’re wrong.

Robertson I find it—

Joyce Well, wait until you see the documents. You’ll see that there’s quite a process around social investment. But, again, if you want to jump at these particular—

Robertson But this is not about social investment.

Joyce Including mental health.

Robertson This is about an unallocated contingency.

Joyce Yep.

Makhlouf If I can just add one thing to this—the social investment package, which the Minister referred to, includes components for mental health—

Robertson It does, yep.

Makhlouf —so the contingency’s an extra.

Robertson Yeah, that’s exactly the point I’m making, secretary. It’s exactly that point—that it looks, from the outside, like you realised mental health was becoming a bigger and bigger political problem and you decided to add in this money, because in every other part of—

Joyce Well, the member is wrong, and when he finds out—when he actually gets the chance to see all the papers behind the Budget, he’ll be able to see the shadows that he’s jumping at aren’t there.

Robertson But in all kinds of other areas, Minister, which are, you know, significant and complex, you have programmes. Here you just have an allocation of money. That is different, isn’t it, from other areas of health, other areas of education?

Joyce Well, no, it’s in relation to the timing of the mental health strategy preparation, and the Ministers in Cabinet wanted to make sure that we did a mental health strategy, which is timed to occur at this time anyway, and then we apply the funding off the back of that. It seems a very eminently sensible thing to do, but I appreciate the member has a different view. But it’s not going to change what we did.

Bayly First of all, what an excellent Budget.

Joyce Thank you, Mr Bayly.

Bayly Just to turn my mind to Capital expenditure, you’ve talked about 11 billion extra, spent over the next 4 years, 9 billion of which is going into transport. So, obviously, I’m an Auckland MP, I’m just very interested in how some of that, and, hopefully, most of it’s going to be spent in Auckland to meet the growing needs of a thriving city.

Joyce I appreciate your completely non-partisan view from your perspective as a Hunua MP. To just be clear, we’ve allocated 4 billion of the new money this
year, there’s another 7 billion yet to be allocated in subsequent Budgets. The total investment in infrastructure over the next 4 years now is 32.5 billion. That includes what’s been allocated up till now, what comes through depreciation, and what we’ve allocated through this Budget. And that does include, as you say, a very large proportion of the transport infrastructure, and a significant part of that will occur in Auckland.

Now, you will be aware that there’s the Auckland Transport Alignment Project between the Government and Auckland Council. That agreed on a list of projects for each of three decades. The first decade is a total cost of around 23.7 billion. About 20 billion of that is funded currently, roughly two-thirds from the Government, and about a third from Auckland Council and the mayor has said that he believes that it needs to be a bit more than that, because of the projected population growth. He’s written to Ministers on that subject. We’re going to sit down with him and have a look at it, but, again, to point out that 20 of the 23.7 is available, and there will be more available, and there’s more unspent room in that 32.5 at this point in terms of some of it is in the NLTF, which hasn’t been finally allocated and so on, so there is room for more projects, you’ll be pleased to know.

Bayly So are you constrained because of Auckland Council’s financial position, in terms of meeting some of those outcomes?

Joyce Yeah, a little bit. They are constrained, because of their debt ceiling. I’ve argued publicly a number of times that it would be good to see them be able to do what we’ve been able to do, which is in effect create a bigger surplus so we can fund more of the infrastructure off our own balance sheet. To be fair to the new mayor, he’s only been in the job for less than a year, and I know his council’s grappling with that. They’ve just put out a budget for the 2017-18 year which, I think, the final budget increases a bit. Their amount spent on transport up until then, it had been declining a lot on the actual run rate. But there’ll be ongoing discussions with Auckland as we seek to, sort of, complete that program for the first decade.

Bayly Does that mean that increasingly the Government’s having to step into projects that would otherwise be jointly funded with the council? So for instance the Onehunga new motorway, expressway.

Joyce Well, the East-West Link would normally be a Government project, and it is expected to be a Government project, but there’s certainly other projects where they would like a greater level of assistance than would be normal around other parts of the country, but those conversations are ongoing.

Wood Those are fairly eye-watering amounts of CAPEX going into Auckland—none of us would doubt that. Given how careful we are on the OPEX side, about thinking about what the return actually is, what the benefits are of our spend, what can you tell us about the benefits that those billions of dollars in Auckland will actually deliver in terms of improving the current congestion situation, given the projects that you’ve committed to?

Joyce That’s a fair question, and the projects that we’ve committed to have been lined up partly from past commitments from both central government and
Auckland Council, and partly new commitments where there’s been an agreed strategic alignments. So for example, the East-West Link is one that both the council and the Government support as a key piece of infrastructure for unlocking access to the Eastern suburbs from both Onehunga and the airport.

From my perspective I think it’s important that we go through the benefit-cost ratio discussion. However, I would signal that some of the projects that we collectively have all committed to, including the CRL doesn’t really stack up on a traditional cost-benefit basis and so this is where you end up with quite a discussion around wider economic benefits and, actually, I’ve seen on both sides of the debate, people arguing that their project is wonderful because if you look wide enough, there’s some magnificent benefit and this project over here is crap, because if you look narrow enough, the benefits aren’t very wide.

I mean that happens on both sides of the debate, and I think there is unfinished business now for all of us to think about what are the true wider benefits of some of these projects and trying to get a bit more discipline to them in the years ahead, and I would apply that to CRL, roading projects and anything else you care to name. And also trying to unlock some of those benefits in terms of helping pay for the projects, because we tend to, in New Zealand, have an approach where we commit to the transport project a little bit without actually lining everybody up to endorse perhaps, say for example, a plan change which would really unlock some real benefits out of that transport project. That’s unfinished business.

Wood In terms of the specific benefit of reducing congestion, all of the analysis and reporting that I’ve seen suggests that the current program will leave us, at best, no better off than we are now. Have you got any evidence or analysis that shows contrary to that?

Joyce Current programme is significantly better than the previous mayor’s programme, so—

Wood OK but, from where we are now to where we’re going to get to.

Joyce Yeah, no, my understanding of it, and I haven’t been the transport Minister for a few years, but my understanding of it is that the projects that are under way now and which are very significant—I mean, we’re expanding just about every motorway in Auckland either currently or in the near future. They will give real benefits for the next few years. I’m trying to remember the exact year when it starts to, you know, sort of back off again and that’s why we’re having the discussion with Auckland now, whether there’s, for example, the ways of doing demand management which might achieve an outcome in the medium term which is better than what we’re getting now, and that’s a conversation that’s going to unfold over the next few years.

Hudson Taking the CAPEX discussion away from one little town up north, 32 billion’s a lot; I mean, a lot of schools, and hospitals and other things, not
just roads. What are the likes of the works themselves going to mean for the local economies crossing our regions?

Joyce One thing that’s interesting is, you know, the construction sector is at very high levels at the moment. One of the reasons for that, as well as having sort of semi-record levels of residential construction and commercial construction, we’ve also got very big levels of infrastructure construction. So across New Zealand at the moment our total employment in the construction workforce, which includes infrastructure, is around 250,000 people. It’s never been that high before. So that’s a direct benefit, including in cities like here in Wellington where you see significant employment firstly on the Kapiti Expressway and now on the Transmission Gully and also likely on the Otaki Expressway and other parts of the country where you get very significant uplifts in construction workforce.

I think there are some immediate benefits, but probably the most significant—well, I’m sure the most significant—benefits are the long term infrastructure that we then have access to. For example, from this city north, we’ll have a high-quality arterial route which will serve not only Wellington well but the whole of the lower North Island, and that’s a very significant investment of more than a couple of billion for the region and that’s the wider region as well.

Hudson How’s that likely to affect our workforce capacity, particularly in the construction sector, and how might that feed into a sensible immigration policy to deal with it.

Joyce Well, we do have a situation at the moment where—we’re not there yet, but we’re approaching what would normally be described as full employment, from New Zealand’s perspective, in that we have very high levels of employment, actually our highest rate of adult employment ever. As a result we have the second-highest rate of adult employment in the developed world and the second-highest participation rate in the developed world, which is great. It means that more people who would normally sit on the side-lines are joining the labour market and that’s really encouraging. But, you can see quite clearly, particularly in some parts of the country—just about the whole South Island, for example; not quite, but close—there are real shortages of labour, whether it’s in construction or in manufacturing, IT, hospitality, and so on, and so forth. So when you get into the immigration debate, if you like, one of the things I think many people don’t understand about this is that one of the key reasons that New Zealand is able to grow for a decade without high levels of inflation and high interest rates—which is unusual for us—is we haven’t had the same capacity restrictions that we would be normally getting at this stage of the cycle.

So while people coming home and people coming into the country do add some pressures, they’re actually helping companies and the workforce expand to do the amount of work that’s available. And so we’ve got to make sure that we keep that in mind. So, for example, if you want to keep the housing sector growing, which we all do, then you couldn’t do that
without significant skilled migration, including people returning from Australia and so on.

**Foss**

The capital investment you’re talking about is very, very significant, as, I think, is acknowledged, and there’s a lot of attention on the infrastructure in and around Auckland, picking up on the member’s questions there. But also, across the rest of the country I think there’s in excess of 500 kilometres of extra lanes on the State highway network across provincial New Zealand. So the Crown’s committing to that spend. What are the barriers in the way of that happening, or happening quicker? So, for example, the Wellington City Council traditionally seems to love bottlenecks and traffic jams, and local government are key partners in the Government being able to deliver better infrastructure in a timely basis. So are there any changes afoot, or any warning signals that might actually prevent this investment being rolled out across the country?

**Joyce**

Well, I think we’ve made a number of changes to the RMA, which have accelerated this process. For example, the Waterview project would probably still not have started if we’d been operating under the old Resource Management Act that we inherited. Similarly, I very much doubt the Kapiti Expressway would be being constructed yet, because we used to have a system where you’d just appeal your way through the court system forever, and now we have a system whereby there’s one board of inquiry for major projects and then only appeals on matters of technical law.

That’s worked well, I think, because even the people that opposed Waterview initially—I, again, got to meet some of them through the process when I was transport Minister. Most of them put their hand up at the end, particularly some of the key players, and said actually that was a good process. They were very critical of it before it started, but they actually thought that the outcome was a good outcome—not the one they would have necessarily preferred, but it was a good result.

I think that’s really important for us all to think about in terms of maintaining that access where everybody gets their say once, ideally, and then it’s decided, because I think it can sometimes drag on too long both for and against and you don’t get the opportunity to move on to another project, or the ability to try other things. Here in Wellington your biggest challenge is airport access and, unfortunately, that debate is not yet resolved. A lot of people seem to be against any form of improving roading access through the central city, but, you know, that’s an ongoing discussion.

**Shaw**

Just to pick up on transport, Minister, you were talking about—

**Joyce**

Seems to be like I’m back in transport, Mr Chair.

**Shaw**

You made that comment earlier about the need to tighten up on the cost-benefit ratios of different projects, and there is a proposal floating around for the National Land Transport Fund to be made available for investment in things like rail and coastal shipping infrastructure and so on, and then applying the same benefit-cost ratio methodology across all projects equally so that we can actually get a better sense of how those things compare with
each other and take some of the other transport funding that’s in the Budget and to put it into that bucket so that dollar for dollar we’re actually able to get better comparisons. Are you indicating that you’d be open to that proposal?

Joyce

No, what I’m saying is I do think—it wasn’t so much tightening them down, but actually getting a clearer agreement on what constitutes wider economic benefits, which need to be measured in these projects and seem to be some of the ones that have been most interestingly dealt with, the same from all sides of the debate. In terms of the National Land Transport Fund, I think where you strike difficulties is that that fund has been paid for largely by road users. Now, while there’ll be some road users that will be happy to have it spent and—you can all think of particular areas where they say well they don’t mind it being spent anywhere as long as it helps the problem. But, actually, there are other parts of the country that would say: “Actually, I want my road improved and I’m paying the taxes for this road. And it’s been hypothecated too, the roading system, so with the greatest respect for the shipping company owner, I’d rather have my road fixed.” So I think you’d end up in that debate quite quickly.

We’ve already signalled that in the case of KiwiRail we’re going to do some more work on how we fund a base level of infrastructure. I don’t think it’s satisfactory at the moment. The initial plan had been to get them to the point where they could effectively do what the roading system does, which is pay for their own investment. So far that hasn’t been possible and, as a result, we’ve ended up with some incentives that don’t actually work, where KiwiRail just turns up every year and asks for another big bucket of dough.

Shaw

So Minister, in your opening remarks—I just want to return to those—where you were just giving the summary of the Budget and obviously a fairly sunny set of remarks—

Joyce

Well, no, I think they were reasonably modest.

Shaw

Well, the headline numbers are, as I say, pretty sunny, but if you look at the next level down, some of the questions around productivity, the target around percentage of GDP exports, the GDP per capita of 0.9—sorry, growth of 0.9—the Reserve Bank warnings about increasing interest rates and the high level of exposure in housing and farm debt, household debt running at 163 percent of disposable income—

Joyce

You’re making up quite a list of questions to ask.

Shaw

Well, I guess my point is, when you look at some of the next level down from the high level of indicators that you were talking about in your opening remarks, because you’ve obviously got a very optimistic kind of view of things, do any of those other things concern you—the things that you don’t talk about when you make your opening remarks?

Joyce

A couple of things—firstly, I don’t think it is just being optimistic. The simple fact of the matter is that New Zealand is one of the strongest-performing economies in the OECD right now and, unless you really hold the numbers upside down and shake them up and down and then look at
them from about 2 kilometres back, you can’t deny that. That just happens to be true. That doesn’t make everything perfect in every single way and I’ve never argued that that’s the case, but just to go over a few examples that you raise: if you look at what the Reserve Bank’s been saying about the risks at the moment, they say that the four risks they identified—I think you listed two or three of them—have actually moderated in recent times. They’re less worried about them than they were a year or so, and that’s good.

If you go and have a look at what Moody’s, what the IMF, and what the OECD are saying—so in other words, don’t listen to me, go and talk to the independent observers—they all think the New Zealand economy is performing well and that, yep, there’s some things that we’ve got to keep working on. So I’ll give you one example: our international liabilities to the world. You know, when we turned up they were at over 80 percent of GDP—on 82, 83 percent. That’s very high. Now they’re down to 60 percent. That’s a big improvement. It’s still arguably a little bit high for a small country, and, certainly, I want to see them drop further over time.

If you look at productivity, well the whole world is struggling a little bit at the moment, particularly the Western World in terms of productivity improvements, and we’re struggling to see that as well to the level that we’d like, but, having said that, there are some significant initiatives in this Budget to help with that. There’s the second stage of the Innovative New Zealand programme, which is a very significant investment in research and development and skill development. There’s also—the commitment which I think is important as you move into a more sort of service economy, the importance of some of the core public services and how they perform in terms of productivity is important. Actually, the world over, nobody’s that good at measuring public sector productivity, and so we’ve decided that Mr Sherwin and his team at the Productivity Commission will be up to the task, alongside solving climate change, and they’re going to do an investigation for us and help us come up with some more enduring measures of improvements in public sector productivity. We can recognise it when we see it, but we don’t have sufficiently universal measures for that. Actually, again, New Zealand’s not alone in that. There are a lot of countries that struggle to measure that effectively.

Shaw To come back to, say, that Reserve Bank example—yes, they’ve downgraded the level of threat to the financial system, but they have increased their warnings around the risk of rising interest rates and the exposure, particularly on household debt and farm debt as well if interest rates do rise. But the language that they’ve been using this year is, inasmuch as they can ever be alarming—

Joyce No, it hasn’t been alarming, but at the same time, I would just point out that I’ve been saying since I took this role on, very clearly and any number of times, that I think people should be careful about investing in what is obviously the top of the housing market—the top of the asset market. So we have a highly unusual historical situation. We have interest rates historically low worldwide, and with levels of quantitative easing, which we
could all have a different opinion into how effective it’s been, but nevertheless, it hasn’t been done in New Zealand, but it’s been done around the world and that affects the amount of capital that’s chasing assets.

As a result we’ve seen very strong asset prices, and the risk is that when it all starts—when this slightly weird situation starts to unwind, and interest rates do rise, and, as I say, I’ve made a number of public comments that I think people should be very careful about their level of commitment in terms of the size of the debt that they take on at this stage of the cycle, and that they shouldn’t think just about the interest rates that they can get today but the interest rates that they might be able to get in 3 or 4 years’ time, and be cautious. I think, in that respect, my comments are no different from the Reserve Bank’s.

Shaw On the GDP growth, you talked about that the bank’s performing strongly, but if you look at it per capita, 0.9 percent per capita isn’t great.

Joyce Well, actually, it’s been over 1 in the last year, but it’s also predicted to be somewhere between 1.1 and 1.2 and 1.8 over the 4 years ahead. So I think, actually, if you look back in recent New Zealand history, the projections at this point are positive in the context of the world economy and, again, I think, when I say New Zealand is performing well, I mean we are performing well relative to most other countries since the GFC. We’re dealing in a situation where there’s been—you know, the rest of the world has struggled to get any sort of growth and we’re growing faster than the US, the UK, Europe, Japan, Canada, and Australia.

You have to say that New Zealand businesses and exporters and so on have taken on a pretty tough situation and are delivering a relatively strong economy. Another thing that is unusual about this is that in a time where the world’s been flat, we’re performing better and, as a result, we’re seen as a much more attractive place to live than, say, 8 or 9 years ago, when people were queueing up to leave.

Shaw You’re satisfied with 1 percent, then?

Joyce Well, I didn’t say that. What I said was that projections are between 1 and 2 in different years over the next 4 years. I think we’ve just got to keep working on the plan and keep lifting it above that, but the way to do that is to have a consistent economic plan that encourages people to invest and grow their companies.

Robertson Just on a different topic, Minister, you increased the Earthquake Commission levy—so $69 a household, effectively, for those with full cover. Does that replenish the national disaster fund?

Joyce Well, it depends on your definition. What that will do over 10 years, as I said, will lift the, if you like, the excess of the fund back up to fully fund that excess, as it stands there today. I think it’s 1.25 billion for the excess for the EQC? I’m just doing this from memory; it’s around that order. And at the moment Kaikōura’s nearly cleaned us out. So over the 10 year period that
excess will then get up, and then behind that is currently about $4.5 billion or $5 billion of reinsurance, and then behind that is the Crown.

Robertson I guess, just to cut to the chase, will you be doing a section 16 payment?

Joyce They have no intention to at this point. There’s nothing in the projections on it.

Robertson So your belief is that over, what, a 10-year period, we get ourselves to a position of—

Joyce That’s the plan. If something comes up in the meantime that underlines the importance of getting the net debt down, because effectively the Government stands behind this organisation anyway and, as we saw in Christchurch—

Robertson But I just want to be absolutely clear that you’re not, at this point, contemplating a section 16 payment.

Joyce Certainly not in the forecast period. Beyond that, the Government has options because, as you will have seen, perhaps in the—I think it’s in the FSR, out in the projection period there’s some quite big options in terms of capital and operating expenditure. We’ve put some, what we would describe as some pro forma numbers in there, but the Government of the day will decide, obviously, the mix of capital operating, whether it wants to put any more money into it.

Robertson It is an obligation, though, isn’t it. I mean, that’s what section 16 is. It’s an obligation on you to ensure that that fund is fully operable.

Joyce Over a period of time, and I’m comfortable that we’re following the requirement.

Robertson You’ve reduced the amount that you’ve set aside when you do eventually get around to restarting contributions to the superannuation fund. Why is that?

Joyce No, it’s just done on the formula, and by the shifting of the age out from 65 to 67 in 2037 to 2040, the formula, as it’s supplied in law, just calculates a new number, which is slightly lower than what it is previously based on—I’m trying to remember this—the expectations on what GDP will be at and the level that will be needed, and there’s a mathematical formula, and a number falls out the bottom.

Robertson And your intention when you restart contributions is to restart them at that full amount?

Joyce Yep. That’s the intention, yep.

Robertson Just carrying on from James’ questions around productivity, while you acknowledge that—and I accept the acknowledgment that it’s a long-term struggle for the New Zealand economy. In the period up to 2009-2015, we
had the fourth lowest labour productivity in the OECD. What in this Budget changes that?

Joyce As I said, there’s a very significant investment over this Budget and last Budget in the things that actually do lift productivity over time, which is investment and research and development, and in the higher-end skills. So that’s one of the biggest changes that occurs. The second change I highlighted was this focus in on State sector productivity. The Government’s a significant part of the productivity story and, actually, it’s relatively unmeasured worldwide, so I want to put some real effort into achieving that. And we just see that one example with the emergency department targets, which ultimately wasn’t a massive funding change, it was just literally a different way of doing things, and it’s delivered real results and therefore real productivity benefits. We don’t yet have the ability to measure that more broadly across the State sector, and that’s a common problem throughout most of the world and we’re going to work on it.

Robertson And yet, you tell us that when we look at the fact that health funding hasn’t kept up with demographics and inflation—

Joyce That’s wrong.

Robertson —you then tell us that the reason that we shouldn’t be concerned about that is because of improved productivity, but you can’t actually measure that.

Joyce Well, actually, we could play around with your numbers all day, but real per capita spending on health has increased.

Robertson That’s not the debate. Has it kept up with demographic changes and inflation? We know that it hasn’t because the Ministry of Health has told the Minister.

Joyce The word “real” is on the front. That’s the inflation part. In terms of demographic changes and the fact that demographic changes are actually, certainly in the last few years—particularly with immigration—primarily in areas that are least dependent on the health sector, because it’s not so much the older or the younger end, it’s people in their 20s to 30s that have been coming in, and they actually demand less of the health sector.

Robertson You do realise the Ministry of Health has told the Minister that it is not keeping up with demographics?

Joyce Well you can have that debate with the Minister. The Minister told me—

Robertson Well, no, you’re responsible for the overall Budget.

Joyce That’s correct, and I’m very happy with the increase in health spend in the overall Budget, which has been nothing short of significant. It’s the highest single year increase in 11 years. We have now increased the health spend annually by more than $5 billion since we’ve come into office and, under any which way you hold it up—except for your way—it’s actually showing a
significant increase, and that’s before you see the productivity improvements and the cost per capita decline.

Robertson But you can’t tell me what those productivity improvements are. You’ve just told us that.

Joyce Well, I’m conscious that the health sector is able to achieve productivity improvements, and we’ve seen it, because you’ve told us that the health sector is highly underfunded, and yet we’ve doing a lot more electives, getting a lot more discharges, a lot more first assessments, and significantly better performance at our ED departments. Now, if you were right, we’d be going backwards into hell in a handbasket.

Robertson But there are stories every day on service cuts right around New Zealand. So presumably those service cuts shouldn’t be happening if you’re funding for the service to fully provide for the changes in population.

Joyce I’m confident we’re funding the service, Mr Robertson, well. I appreciate it will never be enough for you, and that’s your brand, but I am confident—

Robertson Well, it’s not my brand. It’s people out there who can’t get access to the health services they need.

Joyce Well, actually, you’d have to look at the health sector in New Zealand and say it’s performing better and it’s got significantly more investment under this Government, and it’s just had announced in this Budget $3.9 billion over the next 4 years, including $879 million more next year. And, yes, we do expect productivity to improve over time, but that’s in the context of a very big investment.

Robertson Just to confirm, you cannot tell me today what the productivity improvement is that means that you’re not concerned about not meeting demographics?

Joyce No, I can tell you that in terms of the outputs that we’re able to measure and we now do, as you know, a lot more in terms of comparing the efficiencies of different health boards and services in some of the key metrics that matter to New Zealanders. And, actually, it has to be said that on all of those metrics, or nearly all of those metrics, the productivity is improving.

Bayly Just on the issue of productivity, you’ve obviously got the Productivity Commission looking at the Public Service. Are you concerned about the local government sector, which is basically about 10 percent of the economy? Is that an area where that may extend to?

Joyce I think that is another area. I think the important thing is to get our own measures first, but I’d be more than happy to pass that work on to local government because there’s plenty of—many people see that as a bit of black box in terms of how it works. As I say, we are seeing significant improvements in health productivity at a service by service level—for example, first specialist assessments, elective surgery, and performance of emergency departments. But what we’re looking for in this work from the
Productivity Commission is sort of an overall measure, but I'd be happy to talk to local government about developing one for them as well.

Foss About 30 or 40,000 New Zealanders used to leave the country every year for brighter prospects somewhere else. What impact does them now choosing to stay in New Zealand have on your numbers and on the forecasts?

Joyce Well they’re about—they contribute, I think from memory, about half of the increase in migration in the sense that they’re no longer leaving and they’re now staying, and so that makes your net number higher. Also we see, obviously, significant numbers now coming home, and that’s good because, frankly, we need the people. As I say, there’s many parts of the country now where they can’t find skilled staff, and if you talk to—as I do all over the country—different businesses, they will say to you their biggest problem is finding people they can get to work in their businesses.

There is, of course, significant training going on, but we’re quite a small country, and if we’re going to get the Xeros and all the IT companies and all the high-tech companies continuing to grow, as we all want them to do, then they’re going to have to keep getting in IT graduates, but also IT people coming in. In fact, if you look around all the IT companies in the major centres, most of them have a sort of United Nations of staff who have come from all over the world to work in the tremendous New Zealand IT sector. So I think it is important that we keep that in mind whenever we have that discussion, because ultimately we do want our companies to grow, and we do want them to succeed.

Foss Just the current account, which no one seems to be talking about any more. That’s improved a bit—I think it’s 2.7 percent. It used occupy a lot of parliamentary and select committee time. So what does that being improved down that 2.7 percent mean for New Zealand and your forecast?

Joyce Well, this is a subject of great entertainment between myself and Treasury over the last several years, because Treasury always—for quite a long time their forecast that as the New Zealand economy grew, the current account would blow back out to previous Government levels of 6 to 8 percent, and they thought that nothing structural had actually changed. I hope I’m not being too tough here Mr Treasury Secretary—you can tell the real story in a minute. But, actually, what you can see now is that despite a lot of people’s views that a relatively high New Zealand dollar—and it is really high. I can remember back when I was chairing an export firm and the New Zealand dollar was like US40c and we thought we’d be really in trouble if it ever got to 65, and here it is at 70 and most of the exporters have rearranged themselves and done a great job improving their productivity to be profitable at 70c. The net effect of that is that our current account—all that hard work shows up in many places, but one of the places is in our current account. I think there has been a structural change. I think the nature of our opportunity, particularly in Asia, the work that’s being done both publicly and privately in taking advantage of those trade opportunities, and now also though, if you like, the competitive fitness of these companies that have
been through a period of quite high exchange rates, means that, actually, I think we have seen a structural shift in our balance of payments.

Now, I think there’s still room to improve, and if I look at these forward projections, not only of the current account deficit but also the net international liabilities, I think we want to see some upside there, which means there’s more work to do. So harking back to James’ question before, I think there’s plenty still to be done. New Zealand is not a perfect economy but we’re a hell of a lot better than we were 8 or 9 years ago.

Wood Minister, on the revenue side, you’ve booked in the coming year an extra $50 million in revenue from multinationals. Can you tell us about the policy changes that will deliver that?

Joyce Yeah, well, there’s about three of them that are all out in terms of various finalisation through the base erosion and profit shifting work. So there was three discussion documents that are currently being finalised and the IRD has made an estimate of expected revenue from those changes. They’ve been quite clear that it’s pretty conservative. I think the first year’s 50 million; if not, it’s next year or the year after.

Makhlouf Fifty, then 100, I think.

Joyce Yeah, it’s not 2017-18, it’s 2018-19, and then two lots of 100 after that, which is 250 over the cycle. So they’re giving themselves quite a run-up at it. I’d like to see it happen earlier.

Wood Are you satisfied with that given the Minister of Revenue estimates a shortfall as about $300 million, but after 3 years we get into a third of that? Do you think that says something about the strength of the measures that are proposed?

Joyce Well, no, I’m just saying, just be careful not to book over optimistically in terms of the numbers that we should pick up. I think it’s appropriate to take a more conservative view—there’s some of the decisions aren’t yet made. I’m confident of those ones—actually, I’m confident we’ll do more than that, but I just think you shouldn’t book too much of it until you see some of it starting to come in the door.

Wood Are you confident that what the Minister has proposed is actually going to get us to—

Joyce Yes I am. The Minister and the IRD have done a very comprehensive piece of work. The Minister is over in Paris at the moment. I think she’s going to sign the deal, the multilateral agreement, in the next few days, and that’s another step forward. So yeah, I think it is comprehensive, we’re really getting into the nuts and bolts of it now, you know, what’s the appropriate technical measures of a range of areas, and I think we’ll land on something which is good. We just need to always remember that the rules we apply
here apply to our exporters overseas as well, so we need to make sure they’re fair both ways.

Wood  But you’re only going to count on a third of it

Joyce  I’m just saying, we should just be careful and not try to count our chickens until we’ve got too much of it in place. I was very confident about those numbers, I’m actually confident we’ll get more but I thought, to be conservative, let’s not overbook.

Chair  Just a supplementary on that, what’s the balance between what New Zealand can do unilaterally versus what essentially has to be done multilaterally?

Joyce  Well, a lot of it has to be done multilaterally to be effective, because we suffer if people start taking arbitrary decisions, because we’re not very big, so it’s important that we, in all these things, work together with other countries to get agreements both ways, and I think that is important. I should note for the committee, actually—I just picked up the note here—that we’ve already booked $97 million a year from the best work to date, which is the non-resident withholding tax and the GST on [Inaudible] services, so this new stuff that we’re talking about is the next stage, so it would be a bit of a mischaracterisation to say that that’s all we’re collecting in that space.

Chair  You’ve booked 97 already? Going forward, and then the next stuff is about conservative estimates.

Joyce  Next stuff is on hybrids, interest limitations, transfer pricing and permanent establishment avoidance, and I’m happy to come back at some stage and take the committee, or perhaps the assembled media, through these very exciting subjects.

Shaw  Just with the agreement in Paris that’s being signed, are the Americans going to stay in this one?

Joyce  You’ll have to ask them, Mr Shaw. You could perhaps tweet somebody.

Chair  Mr Secretary, thank you for your time. Now we’ve got half an hour for your segment. Do you want to add anything to what the Minister’s already said?

Makhlouf  Well, firstly I want to introduce my colleagues. I’ve got two deputy secretaries here, my Chief Economic Adviser, Tim Ng to my right, and Struan Little, the dep. Sec. for the Budget and Public Services to my left. I haven’t really got anything to add to what the Minister just spoke, so we can just go straight into questions.

Robertson  I just want to ask you a little about immigration projections in the Budget documents and just get your thoughts on what if anything has changed in terms of your thinking since last year. You have projected a slightly less steep fall-off in numbers. There is now starting to be—there’s a small gap between yourselves and the Reserve Bank around your projections there, but I just wonder if you could talk us through how you’ve changed your thinking, and then we do of course—and I know you almost have to do this—we end up back at the long-run average, because that’s what the
model tells you you have to do. If you can talk us through how that changed.

**Makhlouf**
Sure, and I think we made the first change in HYEFU, but essentially we’ve changed for two reasons: (1) because we just observed what was happening; it’s always good. And secondly, Stats New Zealand revised their own projections for when they think we’d return to the long-term, long-run, average. So what we’re now assuming is that we’ll return to that average by 2022, which is just outside the forecast period, hence the slight change in the slope of, you know, going back to normal. Tim, do you want to add anything to that?

**Ng**
I think that’s pretty much it. It’s a turning point that we’re trying to call, so until you actually see it it’s difficult to know when it might happen. So you project what you see—have you seen a fall-off. So we project it will continue a little bit longer before bringing it down to the long-run point.

**Robertson**
How are you factoring that into your overall projections about growth and so on? What model do you use for that?

**Ng**
Well, that’s mainly a—principal impacts on consumption. It’s almost—and then we would feed the migration assumptions into the labour force as well, so it would be a question of the balance we see there. One of the important judgments is the balance between demand and supply effects of immigration, and as we’ve seen in the past few years, it’s been about balanced, just in contrast to previous years and previous cycles where the demand side impact has tended to dominate.

**Foss**
Just that earlier discussion, I mean jokes aside, around the current account, you know the [Inaudible] was yours actually. But you’re a naturally conservative institution I guess, but I’ve, for my sins, watched that current account projections and outcomes over the years, and you do tend to forecast to the negative, or the more conservative assumption perhaps. And so, and I don’t know what the answers are, and I’m not being—you know, hindsight; we all have the benefits of that I guess. But what are you seeing, or have you enriched or changed your thinking or models to try and be more accurate towards the actual outcomes, given these other dynamic changes in the fundamental shifts. Here’s a low interest environment, or maybe even the migration is changing for quite some time, or inflation is now locked and loaded under 3 percent for the foreseeable future.

These things have changed, but your forecasts tend to keep coming out on the downside. Have you got any comment to that?

**Ng**
I think it’s probably a few things, just in the current situation, which we would say are a bit of a departure to what we typically see in the cycles, one of which is the low interest rate environment. Usually, when New Zealand’s been growing for a while, interest rates are high, therefore interest payments to foreign held banks are high and that tends to blow out the deficit. The other thing is that terms of trade, as the member probably knows, is pretty strong at the moment, which improves income and income balance, of course. And then finally the savings performance, and this is actually true in
other countries as well, has been a little bit better, and that is to say less negative than it has previously been in previous cycles, and that also tends to lift the deficit relative to otherwise. So, previously, cycles that we’ve seen where you’ve had a prolonged period of growth, the deficit tends to deteriorate because of interest rates rising, or terms of trade isn’t as high or whatever, but we’ve just seen a confluence of events now pushing it up relative to what we’d otherwise expect.

Foss: So do you actually see—so our current account is us and the rest of the world, but if you go to the next layer, is it us and parts of the world are improving, say with our terms of trade, say with Asia, improving out of sight? Are those the shifts, because we’ve seen these, you know, jolts and everyone predicted current account to stick around 6, 7, 8 percent forever, and actually absolutely the opposite is happening, and I just look and wonder what other things have changed.

Ng: I think that Asia, effectively, if you think of the consumption of dairy products and the impact of that on the world dairy prices, that would be one of the effects that’s pretty strong. Oil prices also, you know, with a weak Western world, oil prices are lower than they’ve been for a while, also not in New Zealand’s favour since we’re [Inaudible]

Foss: And finally, do you see it as sustainable? Because the forecast is still, you still—you’re jumping over the cliff; eventually you’ll be right, like all economists. Things look quite stable and solid at the moment economically, so if you agree with that, why do you keep going to the negative?

Ng: Because typically in New Zealand we do see with prolonged upturns and excess of investment over savings, strong credit growth, and so on, and that tends to [Inaudible] and we project that that would sort of return to an average, but in terms of the sustainability, by arithmetic, if you’ve got a debt position of about 60 percent GDP, which is what we’ve got at the moment, we’d expect the current account deficit to settle around 3 or 4 percent and that’s why we’re seeing no cause for concern at the moment. What we
would look for is evidence that the credit is starting to grow again in excess of domestic savings.

Makhlouf  And just to be very clear in response to your question, we do think currently where we are and what we’re forecasting is sustainable.

Bayly  So a big component of that is the interest that New Zealand pays from its foreign debt isn’t it? And that’s what your point is there, because obviously interest rates now worldwide—

Ng  Very low, yeah. You’d expect as they normalise that they tend to put pressure on the index [Inaudible]

Bayly  Hence the importance of making sure debt levels keep coming down if interest rate rises. But that’s been a key contributor to a decreasing current account.

Makhlouf  You’re talking about Government debt or private debt as well?

Bayly  Well, there’s a mixture of both, of course, but overall—because a lot of it’s funded offshore anyway, whether it’s private or Government isn’t it?

Makhlouf  But Crown debt’s denominated in New Zealand dollars now, so that’s an important consideration. Sure, the people who lend us money are onshore and offshore but that’s a consideration.

Bayly  So for the calculation on the current account, even though it’s denominated in New Zealand dollars, if it’s funded offshore it’s still—the interest component comes into the current account calculation, doesn’t it?

Makhlouf  Yes.

Ng  A lot of it is the Australian owned banks.

Robertson  Sorry, just to come back, in the BEFU, you’ve got, you know, your forecast around nominal wages, and certainly this year you’re projecting them to slip below inflation in terms of—you’ve got 1.2 versus 1.8 across the forecast period. You’ve got about a 1.2 percent overall in real wages. I just wonder, why do you think there isn’t greater wage pressure in the economy at the moment?

Ng  Well, our estimate of the level of unemployment where you would expect wage pressure to start arising is 4.4 in a quarter. We’re still a little bit above that, so until such time, as you said, start to push below that, we wouldn’t expect a lot of [Inaudible] Just based on our estimate—

Robertson  So, that is based on your modelling around NAIRU and what that is—yeah, OK.

Chair  I’ve got another question. This might be slightly obscure, and maybe it’s best directed to the Reserve Bank, or maybe Stats, but even when you work on—or do some thinking about whether or not we accurately record inflation properly basically. I’ve just been reading some work by Martin Feldstein recently about, you know, with technology the way it is nowadays, and apps being free, Wikipedia being free, and a lot of other things, quality improvements and things, do we actually capture inflation accurately, such
that—and that obviously has flow-on ramifications for all sorts of ways we view lots of other things. Do you guys do any work on that at all, or think about?

Makhlouf I think that I’ll ask Tim to answer the question directly. It is a question for Stats. I think it is absolutely the sort of question that we need to pay very close attention to. Because I think you’re right. I mean, the other phenomenon, in terms of statistical numbers, for me is whether we’re capturing services data well enough in our GDP numbers. That’s probably a bigger issue in some countries in Asia than it is for us, but I think, increasingly, as the shape of the economy shifts from simply producing and selling good to services, I think it does pose challenges for statistical agencies, but you’d need to ask them. Tim, do you—

Chair Does that have an impact on productivity too? Because there, a productivity paradox that—

Makhlouf But what’s measured—

Chair Because we used to make widgets, and you could put XYZ capital in, and put worker productivity in and you’d get a widget whereas with services, particularly the digital economy, it’s a lot harder to kind of—

Makhlouf Well, in my view it is a question that we don’t have the answer to, but I suspect it is part of the explanation when we look at our low productivity—not the entire answer, of course.

Ng The arithmetic goes, you can measure the dollar value of what people spend and then you have to kind of, somehow, come up with a split between price and quantity, and as you say, it’s very, very difficult to do that. Stats will try to do that to the—computers is a great example, when you look at the massive increase in computing power that we’ve seen, and so you see the real investment in computers, according to Stats, going very, very strongly upwards, and that’s the quality adjustment. In terms of CPI, it has been very well documented that there is an upward bias in CPI’s guide, because of the inability to take account of new products, shifting expenditure baskets and so on. I think the key question for us as economists is: has that bias become worse? We took account of it already, you know with having a, roughly, 1 percent, 2 percent, CPI inflation definition of what the price stability is. If it’s got worse, then that number is probably too low.

Coates It does relate to the productivity issue. Given the fact that all countries have similar ways of measuring productivity, you wouldn’t expect a bias in our comparative data on productivity. New Zealand is continuing to lag in terms of productivity growth against most of our OECD competitors. Is this reflected in the model somehow? I’m not quite sure how you’ve taken that productivity data into account in your [Inaudible]

Ng Well, the situation is that the relative productivity level is roughly, you know, in the last past couple of decades it’s obviously tracked even, so the growth rate is about the same, but this is an issue, if you like, [Inaudible] level. What we have in the projection is roughly 1.4 percent on average over a period of growth and that does close the gap a little bit, and that is on the
theory that as New Zealand absorbs the best of foreign technology and so
on, we catch up. It’s been really disappointing, and we continue to work on
that—pretty disappointing in the past, as the committee well knows, and we
try to be a bit conservative in the forecast because of that.

Wood On page 12 you reference one of the risks we face given high household
debt, and risk if interest rates that some households’ debt servicing could
become difficult. You’ve then gone on to look at the potential impact on
GDP growth. When we heard the Reserve Bank last week or the week
before around the Financial Stability Report, they’ve done some modelling
around this which I’m sure you’ve seen, which looks at an increase in
interest rates to about 7 percent—that creating about 4 to 5 percent of
households becoming severely stressed. They expressed a concern when we
questioned them that at that point we start to get to a risk of contagion
across the broader housing market. Have you had a bit of a look at that?
Are you concerned about the impact beyond just GDP growth?

Makhlouf We’re obviously concerned at very high levels of household debt mainly—
well, not least for the reasons which the Minister indicated earlier. We’ve
got a lot of confidence in the Reserve Bank’s supervision of the system. The
one thing that they do tell us consistently is that the system is pretty robust
at the moment, but certainly if we had rapid increases in interest rates, that
would have quite severe implications on households that are over-leveraged.
On the other hand, at the moment there’s no reason to assume that we are
going to get very high increases in interest rates quickly. That’s the only one,
we’re not forecasting that in BEFU, but it’s an issue that we have to keep
and be vigilant over, absolutely.

Wood This seems to be the core issue. What we’ve talked about a couple of times
today in discussions, but a weird confluence of circumstances at the
moment. In this particular case it’s very high household debt, which seems
to be continuing to increase, and historically low interest rates. The first
one, the pressure seems to be upwards. The second one you can only
imagine in the future the pressure is going to be on the upside as well. Do
you see a way out of that unhelpful track on both of those measures?

Makhlouf Well, a lot of that is linked to housing, and improving housing supply is,
actually, a very big way of fixing that particular challenge, and that’s not
going to happen quickly.

Foss How has the BPS targets and the way you say the social sector Ministers
and ministries work together, and repeated elsewhere with justice and co.
Has that changed the way in which the Budget itself developed, and could
you describe that a little bit for us, and what does that mean for the way we
report on the Budget, or Parliament is able to examine the Budget? For
example, in that productivity’s taken up a lot of this discussion here, and
there’s these productivity jolts running through our system, but it’s very
hard to point to the—silos is kind of an overused older term there, but it’s
still a bit apt in the way we report. So have you got any comment in that
space for the issues, better public service, and accountability mechanisms there?

Makhlouf  I do. I do. I’ll ask Struan to come in in a minute. I think that’s a really important issue, actually. So for me, and I think for the Public Service, the reforms that came out of the Better Public Services review in 2011, which started with the then Prime Minister announcing those results, they’ve made quite a big change in the way agencies work. What we’ve seen is an ongoing move to operating in a different way. That hasn’t necessarily happened quickly, but it’s been happening. The second set of results that were just announced by the Prime Minister last month are a continuation of that. And it has absolutely played into the way the Budget’s put together, and you see that most clearly in the social investment package, but we’ve seen that in previous years, where we’ve brought agencies together to develop packages.

And what Treasury sees over the next few years, us moving much more in the direction of using tools and techniques which, at the moment we describe them as the investment approach, which almost, by definition require agencies to work together as forming an increasing part of Budget-making. And I think that does impose the question about how should the Public Service hold itself—how should Government, how should Ministers hold themselves accountable to Parliament for the appropriations that they’ve made. And the way we report, I suspect, is sort of catching up with the way we actually do business, and I think that is an issue that we need to collectively work on. Struan, do you want to add to that?

Little  Just amplifying some of your points but, for me, there’s been a big change and this is something I think that the committee will see changes over, over the next years, but you go through a sequence of targets and of organisation and of funding, and what you’ve seen over progressive years is much more target setting. So the Governments Better Public Services objectives are getting clear targets that work right across Government. And you’ve seen changes in the way the Government’s organised itself to do that.

So, for instance, the Business Growth Agenda is one example of that, but you’ve seen other mechanisms to do exactly that. And you’ve also seen changes in the funding mechanism and reporting mechanism, so there’s greater use of multi-class appropriations which are designed to allow different agencies to use the funding site, and also some of those things we’re commenting on before—the use of contingencies so that different agencies and entities can access those, and mental health’s a current example of that. But you’re going to see more of this and so some of our design thinking is what we’re doing now about—in future, these are the issues we’re going to face, and so we’re going to have to go another step forward, and so a lot of our thinking around social investment are examples of that.

Coates  One of the pieces of data I saw recently was the pretty dramatic reduction in outflow of capital from China as capital controls have started to be more consistently implemented. And it’s been a very dramatic change apparently, depending on whether you believe the data or not. Are you seeing that and
to what degree has any of that influenced or flowed into your projections, or how does that data relate? Obviously, maybe it's a factor in house prices, but are there other ways that it's reflected in your modelling?

Makhlouf  Well, it's indirectly reflected in our modelling. To pick those examples, and just to take the data as true, it obviously plays into Chinese growth and, you know, as a very big trading partner of ours, forecasts of Chinese growth which we put into our own forecasts, they're directly impacted by what's happening there. But otherwise, probably for us, and for the international community as a whole, it's probably where we worry about China's—the biggest risk that a lot of economies have is the stability of China's financial system, and those capital outflows are just one of the pieces of evidence that the system's perhaps not as strong as we would all like it to be. We know, for example in local government that debt is pretty high in China, and it's a risk factor. It's a risk factor for the financial community. I know the Reserve Bank play close attention to it as well so, it influences our assessment of risk, it influences our assessment, certainly, when we do the scenarios that are in BEFU, but otherwise, other than what I've just described we don't—there's no direct connection between the capital outflows and what we put into our forecasts.

Coates  And do you feel you have good data on the status and composition of capital inflows?

Makhlouf  We have as good data as everyone else does.

Ng  It's basically a difficulty that everybody faces because the ultimate beneficiary, the person that's at the end of the chain, because if the people want to assume this happens in China, if you want to get money out, there are ways to circumvent the capital controls. We know that but what we can't measure is exactly where these flows go. So we tend to take an aggregate approach is the short answer to how it feeds in and whether we have data, where nobody has very good data.

Chair  We are bang on 1.30 so that's great timing. Thank you very much. Appreciate your time.

**Conclusion of evidence**
The Government Administration Committee has examined the 2017/18 Estimates for Vote Office of the Clerk and recommends that the appropriations in respect of Vote Office of the Clerk for the year ending 30 June 2018, as set out in Parliamentary Paper B.5, Vol.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2017/18 Estimates for Vote Ombudsmen and recommends that the appropriations in respect of Vote Ombudsmen for the year ending 30 June 2018, as set out in Parliamentary Paper B.5, Vol.5, be accepted.

Hon Ruth Dyson
Chairperson
The Government Administration Committee has examined the 2017/18 Estimates for Vote Parliamentary Service and recommends that the appropriations in respect of Vote Parliamentary Service for the year ending 30 June 2018, as set out in Parliamentary Paper B.5, Vol.5, be accepted.

Hon Ruth Dyson
Chairperson
# 2017/18 Estimates for Vote Prime Minister and Cabinet

Report of the Finance and Expenditure Committee

## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation</td>
<td>2</td>
</tr>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Response to Canterbury earthquakes</td>
<td>2</td>
</tr>
<tr>
<td>Cyber security</td>
<td>3</td>
</tr>
<tr>
<td>Increasing New Zealand’s resilience</td>
<td>3</td>
</tr>
<tr>
<td>Appendix A</td>
<td>5</td>
</tr>
<tr>
<td>Appendix B</td>
<td>6</td>
</tr>
</tbody>
</table>
Recommendation

The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Prime Minister and Cabinet, as set out in Parliamentary Paper B.5, Vol. 5, be accepted.

Introduction

The annual and permanent appropriations allocated for Vote Prime Minister and Cabinet for 2017/18 total $69.642 million.

This amount is less than half the estimated actual expenditure for 2016/17 of $150.729 million. This is because of the November 2016 Kaikōura earthquake, which increased the amount appropriated through the Supplementary Estimates for emergency response and recovery expenses. Another $4 million as part of a multi-year appropriation for Regenerate Christchurch provides a total and permanent and multi-year forecast appropriation of $73.642 million for 2017/18.

The Prime Minister is responsible for most of the appropriations within the Vote. The Minister of Civil Defence and the Minister Supporting Greater Christchurch Regeneration are responsible for six and two appropriations respectively.

We heard evidence from the Department of Prime Minister and Cabinet (DPMC), which administers the appropriation.

Response to Canterbury earthquakes

We asked about the status of a whole-of-Government report on the lessons learnt from the Canterbury earthquakes, and a large symposium that was previously scheduled to be held on the issue. DPMC told us that the report would be released within weeks, and that the symposium had been postponed and there were no plans to reschedule it.

We noted a drop in the appropriation for Canterbury Earthquake Recovery and asked in what areas services would be reduced. In response, DPMC told us that funding for its Greater Christchurch Group had always been planned to decrease from its high point of the previous year.

After the Canterbury Earthquake Recovery Authority (CERA) was disestablished in April 2016, the group had about 40 staff with the number expected to drop to below 20 by the end of 2017. This would see the group’s role limited to providing policy advice to the Minister and monitoring regeneration projects. It would wind up the roles it had previously had in providing horizontal infrastructure. It would also reduce professional engineering input for resolving residential rebuilds, although it believed that it retained sufficient resources to provide this service.

Conflicts of interest investigation

An investigation by former Solicitor-General, Michael Heron QC, found that the actions of two former CERA staff members had clear conflicts of interest through their participation
in business deals for personal gain. We asked if DPMC was investigating any other employees for similar conflicts of interest.

DPMC told us that it was not investigating any staff, and that it had no reason to believe any further conflicts of interest existed. If anyone came forward with information it would be investigated. The chief executive commented that the investigation had generally found that CERA’s internal processes were without any systemic flaws or weaknesses.

We asked whether it would be in the public interest for DPMC to proactively investigate whether any other conflict of interest cases existed, rather than relying on complaints to be made before investigating. DPMC noted that CERA had been comprehensively reviewed by the Auditor-General in a number of reports, and by the Heron investigation, and CERA’s systems were found to be to be orthodox and sound despite some clear transgressions.

The chief executive went on to say that no system is secure against people who behave badly, and that DPMC has made a point of ensuring that staff are mindful of all policies around conflicts of interest.

**Cyber security**

We asked about the progress of DPMC’s cyber security action plan, what it will involve for small businesses, and how Parliament should monitor progress made in this area.

DPMC said it was focused on building the country’s resilience; however, achieving complete cyber safety is not realistic as the risks are constantly evolving. DPMC has a number of initiatives underway to improve the resilience of Government, businesses, and individuals. These involve:

- ensuring that emerging threats and evolving technology are addressed
- improving the cyber security of small businesses,
- building up a professional cyber security industry.

The key programme, however, has been to establish a Computer Emergency Response Team responsible for monitoring, tracking, and advising on cyber security incidents or attacks affecting New Zealand. The team was involved in responding to the recent “WannaCry” ransom-ware attack that infected computers globally. DPMC told us that the country had handled this attack “pretty well”, partly because of the precautions that Government and businesses had taken to upgrade computer systems. We were told the Government also has security expectations for each department, depending on their size and role.

Small businesses would be supported through a newly established credential scheme. The scheme aims to put tools in place for small businesses to access, and set standards to inform them what computer security standards are prudent for their type of business.

DPMC is also working with universities and big IT providers to increase the cyber-security workforce by lifting the opportunities for training and education in this high demand sector.

**Increasing New Zealand’s resilience**

DPMC has the strategic intention of “increasing New Zealand’s resilience through leading and building a risk-based, community focussed, and integrated national security system”.
we were interested in how the impacts of climate change, such as population displacement in the Pacific, had been factored into its risk assessments.

DPMC views climate change as an amplifier of other risks, such as severe weather, population displacement, biosecurity, and increased diseases. While it does not specifically include climate change in its planning documents, it does factor in the increased risk that climate change poses to specific types of threats, such as fires or floods, and their impact.

DPMC is working on a new national civil defence emergency management strategy, which sets out the Crown’s goals in relation to emergency management, the objectives to achieve those goals, and the measurable targets for achieving them. Over the past year, it has engaged with over 200 organisations to test what the new 10-year strategy would look like. This process has also presented an opportunity to instil a future-focused approach across central and local government agencies with risk management responsibilities to work together to think about how future risks might be reduced.

Technical advisory group

Following shortcomings in the current Civil Defence structure—highlighted by recent emergencies such as the Kaikōura earthquake and the Port Hills fires—a Technical Advisory Group (TAG) has been set up to identify where improvements can be made.

DPMC told us that the group’s focus is on the interactions between central and local Government. The two big issues were clarity in response systems and confidence in information flows. The group will produce an interim report in late August 2017, and a final report will be some time after September.

Spending on communications and contractors

We note the increases in spending on communications staff and contractors over the past four years. We inquired whether this spending would decrease now that CERA’s functions have been devolved. We were told that some spending would drop off in this area, although DPMC expected that some communications staff would shift to civil defence as the TAG review will address whether communications in this area can be improved.
Appendix A

Committee procedure
We met on 7 and 28 June 2017 to consider Vote Prime Minister and Cabinet. We heard evidence from the Department of Prime Minister and Cabinet, and received advice from the Office of the Auditor-General.

Committee members
Chris Bishop (Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Brett Hudson
Rt Hon Winston Peters
Grant Robertson
Alastair Scott
David Seymour
James Shaw
Michael Wood

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Prime Minister and Cabinet, received 6 June 2017.

Prime Minister, Response to standard Estimates questionnaire.
Prime Minister, Responses to additional questions, received 2 June and 22 June 2017.
Appendix B

Transcript of hearing from 7 June 2017

Members
Chris Bishop (Chairperson)
Alastair Scott (Deputy Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Brett Hudson
Rt Hon Winston Peters
David Seymour
James Shaw
Michael Wood
Dr Megan Woods

Witnesses
Department of Prime Minister and Cabinet
Andrew Kibblewhite, Chief Executive
Howard Broad, Deputy Chief Executive Security and Intelligence
Sarah Stuart-Black, Director Ministry of Civil Defence & Emergency Management
Michael Webster, Secretary of the Cabinet
Kelvan Smith, Director, Greater Christchurch Group

Bishop Good morning. We have made good progress—so sorry we’ve had to drag you here early. We’ve got half an hour; we’re starting a bit early so we will wait and see how it runs.

Kibblewhite Thank you for the opportunity to appear before you. Let me introduce my executive leadership team. [Introductions]

So Estimates hearings are, of course, intended to look at the year ahead—almost impossible to do without setting a brief context from the past months. So I’d just note it has been a busy and successful year for the department. We’ve brought on board a new Governor-General; introduced three new policy frameworks, co-designed by the wider policy community through the Policy Project; supported the approval of the Waimak residential red zone plan, along with matters in Christchurch. A number of emergencies have been dealt with: Cyclone Debbie and the resulting Edgecumbe floods, followed by Cyclone Cook; and, of course, the Port
Hills fire; the East Cape earthquake and tsunami; and, of course, the 7.8 earthquake that hit Kaikōura on 12:02 a.m. on 14 November.

So I just note, that briefly, that that earthquake crystallised the value of DPMC’s various functions working in concert for a common purpose. MCDEM operated the National Crisis Management Centre for 26 days following the earthquake, assisted and augmented by the Security and Intelligence Group, who helped co-ordinate Government actions and decisions; and the Policy Advisory Group, who provided advice to Ministers and led the recovery work in the first weeks after the event.

Since then—and some of this is continuing—MCDEM have established a National Recovery Office—legislation that passed through the House really quickly after the House was helpful in that context. We now have in the National Recovery Office a one-stop shop for coordination and support of central and local government recovery activities in Kaikōura, and we’ve added in recovery activities in Edgecumbe as well. This work, I think, goes the heart of our stewardship, leadership, and partnership roles across the State and public sectors.

Still with MCDEM—they have overseen the development and launch of a new nationwide earthquake and tsunami safety public education campaign. Major upgrade to the national warning system is in its final stages of testing and staff training. We’re on track to roll out a cell broadcast alerting system before the end of 2017.

Our focus for the coming year is the Technical Advisory Group, which was announced this week. It will provide advice to the Minister of Civil Defence on the most appropriate operational and legislative mechanisms. It’s to support effective responses to natural disasters and other emergencies. Now, I know a number of you and your colleagues are involved in the cross-party panel providing input to that process. I think it’ll be a good process, and we’re looking forward to seeing the TAG’s advice.

In the interim, we are looking to build flexibility, adaptability, and resilience so that we can deal with emergencies of any shape or size. This speaks to the work of Howard’s group, the Security and Intelligence Group. They maintain the National Security System, including an emphasis on all-hazards resilience and on counter-terrorism coordination. That’s particularly relevant, obviously, in the context of the terrible attacks over the last few weeks in the UK.

We’d also implement the national cyber security strategy, fine-tune the cyber incident response system when activated within the ODESC system, and we’ll continue to develop the cadre of intelligence assessment professionals within the National Assessments Bureau.

We’re active in the policy space. The Policy Project, which I lead in my role as head of the Policy Profession, has been confirmed, with club funding from other agencies for another 3 years. We’re working across Government to improve the overall quality of policy advice—ensure we’re meeting our
obligations to have the capacity to offer free and frank advice to successive Governments.

The Policy Advisory Group will continue to ensure the Prime Minister is provided with comprehensive contextualised advice on any number of issues.

Cabinet Office will spend the next few months focused on ensuring the appropriate arrangements are in place for the election and the formation of the Government afterwards. They’ll be busy working on implementing the refreshed Cabinet Manual, which the Prime Minister launched last night. Principles in the manual represent the best of our system of executive Government: robust decision-making processes, respect for the law, integrity, effectiveness and efficiency, openness and accountability.

We’ll be working to assist the Governor-General in her role as head of State and to progress her priorities of creativity, innovation, leadership, and diversity.

And, finally, this morning—just a comment on progress in Christchurch—we’re over a year on from the disestablishment of CERA. DPMC has the Greater Christchurch Group supporting the ongoing transition to local leadership, and a big part of our activity over the last year has been supporting the work of Ōtākaro and Regenerate Christchurch, along with working closely with the city council and other strategic partners.

Our team has also continued to work closely with the other agencies that inherited CERA functions: LINZ, MBIE, Ministry of Health, and the Canterbury DHB.

Of course, none of this could be done without the hard work of our staff across the department, whose commitment to their work, their cities, and their country is evident every day. I thank them all. And thank you to the committee. I look forward to your questions.

Bishop Thank you. We’ll start with Megan.

Woods Thank you. And thank you very much for your presentation. A few lines of questions, I want to start—surprisingly—with the Christchurch questions. So the learning and legacy report, I understand that’s imminent. When will that be being released?

Kibblewhite I don’t know that we have a specific date for the release of that, but it’s certainly—it’s weeks, more than months.

Woods OK. And in terms of how it is that those messages are going to be shared, will the conference that was either cancelled or postponed—the symposium—will that be resurrected as a way to discuss the learnings from that report?

Kibblewhite No decision’s been taken to reschedule that conference. They’ll be put up on the website. Actually, the website that does deal with the learnings and the lessons from the Canterbury earthquake experiences, I think, is a really
good resource. We’ll put it on that, and we’ll promulgate it in other ways as well. It’ll certainly be well made known to folk.

Woods

So no plans to resurrect the symposium or try and recoup some of the many hours that were put into organising that?

Kibblewhite

At this stage there’s no plans to reschedule the symposium.

Woods

OK. Thank you. Just while we’re here, just another one—the anchor projects, in terms of Treasury’s role in monitoring, what will Treasury’s role in the ongoing monitoring of the anchor projects be?

Kibblewhite

Obviously Treasury, who I think you might be talking to later in the morning, will be better able to give you chapter and verse on that. We certainly look to them to work closely with Ōtākaro, keep track of the financials as how they’re going with the various anchor projects and basically keep hold Ōtākaro’s feet to the fire much as they would other Crown companies and the like.

Woods

So the same monitoring that was occurring of CERA, in terms of progress on those anchor projects, will that be continuing? Just so you can have that continuity of monitoring that goes across the organisations?

Kibblewhite

Well, I hope we would certainly have continuity. The Greater Christchurch Group does, you know, stays in touch with Ōtākaro’s sort of understanding of the impact of their projects on the regeneration of the city, so there is a joint role in that space. Both the Greater Christchurch Group and Treasury will continue with those relationships as they go forward.

Woods

So the review of the structure of the budget of Ōtākaro is the end of this month?

Smith

It’s going on at the moment. Yeah, I’m not sure when that reporting date is, but it’s happening at the moment.

Woods

Right, OK, so that was due to be June. It’s just you don’t know, or you’re not involved in it.

Smith

No, we’re not involved in it directly.

Woods

OK. If we could get some more information on that, Mr Chair, that would be good in terms of where that’s at. In terms of the individual timings on anchor projects, and what’s happened there—I’m not going to go through each anchor project with you, don’t worry. How is that looking? Is there any significant shifts? For example, what’s the expectations around the convention centre?

Kibblewhite

That’s all tracking pretty well since it’s gone to Ōtākaro, obviously not according to the very original time frames that we’ve put in place but since
you know, it’s been amended and shifted, no—Ōtākaro’s taken over responsibility, I think. They’re basically already on track.

Woods  OK, so there’s no concerns that you’re flagging in terms of any of those anchor projects in terms of (Inaudible)

Kibblewhite  No. Look I think Ōtākaro’s, it’s been a pretty effective organisation at getting on, and with a much clearer focus than was the case in the CCDU as part of CERA. I think they’ve actually made some really good progress.

Woods  So the budget for the information and advice has fallen from 2.7 million to $920,000 in terms of the Greater Christchurch in this year’s Budget. So what advice won’t be occurring as a result of that decrease in funding?

Kibblewhite  So I might get Kelvan to reflect on some of the specifics, but the broad picture always with the Greater Christchurch Group was that it would come in, that 2016-17 would be its biggest year, and that it would phase down. Do you want to talk specifically, Kelvan, about the pieces that are dropping off that?

Smith  So when we started, after CERA finished, we had around about 40 staff, so by the end of this year that will be under 20, but that’s really going to be our core policy group. So we see our core role going forward as just maintaining that policy advice to the Minister, and the monitoring of regeneration, whereas the horizontal infrastructure work we’ve done and just some other stuff that transitioned from CERA is actually winding down. But we will still have a core group of people providing that policy advice right through while the (Inaudible) is in play.

Woods  So the more than halving of the budget, nearly a third of, it is the transition itself. Two-thirds of it was transitional funding was it?

Kibblewhite  So that went to some of the people. We had people working on the red zone. Some of them have shifted across to LINZ, you know, as various things—the infrastructure, horizontal infrastructure, as its been phasing down, they’ve all sort of moved, either discontinued as planned, or they’ve shifted to other agencies like LINZ.

Woods  One of the other items that’s been cut is the professional engineering input towards resolution of residential rebuild. So that’s fallen from 700 to 560. Do you think that’s the time to be doing that, given that we know some of the most difficult residential rebuild issues are still outstanding in the city and the well-being survey has identified that as the group of people that are still suffering from mental health concerns?

Smith  Well we believe we’ve still got sufficient money to provide the advice, and we’ve actually just extended the residential advisory service. As part of that programme, we’re working with MBIE. We believe there’s still enough
resource in the city to deal with those issues, where we are with regeneration now.

Woods: So when do you think those issues will be resolved?

Smith: When do I think they’ll be resolved? Specifically right around residential insurance claims?

Woods: Yeah, there’s enough resource there, so when are you forecasting it will be resolved?

Smith: Well, I think all the insurers are down to the tail end of the claims, so we’ve put a big effort on brokering and trying to clear those impediments, so there’s a lot of resource and effort going in, for the rest of this year, and I think we’ll just take stock, how the year plays out.

Woods: There’s still thousands outstanding. Just one last call before we move on, in terms of the conflicts of interest. So you investigated the further three staff members that were identified in the Heron report. Are you investigating any further staff members within Ōtākaro?

Kibblewhite: These are investigations of staff who used to be in CERA, not in Ōtākaro. But we’re not investigating any further, no.

Woods: So you’re confident that there are no further conflicts of interest within Ōtākaro or within CERA?

Kibblewhite: We have no reason to think at this stage. If anyone comes up with any additional information, obviously we would have a look at it, but at this stage we have no reason to think that’s the case.

Woods: So what’s the basis of knowing that, given that you’re not investigating?

Kibblewhite: Well, as Mike Heron’s report found, that CERA’s processes were pretty standard and systematic, and the way they approached things, there wasn’t particular examples of poor practice there. We investigated the areas where we thought there was an issue. Mike Heron found that there were some deficiencies. As those particular individuals were suffering under that finding they sort of tried to point the finger elsewhere, and we did a very thorough investigation, an independent investigation of that, and found that there was no substance to that.

Woods: So do you have an indication of when the SFO will be reporting back?

Kibblewhite: No I don’t.

Woods: Is there something that you’re keeping in contact with the SFO about?

Kibblewhite: Not specifically. We’d let the SFO do their thing, and they will do it according to their own time frames when they come back. If there’s any issues arising, then we’ll obviously look at them at that point. I mean, we’re always open to look at issues if there’s any other reason to, but we don’t have any reason to think there is an issue at the moment.

Cosgrove: Don’t you think in order to protect the credibility and integrity of both the organisation but generally, the Public Service, that it would be worth you being seen to be proactive? What you’re really telling us is complaints were
received by your investigator and that’s it. Wouldn’t it be smart to go further than that, and even if you end up finding nothing—because it is strange that you can give us an assurance based on only complaints that were received by you and investigations based on those complaints.

Kibblewhite Well, CERA was actually a very—well I wouldn’t say excessively, but they were a comprehensively reviewed organisation. There were any number of different Auditor-General reports. They looked at procurement. They looked at the operation of the agency. They looked at the governance and the like. I don’t have empirics on this, but I’m sure if you compared how much review there was of CERA compared with any other department you would find that there was no shortage on the CERA side.

Mike Heron did give us some satisfaction. He looked at the overall systems, he didn’t say that he saw that there were any systemic flaws or weaknesses in them. He said there were a couple of individuals who, basically, behaved badly and, you know, they’re facing the consequences of that.

So, look I welcome the committee’s interest in the overall integrity and reputation of the Public Service. I think that’s fundamentally important. I think actually in this case we’ve done a pretty comprehensive job and CERA’s had a pretty comprehensive set of reviews over the years to have a look at how it functioned.

Woods Just one last supplementary. Given that you say that CERA was comprehensively reviewed, the Auditor-General took several looks at it and there’s been enough investigations, don’t you think that’s actually a greater cause for alarm? That such levels of conflicts of interest, the likes of which we’re not used to seeing in the New Zealand Public Service were operating within that organisation, and it would be wise, as my colleague indicates, to actually restore confidence by actually knowing what you know now and going back and having a comprehensive look at what went on to allow such gross breaches, conflicts of interest?

Kibblewhite I think it’s important to keep in mind that here were a couple of people who behaved badly, and a third one who exercised poor judgment, I think is what the findings are now. Unfortunately, no system is 100 percent, sort of, waterproof to the occasional person who behaves badly. So I actually take comfort from the fact that the Auditor-General has, on several different occasions, and looking at slightly different angles, looked closely at CERA. I take some comfort from the fact that Mr Heron, whilst he found some clear transgressions, also found that CERA’s systems were orthodox and sound, and so that leaves me in a position where, if there is any sense that there were other weaknesses we’d absolutely have a look at them, if there are any other specific allegations raised, but we’ve no reason to think that would be the case now.

As a chief executive of DPMC, we make a point of ensuring that our department is mindful of all of the policies around conflicts of interest, around hospitality, around all of those things. We’ve revised some of our contracting things to make sure we stay at the leading edge. And I don’t think I’m alone in that as a chief executive. I think chief executives as a
group take this stuff very seriously, and I think they take the sorts of steps that they need to to ensure their departments have high integrity systems.

Cosgrove Last time you were before us you characterised, in answer to my question, that your investigative process was quote unquote “business as usual”. Do you stand by that?

Kibblewhite Sorry that, in terms of the—

Cosgrove I asked you how you characterised your investigative process, the process that you used whereby you only investigated complaints that were received by you, and you characterised it as quote unquote “business as usual”. Do you stand by that?

Kibblewhite Look, I can’t remember specifically what I described as business as usual but—

Cosgrove I’ve just described it for you.

Kibblewhite So what I would say is that we in DPMC—and I would actually state this would be the case with other chief executive colleagues as well—would have a series of processes and systems in place. You use them, you rely on them. If out of any of those processes on systems you have any reasons for concern you will take additional steps.

That’s what occurred in this case, with the CERA conflicts of interest, but note CERA wasn’t DPMC, it was a predecessor department. We went back to it. We had a good close look at it. We said to the State Services Commissioner this could impact across a number of different agencies. The State Services Commissioner undertook a review where he brought Mike Heron. Mike used forensic investigators. At the end of that process, we had further cause to have another look at things, and so we took further steps there as well. We also engaged those same forensic investigators to have a close look at the specific conflicts that were raised. So I think we moved beyond business as usual when we had particular reasons to do so, and that’s what happened in that instance.

Foss Can I ask you a few questions about our national security, and the risk and resilience, because in your—page 23 of your plan, the initiatives portfolio, six of those points are in and around cyber-security, and with the tragic attacks around the world and allegations of cyber-attacks of other jurisdictions, I wonder if you could just expand on what you’ve written here—for example your cyber-security action plan, what that actually means for New Zealanders every day as they go about their business. But also, under cyber-credentials, you talk about improving cyber-security of small business, and under the cyber-skills task force, to build up the cyber-security professional workforce. So how will we know, or how will Parliament know progress, or when will we get there? Where are we at the moment? How vulnerable are we right now? And obviously we are, given the initiatives being undertaken, but can you add much more to that description in here?

Kibblewhite Certainly I can, and I might invite Howard to make some comments as well. You ask the question of when are we going to get there in terms of cyber-safety and I think the answer is we won’t. I think this is a risk that is
continuously evolving. It’s always new aspects of it, new dimensions of it
that means, I think, we’re going to live with the cyber-risk certainly for the
rest of my career. I can’t see any way to avoid that, so the question is how
do you build your resilience as a country, as a Government, as businesses
and as individuals.

We’ve actually got quite a lot of programmes in place. I mean, you’ve seen
some of them there. The key one I would note, sort of deliverables out of
the cyber-security strategy, is the establishment of the CERT in the last
couple of months, and then they obviously got exercised, pretty
immediately after they established with the WannaCry attack that had a big
impact across the board and, happily, I think in New Zealand, you never
want to only claim credit for your systems, but New Zealand actually came
out of that pretty well. I think that, in part, is because I think businesses and
Government have been getting the message that you do need to be
upgrading your systems, you do need to be applying patches and the like. It
probably lucky for us that it also happened over a weekend in New Zealand
time so that some additional steps were able to be taken and put in place.

We know the threat is increasing. I think the Cyber Security Centre hosted
by the GCSB is—note I haven’t got the exact numbers, but I think it’s up
from around 190 the previous year to about 340-odd in the current year, so
threat levels are increasing all the time. We’ve got, sort of from high-end
right to low-end protective mechanisms in place, which probably I could go
into, but unless the committee particularly wanted me too, I’d more talk
about the kind of the full breadth of the system. If I particularly got your
question, it’s how can the Parliament be confident that we are taking the
right steps?

Foss  I’m sure we’re confident that you are but how will, for example, the small
business out there, know what they need to do to help themselves be more
secure personally—but of course if they’re connected into Inland Revenue,
or they’re connected into an organisation overseas, they can be part,
unwittingly or not, of some cyber-security attack. So how will those people
on the ground, busy being plumbing or whatever it is they do, be aware and
become more vigilant—how we would do that for them.

Kibblewhite  Well, I think it’s actually helpful for political leaders, business leaders,
Government leaders to always be talking about the threat. A lot of steps
that a small business or a household will take are steps that they don’t need
any extra intervention from the Government for. It’ll be taking advantage
of commercially available protection; it’ll just be using good cyber-security
practice, and, you know, that will include things like changing your
passwords regularly, not divulging them or sharing them, turning off your
devices when you are not using them and so on. The two particular things
that I think that small business will get support from is the CERT will have
that kind of a focus into business generally, but they’ll certainly have a small
business dimension to that, and the National Cyber Policy Office has run
the Connect Smart Week, which is when we’ve run a process of outreach
that’s specifically targeted at individuals, small businesses, bigger businesses and communities. Howard, do you have anything?

Broad There were two things that you mentioned specifically: the credentials scheme and also the workforce strategy. So if I was a small business, I would want to know whether what I was doing to protect my business and the channels of communication I have with customers and other stakeholders was industry standard. So the credential scheme, which is a programme that is in the early stages of formation, will establish some standards, will put in place some tools that can be accessed by these small businesses so that they can know that they’re doing what a business of that type ought to be doing—what is prudent. So that will be done as, basically, a private sector enterprise, supported initially by the Government.

So, in time, how would that be measured? Well, the confidence of those who are operating in the small business environment will be the measure of that. Do they feel that they’re protected? Do they feel that the incidents that are happening to them are being adequately matched by their security?

The second thing is we realise that the whole market place demands, needs, a lot more cyber-security professionals—people who understand this. The forecast demand for these sorts of people is just stretching away from us. So what we’re doing is working with universities, people who provide apprenticeships, the big IT shops around our economy, to try and lift the number of opportunities for training and education in this area, and, therefore, build a workforce. Again, that comes back to confidence.

Bishop James had a supplementary on that.

Shaw Yeah, although, looking at the time, I was just wondering if I could move on to my primary?

Foss Just a final—just to round off. So with the Government engaging digitally more and more and more across various agencies, is there a threshold that you coordinate, are aware of, or guide, of engagement or vigilance of such issues, from IRD to ACC, etc.? As we go more and more online, there are things governmental but there’s many moving parts there. You are the coordinating agency of setting those standards of engagement, because any one of those could be a vector back into the Government system.

Kibblewhite We have a policy role in that. The GCSB has a particular leadership role. The Government has a set of requirements of departments called the Protective Security Requirements, and that sets out security expectations in a way that can be applied case by case, department by department. Part of that is information security; there’s also people security, physical security. They’re actually, I think, a really first-rate example of how government has organised itself to build maturity in this security space. Within that context you would absolutely see that the IRD would end up with a different level and intensity of protection than, say, a smaller Crown entity or small
Government department would. In fact, IRD would be right at the top level because of the nature of their systems.

Shaw So I just wanted to ask you about some of the work around resilience. You talk about the risk-based approaches in that. Having sort of flipped through the 4-year plan, I couldn’t see a reference to climate change, but it would be remiss of me not to ask about it. So if you look at floods like Whanganui and south Dunedin and Edgecumbe; storms like the one that wiped out the Island Bay sea wall; droughts like the 2013 one; the Port Hills fire—I’m just interested in what’s your risk assessment—the New Zealand Defence Force talking about security threat in the Pacific and the probability of climate-displaced populations moving. What’s in your risk-based approach around the risk of those kinds of things?

Kibblewhite We actually have quite a—there’s an ongoing debate about how best to deal with climate change. Is it a risk in its own right? Or is it in fact an amplifier of so many other risks? The way we’ve approached it is that it’s an amplifier of so many other risks. So you’re absolutely right. It does increase the risks around severe weather, it will increase some of the risks of people displacement, and it increases some of the risks around how the region—the Pacific Islands and the like. And that will have a whole lot of flow-on effects. It increases the risks around biosecurity and the sorts of diseases around health, you know, if you’re thinking of the Zika virus and the like. So climate change, as a risk—we absolutely see it as something which amplifies other risks across the board, and will have that kind of effect.

Shaw When you say that, can you just say how that then shows up? Because, again, if you’re not—I mean, I understand it, right and you’re obviously right that it is an amplifier of all of those other things. But I can’t see in the documentation how that then plays out, in terms of planning or the ability to identify specific risks. So your hands are obviously very full with cyber-security and earthquakes and things that are pretty immediate to us.

Kibblewhite The effects of climate change, if you then think about, through fire or through floods or through cyclones or the like, is very immediately presenting as well. We’ve been doing Christchurch, you know. There’s the big, kind of, risks around inundation in parts of Christchurch. The way we are approaching—you probably won’t see it in these sort of macro-level documents—is that we actually think about all of those risks and we’ll quite systematically work our way through them. So if we’re thinking about a risk in terms of fire, we will say: “OK. How is that likely to change? How is it being exacerbated?”. If we think about the risk of severe weather, we will be asking ourselves whether we think that’s got a stable profile or a changing profile. So, in a way, it’s kind of under the covers, if you like. We do a lot of
work in that space, and we do bring climate change in, but it’s more a specific sort—risk by risk, and, therefore, what impact to take.

Shaw I mean, a bit like the cyber-security question then—do you have a current threat level? You know, in terms of the immediacy or any sense of where we’re at in the kind of near term?

Kibblewhite We have a way of thinking about it. We’re thinking about what’s a maximum credible event. It wouldn’t be from climate change, because I don’t know what a maximum credible event from climate change is. We have a most likely event, and we use that as a couple of devices for analysing risk. It’s not an unusual thing. I get that most corporates—they do a big risk register; they’ll think about things in that kind of frame as well. Certainly, when we think whether it’s around—I mean, an example might be biosecurity. The maximum credible event—or the most likely event—is changing because of the impact of climate change. But I don’t have a—I couldn’t tell you in a specific way how that would manifest for climate change.

Shaw Does that information flow up to Ministers?

Kibblewhite It will do in the specifics of each case. So we will have a conversation with Ministers about floods or tsunami or whatever else it happens to be.

Shaw Are you drawing a relationship, and when you do have those conversations to say if there is an increased risk of, say, flooding, which is the most obvious one because we’ve been getting a lot of it, are you drawing the relationship between the increasing frequency and severity and climate change, when you’re having those conversations with Ministers?

Kibblewhite If we had a conversation around floods, that won’t be the kind of the highlight or the headline that we’d lead with; it will be more: “What is the impact”. It will be more immediate and kind of real, than now. But, certainly, into the conversations that the Director of Civil Defence would have, or that I’d have, or that Howard would have with Ministers, those sorts of issues would come up.

Bayly So just on the question of floods—my electorate of Hunua has been affected in two recent floods. So the terms of reference for the inquiry—this group that you’ve set up to come out. Can you just talk a little bit more about what you’re really hoping to see out of the result of that review? What are the roles and responsibilities, and what is the real focus of it?

Kibblewhite I’m sure Sarah could reflect on this bit, in a way, because it’s about civil defence. We’ve actually located—and that’s been supported for the Minister out of my office rather than Civil Defence, because we’ve got all the different players, whether it’s Civil Defence, Fire. The particular focus of that is around response.

If we look at the issues—whether it was the Kaikōura quakes, the various tsunami warnings we’ve had, the issues around the fires in Christchurch—there have been a few recurrent themes that’ve come up out of that. Some of them go to the interaction between central and local government, and between the different levels of local government. Have we got clarity
around that in the response system, have we got confidence in the way that the information flows across the system? They are two of the big ones. It will go to the speed and the comprehensiveness and the coordinated nature of a response to an emergency. So those are the sorts of issues that that’s going to focus on.

Bayly There’s an interim report due. When is the final report?

Kibblewhite It’s the end of August. The final report will be some time after the election. I think it’s not a specific date. You’re on the TAG. There’s not a specific date, I think, on the final one.

Woods Just quickly, picking up on James’ point. Have you given any consideration to the Parliamentary Commissioner for the Environment’s recommendation in her sea-level rise report that Treasury lead some work around the risk associated with sea-level rise and flooding—climate-induced flooding? Particularly the infrastructure risk, the risk to private property, all those kind of considerations?

Kibblewhite In a general way, yes. I think those are absolutely the sorts of risks that both Treasury, ourselves—ourselves in the broader national security space and how we engage in the civil defence. So I wonder if I might get Sarah to talk about the civil defence strategy, because that will pick up a number of these things.

Stuart-Black So the basis in the Act is that we’re interested in all hazards, all risks, and managing the consequences. So it doesn’t matter whether it’s an amplifier in terms of that climatic change or not, or whether it’s an earthquake or whatever may have caused it. If it impacts New Zealand and New Zealanders, we’re particularly interested in how to best manage those. The Act requires that there is a strategy in place at all times, and the current strategy is due to expire early in 2018. Over the last year we’ve been engaging with over 200 organisations to really test what a new strategy should look like. There was the international—through the United Nations—new blueprint for disaster risk reduction globally, which New Zealand has signed up to. There is a fundamental shift in that, which will apply to New Zealand as well, which is changing from managing emergencies into managing the risks. So it’s taking the ambulance from the bottom of the cliff and moving it up the cliff and inland.

Part of the opportunity we have in New Zealand is a number of agencies have a risk management component to their legislation. So whether it’s the risk management Act, the Local Government Act, Building Act, Civil Defence Emergency Management Act—all of those must work together in concert in order to think about how we might reduce future risks. As you say, flooding is our most frequent hazard, our most frequent emergency, and often it can be our most costly, because they occur so often for us. It’s small to medium scale, we’re seeing those repeatedly, and also the scale of
the impacts is, of course, affecting our communities with the increased urbanisation and centralisation of services and infrastructure.

So with this new strategy—it’s a 10-year strategy—there’s an opportunity for us through that to be very future-focused around how we truly galvanise action—not just across the Government but also at local government and private sector and not-for-profit and at a community level—to say if everybody is doing their part of the puzzle, then, collectively, we start to make real inroads into achieving a resilient New Zealand. So at a strategic level I think that that’s a real opportunity to leverage off the climate change work and to be able to think about what does that mean for New Zealand going forward.

Wood

Over the past 4 years there’s been a dramatic increase in the budget spent on comms staff and contractors. That’s fairly reasonably explained by the incorporation of Civil Defence and CERA. With CERA’s functions being devolved, however, now, are we going to see a corresponding drop?

Kibblewhite

Some of that will absolutely drop off. I mean, I think, though, at the same time one of the issues the TAG will address is whether we do enough and communicate sufficiently in the civil defence space. So it wouldn’t surprise me if we end up with a shift. But certainly the CERA stuff will pare away. One of the issues that consistently comes up in the national security space is have we communicated enough, regardless of the emergency.

Bishop

I’ve got a quick typed question as well—not the most important issue in the world, but we’re at the end. There’s a review of the Government House structure. What’s caused that? What’s the driver there?

Kibblewhite

We’re now all but completed on that. There were a few things—to the fore was whether we were giving the Governor-General the full service she needed around her programme and the way that she quite strategically engages with New Zealanders. So we started with that. We also had some internal issues with whether we had information flows moving up and down the organisation as well as you might hope. But if it’s kind of an outcome-driven thing, it’s to support the Governor-General better in engaging with New Zealanders across her programme. So it has then resulted in establishment of a new position that’s specifically focused around that. Can you add anything to that, Michael?

Webster

Just to say that the reality is that Governors-General now need to spend more time out of Wellington, engaging with Auckland. Auckland’s such a big city now, and it’s also such a diverse city that we do need to look at how we deploy our resources and whether we’ve got the capability to actually engage with, for example, different sectors of Auckland in terms of new New Zealanders, that sort of thing—so they understand, I guess, the role
and function of the Governor-General in New Zealand’s constitutional arrangements.

Bishop Thank you very much.
2017/18 Estimates for Vote Revenue
Report of the Finance and Expenditure Committee

Contents
Recommendation 2
Introduction 2
International tax avoidance 2
Taxation of overseas-based residents 3
Business Transformation programme 3
Appendix A 5
Appendix B 6
**Vote Revenue**

**Recommendation**

The Finance and Expenditure Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Revenue, as set out in Parliamentary Paper B.5 Vol.5, be accepted.

**Introduction**

The appropriations sought for Vote Revenue in 2017/18 total $6,728 million, an increase of 11 percent on the estimated actual expenditure of $6,076 million in 2016/17. Most of this increase in funding is for stage 2 of the Inland Revenue Department’s (IRD’s) Business Transformation programme.

More than half of the appropriations in the Vote (57.5 percent) are for benefits or related expenses, mainly for tax credits and benefit payments such as child support and paid parental leave. The total of just under $3,871 million for these items in 2017/18 is an increase of 4 percent on estimated actual benefits or related expenses in 2016/17 of $3,721 million.

Twenty-three percent of the funding in the Vote, or $1,576 million, is for non-departmental other expenses, which is mainly for the impairment and write-off of debt. This is an increase of 8 percent on estimated actual expenditure in 2016/17.

Departmental output expenses represent just under 10 percent of the Vote, mainly for investigations, management of debt and outstanding returns, and services to inform the public about entitlements and meeting obligations. These expenses total just under $666 million for 2017/18, representing a 3 percent increase on 2016/17 estimated actual expenditure.

The Minister of Revenue is responsible for all of the appropriations in the Vote.

**International tax avoidance**

The Inland Revenue Department (IRD) has estimated that the Government misses out on about $300 million in revenue each year as a result of tax avoidance by multinational corporations. In an effort to curb this avoidance, the Minister recently signed an agreement entering New Zealand into the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting.

**Scale of avoidance**

We asked whether $300 million represents the true scale of multinational tax avoidance. The Minister said that it is hard to know the true amount without implementing the changes needed to collect the missed revenue. She said that some estimates are as high as $700 million but that the IRD is confident that $300 million is more accurate.

The Government has budgeted an extra $50 million in revenue from multinationals in 2018/19, rising to $100 million in the following two years. Given the much higher estimates of missed revenue, some of us consider that the budgeted figure is not ambitious enough.
The Minister said that the Budget figure is very conservative and that it would be great if revenue turned out to be higher. She pointed to the Government’s applying GST to online services, known as the “Netflix tax”, as an example of a tax that has brought in more revenue than anticipated.

We asked what information the Government based its budgeted figure on. The IRD said that it does a full risk assessment of 900 companies, which provides insight and information about areas where legislation can be strengthened.

**Unilateral and multilateral actions**

We note that the IRD has released three consultation documents about unilateral steps that New Zealand could take to combat multinational tax avoidance, in addition to working through multilateral agreements with other countries. We asked about the usefulness of taking unilateral action similar to the diverted profit tax that the United Kingdom and Australia have implemented.

The Minister said that no “silver bullet” will quickly solve this issue for New Zealand. However, measures that will be put in place as a result of the recent multilateral agreement will bring about the same results as the policies implemented by the UK and Australia.

The Minister said that it should be remembered that some of the companies involved in avoidance schemes have more wealth than New Zealand as a country does. These companies can currently shift their profits to tax havens to avoid paying New Zealand authorities, making it difficult to take meaningful unilateral action with the resources at New Zealand’s disposal.

The Minister pointed out that 68 countries signed the recent multilateral agreement. This will enable the signatory countries to synchronise all of their double tax treaties, so that these treaties will not be able to be legitimately used to shift profits around.

Although the United States of America was not one of the signatories to the multilateral agreement, New Zealand is one of only three countries to have signed a bilateral agreement with it.

**Taxation of overseas-based residents**

We discussed reports of New Zealand residents who deliberately identify as non-tax residents to avoid paying tax. We asked how the IRD combats this practice.

The IRD highlighted that New Zealand is part of the Study Group of Asian Tax Administration and Research, which works to understand cross-border tax risks throughout Asia. We also heard that New Zealand will implement the OECD’s Global Automatic Exchange of Information by 2018. This will provide more information about cross-border movements of money to revenue authorities around the world.

**Business Transformation programme**

We note that the IRD has identified several savings in areas such as administrative and salary costs that will be made through implementing the Business Transformation programme. We asked how the IRD identified these savings and when they would likely be accrued.

We heard that the IRD looked at ways that it could streamline or speed up its existing processes. For example, it has now introduced a system where new migrants can get their IRD number online using information they provide as part of the visa application process.
Migrants are now able to get an IRD number within 48 hours on average, compared with the previous two-week wait time. The time it takes IRD to process such an application has reduced on average from between 10 and 12 minutes to between 5 and 6 minutes.

IRD said that most of the savings from the Business Transformation programme will start to progressively kick in from 2019–20, because it will need to continue to run two separate systems until the new one is fully implemented.

Costs to businesses

We asked whether the IRD had any estimates of the cost to businesses of ensuring that their systems are compatible with the IRD’s new revenue system. We heard that the change for businesses will be in how they send their information to the IRD, rather than in how their systems operate. The IRD has worked with companies such as Xero and MYOB to create a link between their accounting software and the IRD’s system, meaning that businesses will automatically have this feature after updating their software.

The Minister also pointed to the introduction of the Accounting Income Method from April 2018, which will offer small businesses a pay-as-you-earn option for their tax payments. This will reduce compliance costs for smaller businesses.

We asked how the new system will help businesses that do not use accounting software such as Xero or MYOB. We heard that those businesses will be able to use the IRD website to upload any relevant documents, such as Excel spreadsheets.

Effect of restructure

We asked whether the predicted loss of about 1,500 to 1,900 staff (especially highly-skilled investigators) under the IRD’s Business Transformation programme could undermine its ability to do some of the complex work it does on tax avoidance. We heard that the IRD intends to take advantage of new technology in knowledge management and analytics to improve tax compliance.

For example, the department has already used analytics to identify and better prosecute cases of GST refund fraud. We also heard that the Business Transformation investment includes further funding for technology to support investigators and auditors.

Ministerial oversight of cuts to staff numbers

Given the potential for a loss of institutional knowledge through staff cuts, we asked whether the Minister was confident in her oversight of this restructure.

The Minister said that she has weekly meetings with the commissioner and chief executive of the IRD. She said that it would be great if people who wish to stay at the IRD could be shifted into other areas. She also said that a lot of work is going into retraining. We heard that, although these situations are often difficult for staff, emphasis must be placed on getting the best value for New Zealand taxpayers.
Committee procedure
We met on 20 and 28 June 2017 to consider Vote Revenue. We heard evidence from the Minister of Revenue, Hon Judith Collins, and the Inland Revenue Department, and received advice from the Office of the Auditor-General.

Committee members
Chris Bishop (Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Brett Hudson
Rt Hon Winston Peters
Grant Robertson
Alastair Scott
David Seymour
James Shaw
Michael Wood

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Revenue, received 16 June 2017.
Minister of Revenue, Response to standard Estimates questionnaire, received 26 May 2017.
Minister of Revenue, Responses to additional questions 1–123, received 15 June 2017.
Minister of Revenue, Responses to supplementary questions appendices 1–4, received 15 June 2017.
Inland Revenue Department, Four-year plan for Inland Revenue Department, dated November 2016.
Transcript of the hearing from 20 June 2017

Members
Chris Bishop (Chairperson)
Alastair Scott (Deputy Chairperson)
Hon Craig Foss
Raymond Huo
Grant Robertson
Jami-Lee Ross
David Seymour
James Shaw
Michael Wood

Witnesses
Hon Judith Collins, Minister of Revenue
Inland Revenue Department
Naomi Ferguson, Commissioner of Inland Revenue
Cath Atkins, Deputy Commissioner, Policy and Strategy

Chair I understand you have a video.

Collins We have a very short video. So what we have is a very short speech from me, about 5 minutes, running through some of the issues that you’ll no doubt want to put in your report, and a 3-minute video from Inland Revenue on Business Transformation. So shall we get going?

So good morning, committee and chair. We support business-friendly growth initiatives, and we’ve made some very good progress in the last year. The Government’s tax simplification programme has already ushered in welcome tax process improvements for businesses. As you know, earlier this year we addressed a key concern for many businesses, and that’s the processing for calculating and paying provisional tax. We introduced a new option for calculating provisional tax, and that’s called the Accounting Income Method, which will more closely match income earning with tax payments and thus reduce compliance costs for smaller businesses. This simplifies tax processes to make tax part of the everyday accounting work a business already does, rather than a stand-alone tax process, and the AIM will come into effect from 1 April 2018.

So, essentially, in putting this into terms of English, it is a pay-as-you-earn option for small business. So what it will mean is small businesses can pay their tax just like they do their employees’ tax, rather than having to try and
calculate it out a year in advance. I think it’s going to be one of the most effective things that we can do for small business.

The Government has also moved to reduce and remove the application of use-of-money interest for the vast majority of business taxpayers. These process improvements, and further changes ahead, will significantly reduce businesses’ compliance effort as a major contributor to our Business Growth Agenda and a growing, healthy economy.

Meanwhile, other improvements are in the wings. For example, Budget 2017 included proposals to resolve issues with feasibility and black hole business expenditure. Black hole expenditure is expenditure which declines in value but falls into the black hole because no deduction is available, and feasibility expenditure is one class of that black hole expenditure. The proposals remove a tax impediment to growth by allowing a wider range of costs to be deductible for tax purposes.

More recently, feedback was sought on proposed deferral rules for taxing employee share schemes offered by start-up companies. This deferral regime addresses liquidity and valuation issues that a start-up might face by delaying the point when the employee is required to pay tax on the benefit from the shares, with a corresponding deferral of the company’s deduction.

These various measures will contribute to strengthening and growing our economy, but the Government believes it is important that New Zealand families directly share the benefits of strong economic growth. This is the whole point of having a strong, growing economy and a healthy set of Government accounts.

So the centrepiece of this year’s Budget announcements was the Government’s Family Incomes Package. The package comprised a set of initiatives designed to improve conditions for lower to middle income earners, and these changes complete the Government’s planned adjustments to the Working for Families abatement rate and threshold to ensure additional support is targeted at low-income families. The changes also make it easier for people to understand what their entitlements are.

The other major area of work is the Government’s continued focus on ensuring multinationals pay their fair share of tax. Earlier this month I was pleased to sign an agreement marking New Zealand’s formal entry into the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS—which, of course, means base erosion profit sharing. Some BEPS strategies exploit weaknesses in tax treaties, and the convention allows tax treaties to be updated at a stroke, bringing them into line with OECD standards, and that’s really important to us.

We’re taking a very considered, balanced approach by prioritising the specific problems that Revenue has observed in its investigations of
multinationals. We need to ensure that the BEPS reforms fit into New Zealand’s overall tax framework and do not unduly discourage foreign investment. The Government has therefore implemented a number of measures to address BEPS, and released consultation on interest limitation rules, transfer pricing, permanent establishment avoidance, and hybrid mismatch arrangements, and, collectively, the proposals in these documents are going to strengthen our laws for taxing multinationals doing business here.

It’s also been a big year for the Government’s programme of modernising tax administration, and this transformation programme, the largest in the southern hemisphere, will significantly contribute to the Government’s targets of improving individuals’ and businesses’ digital interactions with Government. We’ve got a very short update on progress with Business Transformation before answering any questions that you might have. I’ll leave this to the technical people now.

[Video presentation]

Wood Thank you, Minister. I’m interested to talk initially about the multinational tax issue. Can you talk to us a little bit about some of the advice that the department has given you about the scale of the potential avoidance. We’ve had the figure of $300 million punted up a couple of months ago at the beginning of the consultation process. How robust do you think that figure is, and if you really think that that represents the full scale of the problem that we see?

Collins Yes, well, of course, you never really know until you start to put in the changes, but that is certainly the advice that I’ve got from Inland Revenue. I understand there’ve been figures put around like $700 million. A particular group put that out, but the advice I have from Revenue is that Revenue’s working off what—I mean, they’ve got the actual details of what they know already about these companies, but they still think about $300 million is probably about the right figure. It’d be great if it was more and we got more. I mean, I’m never going to turn it down, are we? So—

Wood You wouldn’t. I guess, following on from that, the projections that we’ve got in the Budget documents that, as a result of the changes the Government’s introducing, we’re budgeting to receive about an extra $50 million, I think, in year one, rising to about $100 million in year two and three. We take $300 million as a best guess. It’s at the lower end of some of the serious estimates. Doesn’t that seem a little unambitious?

Collins Well, the Budget figure is a very, very conservative figure, and that’s simply because we’re going through the consultation process. So if you look at some of the things we’ve already done, which is the GST on online services, basically—you know, that was called the “Netflix tax”, for want of a better term, so everyone knows what we’re talking about—that was estimated to bring us in about $40 million over a year. It’s actually done that in 6 months. So, as I say, we’re being very conservative in our estimates and it’s great, it’s delightful, when things turn out to be better. But the other thing is
the $100 million you could also say is really there’s that and then there’s withholding tax changes—non-resident withholding tax changes. That’s brought in about $50 million, isn’t it, Commissioner? So, you know, I think it’s a very, very conservative figure.

Wood So what are those further estimates based upon then? They’re very round figures—$50 million, $100 million. Can we point to—

Collins Look, I’ll ask the commissioner if she can assist—

Wood—which—you know, we know there’s about half a dozen potential areas in which there’s work to be done. Which of those areas do we expect will result in those numbers?

Ferguson So one of the things that we do operationally is conduct quite a wide risk assessment across international and multinational business, and, indeed, we brought you something that you might like to see, which is a booklet that explains our strategy operationally in respect of multinationals. It’s something we published last year. And so from that—

Collins Also beware of revenue bringing gifts.

Ferguson Beware of revenue bringing gifts.

Collins Yes, we are. We thought we’d change that.

Ferguson Yes. We do give things away.

Collins Yes, we do.

Ferguson So this sets out our strategy in relation to multinationals. And what we, effectively, do operationally is a full-risk assessment—historically, every one of 600 companies; now it’s 900. And that gives us a really strong evidence base to understand what the patterns of behaviour are, where there are areas of risk, how we may tackle those within our current legislative frameworks, but also to provide policy colleagues then with insight and information of areas where we think the legislation could be strengthened.

Wood Given the complexity of some of that work and, you know, the high level of auditing—very complex areas that need to be looked at—I mean, do you have any concerns about the direction of the current restructure and the extent to which that might be compromising our ability to engage at that level? And I’m thinking about the fact that we’re—also the investigations budget, down by about 30 percent over the next 3 years, isn’t that exactly the kind of area you would need to be beefing up, not reducing, if we’re serious about this stuff?

Ferguson So if I take the investigations budget in the first instance, a number of budget initiatives were funded by the Government. Our process has been that as those come to the year in which they would fall off then we talk with the Government of the day about whether or not that investment should continue. So we will have that conversation in due course. So those Budget bids fund a hidden economy, property compliance, and technical compliance, as well as some debt work. So that’s not a conversation we had this year with Ministers as part of the Budget because we’ll take that at the
appropriate time to look again at the landscape of risk and understand whether or not there’s still an investment there that’s worth the Government of the day making. But that’s why you see a drop off in the figures in the [Inaudible], because we haven’t had that conversation appropriately until that point.

In terms of the organisational restructure, what we are proposing is that we start to shift our organisation to take advantage of the technology that’s coming in, particularly in the investigations space around knowledge management and analytics, which quite a lot of evidence and research, including work that we have done internally, that shows us the value of those technologies to actually support compliance and to improve compliance. So in an area, for example, such as GST refund fraud, we have used analytics quite extensively already to identify cases of serious fraud and to be more successful in prosecuting those, and to be more successful in prosecuting those. And Business Transformation investment includes further investment in technology to support our investigators and to support our auditors to ensure that they can manage the risks, whatever they may be in future years.

Scott Yes, Minister, regarding these multinationals, some are calling for a silver bullet, you know, maybe unilaterally taxing these multinationals, as the Australians, I think, have done or are about to do. What’s the risk or the danger of doing that?

Collins I think, you know, when you consider that some of these companies are what I sort of characterise as company states, significantly bigger than we are as a country, and they have the ability at the moment to shift profits off to tax havens and various other places and also to use double tax treaties in the hybrid mismatches, so that they can quite legitimately—by law anyway, even though they’re morally not—shift their profits around so that they don’t pay tax. And they obviously have immense resources to do that and to enable them to do it and it’s worth their while.

So the best thing that we see is signing up with other countries to actually be part of this multilateral instrument that we’ve signed up to. So when I was signing this in the OECD the other day, there were 65, I think it was, countries signed up to it, including some that might surprise. The United States was not part of that, but we had a few days earlier signed a bilateral with the United States so that we have pretty much the same provisions with the United States now on information sharing and we were one of only three countries that have that.

So I think, you know, working together we can do a lot better. We’ve also, really with the stroke of a pen, been able to get all of our double tax treaties—40 of them—in one go with these other countries that are parties to the multilateral instrument, actually all in sync, so that now the double tax treaties will not be able to legitimately be used to shift the profits
around. So we feel that we’ve got a much better chance of getting some of this money.

One of the things is too if you look at the so-called “Netflix tax”, just putting in place and seeing countries actually working together has actually focused the mind of some of these companies—that there’s not a lot of point continuing with this behaviour. And, you know, we can see that some have—actually, what they need is they need some structure around it so they can comply.

So I think we’re going to have a much better chance working together with others than by ourselves. I think that would be somewhat futile. I’d feel like we were going to whistle into the wind.

Robertson Yeah, and I think everybody round the table recognises the importance of a multilateral response to these issues. But you also recognise the potential for unilateral responses with your discussion paper that you put out. And I’m interested to know why you didn’t take up some of the ideas that are being used in Australia and the UK within that—and we can talk about diverted profit—

Collins You mean diverted profit tax, yeah.

Robertson —but also some of the ATO stuff around embedding people in businesses and making—so both of those. I’m just interested in why both of those weren’t taken up.

Collins Well the diverted profit tax—we believe that the measures that we’ve already put in place with the OECD are going to bring about the same results. And I think, too, is that embedding people in companies—I think we just need to be a little bit reasonable about our resources in terms of things and the ability for us to do that. We’re not Australia.

Robertson So it’s not that you didn’t want to, it’s just you don’t have the money to do it.

Collins Well it’s not just that. It’s like do we really want to be doing that, and I’ll get the commissioner to answer that. She wants to jump in here.

Ferguson I think it’s fair to say we probably have a closer relationship to our business community here than the Australians do, whether that’s size or scale, but actually, as I say, we work quite closely with the business community and through that compliance approach we feel we have the insights and engagement that we need with business to be able to get the information that we need. So, at the moment, I wouldn’t say operationally that that is something that we would want to do. We’ll obviously watch how that progresses in Australia and discuss that both with business and with the Institute of Chartered Accountants etc., to see whether or not it adds value, but, in New Zealand firstly, you know, we have a very open and constructive approach. Our tax advisory community is very focused on
supporting the right outcomes for New Zealand. So at the moment, as I say, that isn’t an approach that we would see as adding value.

Robertson So can I have one little additional supp. back to the Minister. You are, you know, as everyone is, putting a lot of reliance on these multilateral negotiations. When are we likely to see a concrete outcome from them, say in the area around diverted profits?

Collins Well, we think that the measures that we’ve already signed up to will help us with that. Obviously, for a start, this instrument that we’ve signed—this international treaty—has to go through the parliamentary process. It will no doubt come to this committee—most likely I think. It will apparently come to this committee, and so the sooner we get it passed, the sooner it will get into place. But as you know, with these multilateral instruments, every party has got to get themselves organised on this, so it will be a little time.

Robertson So that is the concern, I think, Minister, from a lot of people is that in the meantime simply relying on that process and saying that will deal with big issues like that is the concern. But you’re telling us today that you have no interest in other diverted profit schemes?

Collins It is not something that we believe would be any more beneficial than what we are doing at the moment, but there are also other measures that are happening. If you consider even the close relationship that Revenue has now with many businesses in terms of the Business Transformation work, there’s opportunities there, obviously, primarily with small business, but just in the measures that we’re already taking you’re seeing a change in some of the behaviours from some of the multinationals, whether that’s around the GST on international services—you see that changing. I actually think, and I will just mention too, for New Zealand - based companies there is an entirely different relationship with Revenue than people would have expected. It is a much friendlier relationship.

Robertson That’s not really who we’re focusing on.

Hudson Thank you, Minister. Given the rather complicated, and deliberately so, structures and processes companies use to minimise the tax or the place they pay tax at, have you seen anything at all that would suggest that there’s any reasonable way that you could address those complicated matters with some simple silver bullet?

Collins No. In fact, if it had been possible then it would already have been done, and it wouldn’t now be this issue that all the countries around the world basically are dealing with. If you have got the resources of the UK or the US for instance, it wouldn’t be a problem if there was a silver bullet, because they would already have used it. But I do think that what we’re seeing is—and it guess it is part of globalisation—that you’re now dealing with massive resources that you’re trying to deal with, and at the same time
companies that, as was explained to me at the OECD meeting the other day, and we were having a good tax meeting—

Robertson    Ha!

Collins    Well, it was. Actually, it was a very good tax meeting. The point was made very well that you’re dealing with companies that have in front of them every single tax position of every country that they’re dealing with, and they are sitting around making decisions from a tax point of view as to which country is going to be more beneficial for them, and that’s the way they operate. We in New Zealand do not have that ability to go around all the companies and ask: “What is your tax position?” We don’t always know exactly what is happening in some of these companies, because they’re not based here, and so we’ve actually got to work together. As I say, I don’t want to be whistling into the wind; I actually expect us to have something that is going to make some changes, and it will only work if we’re working with the multilateral instrument.

Huo    Thank you for the information. I like the way the issue is being addressed here at page 11: “International taxes [inaudible] because of the financial crisis”.

Collins    I know. Who knew. Ha ha!

Huo    Probably—financial profits. Talking about multinationals, but from different angles, there are reports that Asians or non-Asians in Auckland or elsewhere who are New Zealand residents but spend most of the time overseas and have deliberately become or put themselves as a non-tax residents, and put IRD in the position of “tax me if you can”. So what has the Government done to address those sorts of concerns?

Collins    I’ll just add a little bit in there. Well, fortunately, China is a party to the multilateral instrument and the information-sharing relationship that we have there. I also had a very lovely chat with the commissioner for tax for China—who by the way wants to come here this year too to have a little talk about what else we can do—but our information-sharing agreements that we’ve got now are really making a big difference, so I’d suggest to anyone who is not complying with the law that the law will be coming to them. But perhaps you might want to add to that?

Ferguson    I will add a few things. We are part of something called SGATAR, which is the Study Group of Asian Tax Administration and Research, and we work mostly with all of our partners across Asia to understand if there is tax risk across border as well as learn from each other. One of the other pieces of the international jigsaw that’s coming together is the automatic exchange of information. As we noted in the video, we will be operating that through our new START system next year, but that is something that worldwide will mean that more information is automatically provided to revenue authorities around moneys moving across border. We will be able to understand and provide information through our banks on New Zealand
residents or non-residents operating bank accounts and other investments here, the moneys that are moving, and get the same information in return.

So that will allow us to understand whether or not people are structuring their lives in order to, again, take advantage of the tax systems. We have a team of people as well as our multinational approach. We have another group of staff who specifically look at high-wealth individuals and regularly monitor and have a large number of inquiries under way with that particular group of people for example, who probably have more of the means to think internationally about how they run their businesses and their lives.

Shaw In terms of the agreement that you signed in Paris recently for information sharing, do we have a sense of recognising that it is going to take a couple of years for all that to work through and to get it fully up and running, and do you have sense of what the actual financial quantum is that that will result in? You were talking about the size of the problem before and there being different estimates, but, in terms of this information-sharing agreement, do we have any sense of what that will actually result in in terms of revenue terms in New Zealand?

Collins I'll get the deputy commissioner to deal with that.

Atkins In terms of the global impact we don’t actually have that information at the moment, and that is why we want to be able to collect information on all multinationals around the world that earn over €750. So once we have that information we will be able to start saying “What are these big multinationals paying in total?”, and then get an understanding of the size of that. But unfortunately, we don’t have that at the moment.

Shaw So the $300 million kind of estimate that we’re kicking around at the moment in terms of, you know, what we think the size of the problem is in terms of base erosion—

Atkins For New Zealand.

Shaw —in New Zealand—we don’t yet know what this latest agreement that we’re talking about will bring in as a portion of that.

Atkins No, because our entire package, we’re saying, is around $300 million and that includes the permanent establishment rules, our transfer pricing rules. Unfortunately, it’s not a science. We really have to think about what do we think and that’s why we’ve been very conservative with it.

Shaw So, then, in terms of relying on the international agreement to solve the problem for us, we’re actually unclear the extent to which it will. We actually don’t have an estimate of what that will bring in.

Atkins Not of the total, but we are also, in terms of the measures we’re putting in place, some of those will actually be unilateral, like the permanent establishment rules. The transfer pricing will be in our laws regardless of
what happens in the international space. So we know that we will gain from those benefits.

Shaw But just to be clear, in saying that we don’t want to rely on unilateral measures, because we’re doing an international agreement—

Collins We’re doing both.

Atkins We’re doing both.

Shaw But what you’re saying is we don’t actually have any confidence that the international measures will actually achieve anything.

Collins Well, we do.

Atkins We just going by the exact amount, but we are confident that these measures will make a difference.

Collins I think what the point would be, James, is that we’re trying to do both. We’re trying to rely on unilateral, where we believe that we can effectively actually do something positive with that, and that we’re going to the multilateral where we feel we’re going to need more help, particularly around information. But we’ve got automatic exchange of information processes now, which we didn’t have in the past. So that will also help us.

Shaw I don’t think anybody’s arguing with the notion that obviously this is a global problem and it needs a multilateral approach, but in terms of saying—

Collins We’re doing our own fix as well—that’s what Cath is saying.

Shaw So we’re not closed to unilateral.

Collins No, no. We’re doing our own stuff, which is why we’ve got the discussion documents out—it’s because we are actually doing our own thing.

Robertson There is just no silver bullet.

Collins Well, it would be really great if there was.

Robertson We’re all very clear on that now—that there’s no silver bullet.

Shaw Wondering whether or not there’s a silver bullet won’t help.

Robertson They’re very worried about it over here.

Collins Or even a gold bullet.

Robertson A different area to talk about now, Minister. I want to ask one question about—you did mention the Budget tax changes and I don’t expect you’ll have these numbers in front of you now, but it would be good if the committee could be provided with, perhaps on a quintile basis, what level of benefit different income bands received, because you did make the
comment that it was lower to middle income earners that were the focus. I don’t expect you to have it with you today.

Collins  We’ll get it for you.

Robertson  That would be lovely, thank you.

Collins  Too early in the morning for this.

Robertson  Indeed. On the Business Transformation programme—I mean, obviously it is a massive undertaking and we appreciate the briefings that we’ve had on it from the commissioner. You’re now moving into phase 2—the implementation of phase 2, and in the answers to our questions you’ve raised a number of savings that you think that you’re going to be able to make. I just wonder how you come to those conclusions and what process you’re going through for actually checking that those are the savings that you get.

Ferguson  Certainly. As we built up the business case we looked at a number of our existing processes and where there was opportunity to streamline them, that might have been because of policy or it might have been because of technology or process. So some of the work that this committee has seen around something like the Accounting Income Method is part of the work that will allow us to modernise the tax system to become more real time in the collection of information and to then be able to act more quickly to deal with any areas where there are non-compliance. So we’ve looked at things like that. We’ve looked at areas where our process is currently slow.

If I give you a really practical example, and it also helps with the “How do we check?”, because we will come back and check, we mentioned in the video that we’ve now introduced a system where new migrants can get their IRD number online and it actually reusing the information that they provide as part of their visa process. So from the point of view of that new migrant it’s meaning that they don’t have to fill in a separate form. It’s meaning that they get the information to us quicker, and we are able to respond more quickly, so they’re getting their IRD number back within about 48 hours on average, as opposed to about 2 weeks. So that’s the sort of example that will show where the customer savings are. Internally processing one of those applications historically took us between, on average, 10, 12 minutes. It is now taking us between 5 and 6.

Robertson  The Minister’s said that you’re going to save, administratively, $260 to $300 million from stage two. When are those savings actually going to be accrued?

Ferguson  So they start to kick in progressively from 2019-20. One of the things during the next few years—and already—we are now running two systems, and that actually means that there’s some work that has to be done to manage between two systems, both by us and by tax agents. And we’re all coming to terms with that. I’m looking to see how we learn from stage one to make that smoother for stage two. But the savings are all towards the end of the programme, partly because, although we will release some of those savings, for example that one about new migrants now, the work that we...
need to do to maintain the two systems over the transformation period means that effectively we need to maintain our staff to do that.

Robertson On the flip side, have you done any estimates around the cost for businesses of getting their systems in place to match your very flash one that you’re creating?

Ferguson The change for customers is actually about when or how they send the information to us. It’s not about changing their systems. So a really good example, again, is the work that we’ve done with the software business, Xero and MYOB, where, really, what we’ve done is create a pipe from Xero, or MYOB direct to us. So for a business, they’ve just uploaded the next version of Xero and they have that there. It’s in their cloud package.

For larger businesses, as we introduce things like pay-day reporting, there will be some system change, but if you remember that actually every business on the day it pays its staff calculates the tax that’s due to be withheld, we’re actually taking out a step of the process for them, because at the moment, having made that pay-day calculation, having withheld that tax, they then have to translate that into an employer monthly schedule. Very few businesses actually pay monthly—pay their staff monthly—so we’re taking a piece of that process away. But there will be some investment to make that work for them.

Collins Of course, it’s that information that Revenue is collecting and getting better, more timely, that’s actually going to mean that Revenue’s going to be able to introduce the AIM process from 1 April, which will mean that the same businesses, small businesses in particular, will not have the yearly—or actually, several times in a year—problem of having to deal with provisional and terminal tax. They will actually be paying as they go, and I think, as someone who has run small businesses as well as medium-sized businesses in the past, this will be the No. 1 thing that helps small businesses not fail in their second year, which is when most small business does fail. So this will be the biggest issue for small business.

Scott That point has been made to electorate MPs for sure. MPs don’t get commended for much, but the PAYE provisional tax changes has certainly been one of those things. But on that—MYOB and Xero—what if you don’t have those systems?

Ferguson So we, firstly, are working with a range of software providers. We worked with those two initially with the agreement of the software business. So if you use other systems, like Reckon, etc., then those will come into play. If you don’t use any of those systems, our online services continue to be available for you. So, again, from stage one, around 660,000 GST returns have been submitted directly to our system, and at the moment around 60,000 directly from software. So there are alternatives for business, but we know that more and more businesses are turning to those commercial software packages to run their business, and if they’re doing that, then we’d
like to make is straightforward for them to take their tax information straight from those systems and not have to duplicate that process.

Shaw Just in relation to that—I mean, of course a lot of businesses are still on Excel spreadsheets, because they just find it the easier thing to measure. So in terms of the kind of ease of use between, you know, those who are on platforms like Mind Your Own Business and Xero versus [Inaudible] who—obviously, Excel, you can’t simply match that up. And that is a large number of small businesses in New Zealand, a very large number. So what’s that difference for them in terms of—

Ferguson So as I said, they will be able to continue to use our online services. Some of the feedback we’ve had since we went live is that the small businesses are actually finding the new system very useful. One of the things that they and tax agents are liking are the ability to attach documents. That’s the first time where you could attach something to our online system. So if you were using an Excel spreadsheet and you actually wanted to show us a page from that, you could attach that straight into that system.

Collins One of the things, too, is that, obviously, this new system will come for small business, but Revenue wants to then use the learnings from that to get that bedded down and then move to larger businesses. So big business probably next, and then medium-sized businesses, and it’s simply because—I’ve asked why big before it’s medium, obviously, and it’s to do with the different quality of processes, basically. But they want to make sure that they start with small business first and get that sorted out. You sort that one out, it’s a 90 percent—if you get that sorted out, you can move to the others.

Wood Turning to the IRD restructure—this is to the Minister. Well, I do want to address this to the Minister, as best as she is able. Well, my question is: all of us around the table understand that there’s a need for change given Business Transformation, but it’s significant. The headline figure we’ve been given is 1,500 headcount reduction. Actually, in answers to the questions here, it’s indicated at about 1,900 headcount reduction. Clearly, unless done very well, there’s a risk of a loss of institutional knowledge at this time, the same time as we have these very challenging issues ahead of us. We know that ATO’s expanding at the same time as we’re contracting. There is some anxiety within the department and the tax community.

The question to the Minister is, really, to what degree have you had briefings or are you exercising oversight over what is clearly—not over the operational details, but what is clearly a major strategic shift in the way the department is going to be functioning? And your confidence that we can manage the risks that do arise from any restructure of this size.

Collins Well, I have meetings with the commissioner every week, and some of her senior team, and, of course, this issue is raised by me, because I always want to make sure that they’ve got enough in terms of resources. Revenue has around 10,000 staff—is that right? Sorry, 6,000 staff, which is actually a lot of staff, and if they can, in fact, with the new systems shift people who want
to stay, and can stay, into other areas, that’s great. But, ultimately, there’s a lot of money being spent on this Business Transformation process, but it’s really about getting the best value that we can for New Zealand taxpayers. So I’m assured by the commissioner, and it’s an almost weekly assurance, actually, that Revenue is not doing itself hard, basically, by going through this process.

It’s always difficult for staff, of course, but there’s a lot of work, I think, going into retraining as well, where that’s possible and where people want to. But, you know, we can’t go back to a day of abacus either, so everything’s just moving on, and that’s the way of the world, unfortunately, for some people, actually. Very sad, but a lot of people are retraining and, I have to say too, a lot of our Revenue staff are very highly sought after by the private sector.

Wood Well, that’s one of the issues, I guess, I’m wanting to get at, is: can we be absolutely certain that we’re going to be keeping those people who are highly skilled—

Collins I’ll be holding the commissioner to account on this. She’s shivering in her boots on it! But, yeah—because, you know, I do ask these questions too.

Robertson Just a supp. on that, coming back to that question about the investigations budget. This is to the Minister. I presume that when IRD inevitably come back to you and say “We do need to keep this programme going.”, you would be sympathetic to that budget increase.

Collins I’m a very sympathetic person.

Robertson I’ve always felt that way, but on this issue specifically?

Collins I think I’m more sympathetic than many, actually. I’m very sympathetic to a department or ministry that needs resources so that they can bring in more tax that should be being paid. So, you know, let’s see how we go, hypothetically speaking, but I’m pretty sympathetic.

Robertson Just for the commissioner, very briefly, in that specific area, what—does the staffing change have any impact on the investigators [Inaudible]

Ferguson As a result of Transformation, or as a result of—

Robertson Or as a result of your planned changes. Is that an area where staffing is reducing?

Ferguson So as a result of Transformation over the course of the programme, or towards the end of the programme, then, yes, our expectation is that in order to deliver the revenue that we currently deliver, we could resource that with fewer staff. Again, that’s with a mix of analytics, better risk assessment, better tools to support faster investigations, so there’s a productivity uplift that is there in investigations. And, again, if I look to examples like the Australian tax office, they’re using the same analytics in order to lift the return on the investment from our investigating staff. And
2017/18 ESTIMATES FOR VOTE REVENUE

so our business case has a proposition in it that has some reductions and, equally, some growth in revenue, and it’s a balanced proposition.

Conclusion of evidence
The Government Administration Committee has examined the 2017/18 Estimates for Vote State Services (excluding the social investment appropriations) and recommends that the appropriations in respect of Vote State Services (excluding the social investment appropriations) for the year ending 30 June 2018, as set out in Parliamentary Paper B.5, Vol.5, be accepted.

Hon Ruth Dyson
Chairperson
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation</td>
<td>2</td>
</tr>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Mental health</td>
<td>2</td>
</tr>
<tr>
<td>Child health</td>
<td>5</td>
</tr>
<tr>
<td>Additional funding for Pharmac</td>
<td>6</td>
</tr>
<tr>
<td>Funding for health</td>
<td>6</td>
</tr>
<tr>
<td>The role of active transport in improving health outcomes</td>
<td>7</td>
</tr>
<tr>
<td>Capital projects</td>
<td>7</td>
</tr>
<tr>
<td>Incorrect funding allocations for district health boards</td>
<td>7</td>
</tr>
<tr>
<td>Appendix</td>
<td>9</td>
</tr>
</tbody>
</table>
Vote Health

Recommendation

The Health Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Health, as set out in Parliamentary Paper B.5, Vol.6, be accepted.

Introduction

In 2017/18, the appropriations sought for Vote Health are $16.773 billion. This is a decrease of 10 percent from the estimated actual expenditure of $18.652 billion in 2016/17. The main reason for the difference between years is the one off provision of $2.415 billion in non-departmental capital that was provided in the 2016/17 Supplementary Estimates to convert district health board (DHB) debt funding to equity.

The appropriations sought in 2017/18 are an increase of 3.9 percent ($0.631 billion) on what was originally provided in Budget 2016.

Vote Health accounts for 17.7 percent of the total appropriations in Budget 2017. About 75 percent of the appropriations sought are to provide population-based funding to the 20 DHBs.

In 2017/18, the Budget proposes a total of $974.4 million in new policy initiatives for Vote Health.

Mental health

Demand for mental health services has increased in the last five years and especially in the last two years. Eight years ago, 96,000 people accessed specialist mental health services. This increased to 168,000 last year. The Child and Adolescent Mental Health Services (CAMHS) is now involved with 3.8 percent of the population under the age of 19 years. Much of our hearing focused on how this demand is being addressed.

Appropriations for new mental health initiatives

The Budget provides additional funding of $224 million for mental health initiatives. This consists of:

- $100 million to DHBs over four years, which will support local mental health and addiction services
- $100 million contingency over four years for a new cross-government social investment fund, which will focus on addressing mental health issues in innovative ways
- about $24 million across three departments for mental health initiatives. This is split between the Ministry of Social Development ($4.1 million), the Department of Corrections ($11.6 million), and Vote Māori Development ($8 million).

Some of us are concerned that there is not a specific mental health package listed in the new policy initiatives in the Vote Health budget documents. We asked whether the

---

Minister had asked for a specific package of initiatives for mental health at the Cabinet Committee meeting in March 2017. The Minister acknowledged that mental health is a growing pressure that needs attention but disagreed that the Government had provided no new money for mental health. He noted that the additional support for DHBs listed on page 12 of the Budget documents includes $100 million of funding over four years that is ring-fenced for mental health.

We heard that mental health issues affect areas other than health, including education, corrections, and social development. For this reason, there are appropriations of $24 million split between three departments and $100 million as a tagged contingency in the appropriations for Vote Finance. A tagged contingency is funding that is set aside in the Budget for specific initiatives when further work needs to be done before Cabinet will agree to appropriate the funding.²

The Minister agrees that a new approach to mental health is needed that focuses on root causation, developing resilience, early intervention, and increasing access to services in the community. The Minister also believes that mental health is an issue that requires a measured, long-term strategic approach. He considers that it is important to ensure that the strategy is appropriate and that money is available to support the strategy, rather than rushing it because there is an upcoming Budget.

The Government’s departmental science advisers are working on this long-term strategy. The Minister expects to take a paper to Cabinet shortly. We would welcome more information when the strategy is confirmed.

**Review of mental health services**

Some of us consider that an independent review of mental health services is needed. This follows reports of a high turnover of senior staff, services being unable to replace staff, Police being called to wards, and people shifting out of the mental health sector because it is under-resourced. The Minister told us that mental health has always been a very difficult area to work in and that the nature of the work creates a lot of pressure on staff.

We asked whether the Minister thought that the increase in funding for mental health should match the increase in demand. The Minister explained that it costs more for a patient’s first visit to a clinic than their last visit, with the marginal cost decreasing over time. He believes that it is “not just a matter of money” but that, as he previously mentioned, a new approach to mental health services is also needed. The Ministry of Health is discussing with other government agencies how they can work together to provide a whole-of-system response, rather than the ministry simply providing a health response.

We asked why the Minister has not supported the requests for a national, independent inquiry into mental health, given that he agrees that a new approach to mental health is needed. The Minister believes that focusing on increasing and improving access would be more beneficial than an inquiry, which he said would not tell the Government more than it already knows.

Youth mental health services

For mental health and addiction services, DHBs are required to meet the following sector-wide targets:

- 80 percent of people who are referred for non-urgent mental health or addiction services are seen within three weeks
- 95 percent of people referred for non-urgent mental health or addiction services are seen within eight weeks.

For the year January 2016 to December 2016, 68 percent of children aged zero to 19 seeking help were seen within three weeks, and 90 percent were seen within eight weeks.

The Minister acknowledged that more can always be done but said that waiting times are decreasing despite the growing demand for services. Some of us consider it unacceptable that almost one in three youths have to wait more than the recommended waiting time of three weeks.

Some of us are also concerned that 45 percent of zero to 11-year-olds needing an appointment are not seen within the Government’s recommended three-week waiting period and that the situation is getting worse when compared with last year’s results. The ministry’s Director of Mental Health told us that the Children and Adolescent Mental Health Services have made significant progress in meeting waiting time targets. They use a choice and partnership approach model, which is about ensuring that people are assessed at an early stage and appropriately managed through the system.

Discharge planning for acute mental health patients

In May 2017, the Office of the Auditor-General published a report on discharge planning for mental health patients. The report focused on people experiencing mental health problems that were acute enough for them to be admitted to hospital.

Some of us are concerned that the report found that a third of patients had not been followed up after release into the community within a week and that patients were often discharged based on who had the least need when more urgent patients were admitted. The Minister acknowledged that the report “made some very good points” but noted that it was a “snapshot in time from March 2016”. The Director-General of Health has subsequently worked with DHBs to ensure that the quality of follow-up has improved.

In May 2017, the Health Quality and Safety Commission (HQSC) announced a series of quality improvement initiatives for mental health services. One of the five priority areas is about improving discharge planning and follow-up. The HQSC quality improvement programme has been developed with DHBs and is modelled on an effective Scottish programme.

The ministry has also been working with the HQSC to improve standards and reduce variations among DHBs. This includes high-performing DHBs sharing information with others that have problems.

Online mental health services

At the recent World Health Assembly in Geneva, the Minister spoke with other Health Ministers who are also experiencing increases in mental health disorders. We were interested in whether he had heard about successful initiatives in other countries. The Minister told us that many countries are successfully using online counselling programmes.
The Journal, which is part of the National Depression Initiative and fronted by Sir John Kirwan, is New Zealand’s online mental health service. It is designed to teach people skills to deal with mild to moderate depression. The Minister believes that this service will need to be modified over time to adapt to how young people access information. He anticipates that the solution will be app based and that this is an area the Government will consider.

**Destigmatising mental health**

We note that different communities have different approaches and perceptions of mental health. In some communities, there is a stigma attached to discussing mental health and people are criticised for seeking help. We asked what approaches the Government has to ensure that people feel comfortable seeking help, particularly in ethnic communities.

The Minister provided an example of the Waitemata DHB, which is focusing on providing ethnically and culturally appropriate mental health services. We commend the services, such as Bo Ai She, which provides cultural and recovery support for Chinese mental health service users and their families, and the Korean mental health services, which are doing excellent work.

**Child health**

**Childhood obesity**

The World Health Organization (WHO) and the Government’s chief science advisor, in his role as co-chair of the WHO Commission on Ending Childhood Obesity, support a sugar tax. We asked how much evidence the Government needed before it would introduce a tax on sugary drinks to help prevent childhood obesity.

The Minister told us that it would need evidence that such a tax will decrease obesity rates. The Government is awaiting the results of two international meta-analyses, from the University of Waikato and the University of North Carolina. It expects the results to be available later this year.

**Immunisation rates**

In 2012, the Better Public Services (BPS) programme established a target for increased immunisation rates. The five-year target was to achieve and maintain 95 percent of eight month olds being fully immunised by 30 June 2017.

We asked whether the target was being achieved, noting that there had been recent media attention about Dr Lance O’Sullivan and the movie “Vaxxed”. The Minister told us that vaccination has saved hundreds of millions of lives globally and is one of the largest health gains of the twentieth century. He encouraged parents to immunise their children because it is supported by science and has been proven to demonstrate considerable gains for children in New Zealand.

Since setting the BPS target, immunisation rates have increased from about 80 percent to nearly 95 percent. The focus is now on the “hard to reach” communities who oppose vaccination. The Minister believes that providing free general practitioner visits for under-13s is an important tool in reaching these people. This is because doctors and practice nurses can ensure that vaccinations are up to date as part of regular check-ups.

---

New Better Public Services Health target

In June 2017, the Government introduced a new Keeping Kids Healthy health target. The target is that, by 2021, there will be a 25 percent reduction in hospital admission rates for the treatment of a list of avoidable conditions among children aged zero to 12 years. The conditions include dental or respiratory conditions, skin conditions, and head injuries. The interim target is a reduction of 15 percent by 2019.

We asked whether the Government has any new initiatives to ensure that the target is met. The Budget provides $38.3 million over four years as additional support for primary care services. It also delivers an additional $1.76 billion over four years to DHBs to meet cost pressures and population growth.

Rheumatic fever prevention programme

We asked why the BPS target for the rheumatic fever prevention programme has been dropped. We were told that the BPS programme target of reducing rheumatic fever has resulted in cross-sector collaboration and innovative models of care that are making a difference. The target is being retired because the programme to continue addressing rheumatic fever is now in place.

The Government has allocated $5 million annually over the next five years to the 11 DHBs with a high incidence of rheumatic fever. The new Keeping Kids Healthy target will also focus on addressing the rates of rheumatic fever by reducing hospitalisations for respiratory conditions.

Additional funding for Pharmac

The Budget provides an additional $60 million over four years to Pharmac for access to new medicines. This will fund a range of treatments that will benefit an additional 33,000 New Zealanders. These include an anti-infective package, four new HIV anti-retrovirals, and a continued emphasis on funding for hepatitis C treatments. We were pleased to hear that there is now a curative treatment for patients with hepatitis C.

We note with interest that biologic drugs, such as Keytruda (pembrolizumab), that have been used for melanoma are now being used for other cancers. The Minister told us that these drugs have been a “huge breakthrough” for people with metastatic or spreading melanoma. He anticipates that this will be the first of many of these types of drugs.

Funding for health

A May 2017 report published by economic consultants Infometric used data from the Treasury’s Budget Economic and Fiscal Updates Fiscal Strategy Model to estimate:

- the change in core Crown health expenditure since 2009/10
- how the growth in core Crown health expenditure aligns with changing demographics and inflation.

The report concluded that “the cumulative difference between core crown health expenditure and required core crown health expenditure to maintain 2009/10 levels (once growth due to inflation and demographic changes are taken into account) will have increased to $2.342 billion”.

We asked whether the Minister agreed that demographic pressures, such as needing to spend more money on people as they age, should be a factor when considering whether
health funding matches previous years. The Minister told us that core Crown health funding also includes the Accident Compensation Corporation, so the report was not “comparing like with like”.

Each year, pressures are calculated in terms of population, demographics, and inflation. DHBs are then required to make a saving which was 0.75 percent this year.

We heard that, in the last nine years, demographics, population growth, and inflation have been fully funded. The Minister told us that the yearly rate of inflation is not known until the end of each year, so it is not possible to tell until the end of a financial year whether these elements have been fully funded.

**The role of active transport in improving health outcomes**

There is considerable evidence demonstrating that active transport, such as walking and cycling, has health benefits, including preventing obesity and chronic disease, and mental health benefits. The Chief Executive of the Ministry of Health has met with his counterpart at the Ministry of Transport to discuss active transport. The Ministry of Health Public Health team is also working with the Ministry of Transport.

We asked whether the Ministry of Health had recommended that the Ministry of Transport introduce targets for increasing levels of cycling or walking to help achieve health and transport outcomes. The Ministry of Health told us that it is working through a process and that it will update us when the process is complete. We look forward to hearing about the outcome.

**Capital projects**

The Budget provides $656.5 million in capital expenditure. The Minister told us that the Government is focusing on the integrated family health centre at Buller and upgrading Dunedin Hospital.

We asked about an expected time frame for upgrading Dunedin Hospital, noting that the previous Minister of Health reported that a business case would go to Cabinet in 2014. The Minister told us that the Government is “absolutely committed” to building the hospital in Dunedin and that the indicative business case will go to Cabinet at the end of July.

The Minister explained that it is important to have a secondary and tertiary facility that supports future demands. Therefore, it is important for the design to reflect this. Some of us are concerned about the length of time this process is taking.

**Incorrect funding allocations for district health boards**

The Budget provides $439 million of new funding for DHBs in 2017/18. On 16 June 2017, the week after our Estimates hearing, the Minister confirmed that a ministry error had resulted in $39 million being incorrectly funded to DHBs allocations for DHBs. Of the 20 DHBs, 14 were given too much money and six were not given enough. The Minister reported that he had been told about the error on Budget day.4

We are concerned that the Minister did not disclose at our Estimates hearing that the funding allocations were incorrect. Some of us consider that the lack of information means that we have been unable to robustly scrutinise the appropriations for Vote Health. Some

---

of us would have liked the Minister to appear before us again to confirm what steps he has taken to ensure that an error like this does not happen again.
Appendix

Committee procedure
We met on 7, 28 June, and 5 July 2017 to consider Vote Health. We heard evidence from the Minister of Health, Hon Dr Jonathan Coleman, and the Ministry of Health, and received advice from the Office of the Auditor-General.

Committee members
Simon O’Connor (Chairperson)
Dr David Clark
Sarah Dowie
Julie Anne Genter
Barbara Kuriger
Melissa Lee
Dr Shane Reti
Barbara Stewart
Poto Williams

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Health, prepared by committee staff, dated 6 June 2017.
Office of the Auditor-General, Briefing on Vote Health, received 7 June 2017.
Vote Health, Response to standard Estimates questionnaire.
Vote Health, Responses to additional questions, received 5 June 2017.
Vote Health, Responses to post-hearing questions, received 26 June 2017.
2017/18 Estimates for Vote Attorney-General and Vote Parliamentary Counsel

Report of the Justice and Electoral Committee

Contents

Recommendation 2
Vote Attorney-General 2
Vote Parliamentary Counsel 4
Appendix 6
 Recommendation

The Justice and Electoral Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Attorney-General and Vote Parliamentary Counsel, as set out in Parliamentary Paper B5 Vol. 7, be accepted.

Vote Attorney-General

Introduction

Vote Attorney-General is administered by the Crown Law Office (Crown Law). The Attorney-General, Hon Christopher Finlayson, is responsible for the vote. Total annual and permanent appropriations sought in 2017/18 are $70.909 million, which is a 5.7 percent increase from $67.084 million estimated actual expenditure in 2016/17.

The specific appropriations sought for 2017/18 are:

- $22.337 million for legal advice and representation to departments, Crown agencies, the Attorney-General, and the Solicitor-General, which is an increase from the estimated actual expenditure of $18.5 million in 2016/17
- $38.922 million for public prosecution services, the same as the estimated actual expenditure in 2016/17
- $3.278 million for the conduct of criminal appeals, which is a decrease from estimated actual expenditure of $3.281 million in 2016/17
- $4.760 million for law officer constitutional and criminal law duties. This is an increase from $4.553 million estimated actual expenditure in 2016/17, mainly because of departmental revenue funding from the Ministry of Foreign Affairs and Trade for the 2017/18 Pacific Islands Law Officers’ Network Litigation Skills Programme
- $985,000 for the Government Legal Network, the same as the estimated actual expenditure in 2016/17
- $627,000 for capital expenditure, a decrease from the estimated actual expenditure of $843,000 in 2016/17.

Crown prosecution services

Budget 2016 provided Crown Law with additional funding of $19.7 million over the four-year period 2016/17–2019/20 for Crown prosecution services, particularly to ensure that they are sustainable and effective.

We asked whether the Attorney-General was satisfied that this additional funding is enough for the demands of the Crown prosecution services. Although the Attorney-General said that he is satisfied with the current level of funding, he considers that further additional funding may be necessary in upcoming years.
Oversight of public prosecutions

Once a New Zealand court has convicted and sentenced an offender, Crown Law can appeal the sentence. We asked how Crown Law determines when to appeal a sentence and whether it takes the public interest into account. We heard that a prosecution is conducted according to the Solicitor-General’s prosecution guidelines. Crown Law will appeal if it considers that the public interest in the case requires that a higher court determine the matter.

We asked whether Crown Law had any specific work programmes to determine the effect of racial bias on Crown Law’s prosecutions. We drew the case of Thomas Tawha to the Solicitor-General’s attention and noted that the sentence in this particular case had raised concerns.

The Solicitor-General acknowledged that part of her role is to engage with the public about how the justice system works so that more New Zealanders understand the judicial process. She said that this is part of her work programme and considers it essential to reduce cynicism about the system.

However, the Solicitor-General noted that she could not comment on individual judgments because they are at the discretion of the judiciary. We agree that work to help the public understand the judicial process is important, and we look forward to Crown Law’s efforts in this area.

We heard that Crown Law is assisting all Crown solicitors to increase their commitment to te reo Māori and tikanga, and is particularly focusing on increasing its support for Māori prosecutors. We think that creating strong support networks for Māori prosecutors and aspiring judges is critical for creating trust in the justice system, and we will monitor progress in this area.

The role of victims in sentencing

We asked whether Crown Law is conducting work on what role victims should play in sentencing offenders. We heard that the prosecution guidelines require that Crown solicitors consider how prosecution decisions could affect victims but do not specifically advise prosecutors on how to approach victims. The Attorney-General agreed that it is very important to find an appropriate level of involvement for victims but noted that this was a policy question for the Minister of Justice.

Expanding oversight of public prosecutions to regional councils and agencies

Various departments and agencies may conduct prosecutions within New Zealand. Although the Attorney-General is directly responsible only for prosecutions taken by Crown Law, he agreed that he had an overarching responsibility to ensure that every department and agency that carries out prosecution services does so in accordance with the Solicitor-General’s prosecution guidelines. Crown Law’s current focus is on supporting government departments, with initiatives such as the Government Legal Network helping to ensure that departments conduct prosecutions to an adequate standard.

Given the outcome of stage one of the Havelock North inquiry, we asked whether Crown Law would consider including regional councils and agencies into its oversight and

---

1 The Solicitor-General’s prosecution guidelines 2013 can be found at http://www.crownlaw.govt.nz/publications/prosecution-guidelines/

2017/18 ESTIMATES FOR VOTE ATTORNEY-GENERAL AND VOTE PARLIAMENTARY COUNSEL

supervisory role. Although non-public prosecution agencies do not fall within the Solicitor-General's oversight function, Crown Law's approach is to offer informal assistance to those agencies.

Crown law engagement with Pacific Island nations

The Parliamentary Counsel Office plays an important role in supporting legislative drafting in Pacific Island nations. We asked whether there was also an opportunity for Crown Law to engage with prosecutors working in the Pacific Islands.

We heard that Crown Law plays a leadership role in the Pacific Islands Law Officers' Network (PILON), which meets annually. PILON focuses on legal issues in the law and justice sector that other Pacific policy forums do not address.

Crown Law has recently partnered with the Ministry of Foreign Affairs and Trade to provide the PILON Litigation Skills Programme under the New Zealand Aid Programme. Funding will be provided for five years of training for Pacific-based Crown lawyers. These sessions include input from New Zealand experts in litigation from the private and public sector.

Although there is potential opportunity for Crown Law to further involve itself with prosecutions in individual Pacific Islands, Crown Law is conscious of respecting national sovereignty and will offer help only if requested.

Vote Parliamentary Counsel

Introduction

Vote Parliamentary Counsel is administered by the Parliamentary Counsel Office (PCO). The Attorney-General is responsible for the appropriations in the vote. Total appropriations sought in 2017/18 are $23.253 million, up from $21.551 million estimated actual expenditure in 2016/17.

The specific appropriations sought for 2017/18 are:

- $3.5 million for access to legislation (which provides free public access to legislation and other legislative instruments online), supplying Government bills and Supplementary Order papers, and publishing and distributing legislation. This is an increase from the estimated actual expenditure of $3.351 million in 2016/17
- $16.923 million for law drafting services, which is an increase from the estimated actual expenditure of $16 million in 2016/17
- $2.830 million for PCO capital expenditure, which is an increase from the estimated actual expenditure of $2.2 million in 2016/17. This increase is because of a forecast change in capital expenditure on the New Zealand Legislation System and the start of the PCO’s Access to Subordinate Instruments Project.

Drafting legislation in te reo Māori

Te Ture mō te Reo Māori 2016 (The Māori Language Act 2016), enacted in 2016, is the first Act to be drafted concurrently in te reo Māori and English. We asked whether the PCO was building capacity to draft other legislation in te reo Māori.

We heard that, ideally, legislation should be drafted concurrently in te reo Māori and English from when it is first introduced. This is the method used in Canada, where legislation is drafted in English and French. Drafting in te reo Māori requires a specific
skillset, so the PCO is determining how to attract fluent Māori lawyers. It is also developing a language plan with Te Taura Whiri I te Reo Māori (the Māori Language Commission). We look forward to progress in this area.

**Drafting and support for Pacific Islands**

The PCO provides legislative drafting assistance, training, and mentoring to officials responsible for drafting in Pacific Island nations. This work occurs in the Cook Islands, Niue, and Tokelau, but it also covers other areas when resources permit. Currently, the PCO is also providing assistance to the Solomon Islands.

The PCO has entered a new Memorandum of Understanding with the Ministry of Foreign Affairs and Trade, which means that the PCO will continue providing drafting and support to Pacific Island nations for five years from 1 January 2017. The PCO provides the full-time equivalent of one experienced drafter, who will also do in-country visits on request. The current focus is on training and mentoring Pacific Island drafters.

We asked whether the PCO assists with drafting in the native language of each island. We heard that, as in New Zealand, the Pacific Island nations lack the resources required for concurrent drafting. Legislation is initially drafted in English, then translated into the language of the island and enacted.

**Access to Subordinate Instruments Project**

At present, any New Zealand legislation that is not primary legislation is difficult to identify and locate. The PCO has set up the Access to Subordinate Instruments Project (ASIP) to provide a single, official, public source for all of New Zealand’s legislation. This means that all subordinate instruments will be made available on the New Zealand Legislation website.

On 30 June 2017, the PCO will have completed the establishment phase of ASIP. The next step is to develop a Microsoft Word template for agencies with drafting responsibilities and test the publishing software.

We asked whether the PCO had enough resources for ASIP. The PCO indicated that it was prepared to make a 2018 Budget bid but said that it will be in a better position to determine the financial implications of the project once the next step has been developed and then approved by Cabinet.
Appendix

Committee procedure
We met on 8 June and 29 June 2017 to consider Vote Attorney-General and Vote Parliamentary Counsel. We heard evidence from the Attorney-General, Hon Christopher Finlayson, and received advice from the Office of the Auditor-General.

Committee members
Sarah Dowie (Chairperson)
Jacinda Ardern
Chris Bishop
Paul Foster-Bell
Marama Fox
Jono Naylor
Denis O’Rourke
Maureen Pugh
Metiria Turei
Louisa Wall

David Clendon replaced Metiria Turei for this item of business.

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates 2017/18 briefing paper, prepared by committee staff, dated 8 June 2017.
Office of the Auditor-General, Briefing on Vote Attorney-General, received 8 June 2017.
Office of the Auditor-General, Briefing on Vote Parliamentary Counsel, received 8 June 2017.
Crown Law Office, Response to additional questions, received 27 June 2017.
Parliamentary Counsel Office, Response to standard Estimates questionnaire.
Parliamentary Counsel Office, Response to additional questions, received 27 June 2017.
# Contents

- Recommendation 2
- Introduction 2
- Addressing prisoners’ mental illness 2
- Housing offenders on their release from prison 3
- Requirements of the Parole Board 3
- Getting prisoners into employment 3
- Corrections Inspectorate enhanced 4
- Members of Parliament visiting prisons 4
- Effect of additional police officers on capacity in prisons 5
- Whare Ōranga Ake 5
- Providing for prisoners’ medical needs 6
- Appendix 7
Vote Corrections

Recommendation
The Law and Order Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Corrections, as set out in Parliamentary Paper B.5, Vol.7, be accepted.

Introduction
The Minister of Corrections, Hon Louise Upston, is responsible for the appropriations within Vote Corrections, which is administered by the Department of Corrections.

The total appropriations sought for Vote Corrections in 2017/18 amount to $1.674 billion, down 0.4 percent from the estimated actual expenditure in 2016/17 of $1.680 billion. This reflects the 22 percent decrease in capital expenditure on the previous year because Auckland Prison has completed construction.

Also of note is a capital injection in 2017/18 of $64.9 million to enable Corrections to increase capacity to cope with a growing prison population.

Addressing prisoners' mental illness
In 2017/18, the Reoffending is Reduced appropriation seeks $201.5 million, an additional $10.7 million from estimated actual spending of $190.9 million in 2016/17. This funding provides for rehabilitative and reintegration services to reduce reoffending.

We discussed the challenges presented by the nine out of 10 prisoners who experience mental illness in their lifetime and how these are being addressed.

The Minister said that nurses assess each prisoner when they enter prison to identify their needs. This is because mental health issues have to be addressed before a prisoner’s offending can be tackled. The chief executive of Corrections said that about 20 percent of prisoners are referred for treatment.

We heard that there is no clear answer to how many prisoners are considered fully treated on leaving prison, because of the challenge of curing mental illness. However, Corrections is responsible for supporting a person into a positive environment when they leave a facility. The Minister told us that $50 million is being provided for community probation to meet the more complex needs, including mental health needs, of some offenders.

We asked how often mental health treatment is provided for offenders. The Minister said that health needs vary and that not all are severe. We are concerned about whether prisons have enough mental health practitioners to cope with the high numbers of people needing treatment.

The Minister said she is confident that there are enough staff to meet the mental health needs of the general prison population. Corrections has strong relationships with district health boards and organisations such as the Mason Clinic in Auckland.

We heard that a new initiative, Prisoners at Risk of Self-harm and Suicide, will provide $11.6 million over the next four years to improve the care of these prisoners. The Minister
said that the redevelopment of Auckland Prison has provided a more therapeutic environment to cater for prisoners with complex mental health needs.

We asked the Minister for her view on the suggestion that 30 percent of offenders develop mental health issues while in prison. The Minister said that, in terms of figures, she would use the results of the mental health assessment that is done when an offender enters prison as a benchmark.

However, the Minister recognises that the loss of freedom people experience in the prison environment will affect the mental health of some prisoners. Corrections seeks to improve the pathway for offenders when they leave prison by providing drug and alcohol treatment, and education and work experience opportunities, when they are in prison.

We also asked whether the mental health of offenders is assessed when they leave prison. The Minister said that, when a prisoner appears before the Parole Board, the board makes decisions about whether or not that person is ready to be released and what conditions are to be applied. We heard that, with a standard release, a risk and needs assessment is conducted in the months before the prisoner’s release.

The Minister said that she is confident that Corrections develops a strong plan to support each offender on their release. However, the difficulty is that you cannot force an offender to turn up to appointments after they have been released.

**Housing offenders on their release from prison**

We asked the Minister about housing offenders on their release from prison. The Minister said that the number of houses or housing placements provided has increased from 200 to 900.

We heard that a development outside the wire at Spring Hill Prison is used as transitional housing and that Corrections is considering developing similar options at other prisons. A public protection order facility provides housing for people who are at high risk of causing harm.

**Requirements of the Parole Board**

Some of us had heard complaints from prisoners about the Parole Board requiring prisoners to do courses, prisoners not being able to do the courses for whatever reason, and this resulting in them not getting parole.

The Minister said that she could not comment on decisions made independently by the Parole Board. The chief executive of Corrections said that the Parole Board makes decisions about whether to release people or not.

These decisions involve assessing a person’s risk, and it would not simply be a matter of whether or not they did a course. We heard that there are a range of reasons why people do not always complete courses of study, including their ability to engage.

We heard that, since 2007/08, the number of prisoners in education has increased from 1,000 to 3,500 people, with 4,500 prisoners achieving qualifications.

**Getting prisoners into employment**

We discussed the employer breakfasts that are being held to get prisoners into employment. The Minister said that these breakfasts are an important way of talking to
employers about opportunities to employ offenders either on their release to work or once they have left prison.

We heard that the response has been fantastic and that Corrections has signed more than 100 memoranda of understanding with employers. The Minister said that the stability that employment offers is a critical part of an offender’s future.

We would be interested in attending an employer breakfast after the election.

**Corrections Inspectorate enhanced**

We asked whether the operation of the Corrections Inspectorate will be enhanced. We heard that the number of inspectors has increased and that it will now conduct proactive inspections. This means that each prison will be scheduled for an inspection once every 20 months and earlier if issues emerge. We heard that the Ombudsman may visit prisons at any time, unannounced.

The inspectorate will share good practices among prisons, and its reports will be published on the Corrections website. The Minister said that her message to Corrections is that she expects greater levels of openness and transparency about what happens in our prisons.

We asked about the number of inspectors, the breadth of their work, and the correlation between the inspectorate and visiting justices. The chief executive of Corrections said that the number of inspectors has doubled.

The inspectors will look at all aspects of the prison and provide practical advice, which will be published. Janis Adair has been appointed Chief Inspector, and she will begin in July.

We heard that visiting justices regularly arbitrate on matters involving penalties applied to prisoners, misconduct, and segregation arrangements. They provide a level of independence about prisoner welfare and the arbitration of penalties or punishments.

The chief executive told us that he will chair a prisoner welfare and governance board. The board, which contains two independent members, will work with the Corrections executive team. It will provide greater oversight of welfare-related issues for prisoners and make sure that their rights and rehabilitation are being well managed.

We asked the Minister whether she has considered establishing an independent inspectorate, such as those in the United Kingdom, Canada, and most Australian States. We suggested that having an external body would give the public and the prisoners more confidence.

The Minister said that Cabinet decided on the enhanced inspectorate at the end of last year although an independent option was carefully considered. She is satisfied that the enhanced inspectorate is a good option and will see how it is working in six or 12 months’ time.

Some of us are disappointed that a request to meet with the Corrections Inspectorate about a year ago was declined. We asked whether this will change now. The chief executive said that, because inspectors are public servants, it is easier for him to meet with members of Parliament (MPs).

**Members of Parliament visiting prisons**

We pointed out that section 161 of the Corrections Act 2004 provides for MPs to visit prisons whenever they consider it appropriate. We asked the Minister whether she has issued instructions to any prison managers about MPs visiting prisons and whether prison
directors have been given discretionary power to decide whether any particular MP can or cannot visit, and for how long.

The Minister said that she recognises that it is an important part of an MP’s role to advocate on behalf of their constituents and that she expects them to do this. She also said that she expects the prison environment to be safe for a visiting MP and prison staff, and that she wants to make sure that prison visits are efficient and effective. The previous Minister of Corrections wrote to MPs asking them to advise when they intend to visit.

However, the Minister said that MPs can turn up to a prison any time they wish and wait until the prisoner is brought to them. She also said that there is a responsibility to not disrupt a prisoner’s participation in a therapy or education programme.

When we asked whether a prison director could decide that an MP would have 30 minutes to visit, the Minister said that she trusts prison directors to make decisions in the interests of safety of their sites, the visitors, and their need to run a prison. Some of us were not satisfied with the answer.

**Effect of additional police officers on capacity in prisons**

We asked the Minister whether she anticipates that the additional 880 frontline police officers being provided as part of the Safer Communities package will put pressure on capacity in prisons. If so, we wanted to know how Corrections plans to deal with this.

The Minister said that, when the additional police officers were announced earlier in the year, funding was set aside for more Corrections staff. The Minister spoke about the recruitment drive seeking to attract a balance of new Corrections officers and experienced staff from overseas. She said that she has been to several graduations and was impressed by the new recruits.

The Minister said that there is already a programme to provide for additional prison capacity. We asked how the $763 million for capacity in prisons is to be spent. The Minister said that the bulk of it is to be spent over four years on redeveloping Waikeria Prison to provide 1,500 beds.

**Increasing the number of Māori prison officers**

We pointed out that Māori make up 51 percent of the prison population but only 15 percent of the general population. We asked whether Corrections is attempting to increase the number of Māori prison officers from 22 percent.

The Minister said more Māori prison officers are being recruited and that the number of Māori prison managers has doubled during the last decade. We heard that Corrections is trying to lift the numbers of Māori applying to work in prisons. With Māori making up 22 percent of its staff, Corrections is well above most organisations in New Zealand.

**Whare Īranga Ake**

We asked about the success of Whare Īranga Ake, a programme for training and repatriating prisoners to life outside prison. The chief executive said that he thinks the concept is great and that there is potential to go further with these programmes.

The Minister said that there is also engagement at ministerial level with iwi, and a willingness and acknowledgement that collectively we need to do more.
We asked whether there is potential to spread kaupapa Māori further in prisons. The Minister said that Ngāwhā prison was set up with kaupapa Māori at the core. Some of us questioned whether this philosophy is still as strong as it was when the prison was set up.

**Providing for prisoners’ medical needs**

Some of us are aware of situations where prisoners say they have been denied medical attention in prison. We wanted to know what is being done to make sure that prisoners’ medical needs are taken seriously and that they get the treatment they need.

The Minister said that she would be concerned about any cases of prisoners being denied medical attention. She also said that any such concerns should be raised with the chief executive of Corrections.

We heard that prisons are well served by medical teams that provide comprehensive primary healthcare and that recent developments include end-of-life care. Where necessary, prisoners are referred to outside hospitals for treatment. The Minister said that she is confident that, in most cases, prisoners’ physical and mental healthcare needs are attended to.
Appendix

Committee procedure
We met on 13 June and 5 July 2017 to consider Vote Corrections. We heard evidence from the Minister of Corrections, Hon Louise Upston, and the Department of Corrections. We received advice from the Office of the Auditor-General.

Committee members
Kanwaljit Singh Bakshi (Chairperson)
Maureen Pugh
Mahesh Bindra
David Clendon
Ian McKelvie
Stuart Nash
Lindsay Tisch
Aupito William Sio
Jonathan Young
Kelvin Davis replaced Stuart Nash for this item of business.

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Corrections, prepared by committee staff, dated 29 May 2017.
Office of the Auditor-General, Briefing on Vote Corrections, dated 13 June 2017.
Minister of Corrections, Response to standard Estimates questionnaire received 26 May 2017.
Minister of Corrections, Response to additional questions received 9 June 2017.
Minister of Corrections, Response to post-hearing questions received 30 June 2017.
The following publications:

- Change Lives Shape Futures: Investing in Better Mental Health for Offenders
- Change Lives Shape Futures: Reducing Re-offending Among Māori
2017/18 Estimates for Vote Justice and Vote Courts

Report of the Justice and Electoral Committee

Contents

Recommendation 2
Introduction 2
Improving New Zealand courts 3
Reducing reoffending 5
Funding community law centres 6
Appendix 7
Vote Justice and Vote Courts

Recommendation

The Justice and Electoral Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Justice and Vote Courts, as set out in Parliamentary Paper B.5, Vol.7, be accepted.

Introduction

The Minister of Justice and Minister for Courts, Hon Amy Adams, is responsible for the appropriations in Vote Justice and Vote Courts. The Ministry of Justice administers both Votes.

Vote Justice

The total annual and permanent appropriations for Vote Justice in 2017/18 are $519.97 million. This is a decrease of $80.576 million (13.4 percent) from the estimated actual expenditure of $600.546 million in 2016/17.

The specific appropriations sought for 2017/18 are:

- $78.214 million for total departmental capital expenditure, which is $108.203 million less than estimated actual expenditure in 2016/17. This decrease is because of changes to the timing of the ministry’s capital works programme and the completion of the Christchurch Justice and Emergency Services Precinct building project in 2016/17.

- $291.167 million for total non-departmental output expenditure, which is $42.69 million more than estimated actual expenditure in 2016/17. This increase is mainly because of funding for the 2017 General Election and the 2018 Māori Electoral Option, two new initiatives to help reduce burglary and youth offending, and additional funding for legal aid expenditure.

- $134.412 million for total departmental output expenses, which is $12.808 million more than estimated actual expenditure in 2016/17. This increase is mainly because of increased funding to extend the Integrated Safety Response to Family Violence pilot for two more years.

- $16.177 million for total non-departmental other expenses, which is $27.871 million less than estimated actual expenditure in 2016/17. This decrease is mainly because of one-off payments in 2016/17.

Vote Courts

The total annual and permanent appropriations sought in 2017/18 are $716.385 million, which is an increase of $2.135 million (0.3 percent) from the estimated actual expenditure of $714.25 million in 2016/17.

The specific appropriations sought for 2017/18 are:
2017/18 ESTIMATES FOR VOTE JUSTICE AND VOTE COURTS

- $455.914 million for departmental output expenses, which is $17.797 million more than estimated actual expenditure in 2016/17. This increase includes funding for additional security personnel, work with other agencies on investment in policing, the review of family violence legislation, the operating costs of the Christchurch Justice and Emergency Services precinct, and the capital and depreciation for the Dunedin court house.

- $260.471 million for non-departmental other expenses, which is $15.662 million less than estimated actual expenditure in 2016/17. This decrease is mainly because of the impairment of the fines receivable appropriation, which is $10.492 million (down $19.048 million from estimated actual expenditure in 2016/17).

Improving New Zealand courts

Reviewing the 2014 Family Court law reforms

In 2014, the Government introduced reforms to the Family Court aimed at helping parents to reach agreements about care of children arrangements outside the court system. The ministry has just started reviewing the effect of these reforms on the Family Court.

We are very interested in the outcome of this review and asked the Minister whether the public would have an opportunity to make submissions. The Minister said that it was too early in the process to say but that it would be considered if the review identifies significant issues.

In June 2017, the Backbone Collective published its report “Out of the frying pan and into the fire”.1 The report contains the Backbone Collective’s findings after it conducted a survey of 612 women who had experienced domestic violence, 496 of whom had been involved in Family Court proceedings. The report concluded that the majority of women who completed the survey did not feel safe during the Family Court process.

The Minister said that, although the ministry will consider the report as part of the review, she was hesitant to draw widespread conclusions about the practices of the court based on this one report.

The Minister noted that much of the report focused on the conduct of the judiciary and wanted to clarify that the judiciary is constitutionally separate from the executive. It is not the Minister’s role to comment on the way judges run their courts, roster cases, or make decisions about those cases.

The review will focus on the effect of the 2014 reforms, not the judiciary’s decision-making process. We look forward to the outcome of the review.

Alcohol and Other Drug Treatment Court

The Alcohol and Other Drug Treatment (AODT) Court, which sits at the Auckland and Waitakere District Courts, is a pilot scheme that began in November 2012. It is designed to help offenders whose offending is considered to have been driven by their alcohol or drug dependency.

Offenders are selected and agree to take part in the court’s treatment programmes and rehabilitation support services before they are sentenced. Their progress is factored into their sentencing.

1 The report can be found at http://bit.ly/2whLc0
We visited the Auckland AODT Court in 2016 and were extremely impressed with the court’s work.

The pilot, which was supposed to last for five years, has been extended for three more years. Given the success of the pilot, which indicates that participants’ short-term recidivism rates have decreased by 15 percent, we asked why a further three-year trial was needed.

The Minister agreed that there is strong evidence that the AODT Court is a successful model. However, she pointed out that only 42 of the 377 offenders in the programme have graduated so far. This means that there has not been enough time to calculate the effects of the pilot on long-term recidivism rates or to analyse why some offenders drop out of the programme early.

The Minister said that she wanted the AODT Court to continue its work with full funding while this analysis continues. We strongly support the work of the AODT Court and look forward to the results of this analysis.

Rangatahi Courts

Rangatahi Courts are marae-based youth courts that focus on young Māori but are open to all youth offenders. We heard that recidivism rates for young Māori have reduced by 14 percent compared with other matched youth offenders. The Minister was positive about this result, noting the importance of a justice system that is meaningful and helps offenders to take responsibility for their behaviour.

We remain concerned about the overrepresentation of Māori within the justice system, and we follow the work of the Rangatahi Courts with interest.

Victims’ perspectives during the court process

We asked how engaging in specialist court processes, iwi and community justice panels, and restorative justice conferences affect the victims of crimes. The Minister agreed that it is critically important that victims feel that they have been understood, and that offenders confront their behaviour and take responsibility for their actions.

We heard that 84 percent of the victims surveyed in the 2016 Restorative Justice Victim Satisfaction Survey were satisfied with the results of the restorative justice conference they participated in. The Minister thanked the Chief Victims Adviser for keeping her well informed about victims’ perspectives when completing these initiatives.

The Minister made the point that, although the role of the victim is paramount and current legislative reforms primarily focus on ensuring the safety of victims, the best thing that can be done for future victims is to prevent crimes. This is why it is important to focus on offender rehabilitation as well as victim safety.

Although we agree that rehabilitating offenders to prevent further crime is critical, we consider that this must be carefully balanced with protecting victims who have already suffered from offending.

---

Increasing frontline police staff and the effect on the New Zealand court system

In April 2017, the Police Commissioner announced that 880 new frontline police staff will be based throughout New Zealand. We asked the Minister whether this will lead to an increased workload for the court system and whether she was confident that the system is resourced well enough to cope.

The Minister agreed that an increase in the Police is likely to lead to an initial increase in charges. However, she noted that the visibility of the Police can deter crime. Offending is expected to decrease over time as those working within the justice sector, including the Police, implement strategies that focus on preventing crime.

Initiatives to speed up the resolution of court cases

Going through the New Zealand court system can be a time-consuming process. For example, we heard that, on average, it takes 266 days to resolve a care of children application. We asked the ministry what it is doing to speed up the resolution of court cases.

We heard that the ministry is working to improve timeframes for the court system, including extensive work with the judiciary, who manage case scheduling and rostering. Each part of the court process is analysed, and timeframes between different courts with comparable cases are compared.

We heard that there has been a particular increase in category 3 cases, as well as the number of adjournments sought over different types of cases. The Minister acknowledged that there is also a need to work with both prosecution and defence lawyers so that they understand the effect that delaying their cases has on the overall court system.

Reducing reoffending

Better public services target—reducing reoffending by 25 percent by June 2017

In 2012, the Government announced that one of the better public services targets for reducing crime was to reduce prisoner reoffending by 25 percent by June 2017. We asked the Minister whether this goal has been reached. The Minister said that, in 2016, the reoffending rate decreased by only 4.4 percent.

Although the Minister agreed that this rate is much less than the 25 percent target, she pointed out that the number of reoffenders has decreased by 26 percent since 2012. This means that fewer offenders are committing crimes, which makes it harder to decrease the reoffending rate.

We are pleased that the number of reoffenders has decreased, but we consider that further work needs to be done towards decreasing the overall rate of reoffending.

Reducing Māori reoffending

Even though Māori make up 15.8 percent of the population, Māori offenders make up half of the offender population.

---


2017/18 Estimates for Vote Justice and Vote Courts

The ministry is working with Corrections and the Police to reduce Māori reoffending by 25 percent by 2025. This strategy will be supported by $10 million ring-fenced from the Justice Sector Fund and a joint bid for an innovative services model based on Nga Hau E Wha National Marae. There are ongoing discussions with iwi groups and Māori advisory panels about remand-based housing options to reduce the numbers of Māori prisoners in remand.

The Minister was positive about the initiative and said that, since 2010, Māori youth offending has decreased by 38 percent and Māori adult offending has decreased by 23 percent. This shows the beneficial influence of specialist courts and restorative justice processes such as the Rangatahi courts, and iwi and community justice panels.

Māori are also overrepresented in family violence offending, so the Minister considers that the wider family violence and gang strategy to support families and whānau will play a significant part in meeting the target to reduce Māori reoffending.

Reducing youth reoffending

The 2017 Budget provides $13.9 million over four years for the ministry in collaboration with the Police to reduce reoffending, with a particular focus on young offenders. The funding will provide for youth mentoring, mental health initiatives, and intervention services such as cognitive behavioural therapy and functional family therapy.

The funding will be targeted at young offenders aged 14 to 16 years in the serious, high risk offence bracket. This is because these offenders are predicted to each commit an average of 10 offences during their lifetimes. The Minister was positive about the evidence, which suggests that, if these offenders can rehabilitate their behaviour at a young age, the likelihood of reoffending could reduce significantly.

Funding community law centres

Community law centres provide legal advice to people who cannot afford private lawyers. They play an important part in ensuring that all New Zealanders have access to justice.

Community law centres are funded partly by the Government and partly from the interest on money held in lawyers’ trust accounts. We asked whether this funding model is sustainable, particularly for regional community law centres that have a smaller volunteer support base.

The Minister is comfortable that the level of funding is secure but reiterated that the legal profession has an important role to play in supporting community law centres. The Minister and Associate Minister are discussing options with the New Zealand Law Society about opportunities for the legal profession to better support community law centres.
Appendix

Committee procedure
We met on 13 June and 6 July 2017 to consider Vote Justice and Vote Courts. We heard evidence from the Minister of Justice, Hon Amy Adams, and the Ministry of Justice, and received advice from the Office of the Auditor-General.

Committee members
Sarah Dowie (Chairperson)
Jacinda Ardern
Chris Bishop
Paul Foster-Bell
Marama Fox
Jono Naylor
Denis O’Rourke
Maureen Pugh
Metiria Turei
Louisa Wall
Metiria Turei was replaced by David Clendon for this item of business.
Jacinda Ardern was replaced by David Parker for this item of business.

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:
Office of the Auditor-General, Briefing on Vote Justice, received 13 June 2017.
Office of the Auditor-General, Briefing on Vote Courts, received 13 June 2017.
Vote Justice, standard Estimates questionnaire responses, received 1 June 2017.
Vote Justice, supplementary Estimates questions responses, received 13 June 2017.
Vote Courts, standard Estimates questionnaire responses, 1 June 2017.
Vote Courts, supplementary Estimates questions responses, 13 June 2017.
Vote Justice and Vote Courts, responses to post-hearing questions, received 6 July 2017.
2017/18 Estimates for Vote Police
Report of the Law and Order Committee

Contents
Recommendation 2
Introduction to Vote Police 2
Recruiting Māori police officers in Northland 2
Options to increase Police resourcing 2
Resolution of property crime and crime against the person 3
Price and supply of methamphetamine 4
Addressing family violence 4
Recovering more proceeds of crime 4
Funding for road policing 5
Appendix 6
Vote Police

Recommendation

The Law and Order Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Police, as set out in Parliamentary Paper B.5, Vol.7, be accepted.

Introduction to Vote Police

The Minister of Police is responsible for the appropriations in Vote Police, which is administered by the New Zealand Police.

The total appropriations sought for Vote Police in 2017/18 are $1.767 billion. This is a 3.5 percent increase of $60.456 million from the estimated actual expenditure in 2016/17 of $1.706 billion.

Most of the additional funding, $45.459 million, is sought to deliver the 2017/18 portion of the Safer Communities package, which includes provision for:

- an additional 1,125 staff over four years
- a new 24-hour phone number for non-emergencies
- 24-hour operation of the Eagle helicopter
- 12 mobile policing units.

Recruiting Māori police officers in Northland

We asked about the Police’s recruitment drive in Northland and heard that staff are meeting Māori communities on marae to talk about joining the Police. This innovative approach is designed to make people feel welcome and comfortable talking about their aspirations in a familiar environment. The Police will consider using the model throughout the country.

We heard that the Police aim for Māori to make up 25 percent of their staff. Iwi liaison officers, and 10 inspectors who are part of the district leadership teams, are focused on achieving the target throughout the country.

Options to increase Police resourcing

The Safer Communities package agreed to in Budget 2017 will provide an additional 1,125 Police staff (880 sworn officers and 245 non-sworn officers) over the four years to 2021. The package is estimated to cost $369 million during that period.

We discussed the “Prevention to change the trajectory of rising crime” package the Police put forward. This option would have provided an additional 1,460 staff (1,165 sworn staff and 295 non-sworn staff) and cost $555 million over four years. We asked why, when crime is increasing, this option was not agreed to, and the Police were given fewer resources.

The Minister said that the Police put forward three resourcing options. One of these asked for less than what the Police received, one asked for more, and a middle option asked for an additional 1,125 Police staff, which was the one chosen. We heard that Cabinet analysed
the three options, considering the targets that would be achieved for New Zealanders, and decided that the middle option would keep our communities safe.

We note that according to the answers to the supplementary and additional questions one bid was submitted and one bid was successful, and that this received less than 75 percent of the original amount sought. We are concerned about the cost to the community of the Police getting less than 75 percent of what they wanted.

The Minister said she has no doubt the Police are able to perform as New Zealanders would expect them to with the increasing numbers of Police staff.

Some of us are concerned that, if the Police do not have the resources they need, they will not be able to get on top of crime that saw 11,000 more victimisations last year than the previous year, mental health to the fore, and methamphetamine out of control.

Resolution of property crime and crime against the person

We discussed the need for there to be enough police officers to solve property crime and crimes against the person. The Police have increased their service level measure for home burglaries from 86 percent to at least 98 percent attendance at home burglaries within 48 hours by 2022. The Minister said that she is concerned that Police resources be deployed where they are needed and that setting targets helps focus the Police on achieving this.

We wanted to know why the resolution rates for property crime and crime against the person have not increased during the last three years. The resolution rate for crime against the person is 43 percent, and the rate for crime against property is 13 percent. We heard that, although the Police have started recruiting the additional staff provided for under the Safer Communities package, the first new recruits have not yet been taken on.

The commissioner said that the Police are focusing on catching offenders quickly, preventing crime, and providing a more responsive Police service.

Funding to prevent violent robberies

Some of us asked whether the $1.8 million for robbery prevention at dairies, superettes, and small local businesses is an admission that the Police cannot keep these business people safe. The Minister said that this funding is one of many initiatives to address aggravated robberies. These robberies have increased during the last 12 months, and the money will be used to make high-risk businesses safer.

However, the Minister said that more officers are being deployed to crime hotspots and that the Police now apprehend far more people than they did. In the past couple of months, the Police had arrested about 107 people in connection with aggravated robberies.

We heard that 44 percent of aggravated robberies are committed by young people aged 16 or 17 years and that almost 90 percent of the offenders are under 25 years of age. These crimes are often not planned and now have some notoriety, with young people keen to see themselves on Facebook or on CCTV, or to make it on to evening TV.

Operation Dukan to support business owners in dairies and alcohol retail

We asked what Operation Dukan is doing to help shopkeepers and heard that police officers who speak Hindi or Punjabi provide prevention advice and support to dairy and liquor store owners to “target-harden” their premises, who are over-represented as victims of aggravated robberies.
The police commissioner said that catching offenders, deterring them, and providing high-visibility policing in vulnerable areas helps people to feel safe in their communities.

**Price and supply of methamphetamine**

A document provided by the Police under the Official Information Act 1982 showed that the price of methamphetamine is stable and that the supply is not dropping despite seizures of the drug. We asked the Minister whether the Police are losing the battle against methamphetamine.

The Minister said that the amount of methamphetamine seized by the Police and the New Zealand Customs Service continues to increase. Although there are fewer labs in houses, those that exist are producing more. The Minister considers that, while the Police have to focus on supply, a campaign to inform young people of the evils of the drug is needed to address the demand side.

**Addressing family violence**

The Minister told us that, because 41 percent of Police callouts are to family violence incidents, an all-of-government approach to family violence is needed. This means working with other government agencies to address family harm overall. The police commissioner said that a ministerial oversight group on family harm and sexual harm is addressing family violence in a much more coordinated way than previously.

Family violence is at the centre of a lot of the issues the Police face, and they are working closely with partner agencies to develop early solutions.

**Family violence victim video interviews on scene**

In 2017/18, $221,000 will be made available from the Justice Sector Fund to produce and use family violence victim video interviews filmed at the scene of the violence. We asked for an update on this initiative, which was originally piloted in Palmerston North from November 2015 to July 2016.

We heard that regulations now provide for victim video interviews to be used as evidence in court. The funding in the 2017 Budget will be used to pilot the use of these videos in the legal system in the Counties-Manukau district, which has a high volume of family violence offences.

Presenting evidence to a court through a digital recording will avoid re-traumatising victims, and the Police anticipate more convictions as a result.

**Recovering more proceeds of crime**

The Police have updated their service level improvement measure for recovering the proceeds of crime. The measure has been increased from $230 million to $400 million of cash and assets to be seized from gangs and proceeds of organised crime over the next four years. We asked how this figure was arrived at.

The Minister said that the whole-of-government approach to gangs is now more sophisticated and includes a database of more than 5,000 predominantly patched members. Knowing who the gang members are, the Police are better able to recognise more of their criminal activity and to seize more of their assets.

The commissioner told us that, to dismantle organised crime, you need to deprive people of their liberties and their asset base. The $400 million is a “stretch target”, but seizing
assets is a very effective way of undermining individuals and groups involved in organised crime.

**Funding for road policing**

Funding for road policing will drop to $321.8 million in 2017/18 from $333.5 million in 2016/17. We asked whether we can be confident that resources will not be cut and whether performance targets can be met. The Minister said that a proposal earlier in the year to cut 26 vehicle safety officers would not happen because the New Zealand Transport Agency had provided funding to retain those specialist staff.

We heard that there is an ongoing debate about the balance between using technology and having police officers on the road. The Minister considers that face-to-face policing remains important, to maintain road safety and educate people at the same time.

We asked whether plans to cut 111 road policing officers would go ahead. The Minister said that some of those people have gone through attrition, so “it’s not so much that any of those people have been made redundant”.
Appendix

Committee procedure
We met on 6 and 28 June 2017 to consider Vote Police. We heard evidence from the Minister of Police, Hon Paula Bennett, and the New Zealand Police. We received advice from the Office of the Auditor-General, and the Office of the Clerk.

Committee members
Kanwaljit Singh Bakshi (Chairperson)
Mahesh Bindra
David Clendon
Ian McKelvie
Stuart Nash
Maureen Pugh
Aupito William Sio
Lindsay Tisch
Jonathan Young

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Police, prepared by committee staff, dated 29 May 2017.
Office of the Auditor-General, Briefing on Vote Police, dated 6 June 2017.
Minister of Police, Response to standard Estimates questionnaire for Vote Police.
Minister of Police, Response to additional questions for Vote Police.
Minister of Police, Response to post-hearing questions for Vote Police.
The documents that we received as evidence and advice for this Vote are available on the Parliament website, www.parliament.nz.
2017/18 Estimates for Vote
Serious Fraud

Report of the Law and Order Committee

Contents

Recommendation 2
Introduction 2
Resourcing to combat financial crime 2
Collaborating with international partners 2
System-wide approach to financial crime intelligence 3
Thresholds for investigation 3
Appendix 4
Vote Serious Fraud

**Recommendation**

The Law and Order Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Serious Fraud, as set out in Parliamentary Paper B.5, Vol 7, be accepted.

**Introduction**

The Minister of Police, Hon Paula Bennett, is responsible for the appropriations within Vote Serious Fraud, which is administered by the Serious Fraud Office.

The total appropriations sought for Vote Serious Fraud in 2017/18 are $10.960 million, a 13.6 percent increase from the estimated actual expenditure in 2016/17 of $9.645 million. This increase will help fund a new case and evidence management system and support New Zealand’s contribution to the International Anti-corruption Coordination Centre.

**Resourcing to combat financial crime**

The office told us that its new case management system will enable it to better manage its caseload and target its resources more effectively. It will also improve how evidence and documentation is stored. The office said that there will be less manual handling of evidence and improved search functionality. It expects that these improvements will help it to resolve investigations more quickly.

The office said that it was sufficiently resourced to meet the requirements of combating sophisticated financial crime. We were told that the office is seeing an increase in financial crime that benefits from advances in technology, such as document forgery. However, technological developments are also helping the office investigate and resolve these types of crimes more effectively.

**Collaborating with international partners**

The office reported that it maintains connections with international partners in financial crime enforcement, including the Economic Crime Agency Network, which it led the development of in 2012. The office also provides expertise and training to New Zealand’s Pacific partners, such as recent corruption investigations in the Cook Islands and Tonga, where it sent forensic accountants and trained the Cook Islands Financial Intelligence Unit.

The office reported that it has increased responsibilities for working with international partners to respond to bribery and corruption. These come as a result of:

- New Zealand's ratification of the United Nations Convention Against Corruption;
- the establishment of a network of Anti-corruption Authorities and Law Enforcement Agencies (ACT-NET) within APEC
- on-going work by the OECD in relation to the implementation of the OECD Convention on Combatting Bribery of Foreign Government Officials
supporting the International Anti-Corruption Coordination Centre, following commitments made at the UK Anti-Corruption Summit in May 2016.

**International Anti-Corruption Coordination Centre**

We were interested in hearing more about the International Anti-Corruption Coordination Centre. The office told us that the centre aims to combat “grand corruption”: that is, corruption capable of affecting a nation’s financial position. The centre will enable countries to develop a coordinated response to resolving this kind of financial crime. The office expected that there would be opportunities to better coordinate other international financial crime investigations as the centre developed.

As New Zealand trades more broadly and in countries where corruption is not policed as strictly, the office expects that New Zealand will be exposed to more corruption. We heard that New Zealand is attractive to some traffickers as a place to “clean” money, because of its reputation for integrity and transparency. However, New Zealand’s commitment to the centre demonstrates its seriousness about combating corruption, and it is well regarded in the international community.

**System-wide approach to financial crime intelligence**

We noted the office’s concern that a lack of a system-wide approach to financial crime is creating the opportunity for criminals to exploit gaps between agencies’ purviews. We asked the office what it was doing to promote a system-wide approach to financial crime intelligence. The office told us that it has held workshops to investigate a more joined-up approach to sharing and accessing intelligence between agencies. This work is only in the preliminary stages as the office explores the most effective way to share and manage information.

We also heard that the office is leading the development of a work plan to enhance New Zealand’s anti-corruption and integrity framework across a range of agencies including the Ministry of Justice, the New Zealand Police, and the State Services Commission. The work plan aims to develop a more complete picture of corruption in New Zealand with a view to informing a programme in response. We will monitor this progress with interest.

**Thresholds for investigation**

We wondered what happened to cases that were referred to the office, but did not meet its threshold requirements for investigation. The office said that its mandate is to investigate complex and serious fraud. In theory, it investigates fraud or the misappropriation of money that exceeds the value of a million dollars. However, it is vigilant in identifying systemic offending and corruption within the public sector. Where it identifies matters not within its jurisdiction, the office transfers the case to the relevant agency.
Appendix

Committee procedure
We met on 6 and 28 June 2017 to consider Vote Serious Fraud. We heard evidence from the Minister responsible for the Serious Fraud Office, Hon Paula Bennett, and the Serious Fraud Office. We received advice from the Office of the Auditor-General, and the Office of the Clerk.

Committee members
Kanwaljit Singh Bakshi (Chairperson)
Mahesh Bindra
David Clendon
Ian McKelvie
Stuart Nash
Maureen Pugh
Aupito William Sio
Lindsay Tisch
Jonathan Young

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Serious Fraud, dated 6 June 2017.
Minister of Police, Response to standard Estimates questionnaire for Vote Serious Fraud.
Minister of Police, Response to additional questions for Vote Serious Fraud.
Minister of Police, Response to post-hearing questions for Vote Serious Fraud.

The documents that we received as evidence and advice for this Vote are available on the Parliament website, www.parliament.nz.
2017/18 Estimates for Vote Arts, Culture and Heritage

Report of the Government Administration Committee

Contents
Recommendation 2
Introduction 2
The Regional Culture and Heritage Fund 2
Overall funding of Arts, Culture and Heritage appropriation 2
Radio New Zealand 3
First Encounters 250 4
The Pukeahu National War Memorial Park 4
Heritage New Zealand 5
Appendix 6
**Vote Arts, Culture and Heritage**

**Recommendation**

The Government Administration Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Arts, Culture and Heritage, as set out in Parliamentary Paper B.5, Vol.8, be accepted.

**Introduction**

The total appropriations proposed for Vote Arts, Culture and Heritage is $317.995 million. This compares with estimated actual expenditure in 2016/17 of $317.045 million.

The Vote is administered by the Ministry for Culture and Heritage. The Minister for Arts, Culture and Heritage, Hon Maggie Barry, is the responsible Minister.

The Vote provides funds to a wide range of Crown entities and non-government organisations in the arts, culture, and heritage sector, including the Museum of New Zealand Te Papa Tongarewa (Te Papa), the New Zealand Symphony Orchestra (NZSO), and the Royal New Zealand Ballet.

The Vote also provides funds to funding agencies: the Arts Council of New Zealand Toi Aotearoa (Creative New Zealand), the New Zealand Broadcasting Commission (NZ On Air), and the New Zealand Film Commission.

**The Regional Culture and Heritage Fund**

The Regional Culture and Heritage Fund (the RCHF) aims to benefit a range of cultural organisations throughout New Zealand: in the broader art gallery and museums sector, the performing arts, and the heritage sector. We were interested in whether the St James in Auckland had made any applications to the fund. The Minister informed us that no application had been made by the St James to the RCHF.

There are ongoing discussions taking place about whether the St James would fit the criteria for RCHF funding. The Minister said that complications have arisen because of the building’s ownership. The RCHF had been established to benefit buildings under public ownership; however, the St James is privately owned by Relianz Holdings.

The Minister did inform us that the St James has made a comprehensive formal application for the Heritage EQUIP (Earthquake Upgrade Incentive Programme). This application will be decided upon in the next few weeks.

The Minister said that changes to the funding eligibility criteria have enabled small places and institutions in New Zealand to ask for lesser amounts of money which go a long way.

**Overall funding of Arts, Culture and Heritage appropriation**

We asked the Minister whether she had any concerns over the funding levels of any of the areas or sectors which come under Vote Arts, Culture and Heritage. We were interested in those organisations which were directly funded by the Vote, such as the NZSO. The Minister said that the NZSO, the Royal New Zealand Ballet, and Te Matatini had benefited
significantly from the $11.4 million from last year’s budget, and that they had used these funds well.

**New Zealand On Air**

We asked about the funding given to NZ On Air, and whether it was sufficient to maintain local content. The Minister said that NZ On Air is doing very well. Through new initiatives NZ On Air has better developed its role. One of those new initiatives is the New Zealand Media Fund, which was introduced in September 2016 to create more efficient and streamlined staff processes. The Minister said that the fund has been an excellent initiative and has addressed challenges around local content.

The Minister said that NZ On Air is using its networks and partnerships with organisations, such as the New Zealand Film Commission and Television New Zealand (TVNZ), to start new initiatives. We heard about the example of YouthHub, an online resource created by TVNZ and NZ On Air. YouthHub is a free online platform aimed at empowering young people to bridge the gap between education and employment.

**The New Zealand Music Industry**

We asked the Minister whether she has any concerns with the funding of New Zealand Music. Currently, the amount of New Zealand content the public hears through channels such as radio is sitting at about 14 percent, below the 20 percent quota.

The Minister said that for commercial ratings, there is a need to play what people want to hear and that the government cannot direct what commercial radio stations play. We were also informed that there is huge disruption in the music industry, with youth increasingly accessing music online, not through radio. We heard that there were thoughts about beginning a review of the quota, to be conducted alongside the broadcasting sector.

The Minister said that organisations, such as Radio New Zealand (RNZ) and the New Zealand Music commission, are working hard to broadcast and help develop New Zealand musicians, and their capacity to go overseas. The issue of New Zealand musicians having to make it offshore before mainstream radio in New Zealand gives them airtime has always been an issue.

**Radio New Zealand**

We welcomed the additional $2.84 million per year RNZ would receive as part of Budget 2017.

In 2015/16, RNZ reported a net operating deficit of $4.7 million before tax and adjustments. We asked the Minister how RNZ would make up this net operating deficit. We heard that, as part of transforming its business, RNZ has been making a series of investments in technology that has resulted in them running at budget deficits. The funds from Budget 2017 will result in sustainable funding for RNZ, and it is not expected to run at the same levels of deficit.

We asked the Minister what plans she has to ensure she will get value for money from the additional funding from RNZ. The Minister was confident in RNZ because, in the years since its last budget increase, it has operated at a level which is highly commendable. It was also very specific in what it wanted funding for, which is why it was successful in its bid.

The extra funding will be spent on a greater regional presence and an extension of FM coverage, important when there are earthquakes and tsunami warnings. There will also be
new forms of content, more apps, more personalised access to RNZ’s website, equipment upgrades, and AM transmission to reach a broad range of New Zealand’s population will also be maintained.

**First Encounters 250**

First Encounters 250 is a national commemoration to mark the 250th anniversary of the arrival of the HM Bark Endeavour. We were interested in the estimated positive economic impact of the First Encounters 250 project, particularly on the regions which were landing points for Captain Cook and Tupaia, where the majority of commemorations will take place.

The Minister informed us that the commemorations had been given Tier 1 status. Tier 1 consists of anniversaries which are predicted to have a significant impact on the nation as a whole or on the pattern of New Zealand life. The Minister informed us that the positive economic impacts would become more apparent as the local plans are finalised. The Minister said that it is generally believed that the economic impacts will be significant because of tourism and the benefits to local business, which is why there has been a $10.5 million initial investment with probably more to come over the next three years. The commemoration aims to achieve a legacy in New Zealand and encourage tourism over the long term.

We were interested in the role that local iwi will play in the project. We were told that there were four landing site trusts, jointly chaired by one Pakeha and one Māori member. The Ministry for Culture and Heritage has also been engaging with local iwi directly on its site visits and has spent time at local marae. The ministry has been delivering the message that the intention is not just to commemorate Captain Cook, and that each landing site has a story to tell.

We asked who the main drivers of the commemoration were. We were told that this differs between each landing site. In some places the council is very involved and in other places it is community organisations or individuals.

The Minister is very enthusiastic about the event, and she stressed that the ministry has a lot of work to do for the commemorations to go smoothly. The Minister also said that the enthusiasm from the ministry is replicated by the communities around the four landing sites, particularly in Gisborne.

**The Pukeahu National War Memorial Park**

In the responses to written questions, the Minister stated that one budget bid had received funding that was only 55 per cent of what was originally sought. We were interested to know which budget bid this was. The Minister told us that this was Pukeahu National War Memorial Park.

The Minister outlined that the Park would receive $4.8 million worth of operating funding, over four years. These funds will be used for the ongoing maintenance of the memorials on the site and the wider educational opportunities which are on offer at the education centre.
Heritage New Zealand

Facilitating the transfer of properties to Heritage New Zealand

We were interested to know whether the requests to facilitate the transfer of Heritage Properties from the Department of Conservation to Heritage New Zealand had been successful.

We heard that 37 buildings are being transferred to Heritage New Zealand. The Minister said that there were many properties, including the Old Government Buildings and Turnbull House in Wellington, which naturally reside better with Heritage New Zealand. We commented that the transfer of Turnbull House to Heritage New Zealand made good sense.

National Policy Statement for Heritage New Zealand

We asked the Minister about whether she agreed with the idea of having a National Policy Statement on Heritage New Zealand. The Minister said that she was not certain that it would achieve any more than the latest review which had been completed. We were informed that the new Chief Executive is taking a broad base look at the role of Heritage New Zealand and the way it can support the regions.
Appendix

Committee procedure
We met on 21 June and 5 July 2017 to consider Vote Arts, Culture and Heritage. We heard evidence from the Minister of Arts, Culture and Heritage, Hon Maggie Barry, and the Ministry for Culture and Heritage, and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Barry Coates
Matt Doocey
Paul Foster-Bell
Hon Nanaia Mahuta
Hon Scott Simpson

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Arts, Culture and Heritage, received 21 June 2017.

Minister for Arts, Culture and Heritage, Response to standard Estimates questionnaire.

Minister for Arts, Culture and Heritage, Responses to supplementary standard Estimates questions, received 19 June 2017.

Minister for Arts, Culture and Heritage, PowerPoint presentation, received 21 June 2017.

Minister for Arts, Culture and Heritage, Responses to post-hearing questions, received 4 July 2017.
The Government Administration Committee has examined the 2017/18 Estimates for Vote Internal Affairs and recommends that the appropriations in respect of Vote Internal Affairs for the year ending 30 June 2018, as set out in Parliamentary Paper B.5, Vol.8, be accepted.

Hon Ruth Dyson
Chairperson
Ngā utunga ā-tau 2017/18 mō te Pōti Whanaketanga Māori

Pūrongo a te Komiti o Ngā Take Māori

Ngā Ihirangi

Tūtohunga
Kupu Whakataki
Te āheinga me te kaha o Te Puni Kōkiri
Whānau Ora
Whenua Māori
Whare
Whakapapa
Āpitihanga

2
2
2
3
4
4
5
7
Te Pōti Whanaketanga Māori

Tūtohutanga

E tūtohu ana te Komiti o Ngā Take Māori kia whakaaeta ngā pūtea motuhake mō te tau mutunga o te 30 o Pipiri, 2018 mō te Pōti Whanaketanga Māori, e ai ki te Pepa Pāremata B.5.

Kupu Whakataki

E whakahaerehia ana te Pōti Whanaketanga Māori e Te Puni Kōkiri. Kei te Minita Whanaketanga Māori te kawenga mō te pūtea motuhake ā-tau i roto i te Pōti.

Ko te pūtea motuhake ā-tau tapeke mō te Pōti Whanaketanga Māori i te 2017/18 he $312.93 miriona. He pikitanga tēnei o te 0.6 ōrau mai i tētahi whakapaunga tūturu i whakaritea o te $310.926 miriona i te 2016/17.

Tekau mā rima ngā kōkiritanga kaupapa here hou, tae atu ki ngā pūtea tāpiri, pūtea hou hoki o te $2.5 miriona i ia tau mō Whānau Ora, tata ki te $5 miriona i ia tau mō ngā kaupapa whare Māori, me ngā pūtea hou o te $6.5 miriona hei tautoko i te whakarauoratanga o te reo Māori i te 2017/18.

E rua anō ngā pūtea motuhake ā-tau wāhanga-maha hou:

- Tukatutanga me ngā Haumitanga ā-rohe: he $35.580 miriona mō te whakahaere i ngā kaupapa haumitanga hāpori i roto i ngā rohe me te mahi me ngā iwi, hapū, whānau hoki

- Tohutohu Kaupapa Here me ngā Huanga Pātata: he $18.607 miriona hei tuku tohutohu kaupapa here me te tautoko i ngā Minita.

Te āheinga me te kaha o Te Puni Kōkiri

Kua tino piki rawa te pūtea motuhake i roto i te Pōti mā te 60 ōrau i ngā tau e rima kua hipa, mai i te $195.803 miriona i te 2012/13 ki te $312.93 miriona i te 2017/18.

Nā te pikitanga o ngā whakapaunga kua piki ngā mahi mā Te Puni Kōkiri (TPK), oti rā mō te whakarato kaupapa, te aroturuki i te mahinga a rōpū kē, me te arotake, te tātari, me te tuku pūrongo mō te mahinga a ngā kaupapa me ngā kōkiritanga matua.

Te rata o te Minita ki ngā tohutohu kaupapa here

I roto i tā mātau pūrongo o te arotake ā-tau 2015/16 i a TPK, i kōrero mātau mō te 4.1 ōrau o te rata o te minita ki ngā tohutohu kaupapa here, ā, kei raro rā anō tēnei i te ūnga o te 70 ōrau. I pātai mātau ki te Minita mēnā i te rata ia ki ngā tohutohu kaupapa here a TPK i te 2016/17.

Ko te kōrero a te Minita he tino teitei ōna tūmanako mō TPK, ā, kei te kōrero rero tonu ia ki te tumuaki mō te paerewa e tūmanako ana ia. I kōrero ia mō ana whakatauranga teitei mō ngā kaupapa matua pēnei i te whenua Māori, te reo, me ngā whare mō ngā whānau mā te Kotuitanga Kāinga Māori.

I kī mai te Minita ka whai whakaaro ia ki ēnei whakatauranga i roto i tana arotake i te pito o tēnei tau pūtea. Ka tāria atu ngā otinga o te arotake.
Ngā tari ā-rohe o Te Puni Kōkiri

Ka āta whakamahia ngā pūtea motuhake o te Tukatutanga me Ngā Haumitanga ā-rohe hei āwhina i ngā tari ā-rohe o TPK ki te whakarato i ngā kaupapa me te whakawhitihiti me ngā āwhi, hapū, whānau hoki.

Kei te mōhio te Minita ki te hīra o te whakawhitihiti a TPK me ngā hapori kia noho mōhio ai te Māori ki ngā māhi a TPK, ka mutu, me te tuku whakaaro atu i roto i te rohe. E tautoko ana mātānui i te whanaketanga a TPK i ngā rohe, ā, ka whaiwhai haere i tō rātau anga whakamua.

Te mahi arotake o Te Puni Kōkiri i ngā tari kāwanatanga kē

Ko tētahi mahi a TPK he arotake i te āhua o te whakarato ratonga a ētahi tari kē ki te Māori. I whakarohia e te Minita tēnei, ahakoa he mahi hira tā TPK ki te arotake i ēnei tari, ko te mea pai rawa, me whai noa ngā tari kāwanatanga katoa i ngā mātāpono o Te Tiriti o Waitangi, ā, kia kaua e riro mā te TPK rātau e akiaki haere ki te ara tika.

E whakaae ana mātānui ki te wawata o te Minita me ū noa ngā tari kāwanatanga katoa ki ngā mātāpono o Te Tiriti o Waitangi mō te tuku ratonga ki te Māori, ā, kia kaua e akiakihi e TPK. Engari, ko tā mātānui, kia tutuki rā anō tēnei, he tino hira te mahi a TPK ki te arotake me te aroturuki i ēnei tari.

Whānau Ora

Ngā pūtea tāpiri mō Whānau Ora

I te 2017/18, he pūtea o te $71.481 miriona i riro mai he whakatutuki i ngā putanga Whānau Ora. Kei roto i te tēnei pūtea hou ko te $10 miriona i roto i te whā tau ($2.5 miriona i te tau) i raro i te kaupapa here Whānau Ora—Kia Tipu te Whātoro (Whānau Ora).

Ka whakamahia ēnei pūtea kia wātea mai ai ngā ratonga ā-whānau ki ngā whānau atu ki te 2,500 tāpiri i roto i te whā tau, me te aro ki te whakapiki i ngā tautoko ki ngā whānau kei te raruru.

Ngā rangapū Whānau Ora

He pūtea ā-tari o te $4.749 miriona mā TPK he whakawhanake, whakahaere, me te arotake i te Whānau Ora, me te tautoko, whakahaere hoki i ngā kirimana a ngā rangapū Whānau Ora e toru (Te Pou Matakana, Te Pūtahitanga o Te Waipounamu, me Pasifika Futures).

He 14 ōrau te iti ake o te ēnei pūtea ki ngā whakapaunga tūturu i whakaritea o te $5.495 miriona i te 2016/17, i te mea kua whakawhitia ētahi pūtea ki te pūtea motuhake Tukatutanga me ngā Haumitanga ā-rohe hei whakaata i ngā māhi tau te tautokō o ngā tari ā-rohe o TPK i a Whānau Ora.

Ko te Pūnaha Hua o Whānau Ora (Whānau Ora Outcomes Framework) te inenga matua o te angitu o Whānau Ora. E whitu ngā putanga o te pūnaha mō ngā whānau:

- te whakahaere-whaiaro
- te noho hauora
- te tino whakauru mai ki te āwhi whānui
- kia ngākau titikaha te whakauru mai ki Te Ao Māori
- he toitū ā-pūtea me te anga whakamua i roto i ngā māhi whakatipu rawa
• he mārama, he pakari, he ngākau poipoi
• he kaitiaki i te taito ora, tūturu hoki.

I rongo mātau kei te tino anga whakamua ngā rangapū ki te whakatutuki i ēnei putanga, ka mutu kei te rata te Minita ki tā rātau mahinga. Hei tauira, 1,014 ngā whānau i roto i te 1,591 i whakatau ko te whare noho he kaupapa matua mō rātau kei te noho i roto i tētahi whare parecārai nā te whakaurunga atu o Te Pou Matakana.

Kei te pai ki a mātau tēnei anga whakamua, ā, ka tāria atu ngā painga atu anō mō ngā whānau.

Pasifika Futures
E tautoko ana a Pasifika Futures i ngā whānau o Te Moananui-a-Kiwa hei whakatutuki i ō rātau wawata hauora, whare noho, whakangungu, me te whanaketanga ōhanga.

I pātai mātau ki te Minita he aha i taka mai ai a Pasifika Futures ki raro kē i a Whānau Ora, kaua i Te Manatū mō Ngā Iwi o Te Moananui-a-Kiwa. Ko te kōrero mai kei te pai te mahi a Pasifika Futures i raro i a Whānau Ora engari ā tōna wā, ka noho pea a Pasifika Futures ki raro i Te Manatū mō Ngā Iwi o Te Moananui-a-Kiwa.

Whenua Māori

Te Ratonga Whenua Māori

Ina whakamanahia, ka whakatūhia e Te Pire o Te Ture Whenua Māori te Ratonga Whenua Māori hei āwhina i ngā ariki whenua Māori me te rēhita whenua, te whakahere me te whakatipu kaha, te whakatau raruraru, me te whakamahi whenua. Kei roto i te pōti ko tētahi pūtea motuhake o te $1.796 miriona hei whakatū, hei whakahere hoki i te Ratonga Whenua Māori.

Ko te kōrero mai kei te whirinaki atu te pūtake pakihi mō te Ratonga Whenua Māori ki te whakamanatanga o Te Pire o Te Ture Whenua Māori. Kei te whakariterite a TPK i ngā whakaritenga iti rawa o te pire i tēnei wā hei whakarite ka whakatutukihi ngā wawata o ngā whānau i puta i ngā wānanga. Ko te tikanga ka tuku pūrongo atu a TPK ki te Rūnanga Minita mō te pūtake pakihi e pā ana ki te Ratonga Whenua Māori ā te Whiringa-ā-rangi 2017.

I pātai mātau he aha ngā tūpono mōreatanga ka ara pea i te whakatinanatanga o te Ratonga Whenua Māori, ā, ka pēhea te ārai a TPK i ēnei mōreatanga. Ko te kōrero mai he kaupapa panoni nui kei roto i te whakatūanga o te Ratonga Whenua Māori, ā, he maha ngā rerenga mahi matatini. Kua whakahaeretia he arotake whakaūi kounga motuhake i te kaupapa Ratonga Whenua Māori, a, kei te whakarite me ētahi atu tari kāwanatanga hei ārai i ēnei mōreatanga.

I pātai mātau ka pēhea te ine i te whaitake o te Ratonga Whenua Māori. Ka arotaketia te Ratonga Whenua Māori i te ekenga o te rima tau mai i te whakatūtanga. Ko aro te arotake ki te āhua o te whakarato a te Ratonga Whenua Māori i ngā painga ki ngā ariki whenua Māori.

Whare

Ko te tapeke pūtea mō ngā kaupapa whare Māori i te 2017/18 he $22.191 miriona, he hekenga o te 4.972 ēruru tenei mai i te whakapaunga tūturu i whakaritea o te $23.352 miriona i te 2016/17.
Ko He Huarahi Ki Te Whare te pūtea motuhake tau-maha hou o te $8.3 miriona hei utu i ngā pūtea whare Māori atu ki te 30 o Pipiri 2020. Ko te whāinga o tēnei pūtea motuhake he whakaui ake i te tokomaha e whiwhi whare ana, ā, kia nui ake te rangatiratanga a-whare mō ngā whānau.

Ahakoa kei te tautoko mātau i tēnei pūtea motuhake hei āwhina i ngā whānau e pā ana ki ngā whare, i pātai mātau ki te Minita mēnā ka mahue ngā whānau i ētahi atu āwhina kāwanatanga mō te whiwhi whare. Ko te kōrero mai a te Minita ka mahi tahi a TPK me ngā whānau kia mātua mōhio rātau ko ēhea ngā pūtea hei toho mā rātau.

I pātai mātau e hia ngā whare kua hangaia e ngā kaupapa whare Māori. Ko te kōrero a te Minita eharā nō TPK ake me mahi tahi atu kaupapa whare Māori me te rongonui i ngā whānau i ētahi atu kāwanatanga he whakapai ake i te whare Māori.

I rongo mātau, i te tau pūtea o tērā tau, e 22 ngā whare whaiutu kua whiwhi pūtea ki te whakatū, ā, 136 ngā whare whānau kei te whakapakari a TPK kia tino whai hua ai te whiwhi whare a te Māori. I whakaahū anō te Minita i tēnei kāwanatanga kia pātai whare Māori kei te rongonui o tēnei whiwhi whare ā-ahurutanga tūturu me te whiwhi whare ā-ahurutanga mō te whiwhi whare a te Māori.

Ahakoa he pai ngā kōrero a te Minita mō ngā kaupapa whare Māori, e mārama ana tana kōrero me kaha anō ngā tautoko a ētahi atu tāpiri tāpiri tëtehina kia tino whai hua ai te whiwhi whare a te Māori. I whakaahū anō te Minita i tēnei kāwanatanga a Māori kei te rongonui o tēnei whiwhi whare ā-ahurutanga tūturu me tōna whanau i tēnei whiwhi whare ā-ahurutanga tūturu me te whiwhi whare a te Māori.

I kōrero te Minita mō te ngau o te marae mō ngā marae ki te hunga Māori 12,754 e noho ana i roto i te marae Māori. I whakaahei anō te Marae Ora kia whakatū i tēnei whiwhi whare ā-ahurutanga a Māori, ā, whakatū i tēnei whiwhi whare ā-ahurutanga a Māori, ā, whakatū i tēnei whiwhi whare ā-ahurutanga a Māori, ā, whakatū i tēnei whiwhi whare ā-ahurutanga a Māori.

E whakaahū anō te Marae Ora kia whakatū i tēnei whiwhi whare ā-ahurutanga a Māori, ā, whakatū i tēnei whiwhi whare ā-ahurutanga a Māori, ā, whakatū i tēnei whiwhi whare ā-ahurutanga a Māori, ā, whakatū i tēnei whiwhi whare ā-ahurutanga a Māori, ā, whakatū i tēnei whiwhi whare ā-ahurutanga a Māori.

Whakapapa

Marae Ora—Toitū te Marae, Toitū te Pae

He $10 miriona te pūtea i roto i te whā tau mō Marae Ora—Toitū te Marae, Toitū te Pae. E whakaahei anō te Marae Ora i te mana o te marae hei iho o te marae he whakarite kia whiwhi ā-ahurutanga wharenui, ā, kia whiwhi ā-ahurutanga te marae, ā, kia whiwhi ā-ahurutanga te marae, ā, kia whiwhi ā-ahurutanga te marae, ā, kia whiwhi ā-ahurutanga te marae.
te tūhono i ngā whānau ki ō rātau marae mā tētahi tikanga pūmau me te āwhina i ngā whanau ki te ako haere i tō rātau reo, ahurea, hītori hoki.
Ápitihanga

Hātepe a te komiti
I hui mātau i te 7 o Pipiri me te 5 o Hōngongoi 2017 ki te whiriwhiri i te Pōti Whanaketanga Māori. I rongo kōrero mātau i te Minita Whanaketanga Māori, a Hōnore Te Ururoa Flavell, me Te Puni Kōkiri, ā, i whiwhi tohutohu mātau i Te Mana Arotake Aotearoa.

Ngā mema o te komiti
Tutehounuku Korako (Tiamana)
Hon Chester Borrows
Mārama Davidson
Kelvin Davis
Mārama Fox
Peeni Henare
Pita Paraone
Dr Shane Reti

Ngā whakaaturanga me ngā tohutohu i whiwhi mātau
I tua atu i ngā tuhinga Utunga ā-Tau Noa, i whiriwhirihi e mātau ngā whakaaturanga me ngā tohutohu e whai ake i te wā o tēnei whakamātautanga:

Tuhinga whakamārama mō te Pōti Whanaketanga Māori me te Pōti Whakaritenga Tiriti, i whakaritea e ngā kaimahi a te komiti, i te 6 o Pipiri, 2017.

Te Mana Arotake Aotearoa, Whakamārama mō te Pōti Whanaketanga Māori, i riro mai i te 7 o Pipiri, 2017.

Minita Whanaketanga Māori, He whakautu ki te uiui Utunga ā-Tau noa.
Minita Whanaketanga Māori, Ngā pātai utunga ā-tau noa tāpiri 1-208.
2017/18 Estimates for Vote Māori Development

Report of the Māori Affairs Committee

Contents

Recommendation 2
Introduction 2
The capacity and capability of Te Puni Kōkiri 2
Whānau Ora 3
Whenua Māori 4
Whare 4
Whakapapa 5
Appendix 7
Vote Māori Development

**Recommendation**

The Māori Affairs Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Māori Development, as set out in Parliamentary Paper B.5, Vol.8, be accepted.

**Introduction**

Vote Māori Development is administered by Te Puni Kōkiri. The Minister for Māori Development is responsible for the appropriations in the Vote.

The total appropriations for Vote Māori Development in 2017/18 are $312.93 million. This is a 0.6 percent increase from estimated actual expenditure of $310.926 million in 2016/17.

There are 15 new policy initiatives, including additional and new funding of $2.5 million each year for Whānau Ora, about $5 million each year for Māori housing initiatives, and new funding of $6.5 million to support the revitalisation of te reo Māori in 2017/18.

There are also two new multi-category departmental appropriations:

- Tukatutanga me ngā Haumitanga ā-rohe (Regional Engagement and Investment): $35.580 million for managing community investment programmes in the regions and engaging with iwi, hapū, and whānau
- Tohutohu Kaupapa Here me ngā Huan Ga Patata (Policy Advice and Related Outputs): $18.607 million to provide policy advice and support to Ministers.

**The capacity and capability of Te Puni Kōkiri**

Total appropriations in the Vote have increased significantly, by 60 percent in the past five years, from $195.803 million in 2012/13 to $312.93 million in 2017/18.

The increase in expenses has increased the workload for Te Puni Kōkiri (TPK), especially in delivering programmes, monitoring the performance of third parties, and evaluating, measuring, and reporting on the performance of major programmes and initiatives.

**Ministerial satisfaction with policy advice**

In our report on the 2015/16 annual review for TPK, we noted that ministerial satisfaction with policy advice was 41.1 percent, which was well below the target of 70 percent. We asked the Minister whether he was satisfied with TPK’s policy advice in 2016/17.

The Minister said that he has very high expectations of TPK and that he is continuing discussions with the chief executive about the standard he expects. He noted his high ratings for priority kaupapa such as whenua Māori, te reo, and whare for whānau through the Māori Housing Network.

The Minister said that he will take these ratings into account in his evaluation at the end of this financial year. We look forward to the results of the evaluation.
Te Puni Kōkiri’s regional offices

The funding in the appropriation Tukatutanga me ngā Haumitanga ā-rohe will be specifically used to help TPK’s regional offices deliver programmes and engage with local iwi, hapū, and whānau.

The Minister recognised the importance of TPK engaging with local communities so that Māori are kept informed about TPK’s work and can give feedback at a local level. We support TPK’s development in regional areas and will monitor its progress with interest.

Te Puni Kōkiri’s role in monitoring other agencies

Part of TPK’s role is to monitor how other government agencies deliver services to Māori. The Minister considered that, although TPK plays an important role in evaluating these agencies, ideally, all government agencies should follow the principles of Te Tiriti o Waitangi automatically and without TPK continually pushing them in the right direction.

We agree with the Minister’s aspiration that all government agencies should automatically follow the principles of Te Tiriti o Waitangi in delivering services to Māori, without TPK pushing them to do so. However, we consider that, until this happens, TPK’s role in evaluating and monitoring these agencies is crucial.

Whānau Ora

Additional funding for Whānau Ora

In 2017/18, there is funding of $71.481 million to achieve Whānau Ora outcomes. This includes new funding of $10 million over four years ($2.5 million each year) under the policy initiative Whānau Ora—Kia Tipu te Whātoro (Whānau Ora—Extending the Reach).

This funding will be used to make whānau-centred services available to up to 2,500 additional whānau and families over four years, with a focus on increasing support to vulnerable whānau and families.

Whānau Ora commissioning agencies

There is also $4.749 million departmental funding for TPK to develop, administer, and evaluate Whānau Ora, and to support and manage the contracts of the three Whānau Ora commissioning agencies (Te Pou Matakana, Te Pūtahitanga o Te Waiapounamu, and Pasifika Futures).

This funding is 14 percent less than the estimated actual expenditure of $5.495 million in 2016/17, because some funding has been transferred to the Tukatutanga me ngā Haumitanga ā-rohe appropriation to reflect the role that TPK’s regional offices have in supporting Whānau Ora.

The Whānau Ora Outcomes Framework is the principal measurement of the success of Whānau Ora. The framework has seven outcomes for whānau:

- self-management
- live healthy lifestyles
- participate fully in society
- confidently participate in Te Ao Māori
- economically secure and successfully involved in wealth creation
• cohesive, resilient, and nurturing
• responsible stewards to the living and natural environment.

We heard that the commissioning agencies are making tangible progress in achieving these outcomes and that the Minister is satisfied with their performance. For example, 1,014 out of 1,591 whānau who prioritised housing report that they are now living in a fully insulated home as a result of intervention by Te Pou Matakana.

We are pleased with this progress and look forward to further improvements for whānau and families.

**Pasifika Futures**

Pasifika Futures supports Pacific families to achieve their aspirations in health, housing, training, and economic development.

We asked the Minister why Whānau Ora, rather than the Ministry for Pacific Peoples, has responsibility for Pasifika Futures. We heard that Pasifika Futures is currently working well under Whānau Ora but that, in future, the Ministry for Pacific Peoples may take responsibility for Pasifika Futures.

**Whenua Māori**

**Te Rātonga Whenua Māori (the Māori Land Service)**

When enacted, Te Ture Whenua Māori Bill will establish the Māori Land Service to help Māori land owners with land registration, governance and capacity building, dispute resolution, and land utilisation. The Vote includes an appropriation of $1.796 million to establish and operate the Māori Land Service.

We heard that the business case for the Māori Land Service depends on the enactment of Te Ture Whenua Māori Bill. TPK is currently working through the minimum requirements of the bill to ensure that whānau aspirations outlined during wānanga are met. TPK is expected to report back to Cabinet on the business case for the Māori Land Service in November 2017.

We asked what potential risks there are to the implementation of the Māori Land Service and how TPK plans to manage these risks. We heard that establishing the Māori Land Service involves a significant change programme and includes many complex work-streams. The Māori Land Service programme has had an independent quality assurance review and is coordinating with other government agencies to make sure that these risks are mitigated.

We asked how the effectiveness of the Māori Land Service will be measured. The Māori Land Service will be reviewed five years after it is established. The review will focus on how the Māori Land Service is delivering benefits for Māori land owners.

**Whare**

Total funding for Māori housing initiatives and programmes in 2017/18 is $22.191 million, which is a 5 percent decrease from the estimated actual expenditure of $23.352 million in 2016/17.

He Huarahi Kī Te Whare is the new multi-year appropriation of $8.3 million to fund Māori housing initiatives until 30 June 2020. This appropriation is intended to improve home ownership rates and provide greater housing independence for whānau.
Although we support this new appropriation to help whānau with housing, we asked the Minister whether there was potential for whānau to miss out on other areas of government assistance that focus on home ownership. The Minister assured us that TPK will work with whānau so they are informed enough to decide which funding to apply for.

We asked how many houses have been built by Māori housing initiatives. The Minister said that it is not TPK’s role to build houses. Rather, it manages government funding for Māori housing projects and works with other government agencies to improve Māori housing.

We heard that, in the last financial year, 22 affordable housing units have been funded to be built and 136 whānau homes are being repaired. TPK focused on improving financial literacy and holding national workshops to educate Māori about the realities and financial implications of home ownership.

Although the Minister was positive about Māori housing initiatives, he was clear that TPK requires strong support from other government agencies to make a meaningful difference to Māori home ownership. The Minister reiterated this belief when we asked whether the 2017 Budget will help eliminate homelessness among Māori.

The Minister acknowledged the pain felt by the 12,754 Māori living in severe housing deprivation. He said that he would help the whānau and families that he could and try to coordinate with other government agencies to find a solution for this issue.

We support TPK’s efforts to increase Māori home ownership levels. We will continue to monitor progress in this area.

**Linking Māori housing initiatives to Whānau Ora**

We asked how the appropriations in the Vote for Māori housing initiatives link with Whānau Ora outcomes and the work of the Whānau Ora commissioning agencies. Māori housing initiatives complement the work of the Whānau Ora commissioning agencies by helping whānau and families achieve their housing aspirations.

The Minister gave an anecdotal example of how one particular whānau used their Whānau Ora plan to realise their long-term goal of owning a house. We are pleased to see Whānau Ora plans working in practice for whānau and look forward to seeing more progress in this area.

**Whakapapa**

**Marae Ora—Sustaining the Marae, Sustaining the Pae**

There is $10 million over four years in funding for Marae Ora—Sustaining the Marae, Sustaining the Pae. Marae Ora reflects the status of the marae as the centre of identity and culture.

This initiative aims to strengthen the cultural and physical vitality of the marae by supporting work to restore whare, repair facilities, and insulate meeting houses, and by providing for reo and tikanga wānanga. The Minister was positive about Marae Ora’s ability to reconnect whānau with their marae in a sustainable way and help whānau learn more about their language, culture, and history.
Appendix

Committee procedure

We met on 7 June and 5 July 2017 to consider Vote Māori Development. We heard evidence from the Minister for Māori Development, Hon Te Ururoa Flavell, and Te Puni Kōkiri, and received advice from the Office of the Auditor-General.

Committee members

Tutehounuku Korako (Chairperson)
Hon Chester Borrows
Marama Davidson
Kelvin Davis
Marama Fox
Peeni Henare
Pita Paraone
Dr Shane Reti

Evidence and advice received

In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:


Office of the Auditor-General, Briefing on Vote Māori Development, received 7 June 2017.

Minister for Māori Development, Response to standard Estimates questionnaire.

Minister for Māori Development, Response to supplementary questions 1-214.
2017/18 Estimates for Vote Pacific Peoples

Report of the Government Administration Committee

Contents

Recommendation 2
Introduction 2
Funding for new operating model 2
Growing Pacific businesses 3
Funding for skills, training, and employment 3
Social housing 3
Education 4
Building Pacific leadership 4
Appendix 5
Vote Pacific Peoples

Recommendation

The Government Administration Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Pacific Peoples, as set out in Parliamentary Paper B.5, Vol.8, be accepted.

Introduction

Funding proposed for Vote Pacific Peoples totals $10.559 million for 2017/18. This compares with estimated actual expenditure in 2016/17 of $9.575 million. Most of the Ministry for Pacific Peoples’ funds—$7.292 million—is assigned to Policy Advice and Ministerial Servicing, and $750,000 is assigned to increase the ministry’s capability and capacity.

Vote Pacific Peoples for 2017/18 includes $1.4 million for the Pacific Employment Support Service (PESS) programme. This represents an increase of 115 percent on the $650,000 that is estimated to have been spent in 2016/17, although the committee notes that this is the result of a significant underspend from the previous financial year. The ministry also funds external agencies such as the Pacific Business Trust.

Vote Pacific Peoples is administered by the Ministry for Pacific Peoples, and the Minister for Pacific Peoples has responsibility for all the appropriations sought in the vote.

Funding for new operating model

Budget 2017 has seen an increase in funding for the Ministry for Pacific Peoples of $750,000 per year, which will result in $3 million over four years, to increase its research and evaluation and policy capabilities.

This funding is the result of a performance improvement framework report that showed that the ministry needed to increase its capacity for policy research and advice. This will allow the ministry to function as an intelligence centre, working between communities and the public sector to offer its advice in shaping policy.

Some of us were concerned that the new operating structure was implemented in 2014 but is only now being provided for in the Budget. However, we heard that the new funds are to allow the ministry to expand on the structure that has been operating since 2014.

In response to criticism that the ministry was trying to do too many things and doing them too lightly, the ministry has been operating with a more limited but more in-depth scope. This has involved a focus on immunisation with the Ministry of Health, getting children into early childhood education, and raising Pacific achievement levels in NCEA Level 2 with the Ministry of Education. The new funding will provide extra capacity to cover a broader range of government organisations.

The new Kapasa policy framework is designed to help other government agencies work to incorporate the perspectives of Pacific peoples into their policies.
Growing Pacific businesses

The Minister noted that there remain significant health and wealth gaps between Pacific people and the rest of the population. We heard that the ministry has identified the lack of Pacific business networks as a barrier to entrepreneurship and self-employment, and thus to Pacific involvement in business and investment.

The ministry intends to improve these areas by better understanding pay gaps; better understanding the rates of young Pasifika people who are not in employment, education, or training; better pipelining and upskilling of Pasifika people into high-wage career pathways; and gaining better insights into ways to support Pasifika businesses and entrepreneurship.

The ministry will work to raise the profile of successful Pacific businesses and continue to support Pacific people in starting and running their own businesses. The Minister stated that about 1.6 percent of Pasifika people are either self-employed or employers, but acknowledged that “little else is known about their engagement with the business sector”.

Funding for skills, training, and employment

The Minister highlighted the success of PESS, which helps place Pasifika students into employment, education, and training. The pilot in Auckland and Waikato between 2010 and 2015 had 1,424 students participating, with an 82 percent placement rate. A recent evaluation of the pilot demonstrated a long-term reduction in liability to the Crown of $21 million, from a $4.6 million investment.

The ministry worked with two providers last year. It is working with two more providers this year, and it is currently considering bringing on additional providers. We asked whether the two PESS providers met their contracted first-year targets, and we look forward to receiving that information.

We noted that funding for the Project Tatupu feasibility study on regional housing and employment opportunities for Pacific people has been discontinued. We asked what was achieved from the $250,000 that was allocated for the feasibility study in last year’s vote.

The Minister stated that Project Tatupu was successful in highlighting the employment opportunities for Pacific migrants in the regions. He noted that the feasibility study was the Ministry for Pacific Peoples’ responsibility and that the ministry’s job is now to work with the Ministry of Social Development on how to encourage migration to the regions.

Social housing

The Minister stated that Pacific social housing solutions will continue to be a focus in the next year. He indicated that the ministry will continue to support the development of Pacific organisations to be registered as community housing providers. In 2017, Penina Heath Trust became the first Pacific organisation to be registered and accredited as a community housing provider.

We asked how the ministry can share the workload on decreasing gaps in income, wealth, and housing and ensure that it is not just the ministry’s job to rectify the large gap for Pacific people and communities.

The Minister acknowledged that home ownership for Pasifika people has been decreasing, but noted that 544 people who have been identified as Pasifika have received the KiwiSaver HomeStart grant to purchase their own homes. He also pointed to the increase in the accommodation supplement in the Budget’s family tax package to support the 40
percent of Pacific people in Auckland who need to rent homes. He acknowledged that the increase would be a small lift but that it would help those families.

We heard that the ministry does not directly fund Pacific community housing providers but has provided Habitat for Humanity with about $125,000 to support the development of five Pacific organisations to become accredited community housing providers, including Penina Health Trust.

**Education**

We heard that Pacific participation in early childhood education is now at 92.6 percent, up from 86.2 percent in 2012. Pacific school leavers with at least NCEA Level 2 or equivalent is 77.6 percent, up from 51.3 percent in 2008.

The Minister highlighted that the areas of science, technology, engineering, and mathematics (STEM) need greater Pasifika involvement. He said that the percentage of Pasifika youth studying STEM subjects at a tertiary level is about 12 percent and that increasing this number is an area of focus for the ministry.

The ministry’s Toloa Scholarships offer post- or undergraduate scholarships to Pasifika students applying to study towards STEM careers. Each scholarship is $25,000, and the Minister reported that 12 of these have been awarded during the last two years.

We heard that the ministry has focused on building relationships with tertiary institutions to encourage them to engage with the wider community to raise the aspirations of young people and look at career choices.

**Building Pacific leadership**

One of the ministry’s priority areas is to build Pacific leadership in the public sector. The Minister said that 8.1 percent of public sector roles are held by Pasifika, compared with 2.6 percent of senior leadership roles.

The ministry is working with the State Services Commission to increase Pacific leadership in the sector. The ministry is also consulting in the appointment of State sector boards and has recommended Pacific people on the Ministry for Pacific Peoples’ nominations database.

In discussing the need for Pacific role models, the Minister acknowledged the importance of Dame Valerie Adams and Sir Michael Jones becoming the first Pasifika Dame and Knight Companions, respectively, of the New Zealand Order of Merit.
Appendix

Committee procedure
We met on 21 June and 5 July 2017 to consider Vote Pacific Peoples. We heard evidence from the Minister for Pacific Peoples, Hon Alfred Ngaro, and the Ministry for Pacific Peoples, and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Barry Coates
Matt Doocey
Paul Foster-Bell
Hon Nanaia Mahuta
Hon Scott Simpson

Advice and evidence received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Pacific Peoples, dated 21 June 2017.
Minister for Pacific Peoples, response to standard Estimates questionnaire, received 21 June 2017.
Minister for Pacific Peoples, responses to supplementary questions 1—115, received 21 June 2017.
Minister for Pacific Peoples, responses to supplementary questions, MPP contractor details, received 21 June 2017.
Ministry for Pacific Peoples, Four Year Plan 2017-2020, received 21 June 2017.
Ministry for Pacific Peoples, Output Plan, 1 July 2016—30 June 2017, received 21 June 2017.
Minister for Pacific Peoples, responses to additional questions, 116—126, received 4 July 2017.
2017/18 Estimates for Vote Sport and Recreation

Report of the Government Administration Committee

Contents
Recommenation 2
Introduction 2
Anti-Doping 2
Changing demographics 2
Human resources 3
Major events 3
Appendix 4
Vote Sport and Recreation

Recommendation

The Government Administration Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Sport and Recreation, as set out in Parliamentary Paper B.5 Vol.8, be accepted.

Introduction

The appropriations sought for Vote Sport and Recreation in 2017/18 amount to $89.195 million. There is no change from the 2016/17 estimated actual spending of $89.195 million.

The Ministry for Culture and Heritage administers the Vote and the Minister for Sport and Recreation is responsible for the appropriations. The Vote funds the Sport New Zealand Group (a Crown entity made up of Sport New Zealand, High Performance Sport New Zealand, and Community Sport and Group Strategic Support), and Drug Free Sport New Zealand.

Anti-Doping

The Minister recently attended the World Anti-Doping Agency (WADA) Foundation Board meeting in Montreal as a public authority representative for Oceania. We congratulated the Minister on the exemplary presentation he made at the meeting. Doping remains a problem for the Olympic Committee, as does the funding of WADA. We asked the Minister how a reliable system that reduces doping can be developed.

The Minister told us that a centralised approach is required to ensure consistency and to avoid another situation similar to what occurred at the 2016 Rio Olympics. WADA has said that it needs greater support rather than be subjected to the whim of the International Olympic Committee (IOC). It is important that public authorities, such as government, continue to assert themselves on sports and the IOC. The way to do this is to be very clear that anti-doping programs will only be funded if the concerns of the authorities are heard. So far WADA has set out a draft hierarchy of sanctions which shows a definite path for improvement.

Changing demographics

We noted that the ethnic composition of New Zealand is changing, especially in specific locations. We asked the Minister what services are being provided to engage the changing population.

The Minister told us that Sport New Zealand (SNZ) focuses on engaging groups in which it is concerned about participation in the long term. Regional Sports Trusts (RSTs) are given the autonomy to tailor their offerings to reflect the needs of the demographics they are serving. The Minister told us that it is important to be able to evolve to provide opportunities for all communities and all New Zealanders.
Child obesity

The SNZ Young People Plan highlights that 11 percent of children are obese and 22 percent are overweight. We asked the Minister what role SNZ has in contributing to government targets around obesity. The Minister told us that SNZ plays an important role in raising activity levels and engaging hard to reach groups. SNZ works with National Sporting Organisations and schools to ensure that there is capability and capacity to provide good quality physical education in schools and to encourage participation. These initiatives are part of the Ministry of Health’s Childhood Obesity Plan which was released in October 2015.

Human resources

We noted that seven people at SNZ are paid more than $200,000 per year and questioned the justification for this. Some of us have heard that many of the best people from non-governmental sporting organisations are being drawn to SNZ because of the high salaries. This has caused an imbalance in the levels of talent throughout the sector. The Minister said that higher salaries are needed to retain staff in an internationally competitive market and gave an example of SNZ staff being headhunted from overseas.

The Minister told us that SNZ is focused on an approach to excellence and that human resources are an important part of that. SNZ competes in an international marketplace and it is required to pay salaries at this level to retain quality staff. The Minister told us that SNZ has a world class chief executive which contributes to greater gains across society. The Minister said that he was satisfied with the current model and that it is preferable to pay more for good staff.

Major events

The World Cups Office, recently established within SNZ, has been responsible for overseeing the Government’s role in several major events. A number of major sporting events have been hosted in New Zealand within the last year. Some of these events include the World Masters Games and the British and Irish Lions Rugby Tour.

We asked the Minister if current national infrastructure is sufficient to manage these events. The Minister told us that everything is working extremely well. There is good coordination between a range of government agencies, including the New Zealand Police, New Zealand Customs, and transport providers. The Minister said that the Government has gained experience managing major events and is confident that future major events will be well managed.
Appendix

Committee procedure
We met on 21 June and 5 July 2017 to consider Vote Sport and Recreation. We heard evidence from the Minister for Sport and Recreation, Hon Dr Jonathan Coleman, the Ministry for Culture and Heritage, Sport New Zealand, and Drug Free Sport New Zealand. We also received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Paul Foster-Bell
Matt Doocey
Hon Nanaia Mahuta
Hon Scott Simpson

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Office of the Auditor-General, Briefing on Vote Sport and Recreation, received 21 June 2017.

Minister for Sport and Recreation, Response to standard Estimates questionnaire, received 29 May 2017.

Minister for Sport and Recreation, Response to supplementary standard questions, received 21 June 2017.

Minister for Sport and Recreation, Response to additional written questions 116 – 130, received 30 June 2017.
2017/18 Estimates for Vote Statistics

Report of the Government Administration Committee

Contents
Recommendation 2
Introduction 2
2018 Census 2
Integrated Data Infrastructure 3
Recovery from earthquake damage 4
Disability Survey 5
Sustainable development 5
Appendix 6
Vote Statistics

Recommendation
The Government Administration Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Statistics, as set out in Parliamentary Paper B.5, Vol.8, be accepted.

Introduction
The appropriations sought for Vote Statistics in 2017/18 total $184.996 million. This is a 5.6 percent increase from the 2016/17 estimated actual expenditure of $175.268 million. Variation in the appropriation amounts in the Vote relate to the timing of the census. There is generally a rise in the appropriation in years when the census is conducted, as is the case for 2017/18.

Statistics New Zealand administers the Vote, and the Minister of Statistics is responsible for the appropriations.

2018 Census
On 1 July 2016, the Government Statistician announced that the next census will be held on Tuesday, 6 March 2018. Under a multi-year appropriation, there is nearly $49 million allocated in the vote for the 2018 Census for the 2017/18 year.

The effects of earthquake damage on the delivery of the 2018 Census
A magnitude 7.8 earthquake on 14 November 2016 resulted in the partial collapse of an intermediate floor of Statistics House in Wellington. The Minister told us that the effects of the earthquake have placed a strain on Statistics New Zealand. However, despite this, he is confident that the 2018 Census will be delivered as planned.

The Treasury assesses and reports on the risks entailed in Government investment projects. In a recent interim report, the Treasury rated the 2018 Census Project as “Amber” on the monitoring delivery confidence scale. It noted that the project is managing the effects of IT resourcing issues and delays with deploying IT infrastructure required for the Census Test to ensure that they will not affect key census delivery dates.1

Exploring census transformation
The Census Transformation programme is a new policy initiative in the vote, for which $4.5 million of new operating funding is allocated. We were interested in how next year’s census would be modernised and asked whether there is still value in conducting a census every five years.

The Minister explained that this funding would allow Statistics New Zealand to explore new ways of obtaining data and information similar to that gained from the census from other methods and existing government data. We heard that this would be less costly and

more convenient for New Zealanders. It would also mean that information could be delivered and updated regularly.

**Increasing online completion of the census**

We note that Statistics New Zealand’s target for online completion of the 2018 Census is 70 percent, an increase from 34 percent in the 2013 Census. We asked how Statistics New Zealand expects to achieve this increase in online participation.

Statistics New Zealand told us that it will encourage as many people as possible to complete their census forms online in 2018. We heard that, in collaboration with New Zealand Post, it is compiling a comprehensive mailing list of New Zealand dwellings (about 1.8 million homes) using the 2013 Census address list. This will enable Statistics New Zealand to send people a letter with a confidential, unique identifying code number that will allow them to complete the census form online.

We were also told that there will be targeted messaging for audiences that may not be confident online. Statistics New Zealand will undertake a marketing campaign focusing on digital channels, and census engagement officers and field staff will support communities in achieving online completion.

The Minister acknowledged that people who choose not to complete the form online will still be able to participate in the census in the traditional way.

**Cost and efficiency of moving to online services**

The Minister said that increased online completion of the census will have significant associated cost and efficiency improvements.

However, the appropriation for the 2018 Census is considerably larger than for the 2013 Census. The multi-year appropriation for Census 2018 is $111.088 million, compared with the multi-year appropriation for the 2013 Census of $72.045 million. Given this, we wanted to know what would be delivered for the additional appropriation and whether any cost savings are anticipated.

We heard that investing in a modernised census will have up-front costs (an initial $24 million investment in the 2018 Census) but that the Minister expects associated cost savings in future. Statistics New Zealand said that it estimates savings between 5 and 11 percent between the two census cycles (2018 and 2023). The savings are spread across both censuses.

**Integrated Data Infrastructure**

Statistics New Zealand has a data and information leadership role throughout the public sector. This role includes overseeing the Integrated Data Infrastructure (IDI). The IDI is a research database containing microdata about people and households. It links datasets from different agencies, including the census, and is used by researchers to answer research, policy, and evaluation questions in a range of subject areas.

The vote allocates $5.578 million for the IDI in 2017/18, as well as $3.329 million in new funding for the IDI component of DatArcade.

We asked for more detail about Statistics New Zealand’s system leadership role on IDI. Statistics New Zealand considers that it can deliver benefits through its expertise in handling identifiable data. It said it can assist and support the system by helping to ensure that IDI data is kept safe and people’s privacy protected.
2017/18 ESTIMATES FOR VOTE STATISTICS

**Budget bid to increase capacity**

We heard that Statistics New Zealand already receives approaches from Government departments requesting guidance on how to release data safely. We asked whether Statistics New Zealand has the resources it needs to accommodate this kind of additional work without extra funding.

Budget 2016 established a contingency fund for investment in data and analytics throughout Government. Statistics New Zealand informed us that it has a budget bid under consideration for $2.3 million, which would support additional capability in this area.

**Recovery from earthquake damage**

After the Christchurch earthquake on 22 February 2011, there were delays to some releases of Statistics New Zealand information as a result of damage to its main building for statistical releases, located in the city centre. Additionally, as previously discussed, the 14 November 2016 earthquake caused significant damage to its Wellington office, Statistics House.

We understand that, because of damage to Statistics New Zealand’s computer systems, the release of economic growth figures was delayed. Furthermore, the Statistics New Zealand website and two public data sources were out of action for a period of time. In light of these events, we expressed concern about Statistics New Zealand’s disaster recovery plan.

The Minister assured us that no data was lost in the 2016 earthquake and told us that the system worked as it was planned to. The Minister believes that the four days during which the website was inoperative was a relatively short outage.

Statistics New Zealand recognises that its data needs to be available at all times, and its disaster response and recovery plan now, accordingly, provides for the immediate restoration of its website.

Statistics New Zealand informed us that in 2013, a business case was developed that investigated options for disaster recovery. The two options were as follows:

- deliver a first stage disaster recovery solution in Infrastructure as a Service (IaaS), managed by Statistics New Zealand, with a phased restore approach in the event of a disaster
- deliver a first stage disaster recovery solution in IaaS, managed by the IaaS vendor, with a phased restore approach in the event of a disaster.

Statistics New Zealand explained that both options provided effectively the same disaster recovery capability. It considers that the only potential additional benefit would have been that when network connectivity to the backup was lost, a vendor might have been able to keep working in spite of this. It said that the impact of this was a one day delay, and is substantially less than the costs it would have incurred in choosing the vendor-managed solution.

**Accommodation**

We are aware that Statistics New Zealand is still in temporary accommodation. We understand that it received one-off funding of $15 million in the 2016/17 Supplementary Estimates for costs related to the 2016 earthquake but that there is no new funding for earthquake costs in the 2017/18 Vote. We asked for more information about the accommodation costs associated with the most recent earthquake.
The Minister expects that any major financial implications will be largely offset by insurance receipts. Statistics New Zealand has both material damage insurance ($26 million) and business continuity insurance ($7.5 million). He added that insurance matters will be able to be progressed once a decision is made about the status of Statistics House. We heard that the current lease arrangements cost about $4 million, compared with the $3 million that Statistics New Zealand was paying for Statistics House.

**Disability Survey**

We understand that a decision was made in 2012 to alternate the Disability Survey and the Māori Social Survey, as part of a funding allocation that allows one post-censal survey to be run. Because the Disability Survey was previously held alongside the census, we expressed concern that the new arrangements may result in a lack of reliable information about disabled people in New Zealand.

The Minister told us about the Disability Data and Evidence Working Group, which is co-chaired by Statistics New Zealand and the Office for Disability Issues. This group helps to ensure that the views of the disability sector inform decisions on collecting statistics and evidence about disabled people.

Statistics New Zealand acknowledged that current data does not meet all of the critical needs of the sector. It assured us that it remains committed to informing New Zealand about people with disabilities.

The Government Statistician is currently testing the Washington Group Short Set of Questions on Disability to determine whether the census could obtain output on disability-related issues. We wish to be informed about the decision on the content of the census, which she plans to release in July 2017.

**Sustainable development**

We note that Statistics New Zealand no longer produces reports on progress towards sustainable development. Statistics New Zealand told us that it will assess how to make the best use of the key indicators of sustainability in its upcoming work programme. It added that it has put a lot of emphasis into its Environmental Reporting Series: Environmental indicators Te taiao Aotearoa.

We heard that the Ministry of Foreign Affairs and Trade and the Treasury are leading work on New Zealand’s progress in achieving the United Nations Sustainable Development Goals. We also heard that Statistics New Zealand is part of the inter-agency working group investigating the best means of producing information to assess progress towards these goals.
Committee procedure
We met on 7 and 5 July 2017 to consider Vote Statistics. We heard evidence from the Minister of Statistics, Hon Scott Simpson, and Statistics New Zealand, and received advice from the Office of the Auditor-General and the Office of the Clerk.

Committee members
Hon Ruth Dyson (Chairperson)
Barry Coates
Matt Doocey
Paul Foster Bell
Hon Nanaia Mahuta
Hon Scott Simpson

Hon Scott Simpson was replaced by Kanwaljit Singh Bakshi and Brett Hudson for this item of business.

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Statistics, prepared by committee staff, dated 5 June 2017.
Office of the Auditor-General, Briefing on Vote Statistics, received 2 June 2017.
Minister of Statistics, PowerPoint presentation, received 6 June 2017.
Minister of Statistics, Responses to Supplementary Standard Estimates Questions 2017/18, 1—115, received 2 June 2017.
Minister of Statistics, Response to standard Estimates questionnaire, received 26 May 2017.
Minister of Statistics, Responses to additional questions, received 22 June 2017.
Ngā utunga ā-tau 2017/18 mō te Pōti Whakaritenga Tiriti

Pūrongo a te Komiti o Ngā Take Māori

<table>
<thead>
<tr>
<th>Ngā Ihirangi</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tūtohutanga</td>
<td>2</td>
</tr>
<tr>
<td>Kupu Whakataki</td>
<td>2</td>
</tr>
<tr>
<td>Te ture me ngā whakariterite</td>
<td>2</td>
</tr>
<tr>
<td>Te whakawhānui i te awhe o ngā whakautanga</td>
<td>3</td>
</tr>
<tr>
<td>Ngā whakaaetanga i raro i te Ture Takutai Moana 2011</td>
<td>3</td>
</tr>
<tr>
<td>Te āheinga me te kaha</td>
<td>4</td>
</tr>
<tr>
<td>Te Tari Whakauū Whakataunga Tiriti (Post-Settlement Commitments Unit)</td>
<td>5</td>
</tr>
<tr>
<td>Ngā petihana ki te Komiti o Ngā Take Māori</td>
<td>5</td>
</tr>
<tr>
<td>Āpitihanga</td>
<td>6</td>
</tr>
</tbody>
</table>
Te Pōti Whakaritenga Tiriti

Tūtohutanga
E tūtohu ana te Komiti o Ngā Take Māori kia whakaaetia ngā pūtea motuhake mō te tau mutunga o te 30 o Pipiri, 2018 mō te Pōti Whakaritenga Tiriti, e ai ki te Pepa Pāremata B.5.

Kupu Whakataki
E utua anae te Pōti Whakaritenga Tiriti ngā whakataunga kerēme Tiriti o Waitangi o neherā me te tuku puretumu kia utua mā te whakawhitī rawa (pūtea me ngā rawa) mai i te Karauna ki ngā rōpū kaikerēme.


Ko te tikanga ka pēnei te whakapau i ngā pūtea motuhake ā-tau:

- 16 ōrau mō ngā pūtea kaikerēme hei tautoko i ngā whakataunga kerēme Tiriti o neherā
- 17 ōrau hei hāpai i ngā whiriwhiringa pānga mana ā-tai mō te takutai moana
- 67 ōrau mō te whakariterite me te whakatinana i ngā kerēme Tiriti o neherā, ā, me te whakahaire, whakatinana hoki i te Ture Takutai Moana 2011.

Te ture me ngā whakariterite
E tūmanako ana te Minita mō Ngā Whakaritenga Tiriti ka nui ngā mahi ā tērā tau, arā, he maha ngā whakataunga kerēme Tiriti ka waitohua. I kī te Minita he maha ngā puka whakataunga onā tata nei i mokoia.

I mokoia te puretumu tōpū o Hauraki i te marama o Hakihea 2016, ā, kei te whakaaetia ngā whakataunga takitahi o Hauraki i tēnei wā. I rongo mātau kua mokoia, kua whakatūturuhi hoki te Whakataunga Tiriti a Ngāti Tūwharetoa, ā, kua rite te whakaaetanga ā-tuhi a Ngāti Tamaoho, i waitohua i te Paengawhāwhā 2017, hei whakauru atu ki te Whare Pāremata. Kei teanga whakamua te whakaoiti haere i ngā whakataunga i Tāmaki. I whakamōhiotia mai mātau i waitohua he kawenata whakaaetanga me Te Ākitai i te mutunga o tau 2016.

I kī mai te Minita koinei ngā whakataunga ka whakaturehia i muri ake nei i te mea kua tutuki ngā rerekētanga taketake ki te tukanga. Ka hukihukitia tahitia te whakaaetanga ā-tuhi me te ture.

I pātai mātau e hia ngā whakataunga e toe ana kia whakariteritehia, ā, he aha ngā whakapātari me ngā mōreotanga o te whakatāu i ngā kerēme katoa i mua o te tau 2020. I rongo mātau e 83 ngā whakataunga katoa kua waitohua, ā, e 54 ngā whakaaetanga ā-tuhi o ngā kerēme kei te toe. Ko te tūmanako 15 ngā whakataunga ka waitohua hei te 2017/18.
I kī mai te Minita ki te mau pū ki tētahi rā whāhīi kia tutuki ai ngā kerēme katoa ko te mutunga atu ka whakapukatia te tukanga. Ko ngā whakataunga mauroa te whāinga matua, ā, he wā roa tonu mō ētahi kaikerēme te whakatutuki i tēnei.

I pātai mātau mēnā kua whakaitihia te whānuitanga o ngā whakataunga, ka mutu mēnā i te whakamātau te Karauna kia rawaka te whakarite i ngā pāremata. I kī mai te Minita kua āta whanake haere te āhua o ngā whakaaro, nō koineia ka puta ngā rerekētanga whātinga. I kī anō ia he he mea nui kia kaua e tino nui rawa ngā rerekētanga i te mea me mātua tika te tukanga. Ka hiahia pea te tangata ki te whakatuwhera anō i ngā whakataunga mēnā ka wātea mai ētahi mea kāore i wātea i te wā i waitohua te whakataunga.

I pātai mātau ki te Minita mēnā ko ētahi take whakaritenga i te wātea i mua ka whakakorehunga pea ā tōna wā. Ko te kōrero emai e whakakara ana ētahi rerekētanga ruarua nei i ngā whakaaroaro hou ki ngā take.

**Te whakawhānui i te awhe o ngā whakautanga**

I te tau 2016, i whakaaehia e te rūnanga minita tētahi rautaki hou e whakawhānui ana i te awhe ā-rohe, ā-taupori hoki o ngā whakataunga Tiriti o Waitangi o neherā, ko te whāninga kia whakaaetia ngā whakataunga me te hunga hiahia, āhei hoki hei waenganui o te 2020.

I kī mai te Minita he tino nui ngā mahi i puta i tēnei aronga whai muri i ngā whakataunga mō te Awa o Whanganui, te whakawhitihiti me ngā rōpū huhua i Te Tai Tokerau, tae atu ki a Ngāti Maniapoto, ā, me ētahi rōpū nō Uenuku me Raetihi. I kī anō ia i whakawhānuitia te awhe i Te Whakatōhea, he nui hoki ngā rarururu i reira, engari ko tana hiahia kia eke he kawenata whakaaetanga hei te Hereturikōkā 2017.

I pātai atu mātau pēnā ētahi anō te whakatinanatanga, te tahu, ngā rōpū kaitono me ngā whakataunga anō ki te awhe whānui ake. I rongo mātau he tāngata i roto i ngā rōpū whakariterite he āta whakatewhatewha i ngā kerēme whānui ake, ka mutu kia taea te whiriwhiri ngā iroirotanga o ia whakataunga. Ko te take nā, eharā ko ngā nawe āhanga anake i roto i ia whakataunga engari ko ngā nawe hītori me te ahurea anō, ā, me whai wā, me whai rawa hoki ki te whakatewhatewha.

I pātai mātau ētahi kei te waihangatia he kaupapa here kerēme whakawhitihitō rōhe. I kī mai te Minita he kaupapa here tonu mō tēnei. I kī mai anō iā kāore i pai ki a ia te whakatinana i te kaupapa here, ā, ko tana hiahia kia mahi tahi me te rōpū rangatira ā-iwi ki te rapu huarahi hei whakapai ake i te tukanga i te mea i te mutunga ka pūrurau te tangata i tēnei.

**Ngā whakaaetanga i raro i te Ture Takutai Moana 2011**

Ka āhei ngā iwi, hapū me ngā whānau i raro i te Ture Takutai Moana 2011 kia whakaritea ō rātau mana ki ngā rohe takutai moana hei taitara moana tuku iho.

Ka āhei ngā rōpū kaitono ki te whakaae, ki te whakakahore rānei i ngā mahinga me whai whakaaetanga rawa, whakaaetanga rānei. Ka whakaaehia anō i raro i tēnei ko ngā tikanga mana ā-tai me te kore hiahia i tētahi whakaaetanga rawa.

E 381 ngā tono i whiwhi i Te Tari Whakatau Take e Pā Ana ki Te Tiriti o Waitangi (OTS) hei whakawhitihiti mā te Karauna i mua i te rā kati o te 3 o Paengawhāwhā 2017. Kei roto i te pōti ko te $8.45 miriona mō te tuku pūtea tautoko ki ngā rōpū kaitono me te $33.476 miriona te tahaunō mō te 2017/18, he hikengā tēnei o te 6.58 ōrau mai i te 2016/17.
I pātai mātau mēnā i whakakotahitia te tukanga kia uru mai anō ngā rōpū kaitono maha ki ngā whakatau. Ko te kī mai a te Minita koinei te pūtake o te whakarōpū tahi i ngā tono ki ngā takiwā.

I pātai mātau mēnā i tāhapa te whakakī tono a ētahi rōpū nā te rā kati, ka mutu mēnā he huarahi anō kei reira mō ngā rōpū i mahue mai. I kī mai te Minita he nui ngā kōrero pānui i puta ki te ētahi whānui mō te tukanga, ā, e whakapono ana ia kāore he ētahi tono i mahue mai. I rongo mātau e toru ngā take i whakaurua mai e te Whare Pāremata te rā kati:

• kia tāpaetia ngā kerēme katoa
• kia kaua e tawhito rawa te āhua o ngā kerēme
• i te mea mō te painga o te ētahi whānui te whakamutu i ngā kerēme ā-ture.

I kī mai te Minita me tika te whakarite i te take nei ināianei i te mea kei konei te whakao tinga. Ko tana kī mai e whakapono ana ia katoa, e rua rānei ngā kēhi he i whakarite i ngā mātāpono mō te tukanga pēnei. I rongo mātau a ētahi rōpū nā te rā kati, kei reira mō ngā kerēme me te kaiārahi ā-ture. I whakaritea i ngā kerēme ā-ture, ā, ko te kī mai a te Minita he ētahi āwhina ā-ture e tātu kē nō te ētahi whakaritea i ngā ētahi rōpū ā-ture.

I kī mai te Minita me tika te whakarite i te take nei ināianei i te mea kei konei te whakamutu ā-ture. Ko te kī a te Kaunihera Māori o Niu Tīreni te hunga kua mahue mai i te ētahi rōpū kē. Ko te kī a te Kaunihera Māori, ā, e whakamutu i ngā ētahi whānui ā-ture. Ko te kī a te Kaunihera Māori, ā, e whakamutu i ngā ētahi whānui ā-ture.

NGĀ UTUNGA Ā-TAU 2017/18 MŌ TE PŌTI WHAKARITENGAROA TIRITI

Te Tari Whakaū Whakataunga Tiriti (Post-Settlement Commitments Unit)

Kua whakatūhia e Te Tāhū o te Ture tētahi Tari Whakaū Whakataunga Tiriti (PSCU) hei tuku tohutohu mō ngā take whakataunga, ā, hei whakarite ka whakautūhia ngā paiherenga 6,000 a te Karauna ki te tau 2016, me te whakakaha, te tiaki hoki i ngā hononga me ngā īwi i tuia i roto i ngā whakataunga.

Ahakoa kua tutuki kē ētahi paiherenga, ka haere tonu ētahi, ā, ko te mahi a te PSCU he whakarite ka haere tonu ēnei. Ko tētahi o ana mahi he hāpai i te hiranga o ēnei whakataunga puta noa i te kāwanatanga.

I pātai mātau mēnā he mana tō te PSCU ki te tirotiro anō i ētahi whakataunga o mua. Ko te kī mai a te Minita, āe. Ka taea te whakapā atu ki te PSCU ki te ara ake he raruraru me tētahi whakataunga. I rongo mātau i pēnei a Ngāti Apa mō te whakariterite i a Flock House i muri i te whakataunga. I rongo mātau kua riro atu tēnei i ngā kaikerēme.

I pātai mātau mēnā e herea ana ngā whakatau a te PSCU, mēnā rānei me heri ngā kerēme ki te kōti. I kī mai te Minita ko te mea pai ake kia haere ngā kaikerēme ki te PSUC ki taea e rātau te take te whakarite, i te mea he nui kia pono te Karauna me ngā īwi tētahi ki tētahi i ngā tau i muri tonu i ētahi whakataunga. I kī mai te Minita, mēnā ki ngā whakaaaro o tētahi kaikerēme kua pā mai he hapa, he pai ake kia ātā mahi tahi ia me te PSCU mō tāua take tēnā i te heri ki te kōti kia whakautūhia ana tika.

I pātai mātau mēnā ka taea ngā raruraru o ngā rūnanga whakahare ā-iwi te heri mai ki te PSCU. I kī mai te Minita kāo, kāore te PSCU e whakauru ki ngā raruraru i roto i ngā īwi. Ka taea ētahi tohutohu te tuku ki te tōnoa e rātau.

I pātai mātau he aha te whakataunga tawhito rawa i whakaritea. Ko te Whakataunga o Ngā Ana o Waitomo 1992 tērā.

I pātai mātau mēnā me tirotiro te kāwanatanga ki tētahi āhuatanga toitū wā-roa, pūnahanaha hoki e whaikanohi ai ngā īwi ki ngā kaunihera e pā ana ki ngā rawa. Ko te kōrero mai a te Minita he pai ki a ia te tauira onāia nei. E whakapono ana ia me whaikanohi atu ngā īwi engari me noho ngā whakatau ki ngā mema i pōtihia.

Ngā petihana ki te Komiti o Ngā Take Māori

I pātai mātau ki te Minita he aha ōna whakaaaro mō ngā petihana i whiwhi mātau mō ngā take whakataunga Tiriti. I kī mai ia i ahu mai ngā petihana i ngā wāhi kūrakuraku, ā, he whai hua tonu kia whai wāhi ngā kaipetihana ki te whakaputa i ō rātau whakaaaro.
NGĀ UTUNGA Ā-TAU 2017/18 MŌ TE PŌTI WHAKARITENGA TIRITI

Āpitihanga

Hātepe a te komiti
I hui mātau i te 7 o Piriri, 2017 ki te whiriwhiri i te Pōti Whakaritenga Tiriti. I rongo mātau i ngā whakaaturanga a te Minita mō Ngā Whakaritenga Tiriti, a Hōnore Christopher Finlayson, me Te Tari Whakatau Take e Pā Ana ki Te Tiriti o Waitangi, ā, i whiwhi tohutohu mātau i Te Mana Arotake Aotearoa.

Ngā mema o te komiti
Tutehounuku Korako (Tiamana)
Hon Chester Burrows
Mārama Davidson
Kelvin Davis
Peeni Henare
Mārama Fox
Shane Reti
Pita Paraone
Nā Louisa Wall a Kelvin Davis i whakakapi mō ūnei take.
I whakakapi a Meka Whaitiri i a Peeni Henare mō ūnei take.

Ngā whakaaturanga me ngā tohutohu i whiwhi mātau
I tua atu i ngā tuhinga Utunga ā-Tau noa, i whiriwhirihia e mātau ngā whakaaturanga me ngā tohutohu e whai ake i te wā o ūnei whakamātatautanga:

Tuhinga whakamārama mō te Pōti Whakaritenga Tiriti, i whakaritea e ngā kaimahi a te komiti, i te 5 o Pipiri, 2017.

Te Mana Arotake Aotearoa, Whakamārama mō te Pōti Whakaritenga Tiriti, i riro mai i te 7 o Pipiri, 2017.

Te Minita mō Ngā Whakaritenga Tiriti, He whakautu ki te uiui Utunga ā-Tau noa i whiwhi i te 26 o Haratua, 2017.

Te Minita mō Ngā Whakaritenga Tiriti, He whakautu ki ngā pātai tāpiri, i riro mai i te 6 o Pipiri, 2017.
2017/18 Estimates for Vote Treaty Negotiations

Report of the Māori Affairs Committee

Contents
Recommendation 2
Introduction 2
Legislation and negotiation 2
Broadening the reach of settlements 3
Agreements under the Marine and Coastal Area (Takutai Moana) Act 2011 3
Capability and capacity 4
Post-Settlement Commitments Unit 5
Petitions to the Māori Affairs Committee 5
Appendix 6
Vote Treaty Negotiations

**Recommendation**

The Māori Affairs Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Treaty Negotiations, as set out in Parliamentary Paper B.5, be accepted.

**Introduction**

Vote Treaty Negotiations funds the settlement of historical Treaty of Waitangi claims and provides for redress to be paid by transferring assets (cash and property) from the Crown to claimant groups.

The appropriations sought for Vote Treaty Negotiations 2017/18 are $400.028 million, a decrease from estimated actual spending in 2016/17 of $446.798 million. This includes a multi-year appropriation of $1.4 billion for the five years from 2017 to 2021. The annual appropriations in 2017/18 are $50.028 million, down from $67.652 million in 2016/17.

The annual appropriations are intended to be spent as follows:

- 16 percent for claimant funding to support the settlement of historical Treaty claims
- 17 percent for contributions towards determining customary interests in the marine and coastal area
- 67 percent for the negotiation and implementation of historical Treaty claims and for the administration and implementation of the Marine and Coastal Area (Takutai Moana) Act 2011.

**Legislation and negotiation**

The Minister for Treaty of Waitangi Negotiations expects the next year to be busy, with many Treaty settlement claims to be signed. The Minister said that several deeds of settlement had recently been initialled.

The Hauraki collective redress deed was initialled in December 2016, and individual Hauraki settlements are now being agreed. We heard that the Ngāti Tūwharetoa Treaty Settlement is initialled and ratified, and that the Ngāti Tamaoho deed, signed in April 2017, is ready for introduction to Parliament. Progress on finalising settlements in Tāmaki is being made. We were told that an agreement in principle was signed with Te Ākitai at the end of 2016.

The Minister told us that these settlements make up the next tranche of legislation because fundamental changes have been made to the process. Deed and legislation are now drafted concurrently.

We asked how many settlements remained to be negotiated and what the challenges and risks of settling all claims by 2020 were. We heard that 83 deeds of settlement have been signed and that 54 deeds of settlement remain. It is expected that 15 deeds of settlement will be signed in 2017/18.
The Minister told us that becoming fixated with a particular date to complete all claims by
could result in a rushed process. Durable settlements are the primary objective, and this
will necessarily take a long time for some claimants.

We asked whether the scope of settlements had reduced and whether the Crown was trying
to adequately compensate grievances. The Minister said that thinking had evolved, which
led to specific changes. He added that it was important that change was not radical because
a fair process is necessary. People may wish to reopen settlements if change makes things
available that were not when the settlement was signed.

We asked the Minister whether negotiating points previously available could be made
unavailable in the future. We were told that a couple of changes in negotiating points
reflect a modern way of thinking about the issues.

**Broadening the reach of settlements**

In 2016, Cabinet approved a new strategy that broadens the geographic and population
reach of historical Treaty of Waitangi settlements, with the aim of agreeing settlement with
all willing and able groups by mid-2020.

The Minister told us that this approach had led to a lot of work after the Whanganui River
settlement, engaging with multiple groups in the north, with Ngāti Maniapoto, and with
groups from Uenuku and Raetihi. He also said that the reach had been broadened in
Whakatohea, where there were a lot of issues, but that he hoped an agreement in principle
would be achieved by August 2017.

We asked whether the broader reach had proportional implementation, budget, resources,
and reallocation. We heard that the negotiating teams had people to closely investigate the
broadened claims and who are able to deal with the intricacies of each settlement. This is
because each settlement involves not just commercial grievances but also historical and
cultural grievances, which take time and resources to investigate.

We asked whether an overlapping claims policy was being developed. The Minister told us
that there was such a policy. He said that the policy’s implementation had been
disappointing and that he wanted to work with the iwi leaders group to find ways to
improve the process because it often leaves people feeling a bit sour.

**Agreements under the Marine and Coastal Area (Takutai Moana) Act 2011**

The Marine and Coastal Area (Takutai Moana) Act 2011 provides for iwi, hapū, and
whanau to have their rights in coastal and marine areas determined as customary marine
title.

This gives applicant groups the ability to agree or not agree to activities that need resource
consents or permits. It also allows customary practices to take place without needing a
resource consent.

The Office of Treaty Settlements (OTS) received 381 applications for Crown engagements
before the deadline of 3 April 2017. The vote includes $8.45 million for providing financial
assistance to applicant groups and $33.476 million in funding for 2017/18, which is a
decrease of 6.58 percent from 2016/17.

We asked whether the process was integrated to include multiple claimant groups in
decisions. The Minister said that this was the purpose of grouping requests together in
districts.
We asked whether groups had missed out on filling applications because of the deadline and whether a pathway existed for groups that may have missed out. The Minister told us that there was a lot of publicity about the process and that he did not believe applications missed the deadline. We heard that Parliament inserted the deadline for three reasons:

- so that all claims would be lodged
- to ensure that claims were not of a stale nature
- because it is in the public’s interest for the litigation to have an end.

The Minister told us that the matter now needed to be determined properly because it was a one-stop shop. He said that he believed that one or two cases would establish the principles of customary title, after which most claims would be resolved without litigation. We heard that there had been some issues with the funding of iwi claims and were told by the Minister that there was a form of legal aid available to contribute to litigation costs.

We asked whether an application by the New Zealand Māori Council will pick up those who may have missed the deadline. The Minister said that the application was the council’s and would not necessarily represent all claimants.

**Capability and capacity**

We asked whether a restructuring in the OTS had resulted in fewer staff and whether this was a concern, given that the workload appeared to be increasing. The Minister told us that he was not worried.

We heard that 15 positions had been lost but that 21 had been gained. OTS has formed regional teams, which it believes are an efficient method of dealing with settlements. Regional teams allow better relationships to form between negotiators and iwi. We were told that the office re-employed experienced staff and that they were confident they had the tools they needed.

We asked for clarification on staff levels after restructuring because the Standard Estimates Questionnaire Vote Treaty Negotiations (page 9) – says that:

“The Office of Treaty Settlements changed its structure at the end of 2016 so that the organisational structure is led through a strong decentralised leadership and management group. The new structure has been in place from 14 March 2017. This saw a net decrease of 10 full-time equivalent positions.”

We were told that this was incorrect.

We asked whether the office had a role or responsibility to engage with local communities. We heard that OTS is not obliged to engage with local communities but that it engages with third parties in all settlements. OTS often engages to inform and explain the process of settlements.

**Post-Settlement Commitments Unit**

The Ministry of Justice established a Post-Settlement Commitments Unit (PSCU) to provide advice on post-settlement matters, including working to ensure that the 6,000 commitments the Crown made by 2016 are being met, and to strengthen and maintain relationships with iwi established through settlements.
Although some commitments are complete, others are ongoing and the PSCU’s role is to ensure that they continue. Its role also includes emphasising the importance of these settlements throughout the government.

We asked whether the PSCU had a mandate to revisit previous settlements. The Minister told us that it did. The PSCU could be approached if an issue with a settlement arises. We heard that Ngāti Apa had done so after Flock House became available for negotiation after settlement. We heard that the property was now in the claimant’s possession.

We asked whether the PSCU’s decisions were binding or whether claims needed to be taken to court. The Minister told us that he would prefer that claimants came to the PSCU so that he could work on the issue, because he believed it important to have trust between the Crown and iwi in the early years after a settlement. The Minister told us that, if a claimant thinks a mistake has been made, it is much better that they work closely with the PSCU on the particular issue rather than suing to enforce rights.

We asked whether issues within post-settlement entities could be brought to the PSCU. The Minister said that this was not the case and that the PSCU would not interfere with internal issues. Guidance would be provided if it was asked for.

We asked what the oldest settlement dealt with was. We heard that it was the Waitomo Caves Settlement 1992.

We asked whether the government needed to look at a long-term sustainable and systemic way of including iwi representation on councils that look at resources. The Minister told us that he liked the current model. He believes that there should be iwi representation but that elected council members should make decisions.

Petitions to the Māori Affairs Committee

We asked the Minister what he thought about petitions we received on Treaty settlement issues. He said that the petitions came from areas of tension and that it had been useful to give petitioners the chance to have their say.
Appendix

Committee procedure
We met on 7 June 2017 to consider Vote Treaty Negotiations. We heard evidence from the Minister for Treaty of Waitangi Negotiations, Hon Christopher Finlayson, and the Office of Treaty Settlements, and received advice from the Office of the Auditor-General.

Committee members
Tutehounuku Korako (Chairperson)
Hon Chester Burrows
Marama Davidson
Kelvin Davis
Peeni Henare
Marama Fox
Shane Reti
Pita Paraone

Louisa Wall replaced Kelvin Davis for this item of business.
Meka Whaitiri replaced Peeni Henare for this item of business.

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Treaty Settlements, prepared by committee staff, dated 5 June 2017.

Office of the Auditor-General, Briefing on Vote Treaty Negotiations, received 7 June 2017.


Minister for Treaty of Waitangi Negotiations, Response to additional questions, received 6 June 2017.
The Government Administration Committee has examined the 2017/18 Estimates for Vote Women and recommends that the appropriations in respect of Vote Women for the year ending 30 June 2018, as set out in Parliamentary Paper B.5, Vol.8, be accepted.

Hon Ruth Dyson
Chairperson
2017/18 Estimates for Vote Lands

Report of the Primary Production Committee

Contents
Recommendation 2
Introduction 2
Overseas Investment Office 2
Land tenure review 3
Shipping navigation 4
Wilding pines 4
Appendix 5
Vote Lands

**Recommendation**

The Primary Production Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Lands, as set out in Parliamentary Paper B.5, Vol.9, be accepted.

**Introduction**

The total appropriations sought for Vote Lands amount to $438.9 million, a 2 percent increase from estimated actual spending of $430.3 million in 2016/17. This increase is mainly from increased capital expenditure. There is also expected revenue and receipts for Vote Lands of about $294 million.

The Minister for Land Information is responsible for most of the appropriations within the Vote. The appropriations are administered by Land Information New Zealand (LINZ).

Vote Lands includes the following approximate appropriations:

- $480 million for multi-year capital expenses used or intended for land tenure reform acquisitions
- $143 million for the management of Crown land, geographic information, and property rights
- $110 million for other expenses, mainly proceeds from the sale of New Zealand Transport Agency (NZTA) properties distributed back to NZTA
- $6 million for decision-making on foreign ownership.

**Overseas Investment Office**

LINZ is responsible for administering the overseas investment regime through the Overseas Investment Office (OIO). The OIO is funded through the Administering the Overseas Investment Regime appropriation, which received a $2.845 million increase through the 2016/17 Supplementary Estimates.

We are aware that there is a forecast decrease in the funding for the OIO. We heard that a revenue forecast is projected to be lower than the previous financial year.

We are aware that the number of applications decided per year is between 150 and 175. Of these, about two applications per year are rejected. We were interested to hear that LINZ has retrospectively approved 10 or fewer applications during each of the last five years.

We heard that LINZ has significantly improved the investigative functions of the OIO. Staff numbers in the OIO have increased from 13 to about 28 people, including an increase in the enforcement team from two staff to eight.

When LINZ is alerted that a sale and purchase agreement has been made that should have gone through the OIO, its investigation team is responsible for assessing the intent behind a buyer avoiding the process. The team then targets its investigations on those who have actively avoided the process. LINZ also has a tool on its website that allows people to raise
concerns about whether property has been purchased consistently with the Overseas Investment Act 2005.

The timeliness of the application process has also improved. The most straightforward applications are now processed in nine days, down from 30 days a year ago. The average application is now processed in 30 days, down from 50 days previously.

We were pleased to hear that the OIO focuses on the more complicated applications and that it has improved its communication with applicants to better manage their expectations.

**Land tenure review**

The Land Tenure Reform Acquisition appropriation in Budget 2017 is $131.2 million, an increase from estimated actual spending of $70 million in Budget 2016.

This appropriation is “limited to the acquisition of the lessees’ interest in pastoral land lease and purchase of any land or assets required to complete the acquisition of lessee interest in order to achieve Tenure Review outcomes under the Crown Pastoral Land Act 1998, or to achieve Government high country objectives”.

We are aware that LINZ has completed 119 tenure reviews of a possible 303 pastoral leases. We were interested in what LINZ does to assess lease values of properties going through tenure review. We heard that LINZ uses professional valuers and that it is confident that they apply valuations in a sound manner.

We were interested in what work LINZ is doing to evaluate the Crown payments in tenure review. When LINZ progresses tenure review in the high country, it purchases the lessees’ interest in pastoral lease land for restoration to full Crown ownership as conservation land.

We heard that the decision on what land is free-held and what land is protected depends on advice from other organisations, including the Department of Conservation (DOC). We also heard that LINZ has made a significant amount of land available to the conservation estate through the tenure review process. LINZ free-held 48,000 hectares in 2016/17 and expects to free-hold a similar amount in 2017/18.

We asked LINZ to explain the tenure review process for The Wolds. Some of us felt that the public submissions and departmental advice on this review were largely ignored. LINZ assured us that it followed a robust process. Some of us were disappointed that LINZ did not explain its decision on The Wolds in its response to public submissions.

We heard that most tenure reviews receive about 20 public submissions. For the review of The Wolds, LINZ received 854 submissions, which required additional time for analysis. LINZ also consulted with DOC and the Commissioner of Crown Lands.

We were interested in how much revenue LINZ has foregone by taking an income-based rental approach to high country leases. We heard that LINZ introduced a new system for calculating rents for Crown pastoral land in 2013, based on the stock-carrying capacity of the land.

This new system has resulted in an increase in the rent the Crown receives. Rent reviews under the new system cost the Crown $4,000, down from $10,000 under the previous system. Some of us are disappointed that LINZ has failed to identify the difference in income between what would have been a commercial rent on the high country lease and what is the new income related rental.
Land-bank sale
We are aware that, in the last financial year, LINZ lost $14 million on the sale of land-banked properties. We heard that this is the result of the depreciation in capital value between when the land is allocated to LINZ for disposal and when the land is sold.

The previous owner often calculates the value on land that they use for a particular purpose. While LINZ disposes of that property, the land is no longer used for that purpose and so the value of the land diminishes.

Shipping navigation
We are aware that LINZ has charting responsibility for all of New Zealand’s water. LINZ also works with the International Hydrographic Organisation to ensure that the standards of charting are consistent worldwide.

LINZ told us that it works with councils to coordinate the collection of data on sea-level rise, which it can then make available to researchers.

We heard that this accurate navigation information is vital to the shipping, fishing, and aquaculture industries, and it allows modern cruise ships to visit new destinations.

We were interested to hear that LINZ conducted aerial imagery of the upper South Island after the Kaikōura earthquake, which it then shared with the Ministry of Civil Defence and Emergency Management, and the NZTA.

Wilding pines
We are aware that LINZ supports the national wilding conifers control programme. LINZ is responsible for mapping infestations and is also able to identify the areas of greatest risk.

This information allows DOC to better target its resources into those areas. We heard that LINZ is unable to estimate the extent of wilding spread and the total cost of eradicating all wilding conifers on pastoral lease land and other Crown lands. We will watch for any cost for this process with interest.
Appendix

Committee procedure
We met on 8 June and 6 July 2017 to consider Vote Lands. We heard evidence from the Minister for Land Information, Hon Mark Mitchell, and Land Information New Zealand, and received advice from the Office of the Auditor-General, and the Office of the Clerk.

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O'Connor
Richard Prosser
Hon Scott Simpson
Rino Tirikatene

Eugenie Sage replaced Steffan Browning for this item of business.

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Primary Sector, prepared by committee staff, dated 6 June 2017.
Office of the Auditor-General, Briefing on Vote Lands, received 7 June 2017.
Minister for Land Information, Response to standard Estimates questionnaire, received 26 May 2017.
Minister for Land Information, Responses to additional questions, received 6 and 27 June 2017.
Land Information New Zealand Four Year Plan 2017.
2016/17 Q1 Report to Minister for Land Information.
2017/18 Estimates for Vote Primary Industries and Food Safety

Report of the Primary Production Committee

Contents

Recommendation 2
Introduction 2
Primary Industries appropriations 2
Spread of myrtle rust 2
Biosecurity initiatives 3
Monitoring of fishing vessels 3
Careers in the primary sector 4
Expanding international trade opportunities 4
Primary Growth Partnerships 5
Merger of the Ministry for Primary Industries 5
Food Safety appropriations 5
Compliance costs for small food producers 5
Defining mānuka honey 6
Raw milk regulations 6
Appendix 7
Vote Primary Industries and Food Safety

Recommendation

The Primary Production Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Primary Industries and Food Safety, as set out in Parliamentary Paper B.5, Vol.9, be accepted.

Introduction

The Minister for Primary Industries, Hon Nathan Guy, and the Minister for Food Safety, Hon David Bennett, are responsible for appropriations in Vote Primary Industries and Food Safety.

Significant appropriations

The appropriations sought in 2017/18 are $991.9 million, a 21 percent increase on the estimated actual spending in 2016/17 of $820.6 million. This is mainly because of increased funding for new policy initiatives, including Boosting Primary Industry and Food Export Value, Future of Our Fisheries, and Biosecurity 2025—Protecting to Grow New Zealand.

Vote Primary Industries and Food Safety includes the following approximate appropriations:

- $217 million for border and domestic biosecurity risk management
- $124 million for the development and implementation of policy advice
- $72 million for fisheries, animal welfare, administration of grants and programmes, aquaculture, and management of forestry assets
- $103 million for forest management and wood production services, tuberculosis management, climate change research, and the New Zealand Walking Access Commission
- $136 million for non-departmental other expenses, notably for the Primary Growth Partnership, and settlement of the Crown’s new aquaculture space obligations
- $215 million for capital expenditure, including $137 million investment in Crown Irrigation Investments Ltd
- $125 million for food safety.

The ministry expects to collect $141 million of Crown revenue and capital receipts in 2017/18, including $97 million for the sale of logs and $36 million in cost recoveries from the fishing industry.

Primary Industries appropriations

Spread of myrtle rust

Myrtle rust is a fungal disease that affects plants in the myrtle family. In New Zealand, this includes pōhutukawa and mānuka trees. It has recently been discovered in parts of the North Island.

The ministry is working with the Department of Conservation to limit myrtle rust’s spread and has put restrictions in place for the affected nurseries. We asked who is covering the
cost of treating the disease. We heard that the ministry putting restrictions in place can trigger compensation for the affected businesses.

For a biosecurity incursion, the costs for industries that have signed a Government Industry Agreement biosecurity partnership are capped at 50 percent. However, the Minister said that it is unlikely that the forestry industry would be asked to pay this cost for myrtle rust.

**Biosecurity initiatives**

Budget 2017 provides an additional $18.4 million of operating funding over four years to strengthen the biosecurity system and further protect the borders. The Minister said that this funding will go towards reviewing about 50 at-risk import health standards, improving educating the public about biosecurity, and looking at electronic options for border security.

The use of electronic sniffer dogs is being investigated. This technology would be able to detect what the current sniffer dogs do. We asked whether electronic sniffer dogs could be used to screen visitors before they board the plane to New Zealand.

The Minister indicated that there is potential for this. Currently, Japanese car imports are inspected before they arrive in New Zealand. However, there may be issues with screening people that would need to be considered.

We also heard that the Border Clearance Levy has enabled more investment into border security. The Minister said that this has enabled investment in portable x-ray machines, a new in-flight educational video for visitors, and a new laboratory at Wallaceville to help control animal diseases.

**Monitoring of fishing vessels**

The ministry is about to roll out the integrated electronic monitoring and reporting system (IEMRS). The IEMRS project will install GPS technology and electronic catch reporting on about 1,200 commercial fishing vessels in New Zealand from October 2017. The project plans to start installing video cameras from October 2018.

We asked the Minister whether he was confident that the technology will be capable of monitoring illegal catch and dumping of undersized fish. We heard that cameras will be on board the vessels to monitor dumping of fish and interaction with seabirds.

We were interested in whether the technology was readily available. We heard that the contract will be open for tender and that there is a phase-in period for the industry from 1 October 2017. The Minister said that the new system will be implemented through fishers buying tablets with the legal requirements programmed in that they will put their data into.

We asked whether installing cameras below deck on vessels will also be required. We heard that the larger deep-water vessels currently have cameras in the holds. However, it would be too expensive to put them on smaller vessels inshore.

**New regulations needed**

We asked whether the footage captured on the vessels will be able to be used to prosecute illegal fishing or dumping. We were told that regulations will be in place when the cameras are rolled out on 1 October 2018 so the footage can be used for prosecutions.
Reducing seabird deaths

We asked how well the “National Plan of Action to reduce the incidental catch of seabirds in New Zealand Fisheries” was working. We heard that, from 2004/05 to 2014/15, the number of seabird catches has decreased by 26 percent.

However, the Minister acknowledged that too many seabirds are still dying but is unable to commit to having a zero-bycatch goal.

Careers in the primary sector

We heard that 50,000 new people are needed to work in the primary sector. To help address this need, the ministry has a Future Skills work programme that concentrates on attracting people to, and training them in, the primary sector. It has a particular focus on secondary students and increasing public awareness.

We heard that the programme is currently working with schools to raise the profile of working in the sector by creating curriculum resources for teachers who may not be subject experts. It wants to show the diversity of skills needed—for example, environmental engineers and soil scientists.

Number of foreign workers needed

We were interested in how many foreign workers will be needed in the rural sectors in five years. We heard that opinions on this vary between sectors, but the Associate Minister said that the forestry sector would like to access the Recognised Seasonal Employer scheme.

However, she would like to see New Zealanders trained for the 50,000 jobs needed in the primary sector.

Expanding international trade opportunities

The ministry is working on several initiatives to increase international trade. We heard that, as part of the updated trade strategy, Trade Agenda 2030, the ministry received $35.3 million to boost the value of primary sector exports.

This funding has enabled the ministry to purchase data sets that it can make available to exporters to expand their markets. It has also invested in an export regulatory advisory service to support small and medium exporters. The ministry is also working on reducing the number of non-tariff barriers exporters face.

We were also told that the ministry is placing more staff overseas—in particular, in the European Union (EU) and the United Kingdom. It is hoping to begin negotiations for a free trade agreement with the EU by the end of 2017.

The ministry has a goal of doubling New Zealand’s primary sector exports to $64 billion by 2025. We asked what percentage of growth is needed to achieve this. We heard that the value of exports is currently at about $38 billion for this year. The ministry expects the total value to increase in the short term because of increases in dairy prices and growth in the forestry and horticulture sectors.

The Minister said that the ministry’s goal is an aspirational target that will be a challenge to reach.
Primary Growth Partnerships

The Primary Growth Partnership (PGP) is a joint venture between government and industry. The PGP invests in long-term innovation programmes to increase the primary industries’ market success.

We asked whether investment in these programmes meant that the Government was subsidising agriculture. The Minister said that PGP was set up to invest in research and development to try to meet the export target of $64 billion by 2025.

FarmIQ

FarmIQ is a farm management system for the red meat sector. It is one of the five work streams in the FarmIQ PGP Programme.

We asked who owns the intellectual property associated with this programme. We were told that the intellectual property is owned by FarmIQ Systems Limited and is trademarked. The shareholders of this company are Silver Fern Farms Limited, Landcorp Farming Limited, and Veterinary Enterprises Group Limited.

Some of us are concerned about the potential loss of intellectual property rights given that the major shareholder, Silver Fern Farms, is part owned by Chinese interests. Some of us are also concerned that the Crown will not benefit in the long term from its investment in the development of this company’s intellectual property.

Merger of the Ministry for Primary Industries

The ministry was created in 2012 after merging the Ministry of Agriculture and Forestry, the Ministry of Fisheries, and the New Zealand Food Safety Authority. We asked the Minister how well the merger was performing.

The Minister said that the merger has delivered significant benefits because the ministry now has primary sector expertise in one place. It is better able to respond to issues that arise—for example, the fruit fly incursion or the whey protein contamination incident.

The Minister believes that high staff engagement, low turnover, and improved public trust in the organisation show that the ministry is performing well.

Food Safety appropriations

Compliance costs for small food producers

We are concerned that small producers have to pay high compliance costs under the Food Act 2014 and that this can suppress innovation. We are aware of a small cheese producer whose compliance costs are high and asked whether the ministry could test the final product rather than have several tests throughout the production process.

The Minister said that the ministry regularly consults the sector to ensure that producers can comply with the Act in the most cost-effective way. However, food safety is extremely important because New Zealand’s biggest export earnings come from agriculture and horticulture.

We asked whether costs will decrease for small producers if they achieve good test results. We were told that the ministry has set up a performance-based verification model. Under this model, businesses that manage their food safety risks well will have fewer verifications, which will lower their costs.
We would like to see a more affordable regime for small producers. We recommend that large producers support small producers because small producers are often innovative and large producers can benefit from their innovation.

We will continue to monitor the work the ministry does in this area.

**Defining mānuka honey**

To ensure the authenticity of New Zealand mānuka honey, the ministry recently put a scientific definition of it out for consultation. This definition is important for international and domestic consumers to be able to trust the brand and for protecting the industry.

We are aware that the proposed definition has caused some problems by allowing kānuka honey to be exported under the mānuka label. The Minister acknowledged that some kānuka honey did come through the test as mānuka. However, the ministry is working with the industry to solve this issue.

**Raw milk regulations**

New regulations for the sale of raw milk came into effect on 1 March 2016. The changes are aimed at better managing the risks to public health while recognising the demand from consumers.

There has been a drop in raw milk providers. There are currently 24, down from 74 in 2014. However, the Minister said that, as the new regulations become better understood, more suppliers are applying to the ministry to sell raw milk.
Appendix

Committee procedure

We met on 8 June and 6 July 2017 to consider Vote Primary Industries and Food Safety. We heard evidence from the Minister for Primary Industries, Hon Nathan Guy, the Associate Minister for Primary Industries, Hon Louise Upston, and the Minister for Food Safety, Hon David Bennett, and 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
Hon Scott Simpson
Rino Tirikatene

Eugenie Sage replaced Steffan Browning for this item of business.

Evidence and advice received

In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Primary Sector, prepared by committee staff, dated 6 June 2017.

Office of the Auditor-General, Briefing on Vote Primary Industries and Food Safety, received 7 June 2017.

Minister for Primary Industries and Minister for Food Safety, Response to standard Estimates questionnaire.

Minister for Primary Industries and Minister for Food Safety, Responses to additional questions, received 6 June and 26 June 2017.
Vote Building and Housing

Recommendation

The Social Services Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Building and Housing, as set out in Parliamentary Paper B.5, Vol.10, be accepted.

Introduction to Vote Building and Housing

Vote Building and Housing is administered by the Ministry of Business, Innovation and Employment (MBIE). The Vote represents about 8 percent of the appropriations administered by MBIE. The Ministers for Building and Construction, Social Housing, and Housing New Zealand Corporation are responsible for Vote Building and Housing. We heard from the Minister for Building and Construction.

Vote Building and Housing has been restructured as part of the creation of new Vote Social Housing. Three social housing related appropriations have been transferred to Vote Social Housing. These are:

- Administering the Legacy Social Housing Fund
- Social Housing Provider Development
- Community Group Housing Multi-Category Appropriation (MCA).

In 2017/18, the appropriations sought for Vote Building and Housing total $386.776 million. This is 4.3 percent more than the 2016/17 estimated actual spend (as adjusted for restructuring) of $370.698 million.

Kiwisaver Homestart scheme

The Kiwisaver Homestart grant appropriation seeks $102.451 million for 2017/18. This is 27 percent more than the appropriation’s estimated actual expenditure of $75 million in 2016/17. The appropriation was underspent by about $11 million in 2016/17. The increase in the appropriation is attributed to increasing demand for the scheme, and to providing greater assistance for first home buyers. We note that the appropriation is exempt from typical reporting requirements.

The Minister told us that he is encouraged by the uptake of the Kiwisaver Homestart scheme. We asked how many grants he expects to deliver in 2017/18, and were told around 20,000, based on anticipated average grants. The anticipated average grant amount in 2017/18 is $5,122.

We were interested in the scheme’s significant underspend ($11 million) in 2016/17. We asked the Minister to explain this. We heard that it is difficult to forecast the uptake of schemes like the Kiwisaver Homestart scheme. MBIE made a high estimate of potential uptake of the scheme because it did not want people to be rejected for a grant on the basis that there was not enough money appropriated. We were told that this was considered particularly important in the context of buying houses, because the scheme could not grant funds retrospectively.
Supply of land for housing

The Minister for Social Housing is responsible for the multi-year appropriation Vacant or Underutilised Crown Land Programme. This appropriation was set up as a transfer from the now-expired Auckland Vacant or Underutilised Crown Land Programme multi-year appropriation.

Auckland Vacant or Underutilised Land Programme: 2016-2017

None of the $100 million appropriation for the 2016/17 Auckland Vacant or Underutilised Crown Land Programme was spent. We are aware that $45 million of this appropriation was transferred to the new Vacant or Underutilised Crown Land Programme, but asked how the remaining unspent funds were applied. We were told that the relevant Ministers have agreed that the unspent funds will be transferred to the new MCA at the next baseline update.

Vacant or Underutilised Crown Land Programme: 2017-2022

Including the $45 million transferred from the Auckland Vacant or Underutilised Crown Land Programme, the Vacant or Underutilised Crown Land Programme appropriates $167.104 million. This is expected to be spent in 2017/18.

We asked the Minister whether the appropriation will be available to areas outside Auckland. We are aware that the Crown is planning to contribute to the development of eight housing sites through this appropriation, but do not know where these sites are. We heard that the appropriation is not limited to Auckland, but that all sites currently under active consideration are in Auckland. The Minister also noted that eight is the minimum number of sites intended to have purchase agreements signed by 30 June 2018.

We asked if the Minister is confident that all $167 million will be spent in 2017/18. If it is, we wanted to know what the Government’s intentions are for the remaining four years of the multi-year appropriation. The Minister told us that she does not intend to spend all $167 million in 2017/18.

Methamphetamine contamination

We note that there is no new initiative in the appropriation Building Regulation and Control to address building regulations for methamphetamine management. The 2017/18 appropriation increases from an estimated actual of $27 million in 2016/17 to $28.954 million. This is just over the 2016/17 final budgeted level of $28.574 million.

The Minister told us he is concerned that the market has overreacted to the risk of methamphetamine contamination. We heard that new standards were being developed, and were published on 29 June 2017.

We note that the health risk of living in a home where methamphetamine has been manufactured is greater than that of living in a home where it has been used. The Minister told us that the new standard “crucially makes the definition” between consumption and manufacture. He emphasised that there should be a balance between the health considerations of living in a methamphetamine-contaminated home, and the cost of both de-contamination and the negative effects on the property and rental markets.

The Minister also said he has introduced the Residential Tenancies Amendment Bill (No 2). The bill is intended to address, among other things, methamphetamine contamination in rental properties.
Methamphetamine contamination testing companies

Some of us are concerned about the unregulated methamphetamine testing industry. We asked whether the Minister is considering regulating these businesses. The Minister is confident that the new standards, combined with the changes proposed in the Residential Tenancies Amendment Bill (No 2), would be sufficient to robustly address this problem.

Housing Infrastructure Fund

In July 2016, the Government announced a $1 billion Housing Infrastructure Fund. It is intended to be lent to certain high-growth local authorities to provide the infrastructure needed to open new housing areas.

In Vote Building and Housing 2017/18 there is a new appropriation of $3.5 million, to be spent over the next four years, for providing policy advice on the Housing Infrastructure Fund. We understand that the fund itself is in the budget as a contingency, and is expected to be appropriated later. We asked when the Minister expects the fund to be appropriated, and in what form the appropriation will take.

We were told that councils have made bids, and that these bids are being considered by an independent assessment panel. The Minister expects the full amount of the fund to be spent in the 2017/18 financial year, with the first funding contracts to be made with councils in the next few months.

We heard that the assessment panel has been directed to focus on the primary goal of the fund, which is to produce more houses, as quickly as possible, in areas where markets are most under pressure. The panel must also consider how much housing would be produced for the amount of funding requested.

Some of us are concerned that councils who need to access the fund have already reached their debt limits. The Minister assured us that he is aware of this matter. We heard that the bids are oversubscribed for the fund. The Government is considering alternative approaches for supporting housing infrastructure.

We asked the Minister what role MBIE will play in the fund. We were told that MBIE will administer the fund, manage communications with councils, and support councils through the Detailed Business Case phase. MBIE will also support the Independent Assessment Panel, which will provide guidance and recommendations to Ministers on proposals.

Boarding Houses

Some of us are concerned about recent reports that some boarding houses are unsafe and unhealthy to live in. We asked what is being done to monitor boarding houses, and whether the Minister has considered creating a licensing regime.

The Minister emphasised councils’ enforcement role under the Building Act 2004. Further, he told us that he has confidence in MBIE’s Tenancy Compliance and Investigations Unit. This team was established in 2016. It investigates landlords who do not comply with the Residential Tenancies Act 1986. We heard that, in its first year, the team dealt with about 300 cases.

The Minister favours focusing on areas of non-compliance rather than imposing extensive regulations, such as a licensing regime, on the sector. He also noted that boarding houses are only a small part of a large rental market.
Nonetheless, the Minister referenced five changes the Government has made to improve standards for boarding houses. These were:

- A requirement for smoke alarms
- A requirement to declare insulation levels, and for all boarding houses to be insulated by 1 July 2019
- Higher electrical safety requirements
- A new enforcement regime for the Tenancy Compliance and Investigations Unit
- Stronger provisions for tenants to hold landlords to account for not meeting housing regulations.

Some of us think that not enough is being done to monitor and enforce the standards.

**Disaster-related temporary housing**

We wanted to know more about temporary housing for victims of natural disasters. In particular, we are interested in the recovery efforts following the Christchurch earthquakes, Hurunui/Kaikōura earthquakes, and the Edgecumbe floods. We note that some disaster-related appropriations are discontinued in Vote Building and Housing in 2017/18. These include:

- Hurunui/Kaikōura Recovery: Accommodation Services, which appropriated $500,000 in 2016/17
- Canterbury Earthquakes: Emergency and Temporary Accommodation, which appropriated about $1.15 million in 2016/17
- Canterbury Recovery: Building and Housing Assistance, which appropriated about $1.14 million in 2016/17
- Edgecumbe Temporary Accommodation Services Multi-Category Appropriation, which appropriated $4.85 million in 2016/17.

The Minister told us that the Government has, unfortunately, had a lot of experience with disaster-related temporary housing in recent years. We heard that earthquake recovery takes longer than other disasters such as flooding.

This year, the Government is decommissioning the four temporary accommodation villages that were part of the Christchurch recovery effort. Vote Building and Housing 2017/18 appropriates just under $1 million for services to Christchurch residents affected by the earthquakes. This is a decrease from previous years as the recovery effort winds down.

In May 2017, the Minister announced that a temporary accommodation village would be established in Waiau. Waiau is a small town just south of Kaikōura, which was heavily affected by the Hurunui/Kaikōura earthquakes. The village is expected to be completed by the end of June 2017. We were told that it is expected that the village will be required for the next two to three years.
Appendix

Committee procedure
We met on 7 June and 5 July 2017 to consider Vote Building and Housing. We heard evidence from the Minister for Building and Construction, Hon Dr Nick Smith, and received advice from the Office of the Auditor-General and the Office of the Clerk.

Committee members
Joanne Hayes (Chairperson)
Darroch Ball
Hon Jacqui Dean
Jan Logie
Jono Naylor
Hon Hekia Parata
Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Building and Housing, prepared by committee staff, dated 6 June 2017.

Office of the Auditor-General, Briefing on Vote Building and Housing, received 7 June 2017.

Housing New Zealand, Response to pre-hearing questions 1–115, received 6 June 2017.

Minister for Building and Construction, Response to standard Estimates questionnaire.

Minister for Building and Construction, Response to additional questions 116–125, received 6 June 2017.

Minister for Building and Construction, Hearing presentation, received 7 June 2017.


Minister for Social Housing, Response to pre-hearing questions 126–150, received 4 July 2017.

Minister for Social Housing, Response to post-hearing questions 1–5, received 4 July 2017.

Ministry of Business, Innovation and Employment, Response to pre-hearing questions 1–115, received 6 June 2017.

Ministry of Business, Innovation and Employment, Four year plan, received 26 May 2017.

2017/18 Estimates for Vote Social Development

Report of the Social Services Committee

Contents
Recommendation 2
Introduction 2
Improving data security at Ministry of Social Development 2
Helping unemployed youth into work 3
Trialling integrated employment and mental health services 3
Reducing benefit dependency 4
Results of business simplification programme 5
Changes to family violence services 5
Employment for people with disabilities 6
Appendix 7
Vote Social Development

Recommendation

The Social Services Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Social Development, as set out in Parliamentary Paper B.5, Vol.10, be accepted.

Introduction

Vote Social Development seeks to appropriate $22.986 billion in 2017/18. This amount is $2.083 billion lower than estimated actual spending of $25.070 billion in 2016/17.

However, several appropriations have moved from Vote Social Development to Vote Social Housing and Vote Vulnerable Children, Oranga Tamariki, and two appropriations related to social investment have moved to Vote State Services.

Adjusting for these appropriations results in estimated actual spending of $22.316 billion in 2016/17.\(^1\) The 2017/18 appropriation for Vote Social Development is $670 million (3 percent) more than the adjusted 2016/17 amount.

Most of Vote Social Development—$19.824 billion or 86.2 percent of the Vote—is made up of demand-driven “benefits or related expenses”, including:

- New Zealand Superannuation ($13.671 billion or 59 percent of the Vote)
- the main working-age benefits—Jobseeker Support and Emergency Benefits, Sole Parent Support, and Supported Living Payment ($4.311 billion or 19 percent of the Vote).

Another large appropriation in the Vote is payments for student loans, which total nearly $1.632 billion. The Vote also funds two Crown agencies, the Children’s Commissioner and the Families Commission.

Numerous Ministers are responsible for appropriations in Vote Social Development. We spoke with the Ministers for Social Development and Disability Issues.

Improving data security at Ministry of Social Development

In the first few months of 2017, issues arose with a new Ministry of Social Development (MSD) database for collecting client information from providers. In late March, a provider told MSD that it could view another provider’s folder. The folder did not yet contain any data. It was for data such as clients’ demographic information, details of their dependants, and details of the services they receive.

\(^1\) We note that, where a Vote has been restructured, the budget information is restated as if the restructuring had occurred before the beginning of the period covered, “to the extent practicable” (see the Estimates of Appropriations 2017/18—Social Development and Housing Sector, B.5, Vol.10).
In early April 2017, MSD shut down access to the information system and commissioned an independent review into the matter.\(^2\) We learnt that the cost of the independent review was about $200,000.

A similar incident with the database had occurred in January 2017. We heard that, if MSD had appropriately dealt with the problem in January, the issue might not have emerged later.

The Minister told us that about six months' progress was lost by this setback. She expects to have a securely redesigned system in place by the end of 2017. The system is currently being redesigned in consultation with providers. The Minister said that she has met with various groups to discuss future data requirements.

We were told that providers will not have to input data until the new system is ready. We also heard that under the newly designed system, very little data might end up being shared. Sexual violence services are exempted for 12 months while a different system is designed.

We agree with the Minister that it is very important to have a system that everyone can be confident in. We note that the Social Investment Agency was set up to support agencies to apply evidence-based investment practices to social services. The agency is leading the work on the new data sharing system.

**Helping unemployed youth into work**

We heard about several initiatives for re-engaging young people who have been out of work for a long time. Kaikohe GROW is a successful Northland initiative for young people with high, complex needs. Most (23 out of about 25 of its clients) now work full time. The initiative sought help from mentors and employers to work with and help the young people.

The Minister said that Kaikohe GROW has shown the Government that employers need to drive these initiatives and that good mentors and support people are essential.

The Government is now expanding the Kaikohe initiative to other areas in Northland.

The Minister added that there are other similar initiatives elsewhere. One is “Project 1000”, in Hawke’s Bay, which aims to get 1,000 unemployed people into work. We heard that 240 clients are now employed; about 60 percent of them are young. The Minister also mentioned a locally led Tairawhiti initiative aimed at achieving similar results.

**Trialling integrated employment and mental health services**

We heard that $4.1 million is allocated for trialling integrated employment and mental health services. District health boards (DHBs) and non-governmental organisations (NGOs) are co-designing the trials in Wātēmatā and Christchurch. The funding is for 1,000 clients.

We asked why these locations were chosen. We heard that Christchurch may have been chosen so that Odyssey House, a significant addiction services provider, could be involved. Another reason could have been difficulties experienced by Christchurch residents after the earthquakes there.

Waitematā was chosen because its DHBs have been exploring an approach linking employment support and mental health services. We heard that evidence shows that this approach has worked well overseas.

We heard that, if the trials are successful, they could affect clinical practice for psychiatrists and psychologists so that employment could come to be seen as part of a client’s therapy.

In a separate appropriation, $3.8 million is allocated over four years (to 30 June 2021) for a mental health and employment social bond pilot. It is intended to reduce welfare dependence and improve mental health outcomes. We were told that the mental health trials are structured differently from, and are more employment-focused than, the social bond pilot.

We look forward to hearing more about the success of these trials.

Reducing benefit dependency

Between 2014 and June 2018, the Government aims to reduce the number of people receiving main working-age benefits by 25 percent—to 220,000. Along with this, it aims to achieve an accumulated actuarial release (that is, an estimated long-term reduction in the cost of benefit dependence) of $13 billion.

We heard that the number of beneficiaries dropped by 0.6 percent in the 12 months to June 2017.

The Minister said that the Government has focused on young people and sole parents on benefits. The number receiving Sole Parent Support fell by 6.3 percent, and the number of 18–24-year-olds receiving Sole Parent Support fell by 15.5 percent. The number receiving Jobseeker Support fell by 0.2 percent, and the number of 18–24-year-olds receiving Jobseeker Support fell by 1.5 percent.

The Minister re-iterated that the targets are “very aspirational”. She said that she is pushing MSD to do more to meet them.

She considers that the actuarial release is a very important component of the target because it highlights which groups are expected to spend the most time on benefits. It focuses the Government on helping long-term unemployed people with complex issues, sole parents, and those with health conditions or disabilities.

The Minister said that some of these people have lost hope of gaining employment, but she emphasised that the Government is working hard to help them gain employment.

Some of us are not convinced of the advantages of the actuarial release target.

Leaving a benefit to go to prison

We note that beneficiaries who go to prison are counted as going off the benefit. The number of beneficiaries being sent to prison has increased significantly in the last three years. Although this helps meet the Better Public Services targets, it is not a good outcome.

The Minister commented that MSD’s purpose is not just to pay benefits. She said that, for example, its intensive case management is about helping people get work and stay in work. However, she said that, if individuals choose to commit a crime, they go to prison.

---

Leaving a benefit to study full time

The number of beneficiaries leaving a benefit to study full time has decreased significantly in the last three years. The Minister commented that this statistic could be affected by more school students staying at school to attain NCEA level 2. She also said that more jobs are now available for those who prefer to go straight into full-time work.

The Minister added that the Government does not tell people what to do. It is up to individuals and their families to decide whether to study or work. The exception is youth services, which encourage young people to study.

What happens to people who stop receiving benefits?

We were pleased to hear that MSD expects to complete a report in late July 2017 about outcomes for those moving off benefits. It will report on outcomes for the cohort that stopped receiving benefits in 2013–14. We look forward to seeing that report.

Results of business simplification programme

MSD’s “simplification” project aims to increase the availability of online access to MSD. One channel is the “MyMSD” app that can be downloaded to clients’ devices for free. The app was designed with clients to be user-friendly.

We heard about the “cheap as” scheme, under which clients are charged very little to use the app. They no longer have to use their personal internet data allocations on the app. This change has increased the number of clients using the app.

We learnt that nearly 10 percent of appointments are now made online. MSD now gets 37,000 online applications each month.

MSD is also trialling telephone case management in rural areas and communities without bus services.

Changes to family violence services

We heard that the family violence portfolio stayed with MSD rather than going to the new Ministry for Vulnerable Children, Oranga Tamariki. This was so the Ministry for Vulnerable Children, Oranga Tamariki could focus solely on children.

The Minister acknowledged that there is not a general increase for NGO services such as Women’s Refuges. However, there is extra funding going into the two “integrated safety response” pilots that started in 2016. The aim is for agencies such as the New Zealand Police, the Ministry for Vulnerable Children, Oranga Tamariki, the Department of Corrections, health agencies, NGOs, and kaupapa Māori services to work together to support victims. The pilots are in Christchurch and Waikato. Women’s Refuges are engaged in these two pilots.

The Minister also said that more funding will be allocated for long-term services to support families after their immediate crises have passed.

In the next Parliament, the Minister would like to continue the development of broader changes to family violence services. She would like to have a framework for that in place by the 2018 Budget.
Employment for people with disabilities

The Minister for Disability Issues is responsible for an appropriation of nearly $4 million in Vote Social Development for promoting positive outcomes for disabled people.

EmployAbility, a scheme to help people into sustainable employment, has been developed from “Project 300”—a 12-month trial that concluded in April 2016. Some clients have found seasonal work, and the Minister wants to expand this to year-round work.

The Minister told us that EmployAbility supports MSD caseworkers to gain experience helping disabled people. There are also services to support workers in their jobs.

The scheme also works with employers. The Minister mentioned Z Energy’s training programme for disabled people. We heard that many graduates from this programme get jobs with Z and other petrol retailers.

The Minister said that some employers were reluctant to take on workers with a disability or a health condition. To help, there is now a telephone hotline for employers who need advice about their workers.

We asked for information on the success of EmployAbility compared with other vocational support services. We were informed that Vocational Services, which are a range of services purchased for disabled people, tend to be targeted towards clients receiving the Supported Living Payment. This is not the key focus group for EmployAbility, and the two programmes are not directly comparable.

We heard that, technically, a disability is a condition that lasts longer than six months. The Minister said that EmployAbility is open to anybody who wants a job and wants to be part of the scheme. It is not limited to people with disabilities.

The Minister pointed out the importance of a good match between employer, employee, and job. She also commented on an incorrect assumption held by many people: that disability employment is about blue-collar work. It should be remembered that disabled people have all kinds of skills, and the right job can often be a white-collar job.

We asked about progress in public sector employment of people with disabilities. The Minister said that State sector organisations have received a “Lead Toolkit” to help them take a leadership role in employing disabled people.

The Minister has asked for information on the number of disabled people employed in the State sector. However, this has proved challenging because some disabilities are undiscernible, and some employees may not want to reveal a disability to their employer.

The Minister said that each organisation designates a “champion” to work with disabled people in their organisation. The champions are led by Inland Revenue and Treasury. Part of their role is to improve the reporting on employing people with disabilities. The Minister also mentioned MSD’s internship programme, which subsidises employers who take on disabled student interns in their chosen field of study. We agree with the Minister that progress is too slow. The Green Party believes we need to clearly recognise experience of disability within the definition of “merit” when appointing people to positions that specifically relate to disabilities.
Appendix

Committee procedure
We met on 7 June and 5 July 2017 to consider Vote Social Development. We heard evidence from the Minister for Social Development, Hon Anne Tolley, the Minister for Disability Issues, Hon Nicky Wagner, and the Ministry of Social Development. We received advice from the Office of the Auditor-General and the Office of the Clerk.

Committee members
Joanne Hayes (Chairperson)
Darroch Ball
Hon Jacqui Dean
Jan Logie
Jono Naylor
Hon Hekia Parata
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper, prepared by committee staff, dated 6 June 2017.
Office of the Auditor-General, Briefing on Vote Social Development, received 7 June 2017.
Minister for Social Development, Response to standard Estimates questionnaire.
Minister for Social Development, Response to pre-hearing questions (questions 1–115), received 6 June 2017.
Minister for Social Development, Response to pre hearing questions (questions 116–209), received 30 June 2017.
Minister for Social Development, Response to post-hearing questions, received 30 June 2017.
Minister for Social Development, Response to questions transferred to Vote Social Development, received 30 June 2017.
Minister for Disability Issues, Response to post hearing question, received 30 June 2017.
# 2017/18 Estimates for Vote Social Housing

Report of the Social Services Committee

## Contents

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation</td>
<td>2</td>
</tr>
<tr>
<td>Introduction to Vote Social Housing</td>
<td>2</td>
</tr>
<tr>
<td>Homelessness</td>
<td>2</td>
</tr>
<tr>
<td>Social housing register</td>
<td>3</td>
</tr>
<tr>
<td>Emergency housing</td>
<td>4</td>
</tr>
<tr>
<td>Purchasing social housing</td>
<td>4</td>
</tr>
<tr>
<td>The People’s Project</td>
<td>5</td>
</tr>
<tr>
<td>Appendix</td>
<td>6</td>
</tr>
</tbody>
</table>
Vote Social Housing

Recommendation

The Social Services Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Social Housing, as set out in Parliamentary Paper B.5 Vol.10, be accepted.

Introduction to Vote Social Housing

Vote Social Housing is a new Vote, coming into effect on 1 July 2017. It contains appropriations that were previously in Vote Social Development and Vote Building and Housing.

The Vote is administered by the Ministry of Social Development (MSD), and its responsible Minister is the Minister for Social Housing.

Vote Social Housing 2017/18 seeks $2.243 billion in appropriations. This is about a 5 percent increase on the estimated actual expenditure for its appropriations in 2016/17. We note that, as Vote Social Housing did not previously exist, this figure is calculated as if the restructuring had occurred before 2017/18.

Most of the Vote is appropriated under:

- “Accommodation Assistance”, which appropriates $1.218 billion, and funds the accommodation supplement, special transfer allowance, and away from home allowance.
- “Social Housing Purchasing Multi-Category Appropriation (MCA)”, which appropriates $901 million to secure and purchase social housing tenancies.

Homelessness

When a person applies to be added to the social housing register, they must identify their current living situation. In 2017, 898 people identified themselves as “homeless”. In 2016 this figure was 428. We asked the Minister how the Government is responding to this increased figure.

The Minister told us that the figure discussed above may not be accurate because it is the result of people self-identifying as homeless. She mentioned that people may try to get a higher priority on the social housing register by claiming they are homeless. Further, as not all homeless people are on the social housing register, she added that it can be very difficult to get complete and accurate data.

Nonetheless, the Minister reminded us of various initiatives that the Government is investing in, such as increased transitional housing and the new emergency needs grants (appropriated through Vote Social Development). It is intended that these projects will reduce the number of homeless people in New Zealand.
In Vote Social Housing 2017/18, $51.383 million is set aside for the Social Housing Outcomes Support MCA. This is a 57 percent increase on what was initially budgeted for the appropriation in 2016/17.

The Social Housing Outcomes Support MCA is intended to operate the social housing register, support people with urgent housing needs, and help to transition people who are capable of housing independence. Most of the funding in the appropriation is intended to be spent on services to support people to access accommodation. This essentially covers the cost of operating the register and conducting needs assessments.

As at 31 March 2017 there were 4,865 applicants on the social housing register. This is 37 percent more than on 31 March 2016. In Auckland, there were 2,015 applicants in 2017, compared to 1,635 in 2016. We asked the Minister for an update on these figures, and heard that there are currently about 3,400 “Priority A” candidates on the social housing register. Priority A candidates have the most complex needs and barriers for accessing and staying in houses. About 1,600 of these candidates are living in “insecure housing”, which includes homelessness.

We asked how long it takes to house someone who is homeless. The Minister said that the ministry tries to find homeless people a secure place to live immediately—including in a motel or another form of transitional housing. This process may take a few days. Longer-term housing solutions take longer—the ministry aims to house Priority A candidates in long-term housing within about 50 days.

We note the Government’s newly established Better Public Services target for social housing, which aims to reduce the time it takes to house Priority A candidates by 20 percent by 2021. We look forward to seeing waiting times reduce.

Some of us are aware of claims that some Work and Income New Zealand offices are turning away homeless people, telling them that there is no emergency accommodation available. The Minister and her officials had not heard reports of that happening, and asked for more information so that they could follow the matter up.

The Minister emphasised that such a response was not her expectation of the offices.

Bad conditions in some of New Zealand’s boarding houses have recently been highlighted in the media. Boarding houses are a temporary housing option, although they are not the Government’s preferred option. The Minister did not know of any boarding houses currently being used for temporary housing.

We asked whether living in a boarding house would affect a person’s priority on the social housing register. The Minister told us that some current Priority A candidates live in boarding houses. She assured us that living in a boarding house would not lower a social housing candidate’s priority.

During the hearing, the Minister agreed to provide us with information about how many children and adults are living in boarding houses while on the social housing register. Some
of us are disappointed that this information was not supplied in the Minister’s responses to our post-hearing questions.

**Emergency housing**

Emergency housing is provided to people who urgently need somewhere to live, and who have engaged with MSD to work through their situation. If MSD is satisfied that there is no other option, a person can be referred to an emergency housing place for up to 12 weeks. MSD continues to work with the person during this time to secure a long-term housing solution.

The Vote appropriates $48.544 million under the Emergency Housing MCA. This is over twice the estimated actual expenditure in 2016/17 of $23.652 million. The 2017/18 appropriation consists of $21.935 million for “Emergency Housing Services”, and $26.609 million for “Provision of Emergency Housing Places”.

The Minister said that the increased funding reflects the Government’s commitment to give help to anyone who asked for housing support. However, she added that, as more transitional housing is developed, she hopes to reduce the need for emergency housing.

We note that the performance standard for this MCA has been raised. The Vote requires that the number of emergency housing places in areas of high demand will be between 2,000 and 2,200, compared to a target of 1,200–1,400 places in 2016/17. The initially budgeted standard in 2016/17 had been set at “no less than 600” places. We asked the Minister to explain this heightened standard. We were told that MSD assessed information from the 2013 Census, the social housing register, and from people applying for the special needs grant for emergency housing. The Emergency Housing Response Team has canvassed regional MSD representatives, and feels that it has a good understanding of the demand for emergency housing, and the levels of supply MSD is able to provide.

We are interested in the rate at which the new emergency housing places are being made available. At 31 May 2017, there were 988 emergency housing places available. The Minister is confident that there will be nearly 1,600 by the end of June, and that the target of 2,150 will be reached by the end of 2017. Some of us are disappointed with this rate of progress.

**Purchasing social housing**

The “Social Housing Purchasing MCA” appropriates $900.851 million in 2017/18. Although this is $60 million more than the appropriation’s 2016/17 initial budget, it is about the same as the 2016/17 estimated actual expenditure. The MCA contains two categories: “Services Related to the Provision of Social Housing” ($400,000 allocated), and “Part Payment of Rent to Social Housing Providers” ($900.841 million allocated).

**Income Related Rent Subsidy**

Part Payment of Rent to Social Housing Providers provides the Income Related Rent Subsidy (IRRS), part of the Government’s financial support for social housing. The IRRS pays social housing providers the difference between the value of a tenant’s income-related rent and the market rent rate.

Most of the appropriation ($820.75 million) is earmarked for five social housing providers: Housing New Zealand, Tamaki Housing Association, Accessible Properties New Zealand, Community of Refuge Trust, and Linkpeople. This leaves $80 million not yet allocated. We sought confirmation from the Minister on how this money will be spent. We learnt that the
balance of $80 million accounts for expected increases in both market rents and the number of social houses in the providers’ portfolios.

**Achieving performance standards**

The 2017/18 performance standard for the Social Housing Purchasing MCA is for no fewer than 67,000 social housing places to be provided. We asked for an update from the Minister on this figure. She told us that, on 1 March 2017, there were 63,100 places provided. In addition, there are about 1,600 market renters in social houses, and about 1,450 community group housing places receiving rent subsidies. The Minister emphasised that the number of social housing places recorded in this appropriation’s performance does not include everyone who is eligible for, or receiving, social housing.

Some of us are sceptical that the Government will be able to reach its 67,000-place target. We asked how MSD is planning to influence social housing supply in 2017/18. We were told that there are 3,000 social houses, either contracted or currently being delivered, due by 2020. MSD is currently working with housing providers, iwi, councils, investors, and developers to secure additional housing. MSD is also planning to improve its use of the current social housing portfolio; for example, reducing turnaround times between tenancies, conducting tenancy reviews, and attempting to return long-term vacant properties to use.

**The People’s Project**

We asked how the ministry works with homeless people who are not suited or accustomed to conventional housing—for instance, people who have been homeless for many years. The Minister told us about the People’s Project, which is working to reduce Hamilton’s homeless population to zero.

The People’s Project is run by the Wise Group, and supported by a collective of community organisations, including Hamilton City Council, the New Zealand Police, the Ministry of Social Development, Housing New Zealand, the Department of Corrections, Te Puni Kōkiri, Waikato District Health Board, Hamilton Central Business Association, Midlands Health, and the Ministry for Vulnerable Children, Oranga Tamariki.

The project adopted an internationally successful model known as “Housing First”. It has been very successful so far, finding homes for nearly all of Hamilton’s 80 “chronically homeless” people.

The Minister told us that the Government has adopted the Housing First model and has launched a pilot project in Auckland. We heard that the pilot is in its early days, but is making good progress. It has already worked with about 40 high-need individuals. In future, the Minister hopes to expand Housing First so that it would cover the whole country.
Appendix

Committee procedure
We met on 8 June and 5 July 2017 to consider Vote Social Housing 2017/18. We heard evidence from the Minister for Social Housing, Hon Amy Adams, and the Ministry of Social Development, and received advice from the Office of the Auditor-General and the Office of the Clerk.

Committee members
Joanne Hayes, Chairperson
Darroch Ball
Hon Jacqui Dean
Jan Logie
Jono Naylor
Hon Hekia Parata
Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper for Vote Social Housing, prepared by committee staff, dated 6 June 2017.
Office of the Auditor-General, Briefing on Vote Social Housing, received 7 June 2017.
Minister for Social Housing, Response to standard Estimates questionnaire.
Minister for Social Housing, Response to additional questions 1–115, received 8 June 2017.
Minister for Social Housing, Response to post-hearing questions 1–18, received 4 July 2017.
2017/18 Estimates for Vote State Services (social investment appropriations only)

Report of the Social Services Committee

Contents
Recommendation 2
Introduction 2
Data security and client privacy 3
Increasing use of social investment approach 3
Appendix 4
Recommendation

The Social Services Committee recommends that the appropriations for the year ending 30 June 2018 for Vote State Services (social investment appropriations only), as set out in Parliamentary Paper B.5, Vol.5, be accepted.

Introduction

The amount sought in 2017/18 for Vote State Services is $56.5 million. We examined two appropriations within that vote totalling $9.824 million. The Minister Responsible for Social Investment is responsible for these two appropriations. They previously sat in Vote Social Development.

Designing and Implementing Social Investment

The appropriation “Designing and Implementing Social Investment” is allocated $8.804 million. This is 2 percent lower than the $9.018 million estimated actual expenditure for 2016/17 (allocated under Vote Social Development, Departmental Output Expense, Designing and Implementing Social Investment).

The appropriation is for:

- identifying where and how to implement a social investment approach
- assessing how well a social investment approach is being delivered in these areas
- providing tools and support to agencies to assist them in implementing a social investment approach.1

From 1 July 2017, the Social Investment Agency started functioning as a departmental agency hosted by the State Services Commission. It replaced the Social Investment Unit.

The agency is expected to provide social investment advice and support to other social sector agencies to apply evidence-based investment practices to social services. We understand that the agency is intended to build the social investment architecture for the Government and non-governmental organisations (NGOs).

The agency has been given an oversight role for the 14 initiatives included in the Government’s “social investment package”.

Place-based initiatives—national support

“Place-based initiatives—national support” is allocated $1.020 million in 2017/18. This is 67 percent higher than the $0.610 million estimated actual expenditure for 2016/17 (allocated under Vote Social Development, Departmental Output Expenses, Place-based Initiatives—National Support).

---

The appropriation is for providing support for, and evaluation of, place-based initiatives. We note that there are three appropriations—not part of this Estimates examination—related to specific place-based initiatives: one in South Auckland, one in Tairawhiti, and one in Northland.

**Data security and client privacy**

We asked the Minister about the effect on the agency of recent issues that had arisen in a database belonging to the Ministry of Social Development (MSD). Providers who were inputting client information to that database were able to see the folders of other providers. We heard (in another Estimates hearing) that the issue set back MSD’s data collection by about six months.

We heard that the issue was limited to MSD and was not relevant to the appropriations considered in this report. The Minister said that her social investment work programme has not been delayed.

However, she commented that there should be a high level of trust, transparency, accountability, and fair process for data use and data collection.

The Minister said that the agency is discussing broad, high-level limits on data use with NGOs. These discussions would inform the work of various agencies as they adopt and evolve the social investment approach.

**Increasing use of social investment approach**

We heard that agencies in the justice sector were among the first to adopt the social investment approach. They were able to identify, for example, the likelihood of a child’s future involvement with social sector services (such as justice, social housing, and mental health services), based on the child’s early involvement with child welfare services. They were able to identify the effects of certain therapies on these likelihoods and target spending on successful therapies.

The Minister clarified that the social investment approach is being adopted by government agencies in the justice, welfare, housing, education, and health sectors. She agreed that the main challenge is cooperation between the different agencies. She emphasised that it is up to agencies to organise themselves to work collaboratively with each other when helping families with their problems.

The Minister finds it exciting that interventions in certain areas can have positive, long-term effects in other areas. For example, interventions in health and education can have a long-term, positive effect on housing, and interventions in housing can have a long-term, positive effect on health and education.

We were pleased that research is expected to inform government policy in many areas.

The Minister also commented that social investment is a new approach that has not yet been fully developed. She said that the system being built will increase the Government’s confidence in its ability to help people who need help.
Committee procedure
We met on 8 June and 5 July 2017 to consider Vote State Services (social investment appropriations only). We heard evidence from the Minister Responsible for Social Investment, Hon Amy Adams, and received advice from the Office of the Auditor-General.

Committee members
Joanne Hayes (Chairperson)
Darroch Ball
Hon Jacqui Dean
Jan Logie
Jono Naylor
Hon Hekia Parata
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper, prepared by committee staff, dated 6 June 2017.
Office of the Auditor-General, Briefing on Vote State Services (social investment appropriations only), received 7 June 2017.
Minister of State Services, Response to standard Estimates questionnaire.
Minister Responsible for Social Investment, answers to pre-hearing questions, received 7 June 2017.
Minister Responsible for Social Investment, answers to post-hearing questions, received 30 June 2017.
2017/18 Estimates for Vote Vulnerable Children, Oranga Tamariki

Report of the Social Services Committee

Contents
Recommendation 2
Introduction 2
Setting up the new ministry 3
Effectiveness of Children’s Teams 3
Including children’s voices in decision-making 4
Lack of data on abuse in State care 4
Appendix 6
Vote 2017/18 Estimates for Vote Vulnerable Children, Oranga Tamariki

Recommendation

The Social Services Committee recommends that the appropriations for the year ending 30 June 2018 for Vote Vulnerable Children, Oranga Tamariki, as set out in Parliamentary Paper B.5, Vol.10, be accepted.

Introduction

Vote Vulnerable Children, Oranga Tamariki is a new Vote, created on 1 April 2017. In 2017/18, $857.6 million is allocated to Vote Vulnerable Children, Oranga Tamariki. Of this amount, $803 million (94 percent of the Vote) is allocated to the multi-category appropriation “Investing in Children and Young People”. This includes:

- $251 million for intake assessments and early and intensive intervention services
- $503 million for statutory intervention and transition
- $35 million for supporting and developing providers and services
- $13 million for prevention and awareness programmes and services.1

The other 6 percent of the Vote is allocated as follows:

- $21.6 million for the transformation programme (design and implementation of service reform)
- $5.5 million for the 2017/18 portion of multi-year appropriations for a social bond project related to youth offending2
- $9.2 million capital expenditure by the new Ministry for Vulnerable Children, Oranga Tamariki
- $2.9 million for a new Connection and Advocacy Service for children in care
- adoption services ($7.2 million)
- policy advice ($4.2 million)
- data, analytics, and evidence services to better inform decisions ($2.9 million)
- ministerial services ($1.2 million).3

The Vote is administered by the Ministry for Vulnerable Children, Oranga Tamariki. The new ministry started operating on 1 April 2017.

---

2 A social bond is when private and not-for-profit organisations collaborate to fund and deliver services for improving social outcomes. If the services achieve agreed results, the Government refunds the investment, plus a return.
Setting up the new ministry

The Minister for Children told us that the new ministry is starting a four- to five-year programme of change to improve the lives of the most vulnerable children and young people. She said that Stage 1 of the programme includes:

- enhanced access to services
- greater support for the caregivers of the 5,500 children in care
- evidence-based care settings (which includes developing National Care Standards to set out expectations for the care experience of all children and young people in care)
- alternatives to custodial remand.

Stage 2 of the programme examines care support and transition services. Stage 3 involves youth justice and intensive intervention, and Stage 4 involves prevention services.

The ministry has five core service areas:

- prevention
- intervention
- care support
- youth justice
- transition to adulthood.

We were pleased to hear that the transition from Child, Youth and Family to the Ministry for Vulnerable Children, Oranga Tamariki has gone smoothly. The ministry’s chief executive said that changes are starting to become visible. She said that children’s participation is increasing.

We heard that, although elements of the new operating model are in place, it will not be fully in place until further through the four- to five-year transformation programme.

The Minister emphasised the importance of “co-design”. This means involving young people as well as practitioners, non-governmental organisations (NGOs), iwi, and other providers in designing the operating model.

We note that the Estimates show a significant increase of funding from 2015/16 to 2016/17, and again to 2017/18. However, a decrease in funding is projected for future years to 2020/21. We learnt that this is because of expenses relating to the reform of services for children and young people. The Minister also explained that future expenses could change, depending on decisions in future years. For example, Children’s Teams will be evaluated and refined after two years.

Some of us consider that the legislation currently in the House that proposes a new operating model for care and protection services will require significant resourcing if passed. Some of us would have appreciated seeing more information on projections for future years.

Effectiveness of Children’s Teams

Children’s Teams, which were first set up at the end of the 50th Parliament (2011–2014), operate in 10 areas in New Zealand. They work with at-risk children and young people...
whose needs are (just) below the threshold of requiring statutory care and protection or youth justice services. We heard that the teams have looked after more than 3,500 children and have prevented many of them from requiring statutory care.

The Minister commented that Children’s Teams have been good at working out the best order in which the child and family receive services. We were pleased to hear that the re-referral rate to teams is very low. The Minister acknowledged the process for some of the agencies has been quite challenging, as the system was set up without new funding.

The Minister has noticed that teams in different regions work differently from each other.

The Minister confirmed that some people have reported that particular teams had replaced systems in their community that had been working well to protect children. Some described their systems as having been “destroyed”. However, she said that those pre-existing systems had not necessarily been changing the lives of vulnerable children.

The Minister acknowledged that Children’s Teams may not be able to get a perfect outcome for every child because families have very complex needs. We also heard that making a difference comes down to developing a good relationship with a family.

We heard that Children’s Teams are a good template for future intervention and prevention services.

The Minister said that the teams have not seen enough children to properly evaluate their effectiveness. She expects that enough children will have seen enough teams by the end of 2017 for statistics to be analysed. Children’s Teams will be evaluated over the next two years.

Including children’s voices in decision-making

The Minister told us about the Youth Advisory Panel that she established in 2015 to help in the overhaul of Child, Youth and Family. She now has a similar panel of young people to help her develop the new model.

We enjoyed meeting the ministry’s Deputy Chief Executive Tamariki Advocate, Voices of Children. He appeared before the Youth Advisory Panel as part of his employment recruitment process. He helps with advocacy, bringing the voice of the child to the table. He is also responsible for service design. We heard that the ministry is linking children’s voices into 51 particular areas over a four-year period.

We were interested to hear that the ministry collects direct feedback from children, through an app, about what is and what is not working for them.

We were pleased that 149 young people who had been engaged in the development of the youth justice system received NCEA credits for their work.

Lack of data on abuse in State care

In the year to June 2015, 34 caregivers were found to have abused 40 children or young people in State care. The Minister said that she could not tell us more recent numbers because the data collection is being revised. Previously, the only data reported was on physical abuse. The new system will include any form of abuse. This includes emotional abuse and cyber-bullying.

We understand that up-to-date information on abuse in State care will be available in October 2017. We agree with the Minister that this delay is frustrating. The Minister
confirmed that the delay is because the system needs good, accurate baseline data that will be robust in future comparisons.

Some of us urge the Minister to collate and release information under the old reporting framework so that, while we wait for better data, we can have a general idea of the levels of abuse in State care. This would allow us to compare the State’s current performance with its performance in 2015 and earlier years.
Appendix

Committee procedure
We met on 7 June and 5 July 2017 to consider Vote Vulnerable Children, Oranga Tamariki. We heard evidence from the Minister for Children, Hon Anne Tolley, and the Ministry for Vulnerable Children, Oranga Tamariki, and received advice from the Office of the Auditor-General and the Office of the Clerk.

Committee members
Joanne Hayes (Chairperson)
Darroch Ball
Hon Jacqui Dean
Jan Logie
Jono Naylor
Hon Hekia Parata
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Evidence and advice received
In addition to the standard Estimates documents, we considered the following evidence and advice during this examination:

Estimates briefing paper, prepared by committee staff, dated 6 June 2017.
Office of the Auditor-General, Briefing on Vote Vulnerable Children, Oranga Tamariki, received 7 June 2017.
Minister for Children, Response to standard Estimates questionnaire, received 26 May 2017.
Minister for Children, Response to pre-hearing questions (questions 1–115), received 6 June 2017.
Minister for Children, Response to pre-hearing questions (questions 116–146), received 30 June 2017.
Minister for Children, Response to post-hearing questions, received 30 June 2017.
Reports of select committees on the 2013/14 annual reviews of Government departments and Offices of Parliament

Fifty-first Parliament
April 2015
## Contents

<table>
<thead>
<tr>
<th>Department/Office of Parliament/ non-departmental appropriations</th>
<th>Select committee</th>
<th>Date presented</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business, Innovation and Employment, Ministry of</td>
<td>Commerce</td>
<td>20 Mar 2015</td>
<td>9</td>
</tr>
<tr>
<td>Canterbury Earthquake Recovery Authority</td>
<td>Finance and Expenditure</td>
<td>2 Apr 2015</td>
<td>17</td>
</tr>
<tr>
<td>Clerk of the House of Representatives, Office of the (reported with the 2013/14 annual review of the Office of the Ombudsmen and the Parliamentary Service)</td>
<td>Government Administration</td>
<td>12 Mar 2015</td>
<td>39</td>
</tr>
<tr>
<td>Conservation, Department of</td>
<td>Local Government and Environment</td>
<td>7 Apr 2015</td>
<td>41</td>
</tr>
<tr>
<td>Corrections, Department of</td>
<td>Law and Order</td>
<td>7 Apr 2015</td>
<td>47</td>
</tr>
<tr>
<td>Crown Law Office</td>
<td>Justice and Electoral</td>
<td>23 Mar 2015</td>
<td>53</td>
</tr>
<tr>
<td>Culture and Heritage, Ministry for</td>
<td>Government Administration</td>
<td>26 Mar 2015</td>
<td>57</td>
</tr>
<tr>
<td>Defence, Ministry of (reported with the 2013/14 annual review of the New Zealand Defence Force)</td>
<td>Foreign Affairs, Defence and Trade</td>
<td>8 Apr 2015</td>
<td>61</td>
</tr>
<tr>
<td>Education, Ministry of</td>
<td>Education and Science</td>
<td>27 Mar 2015</td>
<td>67</td>
</tr>
<tr>
<td>Education Review Office (reported with the 2013/14 annual review of the Ministry of Education)</td>
<td>Education and Science</td>
<td>27 Mar 2015</td>
<td>67</td>
</tr>
<tr>
<td>Environment, Ministry for the</td>
<td>Local Government and Environment</td>
<td>7 Apr 2015</td>
<td>75</td>
</tr>
<tr>
<td>Foreign Affairs and Trade, Ministry of</td>
<td>Foreign Affairs, Defence and Trade</td>
<td>8 Apr 2015</td>
<td>81</td>
</tr>
<tr>
<td>Government Communications Security Bureau</td>
<td>Intelligence and Security</td>
<td>12 Mar 2015</td>
<td>87</td>
</tr>
<tr>
<td>Government of New Zealand for the year ended 30 June 2014, Financial Statements of the (reported with the Budget Policy Statement 2015)</td>
<td>Finance and Expenditure</td>
<td>4 Mar 2015</td>
<td>89</td>
</tr>
<tr>
<td>Health, Ministry of</td>
<td>Health</td>
<td>7 Apr 2015</td>
<td>127</td>
</tr>
<tr>
<td>Inland Revenue Department</td>
<td>Finance and Expenditure</td>
<td>2 Apr 2015</td>
<td>133</td>
</tr>
<tr>
<td>Internal Affairs, Department of</td>
<td>Government Administration</td>
<td>31 Mar 2015</td>
<td>155</td>
</tr>
<tr>
<td>Justice, Ministry of</td>
<td>Justice and Electoral</td>
<td>23 Mar 2015</td>
<td>159</td>
</tr>
<tr>
<td>Land Information New Zealand</td>
<td>Primary Production</td>
<td>13 Mar 2015</td>
<td>165</td>
</tr>
<tr>
<td>Department/Office of Parliament/ non-departmental appropriations</td>
<td>Select committee</td>
<td>Date presented</td>
<td>Page</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td>-----------------</td>
<td>----------------</td>
<td>------</td>
</tr>
<tr>
<td>Maori Development, Ministry of</td>
<td>Māori Affairs</td>
<td>30 Mar 2015</td>
<td>171</td>
</tr>
<tr>
<td>New Zealand Customs Service</td>
<td>Foreign Affairs, Defence and Trade</td>
<td>8 Apr 2015</td>
<td>181</td>
</tr>
<tr>
<td>New Zealand Defence Force (reported with the 2013/14 annual review of the Ministry of Defence)</td>
<td>Foreign Affairs, Defence and Trade</td>
<td>8 Apr 2015</td>
<td>61</td>
</tr>
<tr>
<td>New Zealand Police</td>
<td>Law and Order</td>
<td>26 Mar 2015</td>
<td>185</td>
</tr>
<tr>
<td>New Zealand Security Intelligence Service</td>
<td>Intelligence and Security</td>
<td>12 Mar 2015</td>
<td>191</td>
</tr>
<tr>
<td>Ombudsmen, Office of the (reported with the 2013/14 annual review of the Office of the Clerk of the House of Representatives and the Parliamentary Service)</td>
<td>Government Administration</td>
<td>12 Mar 2015</td>
<td>39</td>
</tr>
<tr>
<td>Pacific Island Affairs, Ministry of (reported with the 2013/14 annual review of Statistics New Zealand)</td>
<td>Government Administration</td>
<td>12 Mar 2015</td>
<td>193</td>
</tr>
<tr>
<td>Parliamentary Commissioner for the Environment</td>
<td>Local Government and Environment</td>
<td>27 Mar 2015</td>
<td>195</td>
</tr>
<tr>
<td>Parliamentary Counsel Office</td>
<td>Justice and Electoral</td>
<td>23 Mar 2015</td>
<td>201</td>
</tr>
<tr>
<td>Parliamentary Service (reported with the 2013/14 annual review of the Office of the Clerk of the House of Representatives, and the Office of the Ombudsmen)</td>
<td>Government Administration</td>
<td>12 Mar 2015</td>
<td>39</td>
</tr>
<tr>
<td>Primary Industries, Ministry for</td>
<td>Primary Production</td>
<td>7 Apr 2015</td>
<td>205</td>
</tr>
<tr>
<td>Prime Minister and Cabinet, Department of the</td>
<td>Government Administration</td>
<td>31 Mar 2015</td>
<td>211</td>
</tr>
<tr>
<td>Serious Fraud Office</td>
<td>Law and Order</td>
<td>20 Mar 2015</td>
<td>215</td>
</tr>
<tr>
<td>Social Development, Ministry of</td>
<td>Social Services</td>
<td>2 Apr 2015</td>
<td>119</td>
</tr>
<tr>
<td>State Services Commission</td>
<td>Government Administration</td>
<td>7 Apr 2015</td>
<td>227</td>
</tr>
<tr>
<td>Statistics New Zealand (reported with the 2013/14 annual review of the Ministry of Pacific Island Affairs)</td>
<td>Government Administration</td>
<td>12 Mar 2015</td>
<td>193</td>
</tr>
<tr>
<td>The Treasury (reported with the Half-year economic and fiscal update, December 2014)</td>
<td>Finance and Expenditure</td>
<td>26 Mar 2015</td>
<td>231</td>
</tr>
<tr>
<td>Transport, Ministry of (reported with the 2013/14 annual review of the New Zealand Transport Agency, KiwiRail Holdings Limited, and the New Zealand Railways Corporation)</td>
<td>Transport and Industrial Relations</td>
<td>7 Apr 2015</td>
<td>257</td>
</tr>
<tr>
<td>Women’s Affairs, Ministry of</td>
<td>Government Administration</td>
<td>31 Mar 2015</td>
<td>265</td>
</tr>
</tbody>
</table>
Introduction

This is a compendium of all select committee reports on the 2013/14 annual reviews of departments and Offices of Parliament reports presented in the House during the 51st Parliament.

Annual review process

The process of reviewing departmental performance began with the presentation of each department’s or Office of Parliament’s annual report and financial statements of the Government for the year ended 30 June 2014.

The Finance and Expenditure Committee allocates to each select committee the task of conducting annual reviews of the performance of the particular departments or Offices of Parliament. The annual report of each department or Office of Parliament stands referred to the select committee allocated the annual review.

The annual review of a department or Office of Parliament examines both current performance and performance for the previous financial year, as recorded in its annual report and financial statements. The manner in which the annual reviews are conducted is a matter for each select committee to determine.

Consideration of reports by the House

The annual reviews are considered in the House during the committee stage of the Appropriation (2013/14 Confirmation and Validation) Bill. The debate also provides an opportunity for debate on the Government’s financial position.

Annual reviews of security agencies

The annual review reports of the Intelligence and Security Committee, a statutory committee established pursuant to the Intelligence and Security Committee Act 1996, are included for ease of reference.

Annual reviews of Crown entities, State enterprises, and public organisations

Select committees also conduct annual reviews of Crown entities, State enterprises, and other public organisations. The reports of select committees on these examinations are published in a separate compendium (I.21A).
The Finance and Expenditure Committee has conducted the annual reviews of the 2013/14 performance and current operations of Air New Zealand Limited, Crown Asset Management Limited, the Electricity Corporation of New Zealand Limited, Genesis Power Limited, Kordia Group Limited, Meridian Energy Limited, the Meteorological Service of New Zealand Limited, Mighty River Power Limited, New Zealand Post Limited, the Office of the Controller and Auditor-General, and Southern Response Earthquake Services Limited, 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
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation</td>
<td>2</td>
</tr>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Financial and service performance</td>
<td>2</td>
</tr>
<tr>
<td>Organisational structure</td>
<td>3</td>
</tr>
<tr>
<td>SkyCity international convention centre</td>
<td>3</td>
</tr>
<tr>
<td>Exports</td>
<td>4</td>
</tr>
<tr>
<td>Auckland housing</td>
<td>5</td>
</tr>
<tr>
<td>Capital markets</td>
<td>6</td>
</tr>
<tr>
<td>Regional development</td>
<td>6</td>
</tr>
<tr>
<td>Oil and mineral exploration</td>
<td>6</td>
</tr>
<tr>
<td>Procurement reform</td>
<td>7</td>
</tr>
<tr>
<td>Science funding</td>
<td>7</td>
</tr>
<tr>
<td>Appendix</td>
<td>8</td>
</tr>
</tbody>
</table>
Ministry of Business, Innovation and Employment

Recommendation
The Commerce Committee has conducted the annual review of the 2013/14 performance and current operations of the Ministry of Business, Innovation and Employment, and recommends that the House take note of its report.

Introduction
The Ministry of Business, Innovation and Employment (MBIE) was formed in July 2012 by merging four departments: the Ministry of Economic Development, the Ministry of Science and Innovation, the Department of Labour, and the Department of Building and Housing. It is a large, diverse organisation, with 2,800 employees (representing just over 6 percent of the public service workforce) located in 57 offices in New Zealand and 23 branches overseas. It works with 17 portfolio Ministers, and administers 10 votes.\(^1\)

The ministry’s overarching goal is to “grow New Zealand for all”, aiming to increase real average household incomes 40 percent by 2025. MBIE co-leads work on the Government’s Business Growth Agenda, and its responsibilities cover a wide range of economic, building, labour, and science and innovation issues. It works with Te Puni Kōkiri to support the Māori economic development strategy and action plan, He kai kei aku ringa.

David Smol is the chief executive.

Financial and service performance
Departmental expenditure in 2013/14 totalled $579.476 million, 3.6 percent above the previous year’s figure. Departmental revenue of $607.981 million was about $30 million higher than 2012/13, mainly because of more demand for visa services, and the recovery of costs from services provided to WorkSafe New Zealand, which was created out of MBIE in December 2013. The ministry had a net surplus for the year of $28.505 million, about $10 million more than the previous year.

As well as its own spending, MBIE administered a number of large non-departmental appropriations on behalf of the Crown, with expenditure totalling just under $3.65 billion in 2013/14.\(^2\) About a third of the total ($1.1 billion) was for the costs and services of the Accident Compensation Corporation.

Audit opinion
While issuing an unmodified audit opinion, the Office of the Auditor-General assessed the ministry’s management control environment and its systems and controls for measuring financial and service performance as needing improvement—as it did in the previous year. The office told us the assessment reflects the fact that the ministry is still bedding in the necessary changes from its relatively recent creation out of four separate agencies. The auditors consider it is making good progress toward organisation-wide systems, policies,

---

and procedures. MBIE has resolved the high-priority issues raised in last year’s audit, and is aware of and working on the areas where more work is needed.

**Organisational structure**

We discussed the ministry’s efforts to integrate its operations following the merger. We heard that the complex task of combining the diverse IT systems of four agencies had now been completed, along with integrating the financial and payroll systems. All of MBIE’s Wellington staff have now been brought together in one building, which is expected to save $40 million over the term of the 20-year lease. Further savings are expected from higher productivity and lower administrative costs than were possible with staff spread over several locations. The chief executive considers that progress has been good, and about as fast as practicable.

We note that the central agencies carried out a Performance Improvement Framework (PIF) review of MBIE a year ago, rating it as needing development in a number of areas to capitalise on the synergies afforded by the new structure. We understand that improvements have been made in the interim, particularly in financial systems, managing risks, and targeting the ministry’s efforts to areas of the economy presenting the greatest opportunities for improving economic performance. The chief executive told us he is now fairly confident that the ministry’s systems and data are fit for purpose, and real benefits are starting to accrue, although it still has some way to go to achieve the “four-year excellence horizon” proposed in the PIF report.

**Health and safety**

In December 2013 responsibility for health and safety regulation was transferred from MBIE to the newly-created WorkSafe New Zealand. WorkSafe has been allocated to the Transport and Industrial Relations Committee for the 2013/14 annual review.

**Skycity international convention centre**

We had a lengthy discussion with the ministry about Skycity Entertainment Group’s planned convention centre in Auckland, for which MBIE is the Government’s main adviser and negotiator. News reports before our hearing had indicated that additional funding might be sought from the Crown as the estimated cost of the facility had increased by about $130 million. We note that, since our hearing, the Minister for Economic Development has announced that Skycity has agreed not to pursue a financial contribution from the Government, and will instead amend its design so the facility can be completed without additional financial input from the Crown.

Some of us recalled that the Office of the Auditor-General and the Treasury had been critical of the advice provided by the Ministry of Economic Development (now MBIE) before the original decision on a convention centre, and its performance in negotiations with Skycity Entertainment Group. The ministry told us that no specific funding has been budgeted for negotiations. It believes it has the capacity to carry out its role in any negotiations at this stage, but can also draw upon expert advice as necessary.

Regarding the costs and benefits of an international convention centre, we were told that various studies over the years have estimated that such a facility would generate a net benefit for the country, with additional spending in the economy of about $90 million a

---

3 The PIF review, published in December 2014, was carried out in January–February of that year.

4 http://www.beehive.govt.nz/release/skycity-amend-design-nzicc
year, and about 800 additional jobs. Some of us, however, recall an independent report which suggested that only about 18 jobs would be created in the longer term, once construction was completed. The majority of us note that this figure refers to the estimated net impact on total New Zealand employment rather than the jobs in constructing or running the convention centre.

Some of us note that the Treasury’s assessment was that private gains from the centre would exceed the public benefit. The chief executive of MBIE responded that the body of evidence would suggest that there would be net benefit for the country of a convention centre in terms of additional revenue.

Some of us are also concerned that there is international evidence that large convention centres tend to require some form of public subsidy. The majority of us note, however, that clause 12.11 of the agreement with Skycity states “Skycity is entirely responsible for all its costs of operation and management of the NZICC”. Some of us are concerned that subsidies are already implicit in the gambling concessions, land transfer, and international marketing on behalf of the centre.

The ministry said that there is always a point at which it is not worth paying the price to attract a mobile venture to this country. Such things have to be judged case by case. For example, it said, the screen production grants for the film industry seem to be working quite well. It emphasised that a feature of the agreement with Skycity is that it takes the risks rather than the Crown.

We note that Skycity has a strong incentive to see the convention centre completed as the extension to its existing casino licence and concessions allowing additional gambling machines and tables do not take effect until a contract for the facility’s construction is signed.

Exports

We asked about MBIE’s work toward increasing exports to 40 percent of GDP by 2025, a key goal of the Government’s Business Growth Agenda. The ministry said it focuses on the non-primary sectors of the economy, providing funding and services, and working to ensure the regulatory regimes are conducive to export growth. For example, it has been supporting growth in high-value manufacturing and services by funding initiatives such as Callaghan Innovation and grants for business research and development. It continues to support the development of New Zealand’s oil and mineral resources, and areas such as tourism and international education which have seen strong growth. The ministry noted that export possibilities in the services sector are expanding and the traditional distinction between services and manufacturing is eroding, with earnings increasingly coming from “weightless” exports like Xero’s business accounting software.

Some of us contend that current measures to improve export earnings seem not to be working: exports currently represent only 30 percent of GDP, and the proportion is projected to decline by March 2016 to the lowest in 40 years. The ministry pointed out that a short-term challenge in meeting the exports-to-GDP target is that the denominator in the equation is increasing, as the economy is growing quite rapidly. For the proportion of exports to improve, they must grow by more than the 3 to 4 percent rate of GDP growth;

---

this is made even more difficult by recent volatility in the exchange rate and falling global dairy prices.

As to what might help, the ministry said the measures being taken now should make the biggest difference after some time. For example, a Trans-Pacific Partnership, if agreed, would create new export opportunities, as should efforts by New Zealand Trade and Enterprise to improve market access more generally. Other important initiatives include more spending on research and development, encouraging the education and training system to provide skills suited to market opportunities, improving infrastructure such as broadband capability, tapping opportunities with petroleum and minerals, and continuing initiatives to add value to raw commodity exports, such as the Primary Growth Partnerships initiative of the Ministry for Primary Industries.

More broadly, the ministry said, reducing the level and volatility of the exchange rate would make a big difference for export earnings. While views differ on what the Government can do to influence the exchange rate, the current efforts to manage government finances responsibly, and to reduce pressure on interest rates by improving the functioning of sectors and markets like housing, should help in the medium to longer term. It also noted that the world is still recovering from the impact of the global financial crisis; while there are positive signs such as extraordinary growth in demand for tourism and international education from China, parts of the international economy are still fragile, and risks remain.

Asked if the target of increasing exports to 40 percent of GDP is achievable, the chief executive said it is an aspirational and ambitious target which is useful to aim for, but he could not say the ministry has full confidence it can be achieved, as so many factors are beyond the Government’s control.

**Auckland housing**

Noting that the PIF reviewers said MBIE needed more effective partnering in Auckland, we asked what progress it was making to ease the constraints on housing there.

The ministry says it has a good, constructive relationship with the Auckland Council, and works with it and other stakeholders, including a group MBIE chairs called the Urban Chief Executives, on issues to do with economic development, skills, and innovation. Initiatives over the past 18 months have led to the Auckland Housing Accord and the creation of 84 special housing areas, which are expected to bring about 43,000 additional properties onto the Auckland market over the next three to five years. The ministry believes the proposed Auckland Unitary Plan will help by expanding the metropolitan urban limit and opening greenfield areas for housing development, although it notes that progress will also depend on the necessary infrastructure, particularly transport.

In MBIE’s view, a combination of factors have led to the present housing situation. The global financial crisis played a big part by reducing residential property development in Auckland, and New Zealand as a whole, with building consent numbers only now recovering. It is encouraged that Statistics New Zealand has reported consents over the past year reaching their highest level since 2007. In its view a factor not widely recognised is the impact of the leaky building problem on confidence, and hence on the supply of new housing. It believes a catch-up is now occurring from the period 2007 to 2011.
Capital markets

The ministry cites among its key achievements in 2013/14 its work strengthening the regulatory framework for New Zealand’s capital markets. New regulations under the Financial Markets Conduct Act 2013, which came into force in April and December 2014, provide better protection for investors, imposing obligations about the content of disclosure documents, and the governance and trading of financial products. Meanwhile, the Financial Reporting Act, which came into force on 1 April 2014, reduces the financial reporting burden for small and medium-sized companies.6

The ministry expects the new legislation to improve investors’ confidence, lower the cost of capital-raising, and make it easier for companies, especially small start-up ventures, to raise capital by opening up new methods such as crowd funding. It said it was too early yet to gauge the results of the changes, but anecdotal indications were positive. It would, however, take time to rebuild investor confidence, which had been severely affected by New Zealand’s finance company failures and by the global financial crisis. It said the Financial Markets Authority has been engaging with investors to ensure they are aware of the changes. The ministry has also been working with New Zealand Trade and Enterprise to attract foreign direct investment into the country, including some at a regional level.

Regional development

The ministry has started a series of detailed studies of the economic development potential of specific regions. The first was of the East Coast region, examining the challenges and opportunities around Gisborne and Hawke’s Bay; a second study was recently launched of the Northland region. The studies seek to determine what comparative advantages and opportunities each region enjoys as a result of its people, natural resources, proximity to markets and the like, and also what factors might prevent it from realising the benefits. The studies then take a collaborative approach to considering what might be done by the local community, businesses, iwi, and local and central government to address these factors. We heard that a number of Ministers will be involved, along with the Minister for Economic Development, to carry the studies forward.

We consider that the approach has good potential for helping regions of New Zealand to understand the opportunities available and how they might be developed. We will follow the outcome of the studies with interest.

Oil and mineral exploration

We are interested in the ministry’s work in the petroleum and minerals area, given its potential importance for regional economic development and improving outcomes for Māori, as well as for exports and growth more broadly. We asked about progress over the past year, noting that the PIF reviewers had commented that MBIE was still in the early stages of capturing the benefits of our energy and minerals potential, and a significant lift in performance was required. We were told that the ministry made six visits to regions over the past year, to help raise awareness of potential oil and mineral resources, and their possible economic and employment benefits.

As to the likely revenue, the ministry said the potential is hard to gauge. At this stage, the petroleum and oil sector contributes about $4 billion to the economy annually, of which the Crown receives $700–800 million a year in royalties and taxes. The ministry operates a

---

“block offer” tender process for permits to explore for oil and gas. The past two offers have been very successful, attracting much interest from within New Zealand and overseas, with two new international companies taking up permits in each of the last two years. It noted that the process takes time, graduating from gathering seismic data, to proceeding potentially with exploration wells, and depending on the results to production wells, so the results will only be known in the medium term.

We asked about the justification for subsidising the industry, noting that the Government pays for initial seismic surveys and contributes to the cost of hosting petroleum industry conferences. The ministry said it is a matter of judgement, but it considers the expenses worthwhile to increase interest, and ultimately activity. It said that New Zealand’s geology and remoteness make it a relatively high-risk and expensive country for the industry to operate in. Having the Crown acquire some initial basic seismic data helps to open the field and increase interest. MBIE assured us it does so as cost-effectively as it can.

**Procurement reform**

The ministry is the “functional leader” for government procurement services. Since 2009 it has been working to reform the way the Government carries out its procurement, aiming to reduce costs and increase the possibilities for smaller New Zealand businesses to compete effectively as suppliers. It also reviews the procurement capability of State-sector agencies to help them improve. The ministry said that the past year saw an important change in the Government rules of sourcing: rather than agencies being expected to base their decisions on price alone, they are now required to seek “the best value for money, account for all costs and benefits over the lifetime of goods, and take into account social, environmental, and economic effects”. It considers this should make an important difference to the ability of small businesses to participate.

For large all-of-government contracts, a tender system operates with approved “panel” suppliers. The ministry assured us that the panel process is open and public. To be approved, suppliers must be able to operate at the scale required, but the process was carefully designed to avoid the possibility of political interference or other market distortion.

**Science funding**

The ministry has been working on major changes in the funding of the Government’s investment in science research. During 2013/14 it developed a draft national statement of science investment, reviewing the way research and development are funded by government and proposing reforms. Consultation on the draft statement was carried out in late 2014, and the final statement is due to be published shortly.

We heard that there are now 11 national science challenges, which seek to bring together teams of scientists to work on issues of central importance to New Zealand. Teams have been confirmed and work commenced for about half the proposals. It is expected that a total of about $1.6 billion in funding will be allocated to the challenges over a 10-year period.

---

Appendix

Committee procedure
We met on 12 February and 19 March 2015 to consider the annual review of the Ministry of Business, Innovation and Employment. We heard evidence from the ministry and received advice from the Office of the Auditor-General. The advice, evidence, and transcript of the hearing are available on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chair)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received
Ministry of Business, Innovation and Employment, Responses to written questions, received February and March 2015.


Organisation briefing paper, prepared by committee staff, dated 9 February 2015.
2013/14 Annual review of the Canterbury Earthquake Recovery Authority

Report of the Finance and Expenditure Committee

Contents

Recommendation 2
Introduction 2
Financial performance 2
Central city anchor projects 3
Pace of the recovery 4
Social recovery 4
Horizontal infrastructure 5
Residential red zone 5
Organisational transition and governance 5

Appendices

A Committee procedure 7
B Transcript of hearing 8
Canterbury Earthquake Recovery Authority

Recommendation

The Finance and Expenditure Committee has conducted the annual review of the 2013/14 performance and current operations of the Canterbury Earthquake Recovery Authority, and recommends that the House take note of its report.

Introduction

The Canterbury Earthquake Recovery Authority (CERA) leads and coordinates the earthquake recovery effort. In particular, it leads the implementation of the Recovery Strategy for Greater Christchurch and is responsible for some major recovery programmes: overseeing the planning and rebuilding of the CBD, managing the residential red zone, deciding the status of damaged land, and working for the economic, cultural, and environmental wellbeing of the Canterbury community.

In tandem with its work on the recovery, CERA is also working on its transition as an organisation. It became a departmental agency within the Department of Prime Minister and Cabinet (DPMC) from 1 February 2015.

Chief executive

We welcomed John Ombler as CERA’s Acting Chief Executive. He took up the position in November 2014 following the resignation of Roger Sutton.

Financial performance

CERA’s departmental expenditure in 2013/14 totalled $64.04 million, with a surplus of $4.9 million, compared with spending of $44.5 million in the previous year and a surplus of $19.1 million.

As well as receiving funding for its own operations, CERA was responsible for monitoring a large amount of non-departmental expenditure under Vote Canterbury Earthquake Recovery: $619 million of annual appropriations, and $400.6 million of multi-year appropriations for central city “anchor” projects. In 2013/14, $59.2 million of expenditure was incurred against the multi-year appropriations.

Audit opinion

The Auditor-General issued an unmodified audit opinion, but drew attention to three areas of uncertainty. They relate to the amount the Crown will recover from insurance on residential red zone properties, its cost-sharing with the Christchurch City Council for repairs to water infrastructure, and potential changes as CERA moves to its new structure within DPMC.

The auditors also reported that despite some improvements in the past year, both CERA’s management control environment and its service performance information and associated systems and controls remain in need of improvement. CERA’s financial information systems and controls were rated “good”. All of these ratings were the same as in 2012/13.
We expect CERA to address the Auditor-General’s recommendations, and hope to see improvements by the time of our next review. We trust that its new structure as a departmental agency within DPMC will help it improve its systems and controls.

**Unappropriated expenditure**

CERA incurred a large amount of unappropriated expenditure during the year. The total, from a number of items, was $179 million.\(^1\) Expenditure without the authority of Parliament is always a matter for concern. We appreciate that much of the unappropriated spending arose from complex accounting issues around valuations of land, and from cost-sharing arrangements with the Christchurch City Council, where there are still areas of uncertainty. However, as the auditors note, some of this unauthorised expenditure “could have been mitigated by more timely, critical evaluation”.\(^2\) We believe this underlines the importance of reviewing and strengthening CERA’s governance and internal controls as it settles into its new structure as a departmental agency.

**Central city anchor projects**

We reminded CERA of its comment in the briefing to its incoming Minister that the people of Christchurch want a value-for-money rebuild.

We asked how it goes about trimming costs, and how it is addressing the risk that the Christchurch City Council may not be able to contribute its share on time, given its financial shortfall. CERA said it runs careful checks and quantity surveys on all the projects, and trims the estimates wherever it can. It keeps in close touch with the council to make sure it can meet its share when payments fall due, and is open to varying the timing of projects, such as the stadium, to ensure the council can meet its commitments under the cost-sharing agreement.

To some of us, the costs of projects being undertaken seem extravagant, with $7 million estimated for the redevelopment of Victoria Square, $25 million for the Margaret Mahy playground, and $100 million for the Avon River precinct. Some of us also pointed out that residents take comfort from Victoria Square as one of the few undamaged areas in the central city, and that they question the need for change when they would give higher priority to facilities like a library, a swimming pool, and repaired roads.

CERA said the $7 million estimate for Victoria Square relates to repair work on the Bowker Fountain, which was destroyed by the quakes, and repairs to the land which was also severely damaged, even though it did not appear so. It said Victoria Square’s redevelopment has been part of the blueprint for the central city since 2012, as it forms a central point of the Avon River precinct. At present, however, the plans are on hold while a seven-month programme of consultation is being undertaken. CERA assured us that consultation with the community will be full and genuine.

Some of us again expressed concern that budget appropriations have been made for the anchor projects before business cases have been prepared, as it does not seem sound financial management not to know how liabilities will be shared between ratepayers, taxpayers, and the private sector. CERA explained that all of the projects will have detailed businesses cases prepared before any capital is released. We note that progress is on track for the first stage of the Avon River precinct and construction of the bus interchange, but

---

1 Annual report, p. 106.
2 OAG, Briefing to the committee, p. 8.
there have been delays with the metro sports facility, convention centre precinct, and the “east frame” residential development.

Convention centre

Asked about the predicted cost of the convention centre, CERA said it cannot be estimated at this stage of planning, and that direct comparisons cannot be made with the $15 million cost of the original 1997 building. Apart from the time difference, the concept is entirely different, involving conference and exhibition facilities on twice the scale. The planning also envisages associated hotel, residential, and commercial development.

We note that a business case for the convention centre has been released publicly, but with many parts blanked out. CERA said that because of the commercial confidentiality of many matters, it would be surprised if it could release a detailed business case before commercial arrangements were finalised. It added that the ownership structure is still under negotiation; the Crown is dealing with a consortium called Plenary Conventions New Zealand, which is one-third owned by each of Ngāi Tahu, Carter Group, and Plenary Australia. Accor, as the preferred operator at this stage, is providing advice on how best to construct a convention centre to maximise the economic returns. No decisions have been made at this stage on the proportion of the ownership of the convention centre that will be public.

Activity in the CBD

We realise that a hub is needed to attract activity back into Christchurch’s CBD, and asked about progress in getting government employees back into the city centre. CERA told us that about 2,000 government employees are expected to work in the CBD eventually. A new justice and emergency services precinct, which will provide for the return of many civil servants to the city centre, is being constructed. We were told that several private-sector firms have buildings under construction, and it is estimated that in four years’ time over 15,000 people will be working in the central city. The estimated value of developments given consent so far in the CBD totals $1.1 billion.

Some of us were concerned that the costs of breaking existing long-term leases and/or increased rentals will be borne from within existing regional budgets of government departments and agencies, with no additional appropriation from Government.

Pace of the recovery

Asked how the pace of recovery in Canterbury compares with international experience, CERA said it is hard to make comparisons as the circumstances of natural disasters differ so much. It said it believes New Zealand is making very good progress, but it is clearly a long-term process, from emergency response, to restoration of services, rebuilding, and finally regeneration. While Canterbury is mostly through the emergency phase, some people are still struggling, with tarpaulins over their homes. Significant headway is being made with restoration, and reconstruction and regeneration have begun, so in some degree all four phases are occurring simultaneously.

Social recovery

CERA told us a major focus has been on social recovery and wellbeing; it runs or supports various programmes to help the people of Christchurch recover from the stresses caused by the earthquakes. It noted that the top four stressors are living in a damaged environment surrounded by construction activity; loss of recreational, cultural and leisure facilities; transport difficulties; and dealing with insurance issues.
We heard that wellbeing surveys have shown some improvement, with the proportion of residents reporting high levels of stress decreasing from 23 to 21 percent, but this is still above the national average of 17 percent. Satisfaction with the overall quality of life has increased from 74 to 77 percent, but there is still some way to go to reach the national average of 82 percent. CERA acknowledged that some residents are still struggling, and it is seeking to work out ways of getting targeted support and assistance to them. We are aware that residents in the eastern suburbs, those with complex land issues, and people on low incomes face particular difficulties.

**Horizontal infrastructure**

Repairs to roads and pipes are being managed by SCIRT, an alliance of CERA, the Christchurch City Council, the New Zealand Transport Agency, and five private contracting companies. CERA reports that the repair programme is about half-way through on average, although roads are only 27 percent complete. It pointed out that roads are deliberately being left to last so they do not have to be dug up repeatedly.

Some of us expressed concern about reported comments that the cost of repairs is too high and quality needs to be cut. Any reduction in the initial quality of repairs would be of concern for ratepayers, who will have to bear the long-term burden of maintenance. CERA said that an independent review is looking at both the quality and cost of the proposed repairs to horizontal infrastructure. A draft is expected to be completed by the end of March, as a basis for discussion between the Government and council, which will cover cost and quality implications. Asked whether the Crown contribution to horizontal infrastructure repairs is capped, CERA said there is provision in the cost-sharing agreement with the council for varying the Crown contribution. It believes it is too early to draw conclusions about the ultimate state of the road network.

**Residential red zone**

We were told there were no instances in which the Crown had received more money from an insurance settlement than it had paid to the property owner. Regarding Option 2 (land-only) settlements, CERA informed us that the Crown is still in discussion with the Earthquake Commission but the sale and purchase agreements for such properties make provision for the vendor to receive a top-up of the difference if EQC’s eventual payout to the Crown exceeds the price paid to the vendor.

**Organisational transition and governance**

The Canterbury Earthquake Recovery Act 2011 expires in April 2016. As work on the recovery will clearly take longer, a plan is being proposed for the transition to long-term arrangements.

We heard that the plan is expected to be released in draft form by late April and finalised by July 2015. An advisory board has been established, chaired by Rt Hon Dame Jenny Shipley, and including local leaders and representatives of non-government organisations, businesses, and the community. We were told that the board is also considering governance and leadership arrangements for greater Christchurch’s long-term recovery. CERA said it is still not known whether any legislative powers from the Act may be needed longer term.

---

3 The Stronger Christchurch Infrastructure Rebuild Team.
As a first step in the transition, CERA became a departmental agency within DPMC from 1 February 2015. We heard that the change has gone smoothly, and being closer to the centre of Government is expected to help strengthen CERA’s ability to coordinate activities. Regarding the change of chief executive, John Ombler told us he has been well received; the staff are very engaged, and are committed to getting on with the job.
Appendix A

Committee procedure
We met on 11 March and 1 April 2015 to consider the annual review of the Canterbury Earthquake Recovery Authority. We heard evidence from CERA and received advice from the Office of the Auditor-General.

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

Eugenie Sage replaced Dr Russel Norman for this item of business.

Evidence and advice received
Canterbury Earthquake Recovery Authority, Responses to written questions, received February and March 2015.


Organisation briefing paper, prepared by committee staff, dated 9 March 2015.
Appendix B

Transcript of hearing of evidence 11 March 2015

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

Witnesses
John Ombler, Acting Chief Executive, Canterbury Earthquake Recovery Authority
Warwick Isaacs, Deputy Chief Executive, Implementation/Director, Christchurch Central Development Unit
Benesia Smith, Deputy Chief Executive, Strategy and Governance
Kelvan Smith, Deputy Chief Executive, Corporate Services
Mike Shatford, Deputy Chief Executive, Communications
Martin Langridge, Chief Financial Officer

Bennett OK. Welcome, John and your team. We’ve got you down till 11 o’clock, so if you want to start, give us a brief introduction. You’ve got a handout here that you wanted to go through, so feel free to go through that, and then we’ll ask some questions, OK?

Cosgrove Can we ask how long your presentation’s going to take?
Ombler It’s 13 slides. I’d hope that we’d be done in less than 20.
Cosgrove Pardon
Ombler Less than 20 minutes—15.
Bennett Twenty minutes probably is a bit longer than we normally get, so, you know, if you can cut it down—
Ombler OK, we’ll try to do it in about a minute—about a minute a slide. OK, we’ll go very, very quickly. So going to slide two straight off—it’s one out of the road. So that you know, some of the people you’re looking at around the...
table and behind me, that’s the team that’s here to assist you with your questions.

Unidentified Sub in Michelle for Mike.

Unidentified Mike’s there twice, rather than Michelle.

Ombler Oh yes, indeed. You’re quite right. Yes, and Michelle’s not here today. Apologies from her. So CERA’s priorities—just wanted to let you know that we’ve identified at a high level three priorities for the organisation. The first one is all about people recovery in Christchurch, which is as you’d expect. The second is about the built environment. And the third is about the transition that the organisation is currently engaged in, which we can—I’ll talk about a little bit on the last slide.

Looking at the area of social recovery, as I said, our primary focus is on people and the recovery of the people of Christchurch. And some of these statistics are encouraging, but there’s still a wee way to go. I’d point out that with the overall quality of life, while things have improved from 74 to 77, the national average is 82. So even to hit the national average, there is a wee way to go. And the second one about experiencing high levels of stress, it’s decreased from 23 to 21, but, again, a wee way to go to the national average of 17. So that gives you a wee bit of a feel for how we’re going in Christchurch. And the top four stressors we note on the page there, so you can see where they are.

I would point out that even though the sort of headline statistics are heading in the right direction, there are some people for whom that’s not the case, and we can look at a finer cut of this in order to figure out where those groups of people are and target effort accordingly.

Going to the fifth slide, which is looking at the residential red zone, you’ll see that in the flatlands, in particular, there’s been a very large *take up of the Crown offer and large progress with settlements. In the Port Hills, it’s running at a slightly slower time line, and there’s a slightly lower acceptance rate. And I think that’s understandable, and I can talk more about that if you wish.

Moving to slide No. 6, this is an interesting one showing the pace of building activity in the recovery, across three difference sectors of infrastructure—non-residential and residential—of significance from pre-earthquake to now. There’s four times the level of overall construction, and you can see that broken down by sector. The greatest increase, of course, is in housing.

Dyson Is that consentable construction, John?

Ombler Consentable construction?

Dyson So it wouldn’t cover a whole lot of repairs and stuff, is that right? What does it mean?

Ombler I will have to ask somebody else. We will answer that question separately.

Dyson Because it doesn’t mean anything.
Ombler  Looking at slide No. 7—land use recovery. This is almost the wrong heading; it should be more about housing. It shows with the dark line the amount of new housing—these are figures, month by month, so this isn’t a total line, if you like. It needs to be added together by quarter. And also replacement housing in the purple, and a net new housing in the lighter green. So there’s, in fact, more houses now than there were pre-quake.

Going to slide No. 8, which is another look at where the development’s occurring. Apologies for how hard it is to read, but I still felt it was worth putting it in, because it shows where some of the new housing development area and new business development areas are across Christchurch.

So moving on to slide No. 9 in the interests of speed, you’ll see horizontal infrastructure and some of the headline numbers on the progress with fixing the Three Waters and roading. And you’d see that roading is lagging behind, and you’d expect that because, as we all experience roads being dug up frequently, it’s nice to try to leave the last bit of that until the last pipe’s done. And it doesn’t always seem to be like that but, certainly, roading will always be the last one to get out of the blocks.

Moving to slide No. 10, with the central city. It was a rather useful map—a heat map—showing where some of the consented developments in the central city are. Total estimated value there of $1.1 billion. And as recently as this morning’s paper there’s announcements of further developments in the central city. I think one of the questions that was on people’s minds after a lot of the central city was demolished and people had moved out towards the suburbs a little bit in the meantime was: would they move back? And I think what we’re seeing here is that for many people, yes indeed, they’ve got confidence and are investing in that central city. And we can talk more about that in questions if you wish.

Going to slide No. 11, the CERA-delivered anchor projects, which are central to that central city development, and you can see in the top line some of the project lifecycle status. Some things are far further advanced than others in that process, and you can see along the bottom Gantt chart broad time lines for capital work. I should point out that we’re looking at some rephasing of some bits of that at the moment, and it’s likely to change a little.

Going to slide No. 12, which is economic recovery, and you can see that after the slump that you’d imagine after the time of the earthquakes, Christchurch and Canterbury have boomed away with the focus on recovery and are still running above the national average. And if you look at the right-hand graph—looking at unemployment—Christchurch has a lower rate than elsewhere, which I guess, again, is to be expected. But it means that the Canterbury economy is booming.

Slide No. 13—and this is the last one we’ll dwell on: the transition programme. This is a year where Government has signalled change for the Canterbury Earthquake Recovery Authority. We became a departmental agency of Department of Prime Minister and Cabinet on 1 February. We have an advisory board of local leaders—both political leaders and
community leaders and business leaders who are helping advise us and the
Minister as we prepare a transition plan, a draft, by late April and a final by
July, so that as we approach the expiry of the Canterbury Earthquake
Recovery Act in April, we have a plan about what next. And so that’s going
full steam ahead at the moment. I would have to say it’s an interesting
challenge to be, on one hand, flat out on trying to continue with the rebuild
and recovery at the same time planning for a post-CERA world, working
very closely with local authorities and other Government departments as we
do so.

So that’s where we’re at, at the moment, and hopefully that’s a useful
overview of the sort of high-level indicator of the state of recovery. And
very happy to answer questions you may have, and I hope I haven’t taken
too much time with that.

Bennett No that’s been great, John. That’s perfect, and thank you for your
preparation in preparing that as well.

Dyson Congratulations on your appointment, first of all, and acknowledgment of
Warwick’s departure and the contribution he’s made, not all of which I’ve
agreed with but we’ve discussed that in the past.

I want to ask you about Victoria Park. It’s one of the few parts of the CBD
that looks like it used to look like and it feels quite reassuring to a lot of us,
particularly people who are still mourning the loss of so many of our
heritage buildings, some of which were lost because of a determination by
CERA rather than the quakes. So there’s quite a tension in our city over
having something to look back on that looks the same.

And then we hear that you’ve got this great new redevelopment planned for
Victoria Park which is going to cost millions. For some of us, we think that
having a library and a swimming pool and flat roads is a higher priority than
moving a statue in Victoria Park. So CERA’s recently revised its alterations
of Victoria Park. Can we just go back to the start on this? Whose great idea
was it to spend millions of dollars changing something that isn’t broken?
Where did that get to, in terms of a proper process, given that there was no
public engagement at all, and millions of dollars spent, according to media
reports, and now where is it up to and how much more money have you
spent?

Ombler I’ll get Warwick to answer most of that question, but just as an
introduction, the blueprint for the central city was, I think, a critical part of
developing a plan that people could sign up to for the central city. That
included a number of elements, one of which was the Avon River precinct
and the development of that. Victoria Square sits within that part of the
blueprint. Warwick, you probably are far better placed than I to answer the
detail of Ruth’s question.

Isaacs To the best I can, John.

Ombler Well, I’ll point out that the entire time this review’s covering, I wasn’t there,
but my colleagues were.
Isaacs  So, John, as you’ve said, it was indicated in the blueprint back in 2012. After that time, once we did negotiations with the council in early 2013 it remained in the blueprint and we actually got approval from the council in 2013 to proceed with that project. With the new council coming on board in late 2013, we engaged again with the new council and we agreed that over time—during last year we agreed what it would look like and then—

Dyson  Give us a clue, what’s “it”?

Isaac  What—it? What is what?

Dyson  Are you talking about—the river? Or Victoria Square?

Isaac  Victoria Square. No, I’m talking about Victoria Square. So Victoria Square was designed as a central point in the Avon River precinct to connect up the linkages, obviously, either side of the park. The work estimated to cost around $7 million was to repair the Bowker Fountain, which was totally destroyed in the earthquake, and also to remediate some of the land. Personally, I was in there not long after the earthquake with a USAR person who fell through the land because the land is severely damaged in there. It doesn’t look it, but it is damaged. So there is damage in there.

We did an initial—well, not we, the landscape design experts did an initial plan. We’d talked about it with the council and they said: “Look we’d like you to consider going out with a consultation”. So late last year we decided we would do that and that’s where it is at at the moment. We haven’t, as far as I’m aware, changed our original thinking that was in the paper, in the Press, in the local press mid to late last year.

Dyson  Sorry, Warwick, you are saying you have not changed your plans?

Isaacs  Well, the plans are totally on hold now. We are doing nothing until such time as the consultation is complete and we can see whether actually anything happens at all or whether something like the plans we originally had would proceed. So there are no plans for anything with Victoria Square today.

Dyson  When you say “consultation” you mean consultation in the legal sense?

Isaacs  We’ve got a full 7-month programme of consultation. We’re having a group of representative people who are going to help us make the final decisions around those things. So yes, it’s not a legal sense in there’s not a—the council has a legal 1-month consultation. It is not like that; it’s longer and more substantial than that.

Dyson  It’s not the time, it’s the process actually, in terms of the legal sense. Do you mean consultation or not?

Isaac  Absolutely. Absolutely a consultation.

Sage  In the briefing to the incoming Minister last year, you noted that the people of Christchurch want a value-for-money rebuild. Has CERA re-examined extravagant expenditure such as the $7 million redevelopment of Victoria Square; the extravagant Margaret Mahy playground, $25 million; the
extravagant Avon River precinct, $100 million; and looked at where it can make savings so that we have a value-for-money rebuild?

Isaac I can’t comment on whether it’s extravagant, that’s in a person’s individual view. The work required on the Margaret Mahy playground is to remediate land that was previously used for other activity. It had some contamination in it. It also includes roadworks, the playground itself, and works in the river. So every job we do, we run a full value-for-money lens over the top of it. We get the design, we look at our budget, we trim the design, we get to the budget, we run full expert QS over that. Usually peer-reviewed QS as well to make sure that what we are doing is in accordance with appropriations that we have.

Sage Just a supp on that. The BIM also said that the financial shortfall at the Christchurch City Council meant that the council may not be able to implement its options in terms of contributing to the rebuild in a timely manner. So again I ask: has CERA had a look at the colossal amounts of money that are being spent on some of these anchor projects and seen whether it can trim expenditure so it’s in a better position to actually re-examine the cost-sharing agreement? If there was a political will to do that.

Isaac What we do is we look at our appropriation. We look to see what we have to spend. We’ve engaged with the council on every single project that we have linkages with them, which is all of the anchor projects, to ensure that when we proceed with the project that they can in fact meet their obligations.

Omlber I think it’s worth noting that the Christchurch City Council in its consultation document in the long-term plan has indicated they’ve done that. Noting their commitment to the cost share with the Crown, they’ve talked with us about the need to change the timing of, for example, the stadium and we’re clearly open to discussing that with them.

Dyson I’m just trying to find the right slide, but it doesn’t matter. I just want to ask you a question about the red zone offer and acceptance rates and the cost to the Crown and the cost to individuals. So leaving aside the quake outcast determination of the bare land and commercial property, you’ve got thousands of people who have accepted either the Crown offer on a 2007 RV or have accepted an insurance payout. Are there any examples where in the red zone offer and pay-out process for an individual title the Crown has received more money than has been given to the property owner?

Omlber I can’t answer that question. Anybody help me?

Dyson Well I’d really—it’s not one that I expect you to have off the top of your head.

Bennett You can put that down later.

Dyson I really would like that in writing.

Omlber No problem.

Dyson So is there a single red zone property where the Crown offer has been accepted and the Crown has received more money than has been given—
Ombler We’ll make sure we answer that question.

Dyson OK. Great, can I then—

Ombler Benesia was just saying—just clarify is that under both options one and two?

Dyson Yes.

Ombler It is.

Dyson Yes. You’ve also got a bit of a story about the anchor projects. I still find it puzzling, to be polite in the terminology, that a Minister of Finance would agree to an appropriation in the Budget—a multimillion dollar appropriation for anchor projects like the convention centre, like the Metro Sports Facility, whatever, without a business case. It’s unprecedented to have such shonky financial management and I wouldn’t have called Bill English shonky in terms of his Budget process—

Bennett Let’s stick to the question, OK?

Dyson So when are we ever going to see a business case where any of the anchor projects, and is it going to be made public particularly in regard to who will have the ongoing liability, responsibility, for the ownership and management—where is the burden going to fall—so that we know how much is ratepayers’, how much is taxpayers’, how much is private risk? Where are we up to on any of that stuff?

Ombler If you go to slide 11. Slide 11—you’ll see that there is a business case phase, a planning phase, and a construction phase, and all of the projects do go through a detailed business case prior to release of capital, and Warwick might be able to expand on that.

Isaacs Yes, my understanding is that the convention centre business case has been released publicly, in a redacted form.

Sage Heavily redacted.

Dyson Yes, the little bits that we got.

Isaacs Well, you’d expect a business case prior to going out for construction contracts to be heavily redacted for commercial reasons.

Dyson I would have expected a business case prior to the budget appropriation being made, personally.

Sage Supplementary on the convention centre. The Christchurch City Council spent $15 million in 1997 building its convention centre. This one is twice the size and is $284 million but possibly blowing out to more than that. What is the predicted cost of the convention centre now, and what is it actually going to provide?

Ombler I think it would be fair to say that we haven’t got a number that we can give you at this point. There’s still work happening on it. As you see, the convention centre is still in the planning phase there. There’s still a lot of work going on before we can get to the point of having a definitive figure. And, Warwick, you may be able to add to that.
Isaacs: I think what it’s going to provide is it provides—

Sage: Not generally, but what are we getting for that hundreds of millions of dollars that we didn’t get with the previous convention centre for $15 million?

Isaacs: Well, I think I’m not sure that the $15 million’s entirely comparable given the expiration of time, but nevertheless what we are proposing with the convention centre is a space where there’s seats in a plenary hall for 1,500 people—that is different than the previous convention centre—and also for 2,000 people in an exhibition hall, which is significantly different than the previous convention centre.

The thing we’re trying to achieve with the convention centre is not just the convention centre itself but a precinct. So it’s a mix of retail, a hotel—there’s a hotel already being redeveloped over the road because of the convention centre existing. We want some residential, commercial spaces in there so that it becomes a vibrant part of the central city and it assists the whole of the South Island to recover its tourism industry from the impacts of the earthquake.

Sage: Will the business strategy, or business case, that’s being prepared look at how convention centres work nationally in relation to the Auckland one and the Queenstown one?

Isaacs: Yes.

Sage: And when is that likely to be released publicly—a full business case?

Isaacs: Until, as John has said, such time as we asked for our commercial negotiations we’re not able to release any more than we have.

Sage: So will it be released after all of those key contracts have been signed?

Isaacs: I’m not sure.

Ombler: I think we’d need to look at it at the time, but at the time that our commercial material no longer needs to be kept commercial, in confidence, you’d expect that, but I can’t answer that definitively.

Sage: So are you saying that the public will have no opportunity to see a full business case until after contracts have been signed, and there’s no opportunity to change them?

Ombler: I would be very surprised if we were able to release a business case with full commercial details prior to any commercial arrangements being finalised.

Bayly: Yes, and I can understand that, but my question is: in terms of trying to get employees back into the city centre, what sort of progress is being made in terms of getting Government employees back into the town centre to start getting, delivering the environment back into, you know, back to the norm, as much as it can be?

Ombler: Warwick knows the detail of this and can answer it, so I’ll let him do so.

Isaacs: So not long after the blueprint was released, the Prime Minister actually came down and committed to public servants coming back into the central
city, and so through that commitment there have been a number of buildings, which are under construction now, to provide for that. And the numbers are in excess of 2,000 public servants coming back. In addition to that, under construction right at the moment is the new Justice and Emergency Precinct, which is obviously providing for a number more public servants in the central city.

Dyson Can I just ask a quick supplement on the very point, on the Public Service coming back? I understand that the rental cost, the comparably rental cost, for department A, over here coming into the CBD in the move that you just described is significantly more expensive, and that the department has to find that within their localised operational budget. How are you going with discussions on rental and the cost pressures that Government departments and agencies will bear as a result of this great move back into the CBD?

Ombler So that is something that CERA is not responsible for. That is dealt with—

Dyson You’re responsible for moving them in and taking the credit—[Interruption]

Ombler No, no we’re not.

Bennett No, no, just let him answer it, OK? Just let him answer it.

Dyson That can’t be right.

Bennett No, no, Ruth. He’s answered the question.

Bayly Just to go back on that. We’re seeing 2,000 Government employees going in over time, and obviously when the buildings become finished—what about in terms of the commercial sector? Have you got a view on that in terms of repopulation and—so it’s all about creating that hub, isn’t it?

Isaacs It is certainly. Colliers had done some work mid-last year, which estimated that within 4 years or so from now, there’ll be in excess of 10,000 people working back in the central city. And, if I take a view out of my office, if I was there sitting there now, I’d see the new Deloitte building that’s almost completed; Lane Neave, a local law firm adjacent to that, is well under way; BWC, a number of multidisciplinary engineering style firms are all coming along the river, so those are under way, those developments; and also in the very heart around the retail precinct there’s a number of private sector developments for private sector employees. So 10,000 4 years from now would be what the target is based on Colliers, the work that they’ve done.

Dyson Mr Chairman, could I just make a point, on the question line that’s just been completed, that I don’t think it’s appropriate, in terms of the accountability procedures of a committee, to have perfectly legitimate questions like that answered and you, as a department or entity or whatever, take the credit, first of all for a Public Service move, and then for private investment, but won’t respond to my question about the additional costs caused by the action you’re taking credit for to the Government departments and agencies. In terms of accountability of Crown funds, and our duty as a committee, I think you’ve been negligent.

Bennett OK, Ruth. He answered the question. Jami-Lee.
Good morning. Earlier this morning we had EQC in, and they were talking to us about the work they’re doing and how it compares internationally. I’d be interested to get your view on where you believe Christchurch currently is at in terms of redevelopment, and how that compares internationally with similar disasters that may have taken place overseas.

It’s an interesting question. Recovery is—full recovery from the earthquake is a very long-term process, and certainly we’ve right back, even 4 years ago, looked at international research on, or international experience on, recovery pathways from major disasters. It’d be fair to say that, to a large extent, we’re through what we’d describe as an emergency phase, you know, in the sense there’s an immediate emergency but there’s a longer tail of that for many people; and then there’s a certain level of restoration of services, and we’re making significant headway into restoration; and then there’s rebuild that always comes out of a major disaster where, in fact, so much has been demolished that you actually look at regeneration, and we’re into that process. And when we look internationally, that’s a very long-term journey. We’re making, I think, very good progress, when you look at some comparators. Benesia’s somebody who’s been doing a lot of work on this, and I’ll perhaps ask her to add to my comments.

What I would add is that it’s really difficult to compare internationally, because of the different circumstances that each of the natural disasters have gone through, but if you take an issue-by-issue case, so if you look at Tohoku, where they’re at, and in terms of while they may have paid out a significant amount of earthquake claims in comparison to New Zealand, in terms of developing houses—their houses are about 3,000, I think that they’ve built by this stage, which is 4 years afterwards. And you compare it to the Canterbury situation, where we’ve rebuilt, you know, a significant amount more—so you can’t, you know, directly compare apples with apples.

I think the key thing here is that recovery does go through a number of stages, and using the United Nations work, which is what we’ve used, and kind of speaking from what John has said, in the four phases, one of the issues that we’re going through right now is that we are currently in all phases of recovery at this moment. There’s still a handful of emergency components that we’re in, and that relates to some people who still have tarpaulins over their house, because we haven’t been able to identify them all. We’re in restoration at the same time. We’re also in reconstruction, and we’re also in the fourth phase, where you’re needing to regenerate and revision, kind of, where you’re going to, and that’s why there’s a bit of churn. You overlap that with, kind of, the psychosocial issues that Greater Christchurch people are going through, and you can see that while recovery is on the way, there’s kind of no magic goal in terms of when we’re going to see recovery. What we’re going to see is people and the built environment that looks different to what it was prior to the earthquakes, because of the circumstances and because of the experiences that they’ve had.

In the longer term—just a changof tack slightly—as you continue to recover, CERA powers are going to be expiring next year. Can you talk us
through the planning that’s in place around what will happen once those powers expire?

Ombler Well, I guess there’s an open question—certainly, the Act as it currently is expires. No two ways about that. The question is: are any of those powers needed longer term, and that’s obviously something that we’ll consider and give advice to Ministers on. But, you know, the recovery itself has required the powers of that Act in order to cut through and get recovery moving, and what we’re looking at is sort of future arrangements for a number of the activities undertaken by the Crown, at the moment, through CERA. Some of those could be undertaken in other parts of the Crown, some may cease, because we’ve finished the work, others may go to local government within Christchurch, but there is an open question about whether there’s any other legislative powers are required.

Ross The recent transition to DPMC that CERA undertook—how was that handled, what issues have arisen, was it handled smoothly, is that looking to be beneficial for CERA in the longer term?

Ombler Yeah, it’s interesting. For many people on the ground, there hasn’t been much change at all, and all staff just simply transferred from being CERA employees to employees of a wider DPMC on 1 February. The biggest impact, really, is that we’re a lot closer to the centre of Government, and the ability of DPMC, as is their role, to coordinate the activities of the Crown. In a sense, we’ve been doing that in Christchurch, but now, as part of DPMC, we’re able to do it at a national level as we look to the next phase of recovery, the transition to the next phase beyond having a full-blown CERA as it is in Christchurch.

Prosser Just really a supp on that last question from Jami, and Benesia touched on this when she said, you know, essentially, there’s no magic wand and at the end of this process we’re going to have a city that looks different from the way it did beforehand. Through the CERA process there has been, obviously, consultation, and not everyone’s been happy with that, because, in a process like this everyone’s got their own ideas as to what the outcome should be. How will the transition from CERA, as it has been, to being a section of DPMC—how will that affect the ongoing consultation process, such that is still required?

Ombler I don’t believe it affects it to any great extent. Probably, in a positive sense, the development of the advisory board on transition has brought a number of very significant local leaders together to help guide the next phase of the recovery, and I think that’s been a very, very positive movement. It’s working very, very well. On a day-to-day basis on the ground, it’s the same staff dealing with the same people over the same issues, and I’d like to think it has no detrimental impact and things continue.

Prosser Were there any—and apart from the advisory group, any real benefit from being, you know, more closely linked to the hot seat, as it were?

Ombler Well, I think it makes a difference as you deal with other Government departments that have—we’ve got my colleague, Andrew Kibblewhite, able
Horizontal infrastructure. So I know that the Minister has issued a decree—for want of a less dramatic term—in relation to the quality and cost of repairing horizontal infrastructure. He’s basically said “It’s costing us too much, so cut the quality.”, which is of some considerable concern to those of us who drive over the bumpy roads and think, you know, our dream is a flat road. It might not seem much to aim for, but it’s where we’re heading.

So I want to know, first of all, the fixed cost—you know, this is how much money CERA is, or the Crown is, going to contribute to the horizontal infrastructure and the cost-sharing agreement. Given that that figure was clearly made up, on best guess, you know—nobody could have had a robust estimate of the cost at the time the cost-sharing arrangement was made, but the Crown said that’s a capped contribution. In terms of the review, which I think’s due now, of the horizontal infrastructure cost, is that amount—is the Crown contribution to the cost of repairing our horizontal infrastructure—going to be revised, in light of real figures, and what do we do about the fact that you guys are asking us to cut quality because you want to cut costs?

Warwick is my rep on the horizontal infrastructure governance group and is all over this, and I’ll ask him to reply.

So as far as the cost share—the cost share does talk about the Crown contribution having to potentially go down, stay the same, or increase based on advice that we, the CERA department, give the Ministers around what the independent review actually says. Now that independent review I would expect to be out in draft form sometime later this month, and then it will go through a process of discussion while it’s in draft to make sure that the factual elements of the report are correct, between ourselves and the council, and then both parties will be able to form a view about what does it mean in terms of those costs. Now I’ve said there is provision in the cost share for the Crown contribution to go up, go down, or stay the same. So that’s that issue.

As far as the issue of quality, NZTA is the arm of Government which looks after roads, and they deal with accounts on the roading issue and the roughness, and accounts are taking a whole-of-network approach to roading, and the ultimate determinant of that—and as John has said, the roads are by no means repaired in totality yet, because when you get the chance to have a look at these, I think the numbers are about 37 percent of roads are completed, because the underground pipework has to be finished. So I think it’s a little early to draw too many assessments about what the ultimate state of the road network will be. So how was that?

OK. Just to refocus you on the point of my question, you’re asking—you, not personally, you through your Minister—us, as local residents, to sacrifice quality for cost. I want to say to you that we may not agree with that. We’d quite like quality roads, particularly when what it means is
shifting the long-term burden to ratepayers, because ratepayers will have to pick up the upgrade and ongoing maintenance of a shoddy job that you're overseeing as an organisation. And in that review, from your answer, Warwick, it didn’t sound to me like you were addressing the question at all. It was a very interesting answer, but if you’re a Minister I would have had to have done a point of order to the Speaker—didn’t address the question. So it’s quality, cost. That’s what I’m asking about.

Bennett Have you got anything you want to add?

Isaacs I could, if you wish.

Bennett Yeah, go for it.

Dyson Yes, yes, if you answer—would be great.

Isaacs So the whole purpose of the independent review was not just to look at dollars and cents, but also look at the quality of the repair versus what it talks about in the civil defence guidelines and legislation around the Government’s commitment to a local authority. So the independent review absolutely is about quality and cost, it’s both of those issues.

Dyson OK. I’ve just got one final question to you, John. Your appointment was in very difficult circumstances for the organisation and was made worse by events that everyone is aware of now. I want to hear from you what you’ve done in relation to the staff concerns about their safety, given the circumstances of Roger Sutton’s departure. So how have you communicated the culture, the behaviour, the acceptance, the safety of staff in light of the reason for Roger’s resignation?

Ombler When I arrived at CERA, what I very quickly did was look at a lot of the sort of core organisational health indicators that you’d expect, met with all the staff, individually and in groups, and essentially I was just being myself. I was stating very clearly what my values are, what my expectations of behaviour are. I was listening to people, and what I found was that it was an organisation that had very strong organisational health indicators, very low incidences of grievances or complaints of any form, one of the highest engagement scores I’ve ever seen, and I found a group of staff who were committed to the rebuild of Christchurch and were wanting to simply get on with the job. I’ve been extremely well received by people there, and I’d have to say I’m extremely impressed with the individuals and the organisation. I didn’t find anything that was broken to the extent that it needed, you know, serious repair or anything.

Sage Thank you. Can we go back to the convention centre? If $402 million will only build an eyesore of a convention centre in Auckland, what work has been done in Christchurch in terms of the convention centre to actually review what the costs will be and the quality of what’s delivered? If you’re doing it with horizontal infrastructure, are you also doing it with anchor projects like the convention centre?

Isaacs As John mentioned before, we are still in a process around the design, the business planning, and the commercial negotiations with the cost centre. There were some graphics released when we announced that we’d got down
to a point of having one person—well, one consortium we were going through. People didn’t—in my view, anyway, the general media reports of the graphics were that it was a very nice-looking facility, and obviously part—

Sage

That wasn’t my question. There’s a likelihood that the costs are going to escalate. All other Government agencies have got strong constraints on expenditure. Why doesn’t that apply to the projects like the convention centre, and what is CERA doing to keep the costs down?

Isaacs

We are, as a departmental agency, equally under those cost constraints as any other arm of Government, and we work very, very hard to ensure that the projects that we are required to deliver are delivered in the most value-for-money way possible given the outcomes that we are seeking to achieve with the expenditure.

Sage

One final question: what will the ownership structure be, given that CERA has not disclosed the nature of the public-private partnership?

Isaacs

As both John and I have said, those are still under negotiation. I cannot given you an answer because, right today, there is no final decision.

Sage

Who’s negotiating with whom? Who are you—I mean, Accor is going to be the operator, Ngāi Tahu, Carter Group are involved, and Plenary as preferred developers, but anybody else?

Isaacs

The consortium we deal with is Plenary Conventions New Zealand. That is one-third owned, in proportion, each of Ngāi Tahu, Carter Group, and Plenary Australia. Accor is the preferred operator. They may not end up operating it. They are giving us advice on how best a convention centre itself would be constructed in order to maximise the economic return from that facility.

Sage

What’s the public ownership share of the convention centre likely to be?

Isaacs

Well, at this stage I can give you no answer, because no decisions have been made.

Bennett

OK. Well, thank you very much. We appreciate your time, and keep up the good work, OK.

**conclusion of evidence**
The Government Administration Committee has conducted the annual reviews of the 2013/14 performance and current operations of the Office of the Clerk of the House of Representatives, the Office of the Ombudsmen, and the Parliamentary Service, 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
2013/14 Annual review of the Department of Conservation

Report of the Local Government and Environment Committee

Contents

Recommendation 2
Introduction 2
Restructuring 2
Engagement with Māori 3
Tourism 3
Projects on private land 4
Kauri 4
Marine protected areas 4
Conservation world leader 4
Pest management 4
Appendix 5
Department of Conservation

Recommendation

The Local Government and Environment Committee has conducted the annual review of the 2013/14 performance and current operations of the Department of Conservation, and recommends that the House take note of its report.

Introduction

The Department of Conservation (DOC) manages all New Zealand’s conservation land and waters, comprising one-third of New Zealand’s area, including national parks, marine reserves, and marine mammal sanctuaries. It is responsible for historic heritage—especially where associated with natural heritage—and for recreation on Crown conservation land. It also has an advocacy mandate for conservation more generally.

The department had 1,952 staff as at 30 June 2014. The director-general, Lou Sanson, is responsible to the Minister of Conservation.

Financial performance

In 2013/14 total departmental expenditure was $344.879 million, with a net surplus of $1.958 million.1

Restructuring

In 2013 the department was significantly restructured. The director-general was of the opinion that as a result of the restructuring the department is now an organisation more focused on improving conservation outcomes by working with the community and private sector and engaging all New Zealanders. The director-general advised us the restructuring was one of the biggest ever undertaken in the public service.

The department’s travel spending has increased significantly since the restructuring. We were told that it is trying to improve the sense of connection between staff and managers, who are often not based in the same location. We asked if the national office was “connected” to the passion of frontline staff, and heard that the leadership team is committed to supporting staff’s passion for the environment.

Some areas of the department’s work have been affected by staff shortages, including work with threatened species, processing permits and concessions, and management of huts. The department is trialling a 90-day programme in Nelson-Malborough and the West Coast to address these concerns. The department continues to carry a number of vacancies, and the director-general told us that vacancies allow flexibility in responding to any changes, as the new structure is still being evaluated. Some staff have been employed on fixed-term contracts in the meantime. Most of the money saved on salaries and wages was directed towards the Battle for our Birds project.

We asked if the department would consider returning to the practice of having staff based in field offices, engaging with communities. The director-general told us that he is

---

1 DOC 2013/14 Annual Report, p. 89.
exploring a number of options to strengthen partnerships in the regions. The pilot in Nelson-Marlborough and the West Coast will focus on decision-making on the ground.

One year after the restructuring, the director-general commissioned a report from the consulting firm Taribon. DOC is now 6 months into work on responding to the report’s findings. The director-general acknowledged that he is putting the department “back together again”. A recent survey found that DOC is the most desirable employer in the public sector. However, the director-general told us there is still work to be done to move towards a new organisational culture.

**Engagement with Māori**

Last year’s Treaty settlement legislation enacting the Tūhoe Deed of Settlement also gave Te Urewera status as an independent legal entity. The director-general described this as a “game changer” and said he is excited by this new approach to managing land of great conservation and spiritual value in partnership with Māori. The department is also working with other iwi on tourism and conservation projects which it hopes will benefit both parties as well as the environment.

DOC has a team focused on Treaty settlements, which the director-general said he sees as an opportunity for the Crown, rather than a risk. He said that Treaty settlements are very beneficial for conservation in New Zealand.

When asked what DOC is doing to identify sites of significance to Māori, the director-general told us that this is an issue of great interest to iwi leaders. He acknowledged that many sites are not yet recognised for their importance in New Zealand’s history.

**Tourism**

The department has been heavily involved with the development of Ngā Haerenga, the national cycle trail. We were told that the trails are bringing visitors to more isolated communities. Other benefits include bringing people into contact with nature, and the health benefits of being active. The department is aware that ongoing maintenance will be an issue, and said it is developing innovative approaches to maintenance of the cycleways, including partnering with the Department of Corrections.

We heard that the TVNZ programme “Our Big Blue Backyard” has had a significant impact on marine tourism, encouraging New Zealanders to explore more of their own country. Air New Zealand has invested $2.5 million into promoting marine tourism. Air New Zealand has also partnered with the department to promote New Zealand’s Great Walks. However, we note that the Ombudsmen criticised the decision to increase the number of guided overnight walkers on the Routeburn Track. We asked how the department plans to balance commercial partnerships and growing visitor numbers with the protection of conservation areas. The director-general said he is addressing this issue through increased engagement with conservation boards.

**Fishing licences**

The director-general admitted that a move to electronic licensing in Taupō was not successful. He believes problems over the last summer will be resolved before next summer.
Projects on private land

We asked if funding pest eradication on privately-owned land was the best use of the department’s money. The director-general said he sees great potential in these partnerships, including making more offshore islands pest free, which encourages the return of seabirds and the growth of populations. Recent partnerships have seen the department split the cost of pest eradication with landowners, which the director-general considers better value for money, and it enables projects that might not otherwise have been possible for the department to do on its own.

Kauri

Dieback

We asked about plans for addressing the issue of kauri dieback. The director-general told us DOC is working with the Ministry of Primary Industries, as well as with iwi and councils, to assess the extent of the problem and devise solutions. He believes scientific advances, as well as signage, boardwalks, and public communication will help, but it is early days. In Northland in particular, pigs are a major factor in the spread of dieback, and the department is working with local iwi in the hope of achieving a positive result for kauri and hunters.

Heritage status

We asked whether DOC had investigated the possibility of giving heritage status to the kauri tree in West Auckland that had become a subject of contention and great public interest. It said advice on the matter was given to the Minister of Conservation. A heritage order would have meant the department purchasing the property, and the director-general questioned whether that would be a good use of conservation money.

Marine protected areas

The effectiveness of legislation in ensuring a good standard of protection in marine protected areas has been questioned in the past. The department is drafting a public discussion document and looking at a range of options. The director-general noted that publicly-led marine reserve applications have a greater success rate than those led by the department.

Conservation world leader

New Zealand has one of the world’s highest proportions of land in conservation estate. The department and others in the conservation field have developed expertise in a range of conservation management techniques and technologies.

Pest management

The department operates pest control programmes on 15 percent of conservation land, including 22 percent of all beech forest. It aims to increase the coverage to 50 percent. We asked how the increase would be funded, and were told that science and technology breakthroughs should improve the effectiveness of pest control operations. However, the unpredictability of beech masts makes it harder to plan for pest control in beech forests.
Appendix

Committee procedure
We met on 12 March and 2 April 2015 to consider the annual review of the Department of Conservation. We heard evidence from the Department of Conservation and received advice from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Matt Doocey
Paul Foster-Bell
Joanne Hayes
Julie Anne Genter
Tutëhounuku Korako
Ron Mark
Todd Muller
Eugenie Sage
Su’a William Sio
Dr Megan Woods

Evidence and advice received
Office of the Auditor-General, Briefing on Department of Conservation, dated 12 March 2015.

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

Department of Conservation, Presentation, received 11 March 2015.

Department of Conservation, Responses to written question, received 11 and 19 February 2015.

2013/14 Annual review of the Department of Corrections

Report of the Law and Order Committee

Contents

Recommendation  2
Introduction  2
Education and training in prisons  2
Temporary home and work release  3
Increase in prison population  3
Audio Visual Links system  4
Health services  4
Prison security  4
Appendix  5
Department of Corrections

Recommendation

The Law and Order Committee has conducted the annual review of the 2013/14 performance and current operations of the Department of Corrections, and recommends that the House take note of its report.

Introduction

The Department of Corrections manages offenders who are sentenced to imprisonment or community sentences or held on custodial remand, and provides rehabilitative programmes to address the causes of their offending. It also provides information to the judiciary regarding sentencing decisions, and to the New Zealand Parole Board regarding release decisions.

In 2013/14 the department’s total operating expenses were $1.19 billion (a 2.7 percent increase from 2012/13). The department also incurred capital expenditure of $319 million, of which roughly half was for the construction of a new prison in South Auckland under a public-private partnership.

Education and training in prisons

In the last 18 months, the department has changed the way it educates prisoners. It has been found that almost 60 percent of prisoners fall below a “capable” level of numeracy and literacy, which makes functioning in society difficult, and may have been a contributing factor in their offending. The department hopes that by raising prisoners’ education standards, it will reduce their reoffending.

In the past a uniform approach was taken for all prisoners; now the department has recognised that the education level of prisoners varies, and that a tailored approach to their education is likely to work better. Prisoners are now assessed individually, and then work with a case manager to draw up an education plan that suits their needs.

The department told us that it was also working with trades and industry training agencies to get prisoners placements in their programmes. The department admitted that in the past it had been too rigid about its education programmes; now it was promoting initiative, giving staff more freedom to contribute to the prisoners’ education.

Working prisons

The department is also addressing reoffending by converting all prisons into “working prisons”, which it hopes will give prisoners the skills and attitudes necessary to succeed after their release. We asked about progress on the establishment of working prisons. The department told us that it was going well and that it was continuing to convert prisons around the country to working prisons, and that so far the results were positive. We will continue to monitor progress and look forward to further updates.

Out of Gate programme

We asked for an update on the Out of Gate programme which the department has been running for over two years now. Out of Gate aims to reduce the probability of prisoners’
reoffending by helping them develop a “roadmap” with step-by-step plans for their use upon release. This involves such steps as deciding educational needs, preparing a CV, finding accommodation, opening a bank account, and building family and community support. The department said the programme was going well, and so far had apparently resulted in a small reduction in reoffending.

**Temporary home and work release**

Phillip Smith, a prisoner on temporary home release, recently managed to travel illegally to Brazil. We asked what the department was doing to ensure that this did not happen again. The department assured us that it was taking the breach very seriously, and was reviewing all high-risk prisoners on temporary home and work release. Temporary release is for reintegrative purposes, and is not a test for parole. As a precaution the department has suspended its temporary release programmes of many higher-risk prisoners until a detailed risk assessment can be made of the prisoners concerned.

We were concerned that perhaps the department had overreacted by suspending work release programmes. We were told that the temporary work release of approximately 25 percent of such prisoners had been suspended. Letting prisoners leave prison on temporary home or work release poses a clear risk, and the department wants to be sure it minimises any potential danger to society.

**Aliases and information sharing**

Phillip Smith escaped to Brazil under an alias. Although the department records many prisoners’ aliases in its own database, this information was not previously shared with other agencies that might have benefited from this information. The department told us that it has now shared almost 10,000 aliases with border agencies, which can stop people leaving the country illegally. The department told us it will keep exploring ways to share name and alias databases with other agencies.

**Increase in prison population**

The number of people incarcerated in New Zealand has been increasing, and we asked if the department knew why, and whether it could cope with a demand for prison accommodation exceeding current forecasts. We had heard that Corrections was resorting to holding prisoners in police cells because of a lack of space in prisons. The department told us that the number of people being sentenced to imprisonment was not increasing, but the numbers held on remand was growing. Prisoners were also serving a larger proportion of their sentences: on average, close to 70 percent, whereas five years ago it was only 50 percent.

The department told us that 127 police cells were allocated for their use, but that only a small number of them were normally being used, and under usual circumstances never for more than seven days.

A new prison is near completion in Wiri, South Auckland, which will increase the number of prison cells available. The new men’s prison, with 960 beds, is scheduled to begin operating this year. Many prisoners from South Auckland are scattered around the country, and the department hopes the new prison will help their rehabilitation by bringing them closer to their families and communities. This will also allow the department to retire some of the older prison units around the country.
Corrections staff moving to private employers

We were told that it costs about $20,000 to train a Corrections officer, so were concerned to hear that some Corrections officers had been encouraged to work for private contractor Serco, which will be running the new South Auckland prison in Wiri. The department said that the number of staff concerned was minimal, and that it was in New Zealand’s and the department’s best interest for the new prison to succeed, which depended on experienced staff. We heard that sometimes staff trained by Serco come to work for the department.

Audio Visual Links system

Around 45,000 prisoners make a court appearance from prison every year. In the past this usually involved physically escorting the prisoner to and from court, which is expensive. The department said that in the last year it had reduced escorted court appearances by 5,000, instead using audio-visual links between prisons and the courts. Virtual rather than physical attendance is cheaper for the department, safer for the community, and often preferred by prisoners. We support this initiative.

Health services

We asked what had been done since the death in Corrections custody of Jai Davis to improve measures to prevent such deaths. The department expressed regret about the death of Jai Davis, and acknowledged that procedures had not been followed well. The department assured us that it had learnt from the incident, and had improved procedures, particularly for monitoring prisoners. A coroner is inquiring into the death, and has not yet released his findings.

Health services in prisons are run by the department, and we suggested that it might be more appropriate for these services to be provided by a separate organisation with a focus on health, not security. The department said that in Australia the Department of Health runs health services in prisons, but that this had not changed many of the issues around the provision of health services. Serco has contracted ProCare to provide the health services in the new South Auckland prison, and the department will watch the results with interest.

Prison security

We asked why escapes from custody and the number of prisoners using drugs have declined significantly in recent years. The department said that prisons have been made physically more secure, and security procedures strengthened to detect drugs. We heard that Australian prisons have much more drug use than those in New Zealand. We commend the department for its work in this area.
Appendix

Committee procedure

We met on 25 February 2015 and 1 April 2015 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 February 2015.

Department of Corrections, responses to questions 1–183, received on 23 February 2015.

Department of Corrections, responses to questions 184–207, received on 27 March 2015.
2013/14 Annual review of the Crown Law Office

Report of the Justice and Electoral Committee

Contents

Recommendation 2
Introduction 2
Technology and information management 2
Staffing 2
Crown solicitors funding model 2
Complexity of process 3
Appendix 4
Recommendation

The Justice and Electoral Committee has conducted the annual review of the 2013/14 performance and current operations of the Crown Law Office, and recommends that the House take note of its report.

Introduction

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

Financial and service performance management

In 2013/14, the Crown Law Office’s total revenue was $58.867 million, and its expenditure was $59.511 million, resulting in a net operating deficit of $0.644 million (compared with a 2012/13 net surplus of 0.088 million).

Crown Law received a rating of “good” from the Office of the Auditor-General for its management and control environment, as it has in the previous two financial years. The office received a rating of “very good” for its financial information systems and controls, an improvement on the previous year’s rating of “good”. Similarly, for its service performance information and associated systems, the office had improved its rating to “good” from “needs improvement”. Crown Law said that it is continuing to make changes to focus its services, to improve its efficiency and sustainability.

Technology and information management

The office has updated its ICT since moving into more modern, appropriate premises in 2013. The office believes that its use of digital technologies is more advanced than that of others in the justice sector, including the courts.

Staffing

We noted that the office was employing approximately fifty fewer permanent staff than they did in 2010; we asked if that indicated the office had less work or stretched resources. The office told us that, after a period of extensive change, they have clarified their core business, shedding some functions, which reduced their workload. The vacancies are spread across the organization, mainly among legal and legal support staff, and do not affect any area of their operations disproportionately.

Crown solicitors funding model

The office advised that $4 million they obtained from the Justice Sector Fund did not indicate a lack of resources, but was a contingency to be used for Crown prosecution services, while the Crown Solicitors’ long-term funding model was being developed. We
asked how changes to the model were being received. The office said that the Auckland warrant holder had shouldered much of the burden resulting from staffing reductions, but that the quality and experience of their personnel had enabled them to adjust their services. The office acknowledged the proportion of services being delivered by junior, less-experienced staff was a potential concern, but said it was monitoring its stakeholders’ satisfaction to ensure the quality of its services.

The office pointed out that the new model encouraged the network of Crown solicitors to interact with the office, for example seeking advice and peer review.

**Framework to monitor performance of Crown solicitors**

We asked the office why it had established a new reporting framework for assessing the Crown solicitors network, through the Public Prosecution Unit, and whether it had drawn any reaction.

The office admitted that, prior to the establishment of the new framework, it could review only one of the fifteen crown solicitors per year, and could not monitor sufficiently or appraise the overall quality of services being delivered. The office said that the unit had since developed a system whereby the Crown solicitors would be reviewed more frequently and thoroughly—approximately every three years—and that they were able to deliver tailored feedback immediately from those reviews.

The office said it had received positive reactions from the Crown solicitors it had reviewed under the new framework.

**Crown solicitors’ fees**

We asked the office about the size of the Crown solicitors’ private profits, seeing they are delivering a public service and are largely taxpayer funded. The office said that because of the nature of their partnership, the other work that the Crown solicitors undertake, and confidentiality considerations, it does not have the information to quantify the Crown solicitors’ profits. The office emphasized that maintaining the profitability of the Crown solicitors’ firms ensured the quality of prosecutors representing the Crown, but acknowledged that there was an appropriate threshold for private profit at the taxpayer’s expense.

**Plea bargaining**

Some of us asked the office if the current funding model was encouraging plea bargaining by defendants, in order to avoid the cost and length of trials. The office was aware of this inherent tendency in the system, partly because the Criminal Procedure Act 2013 encourages early negotiation and resolution with defendants. The office is encouraging stakeholders to report any inappropriate plea-bargaining; but in the cases that have been reported, they have not found the complaints to be warranted.

**Complexity of process**

We noted that the office had been focussing cost-control on services like the Crown solicitors’ prosecutions and legal aid, and asked whether the complexity of trials, particularly in the Environment Court, could also be targeted to reduce costs. The office said that parties to legal proceedings are encouraged to simplify them; but that there were inhibiting factors, including risk-averse lawyers.
Appendix

Committee procedure
We met on 26 February and 19 March 2015 to consider the annual review of the Crown Law Office. We heard evidence from the Crown Law Office and received advice from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
Jacinda Ardern
Chris Bishop
Marama Fox
Peeni Henare
Jono Naylor
Alfred Ngaro
Denis O’Rourke
James Shaw
Hon Louise Upston

Evidence and advice received
Crown Law Office, responses to questions, received 20 February 2015.
Organisation briefing paper, prepared by committee staff, dated 23 February 2015.
2013/14 Annual review of the Ministry for Culture and Heritage

Report of the Government Administration Committee

Contents

Recommendation 2
Introduction 2
World War I commemorations 2
Appendix 4
Ministry for Culture and Heritage

Recommendation

The Government Administration Committee has conducted the annual review of the 2013/14 performance and current operations of the Ministry for Culture and Heritage, and recommends that the House take note of its report.

Introduction

The Ministry for Culture and Heritage provides advice on arts, culture, heritage, and broadcasting issues. It reviews legislation, major policy proposals, and developments of significance for the cultural sector. The Ministry is funded through Vote Arts, Culture and Heritage and Vote Sport and Recreation.

The ministry’s total income in 2013/14 was $21.675 million, and its total expenditure was $21.011 million, resulting in a net surplus of $664,000.

World War I commemorations

The ministry is taking a leading role in the programme of events to mark the centenary of World War I. A key project is the Pukeahu National War Memorial Park in Wellington, which is one month ahead of schedule thanks to the early completion of the Arras Tunnel, and we were pleased to be assured that the park would be ready for the 2015 commemorations.

Accessibility

It is important that all New Zealanders are able to participate in national events such as ANZAC Day, and we were pleased to hear that the ministry discusses accessibility issues regularly. It was currently working on access to the National War Memorial Park via the Buckle Street steps, noting some difficulty providing access while retaining the historical elements of the site. We were pleased to learn that wheelchair access would be provided for veterans at the launch of war memorial park. As regards the captioning of televised events such as the inauguration of the war memorial park, responsibility lies with television studios. We welcome information that the opening of Pukeahu National War Memorial Park, the dawn service on ANZAC Day and the National Service on ANZAC Day (both in the park) will have New Zealand Sign Language interpreters. Television New Zealand broadcasts of the national service on ANZAC Day have been captioned every year for at least the last five years and is planned for this year as well.

All other events (like the main Gallipoli event) are not under the control of the ministry, but are through other agencies or local councils. Through the programme the ministry encourages all of its partners to make their activities as accessible as possible, though where sites are of a historic nature this is not always possible. All videos posted by the programme on the WW100 website have captions available.

Special advisor

On 30 April 2014 it was announced that Mike Houlihan would leave his position as chief executive of the Museum of New Zealand Te Papa Tongarewa to take up a 12-month
secondment as a special advisor on military heritage regarding the 2015 ANZAC Day celebrations and the opening of the National War Memorial Park. Three months into the secondment it was announced that Mr Houlihan had resigned and returned to the United Kingdom.

We heard that at the time of the appointment the ministry was aware that Te Papa’s board and chief executive were working through issues, but the appointment was based on the fact that Mr Houlihan is an internationally recognised expert in military heritage—expertise that is thin on the ground in New Zealand—and the ministry felt that he had given good value for money during the secondment. It said it had not been formally requested to hire Mr Houlihan. We are concerned about the suddenness of his departure.
Appendix

Committee procedure
We met on 18 February and 25 March 2015 to consider the annual review of the Ministry for Culture and Heritage. We heard evidence from the Ministry for Culture and Heritage and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Ministry for Culture and Heritage, Responses to annual review questions, received 10 February and 10 March 2015.

Office of the Auditor-General, Briefing on the Ministry for Culture and Heritage, dated 18 February 2015.

Organisation briefing paper, prepared by committee staff, dated 17 February 2015.
2013/14 Annual review of the Ministry of Defence and the New Zealand Defence Force

Report of the Foreign Affairs, Defence and Trade Committee

Contents
Recommendation 2
Introduction 2
Part A: Ministry of Defence 2
Report on women in the NZDF 2
Briefing for the Incoming Minister of Defence 3
Boeing C17 aircraft 3
Part B: New Zealand Defence Force 4
Unlawful fishing 4
Allocation of resources 4
Attrition rates and morale 4
North Korea 5
Deployment to Iraq 5
Appendix 6
Ministry of Defence and the New Zealand Defence Force

Recommendation

The Foreign Affairs, Defence and Trade Committee has conducted the annual review of the 2013/14 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 2013/14 performance of the Ministry of Defence, and Part B focusses on the performance of the New Zealand Defence Force for the same period.

Part A: Ministry of Defence

The Ministry of Defence advises the Government on the defence of New Zealand and its interests, and the acquisition of defence equipment. It also assesses and audits the performance of the New Zealand Defence Force (NZDF). In 2013/14 the ministry’s total income was $13.6 million, and its total expenditure was $13.578 million (2 percent more than the previous year), resulting in a surplus of $22,000.

The ministry received a grade of “very good” from the Office of the Auditor-General for its management control environment and financial information systems and controls. Its service performance information and associated systems and controls were all assessed as “needing improvement” as they were in the last three financial years.

Report on women in the NZDF

In February 2014 the ministry completed a report, Maximising Opportunities for Military Women in the New Zealand Defence Force. The report found that there is still work to be done, particularly to improve recruitment, retention, and progression to senior ranks. We asked what is being done to encourage cohorts of women to join the NZDF, address unconscious bias, and to track bullying, harassment and discriminatory issues. We heard that work is being done to encourage young women to choose the NZDF as a career, and the NZDF’s senior leaders have all attended workshops on unconscious bias. The NZDF said it does not accept any form of harassment or bullying and has systems, and training and education programmes to support this policy.

We wanted to know whether increasing funding for Cadet Corps would encourage more young women to enter the forces. We heard that the NZDF is one of the largest training institutions in New Zealand and it has resources that it uses to provide a number of programmes to attract and train young people, including Cadet Corps and the Limited Service Volunteer programme. We asked why the number of women in the defence force has declined over the last five years. The Chief of Defence Force said he does not know, but he is working very hard to find out.
**Briefing for the Incoming Minister of Defence**

We asked about the meaning of this statement in the Briefing for the Incoming Minister of Defence: “New Zealand’s partners often view the Defence relationship as something that goes hand-in-hand with a close economic relationship”. The Secretary of Defence explained that common diplomatic, trade, and security interests, for example with the ASEAN countries, provide a continuum in a relationship involving defence. We found the statement to be ambiguous, and were assured that such statements would not be included in future documentation.

**Boeing C17 aircraft**

We recently travelled on an Australian Defence Force Boeing C17 aircraft and were impressed by the aircraft and its capabilities. On that occasion we were told that the cost of two C17 aircraft would be a minimum of $600 million, with an operating cost of $20,000 per hour. We asked how the money could be found for this desirable acquisition, and whether replacing five Hercules C-130 aircraft with two C17 aircraft would work in a practical sense. We heard that there is a project in the defence capability plan to consider strategic airlift needs, and replacement of the Hercules C-130 and Boeing 757 aircraft; there is a need to provide air support to operations in Antarctica, and there are only eight to ten C17 aircraft left to purchase. We learned that the purchase has been provided for in the Defence Midpoint Rebalancing Review, and the possibility of making the funds available earlier is being considered.

At present the Ministry of Defence is analysing information on the price and availability of the aircraft from Boeing, and working with the Australian Defence Force to determine how some of the operating costs could be offset. The C17 aircraft would be very desirable for the provision of disaster relief and humanitarian assistance in the Pacific, and contributing to the joint logistics pool for operations in Antarctica. The Secretary of Defence does not consider that the purchase of any C17 aircraft would necessarily provide a complete replacement for the Hercules aircraft, and suggested they could operate side by side.
Part B: New Zealand Defence Force

The New Zealand Defence Force provides armed forces capable of serving the Government’s defence and national security policy objectives, and participating in United Nations and other multi-national operations. In 2013/14 the Defence Force’s total income was $2.302 billion, and its total expenditure was $2.254 billion, resulting in a surplus of $48.3 million.

Unlawful fishing

In January 2015 the offshore patrol vessel HMNZS Wellington and its crew located three vessels, the Songhua, the Kunlun and the Yongding, fishing illegally in the Kamlar region of the Southern Ocean. We asked why the crew did not board the vessels, seize the illegal fishing gear, and detain the vessels. We heard that the captain’s job was to lawfully gain enough evidence to prosecute. The risk of boarding in a dangerous situation on the high seas was assessed as being too great, and the NZDF did not have the legal authority to seize or arrest. We asked about the power to arrest and heard that the United Nations Convention on the Law of the Sea covers piracy, slave trading, and unlawful broadcasting but it does not cover fisheries violations in this region.

Some of us had advice that the failure to confiscate gear used in the illegal fishing was a lost opportunity. Some of us believe that because the vessels were effectively unflagged meant that greater action could have been taken to shut down their operation.

Legal advice from the NZDF to the committee was that they had no power to undertake this action.

Allocation of resources

We asked about the challenges and priorities regarding resource allocation and heard that the NZDF’s top priority is preparing for and undertaking combat operations, training New Zealanders in the army, navy and air force to perform a wide range of tasks in situations of armed conflict. The armed forces are busy with 22 aircraft engaged in missions around the world, one third of the navy at sea, and many army personnel engaged in missions in Africa, the Middle East, and the Pacific.

Attrition rates and morale

We were pleased to hear of the NZDF’s turnaround in attrition rates and morale since a low point in 2012/13 and asked how this had been achieved. We heard that the Defence Midpoint Rebalancing Review, an exercise to cost all aspects of the force’s business to 2030, has given the organisation and its service people and their families more certainty for the future.

We discussed recovery to the capability of 2008/09 and advice that this would take the army 11 years and the navy 16 years; we asked why it would take so long. We heard that these figures were based on a human resource model that assumes you start at the bottom and work your way to the top of an organisation. The NZDF does not believe that this model works any more, and it is looking at different ways to develop its forces and expertise, particularly in the middle ranks. We heard that other defence forces are facing the same issue.
North Korea

We asked how heightened tensions in North Korea are affecting NZDF people deployed in the Korean peninsula. We heard that New Zealand’s role is to form part of a force monitoring the ceasefire; defence force personnel located there are well trained and prepared, which minimises the inevitable risk.

Deployment to Iraq

We asked about the assessed risk of the defence force deployment to Iraq. The Chief of Defence Force said that Iraq is an extremely dangerous place, and that risk mitigation measures will ensure people are the safest they can be. Some of us are concerned that there is no status of forces agreement for this deployment. We were told that while such an agreement would be desirable it is not absolutely necessary to ensure the safety of the service people operating there. Some of us asked about the appropriateness of diplomatic passports for people in the armed forces who are going to Iraq to train people to engage in combat. We heard that diplomatic passports are not just made available for diplomats and others undertaking diplomacy, and that NZDF personnel may travel on official passports.

We asked how the NZDF personnel will be accommodated at Taji and how they will travel around. The Chief of Defence Force was not prepared to provide details, which were confidential in order to protect the forces, but he said that matters of accommodation, force protection and movements are vital to the fulfilment of the mission.

We asked whether NZDF personnel would venture “outside the wire” if attacked. We heard that the NZDF’s job in Iraq is to train Iraqi security forces in Taji camp, and that personnel have the right to protect themselves within the parameters of the mission and the rules of engagement.

We asked about the strategic political situation in Iraq, including the Iranian presence and the expansion of Iraqi militias, and whether this might make deployment of New Zealand forces counterproductive. We heard that the Government has received advice on the complex security situation; no contemporary conflict is a clear-cut two-sided affair. The NZDF took on a similar challenge in Afghanistan and was able to make a difference. In Iraq, New Zealand is part of a coalition providing a military intervention in tandem with diplomatic, ideological, social, and economic elements.

Some of us believe that the low probability of making a positive difference by deploying troops means that risks outweigh any positive benefits to be achieved. Some of us expressed concern about corruption in, and human rights abuses by the Iraqi army and militias, and that this could negate our ability to be effective in achieving our objectives.
Appendix

Committee procedure
We met on 12 March and 2 April 2015 to consider the annual review 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.

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

Evidence and advice received
Organisation briefing paper, prepared by committee staff, dated 5 March 2015.
Ministry of Defence, Responses to written questions, received 10 and 26 March 2015.
New Zealand Defence Force, Responses to written questions, received 10 and 26 March 2015.
Contents
Recommendation 2
Introduction 2
Improving the education system for priority learners 2
Investing in Educational Success 4
PISA ranking 4
Partnership schools kura hourua 4
Novopay 5
Christchurch school reorganisation 5
Early childhood education 5
National standards 6
Tertiary evaluation systems 6
Appendix 7
Ministry of Education and the Education Review Office

Recommendation

The Education and Science Committee has conducted the annual review of the 2013/14 performance and current operations of the Ministry of Education and the Education Review Office, and recommends that the House take note of its report.

Introduction

The Ministry of Education is the lead advisor to the Government on the education system, covering early childhood, primary, secondary, and tertiary education. It acts as steward of the education system, working to raise the performance of the system as a whole.

The ministry prioritised two particular areas in the year under review: improving the performance of the education system for Māori and Pasifika students, those with special education needs, and those from low socio-economic areas; and maximising the contribution of education to the economy. Three of the Government’s Better Public Services goals relate to the education system: to ensure that 98 percent of children starting school in 2016 will have participated in quality early childhood education (ECE), to increase the proportion of 18-year-olds with NCEA Level 2 or equivalent qualification, and to increase the proportion of 25–34-year-olds with advanced trade qualifications, diplomas, and degrees.

The Education Review Office (ERO) is a government department established under the State Sector Act 1988. ERO operates independently of schools and early childhood services, as well as from agencies that set policies and standards, to assure the Government of the quality of education provided and system-wide performance.

ERO’s total revenue for the year ended 30 June 2014 was $28.212 million, an increase of $322,000 from the year ended 30 June 2013.

Improving the education system for priority learners

The ministry is committed to achieving the Government’s Better Public Services target for 85 percent of all students to achieve NCEA Level 2 in 2017. The ministry said it is working individually with schools to tackle specific obstacles to achieving NCEA Level 2.

We were particularly interested in how the ministry is helping ensure that the groups of learners it has prioritised can achieve NCEA Level 2. We were told that NCEA Level 2 is considered a critical qualification, because it equips non-academic students to enter the workforce. The ministry said there are vocational pathways for non-academic students, including trade academies that straddle the secondary and tertiary systems. Trade academies are very successful in their NCEA Level 2 achievement rates.

The ministry is also working with other government agencies, particularly the Ministry of Social Development, to reach students who are going through the family group conference process. The goal is to provide children entering the justice system with a feasible educational pathway that includes NCEA Level 2 if possible. We heard that education
officers from the ministry now attend some Youth Courts, and are getting “outstanding results” by working with judges and Corrections department staff. We heard that students who achieve NCEA Level 2 are less likely to reoffend, and have much better life prospects.

**Māori and Pasifika student achievement**

We are aware that 67 percent of Pasifika students attend schools in income deciles 1 to 3; and 52 percent of Pasifika students who leave high school do so without any qualifications in academic subjects. The ministry agreed that the significant disparity between the achievement of Pasifika and Māori students and others is unacceptable. Substantial progress has, however, been made in lifting Māori and Pasifika achievement in relation to the Government’s target. The ministry expects to meet this target by working with all schools on their charter process; and through targeted interventions and programmes that are specific to Māori and Pasifika students.

We heard that achievement data shows a 7 percent increase between 2009 and 2013 in students achieving NCEA Level 2. The greatest growth and progress has been measured in decile 1 to 3 schools, and particularly among priority learner groups. The number of Māori students leaving school with NCEA Level 2 increased between 2009 and 2013 by 10 percent; Pasifika students, by 12 percent. Results measured against the Better Public Services target at age 18 indicate a 2.4 percent gain for Maori and 3.3 percent increase for Pasifika learners, while the increase across the board is 1.4 percent.

We were told that the Resource Teacher Māori service is being redesigned, with work expected to be completed by the end of 2015. It is expected that this service will focus on supporting Te Reo Māori immersion schools and settings at immersion levels 1 and 2.

**Building on Success**

We asked for a comparison between Te Kotahitanga, which was a professional development programme that helps teachers to improve Māori students’ learning and achievement, and Building on Success, a programme which combined elements of a number of successful programmes. We heard that while Te Kotahitanga significantly improved Māori students’ achievement, and was considered successful, cost and capacity obstacles meant it could not be scaled up to cater for all secondary schools.

The ministry told us that Building on Success combines the successful elements of three existing programmes: Te Kotahitanga, the Starpath programme, and the He Kākano programme. It emphasised the need for school leadership and governance buy-in at an early stage. The ministry said that this programme had greater capacity, and would be available to a larger number of schools than Te Kotahitanga.

**Tertiary completion rates**

We are aware that completion rates for Māori in the tertiary system, especially in universities, are lower than for the general population. We heard that the margin of that difference has decreased, as Māori students have been completing university Bachelor’s degrees at a greater rate than their peers. This is a reflection of efforts made by the Tertiary Education Commission to ensure that institutions set more ambitious targets, and find ways of meeting them.

**Children with disabilities**

We are aware that improving the performance of the education system for students with special education needs is a priority for the ministry. The ministry acknowledged that there
is still some variability in schools’ application of inclusive practices for children with disabilities. We were pleased to find a recent ERO review of schools’ performance in this area has found that 75 percent of schools have “mostly inclusive practices”, a 25 percent increase on a survey conducted in 2010/11.

We were told that ministry staff work with individual schools and children with disabilities, to ensure that wherever possible a disabled child will find an inclusive environment in their local school. Where it is not possible to find a solution with a child’s local school, the ministry can arrange transport to a school that is equipped to meet the child’s needs. The ministry agreed that attitudinal problems sometimes underlie a school’s failure to provide adequate support for disabled children. We hope to see further improvement in ensuring a welcoming environment for all students at their local schools.

The Ongoing Resourcing Scheme (ORS) provides support for students with the highest level of need for special education to participate alongside other students at school. Many children with special needs do not meet the criteria for ORS funding. We are aware that none of the first four charter schools established in 2014 had ORS students on their rolls, and were told that this reflected the geographic distribution of ORS students.

**Investing in Educational Success**

In January 2014 the Government announced that it was investing $359 million in funding a new initiative, Investing in Educational Success (IES), to raise students’ achievement by raising teacher quality. IES is intended to enable the most effective teachers and principals to share their knowledge and expertise with multiple schools. We heard that the ministry has received 504 expressions of interest in trialling the new model from community clusters comprising more than 490 separate schools.

On 8 December 2014 the Minister announced the first 11 Communities of Schools, formed from 82 schools. We were told that ministry staff are working with schools and their communities on the mechanics of creating a community of schools. ERO and ministry staff are devising workshops to help cluster schools’ boards and leaders set up joint achievement challenges that are appropriate to their schools and their communities. We heard that a big advantage of the IES school cluster model will be its workable scale: best-practice knowledge can be disseminated personally to 250 cluster leaders, but not to 2,500 school principals.

**PISA ranking**

The Programme for International Student Achievement (PISA) is a continuing worldwide study by the OECD of 15-year-old school pupils’ performance in mathematics, science, and reading. We are aware of a statistically significant decline in the performance of New Zealand 15-year-old students in mathematical literacy, and to a lesser degree in reading literacy, from 2009 to 2012. However, New Zealand’s performance in both areas is still above the OECD average. The ministry told us that the IES package would allow teachers to share effective teaching practices; coupled with programmes to support mathematics and literacy teaching and learning, this should address New Zealand’s fall in international rankings.

**Partnership schools kura hourua**

We heard that the partnership school model is focused on meeting the needs of priority learners and especially on achievement outcomes. Those running partnership schools enjoy
more flexibility but are more accountable, via the political system, for the achievement of their specified outcomes.

In this context, we asked about the poor performance of the year-old Whangaruru partnership school. We heard that 38 percent of Whangaruru’s roll consists of students who were not previously enrolled in any school in New Zealand; they are some of the most challenged students, with the highest level of need. The ministry is working with the school’s board of trustees and its sponsor to resolve issues concerning management systems and the monitoring of educational outcomes. If they remain unresolved, the school’s status means that further options are available to the Government.

We heard that the first-quarter reports for the first five partnership schools were released on 20 November 2014, and the second and third quarter reports are due to be released in April 2015. The fourth-quarter reports are being processed by the ministry, and are scheduled for release in June 2015.

**Novopay**

We heard that Talent2, the company contracted by the ministry to provide the Novopay school payroll system, had breached its contract numerous times. Negotiations over its unsatisfactory performance led to a substantial settlement in the Government’s favour. However, the net additional cost to the Crown of the Novopay payroll system was $45.41 million. This was spent on remedying the system and getting it fit for purpose. On 17 October 2014 the responsibility for payroll processing and service centre activities passed to Education Payroll Limited, a Government-owned company.

We heard that the end-of-year processing for 2014 started in September 2014, and was completed successfully by November. This meant that Education Payroll Limited has demonstrated that it can perform well in the start-of-year peak load period. However, inaccurate leave balance calculations, a legacy of the previous Datacom system rather than Novopay, remains problematic.

**Christchurch school reorganisation**

Asked about progress on school land disposals in Christchurch, the ministry said that it was retaining school land until it could be sure that it was not needed for any educational purpose. Some sites that were closed after the earthquakes are being retained against the possibility of rebuilding and the return of students to the site.

Adjustments are being made to demographic predictions in the 2013 business case regarding the super-schools at Aranui and at Rolleston. Aranui is likely to have a much larger roll by 2020, but immediate building is not necessary. The ministry is keeping a close eye on development in the east of Christchurch, but does not expect to have to change its assumptions about roll growth in the city substantially.

**Early childhood education**

One of the Government’s Better Public Services targets is to ensure that 98 percent of children starting school in 2016 will have participated in quality early childhood education (ECE). We heard that over the last four years, 11,000 children who otherwise would not have attended ECE have been enrolled, and that New Zealand now has one of the highest ECE participation rates in the OECD.

The ministry said that street-by-street community engagement, in conjunction with data from schools, is its first step to lifting participation in early childhood education. Parents
also receive help to find a place that suits their needs and circumstances. The ministry also works with providers, for example by providing grants to establish 6,250 new ECE places where they are needed. Professional development is given to providers who are not meeting the needs of the community they serve. Quality indicators and a new methodology for evaluating the quality of home-based ECE providers will ensure that providers in this sector are satisfactorily delivering the curriculum, Te Whāriki.

We heard that home-based ECE providers are monitored closely, and that most are meeting the required standards. We heard that New Zealand’s ECE curriculum is world-leading, but that there is scope for more uniform application of the curriculum.

**National standards**

We heard that a new Progress and Consistency Tool (PaCT) for monitoring performance against National Standards is now available to all schools, but its use is not compulsory. PaCT helps teachers make judgments about students’ progress and achievement in relation to the New Zealand Curriculum National Standards. We expressed concern that children’s ranking against their classroom peers was being made known to parents and to their peers. We were told that this was not recommended. While the ministry supports early recognition and targeting of a child who is struggling, it was firmly opposed to the public display of a child’s classroom “rank.”

**Tertiary evaluation systems**

The Performance-Based Research Fund (PBRF) assesses the research performance of degree-granting tertiary education organisations in New Zealand via that of individual faculty members, and allocates funding on the basis of research performance. On 5 March 2014 the Minister for Tertiary Education, Skills and Employment announced changes to increase the efficiency and effectiveness of the PBRF, to be implemented by the next quality evaluation in 2018.

We were briefed on how the evaluations process will be streamlined. We heard that the number of “other research outputs” that count towards evaluation has been dramatically reduced. Requirements for contribution to the research environment and peer esteem have been merged, to make the submission document briefer and more targeted. The peer esteem measure has been retained, instead of a proposed move towards entirely bibliometric assessment. The PBRF will continue to assess researchers’ performance individually rather than by faculty.

Asked whether the compliance demands of the PBRF evaluation system risk diverting academics from research, the ministry said that triangulated bibliometric analysis of New Zealand’s research performance is encouraging. New Zealand’s share of indexed prestige publications has risen and so has the share of citations. Relative to the world, New Zealand researchers and universities are doing well.
Appendix

**Committee procedure**

We met on 18 February and 25 March 2015 to consider the annual reviews of the Ministry of Education and the Education Review Office. We heard evidence from the Ministry of Education and the Education Review Office and received advice from the Office of the Auditor-General.

**Committee members**

Dr Jian Yang (Chairperson)
Hon Judith Collins
Hon David Cunliffe
Catherine Delahunty
Paul Foster-Bell
Hon Paul Goldsmith
Chris Hipkins
Melissa Lee
Tracey Martin
Jenny Salesa
Hon Maurice Williamson

**Evidence and advice received**


Education sector briefing paper, prepared by committee staff, dated 11 February 2015.

Education Review Office, Responses to written questions received 30 January and 3 March 2015.

Ministry of Education, Responses to written questions received 2 February, 6 March, and 12 March 2015.
2013/14 Annual review of the Ministry for the Environment

Report of the Local Government and Environment Committee

Contents

Recommendation 2
Introduction 2
Resource management 2
Climate change 3
Partnerships with iwi 4
Review of the Environmental Protection Authority 4
Appendix 5
The Local Government and Environment Committee has conducted the annual review of the 2013/14 performance and current operations of the Ministry for the Environment, and recommends that the House take note of its report.

**Introduction**

The Ministry for the Environment (MfE) is the Government’s primary adviser on the New Zealand environment, and matters that affect the environment. Its three long-term objectives are to:

- ensure that New Zealand’s fresh water is well governed and sustainably managed
- strengthen environmental management systems
- help New Zealand become a low-carbon society.

The ministry also monitors the performance of the Environmental Protection Authority.

In 2013/14 MfE’s total expenditure was $50.561 million, with a net surplus of $1.211 million.

**Resource management**

**Environmental reporting**

In its briefing to the incoming Minister, the ministry stated that an opportunity to advance New Zealand’s environmental management system was by improving information and evidence. We asked what was being done to increase the credibility of environmental reporting data. The ministry highlighted its involvement with Land, Air, Water Aotearoa (LAWA), in which it partners with regional councils, the Cawthron Institute, Massey University, and the Tindall Foundation. This organisation, established in 2014, consolidates and analyses environmental data.

The ministry has also formed partnerships to improve data quality. For example, it jointly published the 2014 Air Domain Report with Statistics New Zealand. We were told that this was released ahead of the Environmental Reporting Bill’s enactment, because the ministry considers there is a need for environmental reporting to get underway. The first synthesis report on the state of New Zealand’s environment is expected to be released in mid-2015, also in advance of the bill coming into effect.

We asked the ministry what its response was to the Parliamentary Commissioner for the Environment’s commentary on the 2014 Air Domain Report. The ministry said it welcomed the commissioner’s comments, and supports the overall recommendations, adding that its relationship with the commissioner is “very constructive.”

**Freshwater management**

We asked when an improvement in water quality might be visible as a result of the 2011 National Policy Statement for Freshwater Management, and the amended 2014 policy
The ministry stressed that it will take time to see improvement, and that there is currently a lack of key data and appropriate instruments. For example, only eight percent of water bodies have water quality limits in place, with the majority expected to be in place by 2025. It was stressed that the implementation of the Environmental Reporting Bill would help to better assess trends in water quality.

**Resource Management Act 1991**

We were told that the ministry has been working with councils and stakeholders over the last year to implement the amendments from the 2013 Resource Management Act Amendment Bill.

A further Resource Management Act amendment bill is due to be introduced this year. We asked for an update on the matters likely to be included in this legislation. The ministry pointed to matters raised by the previous Minister for the Environment in August 2013, noting that these matters are similar to those outlined by the current Minister in January 2015.

One of the areas mentioned by the current Minister on the next phase of resource management reform is urban planning. We wanted to know how this might affect the unitary planning process that is currently underway in Auckland. We were cautioned that it is difficult to say prior to the bill’s introduction, but that the unitary planning panel is working to timetable and is expected to make recommendations next year.

**Waste disposal levy**

We note that a review of the waste disposal levy in 2014 concluded that better data was needed about the levy’s effectiveness in reducing waste. It also found that the levy was only applied to 30 percent of total waste disposed of on land because it is only payable at landfills that accept household waste. We asked the ministry what it was doing in response to the review’s findings, and were told that a project is currently underway to address the issues.

**Product stewardship**

We asked about the ministry’s relationship with industry, particularly in terms of product stewardship. Four priority areas were set in the previous Parliament: electronic and electrical equipment; tyres; agrichemicals and farm plastics; and refrigerants and other synthetic greenhouse gases. The ministry told us that advice is currently being prepared for Ministers about this.

**Climate change**

The ministry attended the 19th United Nations Framework Convention on Climate Change’s Conference of the Parties in Warsaw, and is aiming to conclude a new global climate change agreement in Paris in December 2015.

As it was not discussed in the Lima Climate Change Conference in December 2014, we wondered whether information about the use of public transport as an emission reduction tool would be promoted by the ministry in future climate change talks. The ministry acknowledged that often agriculture emissions are a major focus for New Zealand, but that approximately a fifth of our emissions come from transport. The ministry agreed that New Zealand could reduce its emissions by looking into transport, including switching to hybrid or electric vehicles. We were advised that this potential is being explored.
Sea level rise

We recently considered a report from the Parliamentary Commissioner for the Environment about climate change and rising seas. We asked what the ministry was doing to help councils identify areas at risk from sea level rise. The ministry said that it has been revising its guidance to councils on the management of sea level rise, and that it is aware of the complexities of sea level rise, especially in terms of insurance. Due to the complexities, the ministry was not convinced that a national environmental standard was a practical solution, stressing that the solution needs to be “owned by the community”. We note that Local Government New Zealand is keen to work with the ministry in this area.

Partnerships with iwi

The ministry engages with Māori in a number of areas which span across freshwater management, resource management, climate change, and the exclusive economic zone. It said that the majority of its engagement is with iwi leaders, and that it has a memorandum of understanding with the Iwi Chairs Forum. The ministry affirmed that this engagement is positive, and a vital aspect of its consideration of environmental matters.

Review of the Environmental Protection Authority

The ministry is required to review the Environmental Protection Authority every three years. We asked when the first review might be available, considering it was due to be completed by December 2014. We were told that it asked the Environmental Protection Authority to undertake a self-review, which was completed, and that its final review document should be available in mid-2015.
Appendix

Committee procedure

We met on 12 March and 2 April 2015 to consider the annual review of the Ministry for the Environment. We heard evidence from the Ministry for the Environment and received advice from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Matt Doocey
Paul Foster-Bell
Julie Anne Genter
Joanne Hayes
Tutehounuku Korako
Ron Mark
Todd Muller
Eugenie Sage
Su’a William Sio
Dr Megan Woods

Evidence and advice received

Ministry for the Environment, Responses to written questions, received 10 February and 30 March 2015.


Organisation briefing paper, prepared by committee staff, dated 10 March 2015.
2013/14 Annual review of the Ministry of Foreign Affairs and Trade

Report of the Foreign Affairs, Defence and Trade Committee

Contents

Recommendation 2
Introduction 2
Deployment to Iraq 2
United Nations Security Council seat 3
Refugees from Syria 3
Trade 3
Diplomatic immunity 5
Official Information Act requests 5
Modernisation programme 5
Appendix 6
Ministry of Foreign Affairs and Trade

Recommendation

The Foreign Affairs, Defence and Trade Committee has conducted the annual review of the 2013/14 performance and current operations of the Ministry of Foreign Affairs and Trade, and recommends that the House take note of its report.

Introduction

The Ministry of Foreign Affairs and Trade promotes and protects New Zealand's interests overseas. It provides advice on international relations, works to advance and protect New Zealand’s security and trade interests, administers New Zealand’s overseas aid programme, and provides consular support for New Zealanders overseas. It is also the Government’s official channel for communications with other countries and international organisations.

In 2013/14 the ministry’s total income was $362.8 million, and its total expenditure was $366.1 million after re-measurements, resulting in a deficit of $3.3 million.

Office of the Auditor-General assessment

The Office of the Auditor-General assessed the ministry’s management control environment, financial information systems and controls, and service performance information and associated systems and controls as “good”, suggesting that certain improvements were desirable.

Deployment to Iraq

We asked about the ministry’s involvement in the decision to send New Zealand Defence Force (NZDF) personnel to Iraq and heard that most of the discussions took place in New York because the ministry does not have representation in Iraq. We heard that the letter the Iraqi Government had written to the United Nations Security Council requesting military assistance provides the legal authority for New Zealand’s deployment of troops to Iraq. The letter was followed by discussion and a visit to New Zealand by Iraqi Foreign Minister Ibrahim al-Ja’afari in February 2015. New Zealand’s representative in Abu Dhabi has also discussed the deployment with the Iraqi Government.

We expressed our concern at the lack of a status of forces agreement for the deployment to Iraq, and were told that the important issue is not the existence of such an agreement per se, but the conditions under which New Zealand troops will operate. Negotiations will seek to provide the necessary legal protections for New Zealand’s troops. Officials said that Australia has negotiated such an agreement with Iraq, which is not a status of forces agreement but which officials suggested covers the major issues that such an agreement would typically cover. New Zealand is seeking a similar arrangement, and Ministers have made it clear that appropriate protections need to be in place before New Zealand deploys any troops.

We discussed the implications of the proposal that the New Zealand troops will travel on official passports. Such passports are normally issued to people who are travelling overseas on behalf of the Government but are not exercising a diplomatic function. The issuing of an official passport signals that the bearer has a particular status, and the precise status it
will confer on the New Zealand personnel will depend on the arrangements negotiated with Iraq. Some members of the committee expressed their opposition to the deployment of military forces as trainers to Iraq.

**Human rights violations by Iraqi forces**

Some of us noted that recent documentary evidence had revealed gross violations of human rights by Iraqi forces trained and armed by the US, and asked whether this would influence the decision to deploy New Zealand troops in a training role. We heard that the ministry is following events in Iraq very closely, looking into reports of human rights violations and advising the Government to consider them carefully; but ultimately deployment is a decision for Ministers to make. Some members of the committee expressed concern over the risk of training some Iraqi forces which may have been engaged in recent human rights abuses.

**United Nations Security Council seat**

We asked what influence New Zealand has been able to exert as a result of having a seat on the United Nations Security Council. We heard about a recent situation where New Zealand convened a special meeting to hear Afghanistan’s concerns about a resolution regarding a United Nations force in Afghanistan. As a result the resolution was changed, and adopted with the support of the whole council and the Afghan Government, which was a considerable achievement. New Zealand is currently the “penholder” on the Syrian humanitarian group, drafting resolutions calling for the delivery of humanitarian supplies to Syria without necessarily requiring the consent of the Syrian Government.

We asked which issues New Zealand is planning to focus on when it assumes the presidency of the Security Council in July. We heard that such decisions are still being made, but peacekeeping and security threats to small island States may be on the agenda.

We asked about resourcing for New Zealand’s contribution to the Security Council’s work and heard that the ministry has reprioritised its resources to manage within its baseline funding.

**Refugees from Syria**

Since there are now 13 million Syrian refugees, we asked whether New Zealand could accept more refugees from the region. Although the New Zealand Government has not discussed this specific possibility with the ministry, New Zealand’s largest humanitarian contribution over the last few years has been to help people affected by the Syrian conflict. The ministry attends donor conferences and provides advice to the Government on the need for continuing contributions. In light of the expenditure of $62 million on the military deployment to Iraq, some of us believe that New Zealand should provide greater assistance to alleviate the suffering in the region.

**Trade**

**Free Trade Agreement with Russia**

We asked about progress on the free trade agreement with Russia and heard that negotiations with Russia are currently suspended because of the situation in the Ukraine. If the security and political situation improves New Zealand will seek to resume the negotiations.
Free Trade Agreement with Korea

We asked about the role of the ministry in promoting the agreement and helping businesses to take advantage of it. The ministry will work with other government agencies, including New Zealand Trade and Enterprise, to implement the treaty. For example it will make available business-friendly material, such as tariff finders to guide businesses to the relevant preferential tariffs and rules of origin; conduct roadshows around New Zealand to explain the practicalities of the agreement and the benefits to businesses; and answer questions from exporters and importers. The expectation is that trade with Korea will grow following the signing of the free trade agreement, which will level the playing field for New Zealand exporters.

Trade growth

We discussed markets other than China, and heard that there are growth areas in Africa and the ASEAN countries, and discussed the benefits of a free trade agreement with the European Union. East Asia is becoming increasingly important, with a rapidly developing market for New Zealand’s products. Currently 57 percent of New Zealand’s exports are covered by free trade agreements, and this is expected to rise to around 80 percent in the near future.

Exports and GDP

The Government has a goal of increasing the contribution of exports to the economy to 40 percent of GDP by 2025. Some of us are concerned that since this goal was set exports as a percentage of GDP have fallen by one percent despite generally good terms of trade, and are projected to continue falling over the next three years. The ministry explained that the statistics reflect many factors including the exchange rate, and the relative rates of growth of New Zealand and our offshore markets, such as Europe, where growth has been weaker. The implementation of free trade agreements is expected to help. We heard that negotiating the free trade agreement with India is challenging, but the ministry is hopeful that the Indian Government will open up its economy by implementing pro-trade reforms.

Quality of negotiations

The ministry surveys feedback from its peers on the quality of its negotiation of international agreements. Its 2013/14 annual report says that 63 percent of respondents rated the ministry’s work in this area at 4 or better on a 1 to 5 scale, well below its 80 percent target. The ministry will seek to improve its results in this area so that they reflect positive trade negotiation results.

Trans-Pacific Partnership Agreement

We heard that the 12 countries involved in the Trans-Pacific Partnership Agreement (TPPA) are aiming to conclude the negotiations in the first half of this year, and good progress is being made. Some members of the committee questioned whether there had been sufficient consultation with the public and civil society groups regarding the agreement, and heard that discussions have been held with a wide range of groups and organisations and some were open to the public. Some of us raised concerns about getting a good outcome from the TPPA. We heard that New Zealand is seeking a comprehensive result concerning market access in areas of interest to New Zealand. We asked about negotiations between the US and Japan and heard that while some progress had been made these negotiations were not yet concluded.
Diplomatic immunity

Some of us asked why the Minister of Foreign Affairs was not aware of the ministry’s course of action concerning the request for a waiver of the diplomatic immunity of the Malaysian Defence Attaché, Mr Rizalman. The ministry declined to comment, saying it has been advised by Crown Law that the matter, including the Whitehead report on the inquiry into the issue, is sub judice until Mr Rizalman’s trial is over.

Official Information Act requests

We are aware that the ministry has a history of not meeting the statutory 20-day deadline for Official Information Act (OIA) requests, and asked whether the ministry intends to change the method it uses to derive its performance measures in this area to include the number of requests received but not completed. The ministry said it will change the measure used to ascertain the response rate to OIA requests. Approximately eight percent of the total number of OIA requests received in 2013/14 were not completed, mainly because they were received close to the end of the financial year and were answered in the following year. Since the start of the 2014/15 financial year the ministry’s average OIA response time has been 22.7 days, compared to 29 days at the end of 2013/14.

Modernisation programme

We understand that the ministry has modernised its structure and operating model, and that this has involved the devolution of financial and other delegations to overseas posts. We asked whether devolving responsibilities to staff overseas involves any risk. We heard that the ministry has developed decision-making processes to minimise risk, and it also uses internal and external audits.
Appendix

Committee procedure
We met on 19 March and 2 April 2015 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.

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

Evidence and advice received
Office of the Auditor-General, Briefing on the Ministry of Foreign Affairs and Trade, dated 19 March 2015.

Organisation briefing paper, prepared by committee staff, dated 9 March 2015.

Ministry of Foreign Affairs and Trade, Responses to written questions, received 18 February, and 16 and 30 March 2015.
The Intelligence and Security Committee has conducted the annual review of the 2013/14 performance of the Government Communications Security Bureau. The committee heard evidence in public from the Government Communications Security Bureau and received advice from the Office of the Auditor-General.

The committee has no matters to bring to the attention of the House and recommends that the House take note of its report.

Rt Hon John Key
Chairperson
Budget Policy Statement 2015 and Annual review of the financial statements of the Government of New Zealand for the year ended 30 June 2014

Report of the Finance and Expenditure Committee

Fifty-first Parliament
(David Bennett, Chairperson)
March 2015

Presented to the House of Representatives
# BUDGET POLICY STATEMENT 2015 AND ANNUAL REVIEW OF FINANCIAL STATEMENTS

## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation</td>
<td>5</td>
</tr>
<tr>
<td>Introduction</td>
<td>5</td>
</tr>
<tr>
<td><strong>Part A  Budget Policy Statement</strong></td>
<td></td>
</tr>
<tr>
<td>Summary of Budget Policy Statement 2015</td>
<td>5</td>
</tr>
<tr>
<td>Economic context</td>
<td>6</td>
</tr>
<tr>
<td>Fiscal priorities</td>
<td>6</td>
</tr>
<tr>
<td>Housing</td>
<td>7</td>
</tr>
<tr>
<td>Foreign investment</td>
<td>8</td>
</tr>
<tr>
<td>SkyCity international convention centre</td>
<td>9</td>
</tr>
<tr>
<td>KiwiRail</td>
<td>9</td>
</tr>
<tr>
<td>Climate change</td>
<td>9</td>
</tr>
<tr>
<td><strong>Part B  Financial statements of the Government</strong></td>
<td></td>
</tr>
<tr>
<td>Fiscal position for the year ended 30 June 2014</td>
<td>10</td>
</tr>
<tr>
<td>Net Crown debt</td>
<td>11</td>
</tr>
<tr>
<td>Gains and losses on financial instruments</td>
<td>11</td>
</tr>
<tr>
<td><strong>Appendices</strong></td>
<td></td>
</tr>
<tr>
<td>A  Committee procedure</td>
<td>13</td>
</tr>
<tr>
<td>B  Corrected transcript</td>
<td>14</td>
</tr>
</tbody>
</table>
I.3B BUDGET POLICY STATEMENT 2015 AND ANNUAL REVIEW OF FINANCIAL STATEMENTS
Budget Policy Statement 2015 and Annual review of the financial statements of the Government of New Zealand for the year ended 30 June 2014

Recommendation
The Finance and Expenditure Committee has considered the Budget Policy Statement 2015 and conducted the annual review of the financial statements of the Government of New Zealand for the year ended 30 June 2014, and recommends that the House take note of its report.

Introduction
The Minister of Finance’s Budget Policy Statement 2015 was published on 16 December 2014, and stood referred to the Finance and Expenditure Committee. We met with the Minister on 11 February 2015 to discuss the statement and to consider the annual review of the Government’s financial statements for 2013/14, for which the Minister is also responsible. This report summarises the main points from the two documents, and from our hearing with the Minister.

We would normally have considered at the same time the Treasury’s Half-year Economic and Fiscal Update (HYEFU), which contains the forecasts used in preparing the budget policy statement. However because of timing issues, we will consider the HYEFU when we conduct the Treasury’s annual review, and will report on both those items to the House.

Part A  Budget Policy Statement

Summary of Budget Policy Statement 2015
The Budget policy statement summarises the economic and fiscal outlook, and outlines the Government’s plans for Budget 2015 and subsequent years.

The Government intends to continue to focus on four priorities: managing public finances responsibly by returning to surplus and reducing debt, making the economy more productive and competitive, delivering better value for money from public services, and supporting the rebuilding of Christchurch.

The Budget will be delivered on 21 May 2015.

The minister told us that, as in recent Budgets, the priority for new spending will be on health and education. He said the Budget will contain measures to help families and children facing hardship; it will also continue efforts to improve social housing.

A deficit of $572 million (0.2 percent of GDP) is now forecast for 2014/15, compared with a projected surplus of about $300 million. However, the Government continues to expect a surplus when the final accounts are published in late 2015. From 2015/16, increasing surpluses are forecast. Net debt is forecast to fall to 20 percent of GDP by 2020, in line with the Government’s long-term objective.
The allowance for new spending in Budget 2015 will be reduced from the $1.5 billion signalled in last year’s Budget, to $1 billion. New spending in Budget 2016 will be similarly reduced, and the reductions from these two years are expected to allow a higher operating allowance in Budget 2017 than previously envisaged. Subject to economic and fiscal conditions at the time, the Government expects to be able to consider modest tax reductions and/or additional debt repayment in Budget 2017, with an operating allowance of $2.5 billion, almost $1 billion higher than previously signalled.

**Economic context**

The Minister said the forecasts show the economy on track for further solid economic growth. GDP has been growing at an annual rate of about 3.2 percent, and is expected to grow by just under 3 percent on average over the next five years. This is slightly faster than the Treasury forecast in its pre-election update. The challenge, the Minister emphasised, will be to ensure that the projected results are actually achieved, and the growth rate sustained for as long as possible.

Interest rates remain low by New Zealand standards, despite some tightening by the Reserve Bank over the past year. They are forecast to remain around their current levels until late 2015, before rising. Canterbury’s rebuilding continues to contribute to economic activity, and business investment is reasonably good. Job growth of about 80,000 over the past year is expected to continue.

A feature of the present situation is that New Zealand’s relatively strong economic performance compared with other developed countries has brought persistently strong net inward migration. This includes fewer Kiwis leaving, and more choosing to stay rather than seek jobs elsewhere. The net inflow is expected to peak at 52,400 people for the year to March 2015. While job growth has absorbed some of the increase, there has also been a record proportion of the population in the labour force; as a result, the unemployment rate has increased, to 5.6 percent in 2014. For 2015, unemployment is forecast to fall to 5.4 percent.

The international picture shows several risks, with slower growth in Australia’s economy, falling global prices for many commodities, uncertainty regarding the withdrawal of monetary stimulus in the United States and Europe, and risks to China’s financial stability.

**Fiscal priorities**

The budget policy statement ranks the Government’s fiscal priorities in the following order:

1. returning to surplus in 2014/15 and maintaining surpluses subsequently
2. reducing net government debt to 20 percent of GDP by 2020, and repaying net debt in dollar terms in 2017/18
3. further reducing Accident Compensation Corporation levies
4. beginning to reduce income taxes from 2017, with a focus on low- and middle-income earners
5. using any further fiscal headroom to get debt down to 20 percent of GDP before the target date of 2020.

The Minister commented that New Zealand’s recovery is unusual in that inflation has remained lower than expected. This poses a challenge for achieving surplus and reducing
debt: because the Government’s tax take is based on nominal, rather than real, GDP, its revenue is lower than it might otherwise have been. Nevertheless, he believes the fiscal position is sound, and the target the Government has set is likely to be achieved, despite some fluctuations.

Although the Treasury is now forecasting a deficit for the current financial year, the Minister says that the Government continues to expect a surplus when the final accounts are published in late 2015. We note that changes are not unusual between forecasts and the actual results. When the accounts for the six months to December were recently finalised, the Crown recorded an operating deficit substantially less than the Treasury had forecast.

**Better public services**

The Minister emphasised that the Government’s focus is not simply on living within fiscal allowances, but on getting better results from public services, so as to keep the fiscal situation under control in the long run. He commended the Public Service not only for meeting tight fiscal targets in recent years, but more importantly, for managing to get better results from the funding provided.

**Housing**

We discussed the issue of housing affordability at some length. The Minister said the Government is focused on increasing the supply of housing, working with local councils. He believes the problem is that planning rules and other factors have led to a relatively small proportion of lower-value housing coming onto the market. According to the Productivity Commission, 25 years ago about 30 percent of new housing stock was in the lowest-priced quartile; now, it is only 5 percent.

Some of us recalled a comment by the Governor of the Reserve Bank that much more needed to be done in the housing market; this seemed to suggest the Government was failing in its efforts to improve supply. The ANZ bank had estimated the shortfall in Auckland to be 18,000 dwellings, and projections from the number of building consents suggested less than half that number were in the pipeline. The Minister disputed this estimate; the advice he had received suggested that 10,000 consents for new houses a year were needed to start to catch up and stabilise prices, and that consents were now at about 8,000 and increasing. He said the Government was already doing more, but stopping short of removing consenting from the Auckland City Council. It was working with the council, giving it legislative tools to deal with housing, and the council was performing considerably better. At the same time, the council was fast-tracking development of its new unitary plan.

The Minister said the challenge lies in the pipeline effect, as it takes quite a long time to acquire land and get a house built, even with accelerated processes. He agreed with the Reserve Bank that more needed to happen more quickly, and in his view, it was happening. The special housing areas are picking up speed, and developers were getting the message that they need to act soon to bring forward their own projects.

**Social housing**

The Minister said that from the Government’s point of view, the next phase of activity would be the redevelopment of the Crown’s own estate. The Government owns 7 percent of the housing stock in Auckland; together, it and the council own most of the underutilised housing land, where there is potential for more intensive use. Over the next
three or four years they are likely to become the major suppliers of medium-density housing to the Auckland market.

**House prices and regulation**

We note that the Reserve Bank has warned of the possibility of a sharp correction in the housing market, and asked whether that meant a housing bubble about to burst. The Minister said the term “bubble” is unhelpful as it cannot be measured. He believes double-digit house price inflation cannot continue forever, because supply will increase in response, as is now happening with the Government’s encouragement, which will take the upward pressure off prices. So over the next two to three years or so, he expects changes in pricing. The Reserve Bank’s concern relates to the risk for financial stability if the market were to become highly speculative and people took on excessive debt, leading to the sort of situation seen in Ireland and Spain.

Asked whether he supports macro-prudential measures such as limiting lending to people with multiple investment properties, the Minister said that such decisions are the responsibility of the Reserve Bank. The Government supports the bank using the tools available to it within the agreed macro-prudential framework. Under the terms of the agreement with the bank, the Government could intervene if it thought using any specific tool was a particularly bad idea, but it had never done so, leaving it to the Reserve Bank to use the tools at its disposal sensibly so as to maintain financial stability. Meanwhile, the Government focuses on areas within its control, such as its own State housing stock, and the legislative structure within which councils make their decisions.

**Foreign buyers of housing**

Some of us are concerned about the number of house purchases by buyers from overseas, noticing that such buyers are being actively targeted in advertising. The Minister said it can be hard to tell at an auction whether a purchaser is from overseas or not. Rather than trying to constrain the demand for housing by imposing restrictions, the Government has chosen instead to focus on increasing supply.

**Foreign investment**

Some of us are concerned about the quality of scrutiny by the Overseas Investment Office of proposals for foreign investment in New Zealand. It appears that a number of investors have not met the office’s milestones for reporting, as they are required to do for five years. Some of us propose a cross-party audit of foreign investment in New Zealand over the decade since the Overseas Investment Act came into force.

The Minister said the Government expects the Overseas Investment Office to take reasonable steps to ensure that its agreements and conditions are honoured. As to whether it might require more staff to follow up reporting, the Minister said he had no advice to suggest this was needed, but the office was free to put a case for more resources to its responsible Minister. He did not consider that a cross-party audit would add great value.

The Act Party member considers that New Zealand’s foreign investment regulations are excessive, particularly in relation to land, noting that the OECD has ranked us 48th out of 54 countries in terms of ease of inward investment. Given the economy’s need for foreign capital, the member considers that the Government should seek to minimise the chilling effect of the regulations.
The Minister told us he thinks the balance is about right. The rules reflect New Zealanders’ concern about foreign investment by applying rigorous testing, while maintaining the country’s attractiveness to investors. His impression is that the regulations are a “reasonably significant” deterrent to those not seriously committed. He believes the most important way the Government encourages foreign capital is by ensuring sound economic policies, a high-quality regulatory environment, predictable government, steady economic growth, and a welcoming community.

**Skycity international convention centre**

In the light of recent news reports that the estimated cost of Skycity Entertainment Group’s planned convention centre in Auckland has increased by about $130 million, we asked the Minister whether provision had been made in Budget 2015 for government expenditure on the centre. The Minister said no specific provision had been made, and putting in extra taxpayers’ money would be the Government’s least preferred option.

The Minister said he considered it premature to speculate on any discussions or negotiations between Skycity and the Minister for Economic Development. A contractual agreement had been entered into for the convention centre, and the agreement specified that no further government funding would be sought. He added that it was quite common for parties to test the bounds of an agreement with the Crown.

Some of us recall that in 2013 the Treasury had categorised the Skycity convention centre as a fiscal risk to the Crown. The Office of the Auditor-General and the Treasury were also critical of the advice provided by the Ministry of Economic Development (now the Ministry of Business, Innovation and Employment) leading up to the original decision to negotiate with Skycity Entertainment Group about a convention centre.

**KiwiRail**

We asked the Minister whether he is concerned about KiwiRail’s potential burden on the Government’s accounts, and whether options such as privatising the Cook Strait ferry service or bringing in foreign ships or crews had been considered, to get the business onto a more sustainable footing. The Minister told us he has always been concerned about the fiscal impact of KiwiRail; the Government has contributed about $1.1 billion to its operations over the last four or five years, and it is still unclear whether it can sustain itself without Crown input of $150–350 million a year to fund its shortfall. He said all sorts of options had been canvassed over the past decade, no doubt including alternatives to the ferries, but he was not aware of specific consideration of such options at present. He added that the Treasury was again examining KiwiRail’s costs and revenues, and was working closely with the board to improve its understanding of the business. Ultimately, however, the Government would expect the board to use expert outside advice if there were real operational difficulties.

**Climate change**

We note that an important United Nations conference on climate change will be held in Paris in November–December 2015, with the aim of agreeing on new emissions targets. In its briefing to the incoming Minister, the Treasury reviewed projections of greenhouse gas emissions and potential targets, and concluded that, on New Zealand’s present trajectory, the cost to the Government over the period 2021–2030 would be somewhere between $3 billion and $52 billion. This was based on New Zealand potentially exceeding
its emissions target by 315 million tonnes, and covering the gap by buying credits overseas. We sought the Minister’s comment on this potential fiscal cost.

The Minister agreed that the outer boundary of such cost estimates would threaten long-term fiscal sustainability. However, he emphasised their uncertainty, noting that the estimates covered such a wide range because the price of carbon had fluctuated so enormously since the emissions trading scheme was introduced. He said he is optimistic that lower-emissions technology will develop quickly over the coming decade, and believes no one can predict how costs will evolve.

Some of us observe that the price of carbon is an important factor in the uptake of low-emissions technology, and maintain that the Government’s policies have made its uptake less likely, by driving down the price of carbon domestically. As a result, New Zealand is becoming less efficient in its use of carbon, and producing more carbon per unit of GDP than previously. Data from the United Nations Framework Convention on Climate Change indicates that New Zealand’s performance has been among the worst in the world; it has increased its greenhouse emissions intensity by 13.8 percent since 2008, while most other countries had reduced their carbon intensity. To some of us, this seems a case of New Zealand becoming less efficient in terms of carbon intensity, which does not seem good economic strategy.

The Minister said that all the climate change discussions in which he has been involved over the past decade have entailed efforts to balance the costs borne by households and businesses with the goal of using carbon more efficiently; the same issues remain relevant for the Paris conference. He noted that New Zealand’s unique circumstances as a developed country with a strong agricultural base present challenging hurdles. He believes there is at least now a better understanding of issues such as the forestry cycle, and the fact that a large proportion of this country’s emissions come from agriculture.

The Treasury added that its briefing to the incoming Minister was not intended to suggest a choice between cutting emissions or setting a higher target; its advice was that the Government should consider before the Paris conference what New Zealand’s emissions-reduction target should be, as it is important for the economy to be environmentally sustainable, while increasing productivity in the agriculture sector. In its view, having sound policies regarding climate change is vital; a price on carbon is one option, but reducing greenhouse emissions is not the only goal.

**Part B  Financial statements of the Government**

**Fiscal position for the year ended 30 June 2014**

The financial statements of the Government provide a consolidated view of the revenue, expenses, assets, and liabilities of all Government entities. The following are its main features.

The Government deficit, as measured by the operating balance before gains and losses (OBEGAL), was $2.9 billion for the year to 30 June 2014 (1.3 percent of GDP), down from $4.4 billion (2.1 percent of GDP) in 2013. Excluding the effects of rebuilding in Canterbury, the deficit was about half the comparable figure for the previous year.

Core Crown tax revenue increased by $2.8 billion as economic activity and employment grew, to total $61.5 billion. This was about $0.4 billion lower than forecast in Budget 2014, mainly because domestic consumption was less than forecast.
Core Crown expenses increased slightly, by $1.2 billion (1.7 percent), to $71.5 billion. The main factors in the increased spending were higher payments on New Zealand Superannuation, reflecting indexation and an increase in recipients, and new spending from Budget 2013, primarily for health and education. As a proportion of GDP, core Crown expenses were 31.2 percent for 2014, compared with 33.1 percent in 2013.

The Crown’s net worth increased over the year; this was largely the result of increases in the value of assets (property, plant, and equipment, and financial assets), with increased liabilities from borrowings partly offset by lower earthquake liabilities as claims were settled.

**Net Crown debt**

The Crown’s net debt increased by $4.1 billion in the year to 30 June 2014, to $59.9 billion or 26.2 percent of GDP. The commentary on the financial statements notes that while debt has continued to grow, the rate of increase has slowed in recent years as cash deficits have become smaller. The result for 2014 also included $2.3 billion in proceeds from the Government share offer programme (Genesis, Meridian, and Air New Zealand), compared with $1.6 billion received for Mighty River Power in 2013.\(^1\)

We note that the Crown’s net debt has more than doubled since 2010, and some of us suggested that this level of debt was not prudent or sustainable. The Minister said that by international standards, the Crown’s degree of indebtedness is not too bad; however, while it is sustainable, it is not desirable. The Government aims to have it reduced by 2020 to 20 per cent of GDP, which it considers prudent. On the current trajectory it would fall below 20 percent thereafter.

**Gains and losses on financial instruments**

We note that a net loss on financial assets of $1,502 million was recorded as at 30 June 2014, and asked why this had changed so dramatically from the forecast $117 million net profit. The Treasury explained that the difference represents market movements in exchange rates, share prices, and interest rates since the forecasts were prepared. Because of their volatility, such variables are not included in the forecasts, but a number of strategies are used to mitigate their actual impact. The Treasury said that such risks are generally managed on a net asset basis, taking into account both assets and liabilities (including derivatives). It pointed out that when these are factored in, the Crown made an overall gain of $4.8 billion on financial instruments in 2013/14, which was $1.2 billion higher than forecast.\(^2\)

The Minister of Finance added that the focus is always on the Crown’s operating balance excluding such gains and losses—the OBEGAL—precisely because the valuations of such financial instruments fluctuate so much. He pointed out that when they were included, the Crown’s overall operating balance had actually been in surplus for a couple of years.

We note that the total Crown operating balance, inclusive of gains and losses, was a surplus of $2.8 billion for 2014. As an illustration of the volatility involved in valuations, this can be compared with a surplus of $6.9 billion in 2013, on the strength of even larger gains on

---

1. Financial statements, p. 16.
2. Financial statements, p. 60.
financial instruments ($11.3 billion), but a deficit of $14.9 billion in 2012, arising from valuation losses amounting to $5.7 billion.\(^3\)

\(^3\) Financial statements, p. 14.
Appendix A

Committee procedure

We met on 11 and 25 February 2015 to consider the Budget Policy Statement 2015 and the annual review of the Financial Statements of the Government of New Zealand for the year ended 30 June 2014. We heard evidence from the Minister of Finance and the Treasury.

We received five submissions, and heard oral evidence from one submitter.

Committee members

David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Stuart Nash
Dr Russel Norman
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour
Appendix B

Corrected transcript of hearing of evidence 11 February 2015

Members
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Dr Russel Norman
Stuart Nash
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour

Witnesses
Hon Bill English, Minister of Finance
Vicky Robertson, Acting Secretary to the Treasury
Girol Karacaoglu, Treasury Chief Economist and Deputy Secretary of the Macroeconomic, International, and Economic Research Portfolio Chief Economist
Fiona Ross, Deputy Secretary of the Budget and Public Services Portfolio
Bill Moran, Deputy Secretary of the Strategy, Change and Performance Portfolio

Bennett Welcome Deputy Prime Minister and Minister of Finance, and thank you for coming to the committee today. We’re doing two scheduled hearings: the Budget Policy Statement, and also the Financial Statements of the Government of New Zealand for the year ended 30 June 2014. So, because of time constraints, we’re intending to run them together, effectively, and I’m pretty sure the questioning would take that format anyway. So we’ll leave it in your hands to kick it off. And, if you want to give us an introduction, and then we can open up for questions.

English Thank you, Mr Chairman. I will make a few introductory comments. Both the half-year update and the Budget Policy Statement issued in December confirm that we’re on track for further solid economic growth, with job growth and probably lower interest rates for longer. And the key challenge ahead is really about the sustainability of growth—that is, given that it’s at reasonable levels, there’ll be significant benefit to the economy and the broader community if we can sustain that level of growth for some time.

Treasury forecasts suggest that New Zealand’s growth potential—that is, the speed limit for the economy—is a bit higher than they had previously estimated. We’ve been growing a bit faster than that speed limit, at around 3.2 percent.

A number of positive indicators: GDP growth is expected to average just under 3 percent over the next 5 years—that is a picture of solid, sustainable
growth, but, of course, it’s a forecast and there’s plenty of work to do to achieve that; interest rates are staying lower for longer; disposable incomes have risen by 9 percent in real terms over the last 4 years—probably the most important measure for many households of economic progress; recent job growth of around 80,000 in the last year is expected to continue—217,000 more people employed now than 5 years ago. A few years back there was a forecast of 170,000 new jobs from the Treasury regarded with some scepticism at the time—I think in about 2010 or 2011—and the economy’s pretty much hit that forecast, just in the current year. Unemployment has risen a bit recently on the back of a very high participation rate—in fact, a record-high participation rate—of 5.7 percent.

A couple of features of the outlook: first, is that strong inward migration has persisted longer than I think most people expected, but there is strong job growth that’s accommodated that extra migration—but not quite, which is why unemployment’s risen. And the other effect, of course: the participation rate. The second issue that’s had a lot of focus is around housing affordability, and you’ll be familiar with the Government’s strong focus on increasing the supply of housing. Just by way of a measure of how much work there is there to do: 25 years ago the Productivity Commission—oh, noted that 25 years ago 30 percent of new housing was in the lowest quartile of properties by value. If you look at the whole stock of housing, 30 percent of the new housing was of a value that was the lowest quartile of existing property values. Today, that’s only 5 percent. It’s dropped from 30 percent to 5 percent. So the real hard end of this problem is that a combination of, certainly, planning law and other factors has led to relatively smaller proportion of lower value housing coming on to the market. But we’re working closely with councils to change that, and starting to make some real progress.

Another factor I think to draw attention to is—it’s encouraging—is continuing business investment running at reasonably good levels. A big part of the Government’s programme is to build confidence in a way that encourages business to invest. It’s a much larger proportion of GDP than housing—about four times the size. So while there’s been a sharp uplift in housing investment—and that’s a good thing; we need to see that to meet demand—business investment has had less of an uplift but it’s on a much bigger base, and in the long run it’s more important, because that’s what provides capital deepening and the opportunity for higher incomes.

And, of course, you’re familiar with low inflation, dropping oil prices. This does make the fiscal situation for Government a bit more challenging: inflation has always been the politician’s friend, and the taxpayer’s enemy, and the saver’s enemy, but—this is an unusual recovery because we’ve got a recovery with quite low nominal growth—growth and nominal GDP, and we tax nominal GDP. So, in previous recoveries, at 3 percent growth you could have 5, 6, 7 percent growth and nominal GDP, and we’re talking about well under 3 percent over the next few years, and that will continue to pose challenges for the programme to reach surplus and also to start reducing debt. However, we’re fundamentally on track. I think the direction
for New Zealand is that we’re fiscally sound, headed in the right direction, even if there are going to be some fluctuations. The Budget Policy Statement confirms that allowance is—the allowance for Budget 2015—is going to be about a billion.

I must, as a final comment, compliment the Public Service. Over the recent years it has met all fiscal targets—and they’ve been pretty tight by any international standard—and continue to do so. But more importantly they’ve been able to get better results, and I think, increasingly, the focus of our management of the business of Government is about getting results as much as living within the allowances. And, of course, what we’re starting to learn is if you get results, there’s less need for Government services, and that’s in the long run what’s going to keep the fiscal situation under control.

Finally, today I’m announcing that the Budget this year will be on Thursday, 21 May. It’ll focus firmly on continuing to build on the progress we’ve made across productivity, Better Public Services, rebuilding Christchurch, and, particularly, to lock in the benefits of a growing economy. I’ll leave it there, Mr Chair.

Robertson G Thanks for that, Mr English. What provision has been made for Government expenditure on the Skycity convention centre of up to $130 million?

English Well, I couldn’t—there’s been no specific provision for Skycity convention centre. There’s—you know, we’re moving into a Budget round where there’s capital allowance and an operating/spending allowance, and if there was anything that came out of Skycity negotiations, then that’s where it’ll be dealt with. But, certainly, any extra taxpayers’ money is the least preferred option.

Robertson G Is that an option, though, that you’ve been discussing with the Prime Minister and the Minister of Economic Development?

English No.

Robertson G So you’ve had no discussions at all about putting Crown money in?

English There’s been some commentary about it, which I’ve seen, but I’m not party to any negotiation, or whatever, about it. But, the Minister for Economic Development deals with that, and, as I said, more taxpayers’ money is the least preferred option.

Robertson G Does Treasury still hold the view, and do you still hold the view that you had in 2012, that any use of Crown money—and this would represent a significant fiscal risk for the Government—I would have thought in those circumstances you would have been involved in the discussions. Does Treasury still view it as a significant fiscal risk?

English You’d need to ask the Treasury about that. I mean, there’s a commercial agreement —there’s a commercial agreement in place, and we continue to operate on the basis of that commercial agreement—is what occurs. Any issues have been raised, and as I said any extra taxpayers’ money is the least preferred option.
Robertson G What are the other options then, Mr English, that you’re pursuing?

English Of course the preferred option is that it’s executed the way that you know—consistent with the agreement.

Robertson G Do you think from the Treasury—and I’m happy for the Treasury to answer this, or you personally—is it your view that this arrangement and deal has been well handled by the Government? Is it something that you and the Treasury are comfortable with: that taxpayers are now facing the prospect of a $130 million bill for something that was meant to be free of charge? Is that something you or the Treasury are happy about?

English Taxpayers being—I’m happy with how the Government’s handled it, yes.

Robertson G Really?

English But the taxpayer getting bills for things is not unusual. We get that all the time—that’s part of the business, dealing with demands in all sorts of respects.

Robertson G What about a Treasury response on that?

Robertson V I don’t have a comment on whether the Government’s handled this well. You’re referring to our advice which we released in 2013 on the Skycity convention centre, and that’s on record in terms of what we’ve pointed out as the risks at that point in time.

Robertson G And that continues to be your position today?

Robertson V We haven’t given further advice from that.

Robertson G Presumably now that there’s a number around—$130 million—you still would consider that to be a significant [Inaudible] fiscal risk for the Government?

Robertson V As the Minister says, that’ll be thought about through the Budget process.

Cosgrove Sorry, could I put it more simply: do you stand by your previous advice?

Robertson V In terms of Treasury’s advice? Yes.

Peters Well, when you say that this is sort of common for the resources of the Crown to be required, it’s not common for the resources of the Crown to be required when it’s a private operation, is it? Or is South Canterbury Finance and an uncapped guarantee the kind of thing we can expect from this Government?

English I think in the—what I mean by that is it’s—the Crown’s always dealing for demand on its resource. And in this case, there has been contractual arrangements—those have been well hashed over by everybody, including the Auditor-General—around regulatory concessions and the building of a convention centre. So the party to those processes has got a view about what it should look like and what it might cost. That’s a matter for discussion with the Government, consistent with the terms of the contract.

Peters This outfit made a profit of $66 million, I think, announced today. Which part of subsidising Adelaide fits your plan?
I.3B BUDGET POLICY STATEMENT 2015 AND ANNUAL REVIEW OF FINANCIAL STATEMENTS

English Look, the agreement around Skycity has been—is, I think, well understood—

Peters There’s nothing in the agreement about blow-outs to the taxpayer.

English There’s ongoing discussions, and they will be consistent with the nature of the agreement, and, as I said, we’ve got no great desire to put more taxpayers’ money into it.

Peters When you were approving the plans for this thing, I mean, how much were you shown—to the extent that we expedited a bill through Parliament to facilitate it—and all of a sudden we find out that what you’ve approved is an eyesore. How did that happen?

English The Government went into this whole thing with its eyes open. Some of these things are matters of opinion, some of them are matters of speculation, and some of them are people trying to get a bit more out of the Government, but that'll all be dealt with in the way we always deal with these things, which is realistic discussion with the participants.

Peters Don’t you think that you guys are a bit too much in bed with this outfit? You hold your conventions there, you hold your political launches there, you’ve got $60,000 from them—so did Mr Dunne, so did Mr Banks. I’m looking at all the people over here now. Don’t you think this is looking a bit corrupt and tawdry?

Bennett Mr Peters, I think—if we have the questions around the Budget Policy Statement, OK?

Peters This is about the Budget and a blow-out. You’ve got a—you announced a surplus before the last election. Now it’s blowing out to 560, 570. You’ve got this on top of it. You’ve got serious problems here, and you tell me that’s not budgetary? Well, what would it be—fairyland?

Bennett The minister’s capable of answering.

Peters No, I’d like Mr English to answer the question.

English No, I don’t agree with any of that. The Government’s done a deal that was designed to—like a public-private partnership rather than the Government fronting up to pay for a convention centre, as it is in Christchurch, and that was a reasonable deal, and we’d like to see that executed. But I think you’re getting a bit ahead of yourself here. I mean, all there’s been is some comments about what it might look like and what it might cost to look perfect, and that’s it. That’s a long way from—that’s a long way from a change in the contract.

Peters Yes, but if the Prime Minister makes a statement like that—and you just told us that no discussion has taken place with you—who’s getting ahead of who and what? I’m just asking the question.

English But you’re getting a bit ahead of the process of discussion and negotiation about the nature of the contract.

Bennett Mr Peters, Mr Robertson’s got a question.
Peters  I just want to finish off this. Mr Robertson doesn’t mind if I just ask this one.

Robertson G He can have one more, and then I’ll come in.

Peters  In the interest of collegiality, I just want to ask this question: how could I be getting ahead of myself when I’m following a Prime Minister’s statement which has actually shocked the media of this country and all the other commentators, including the head of the chamber of commerce in Auckland? I want to know: how did he get to that sort of figure and level of discussion when he hasn’t even talked to the person who handles the finance of this country, namely you?

English  Look, anyone’s free to ask the Prime Minister about his point of view. And he’s always very open to describing how he gets to where he does get to.

Peters  So I keep bouncing from cloud to cloud here.

Robertson G Just to be absolutely clear, Mr English, you’re not ruling out putting in additional taxpayer money into a deal that was meant to be free to the taxpayer?

English  What I’ve said—I’ll just stand by what I’ve said, and that is that any further taxpayers’ money is the least preferred option.

Robertson G No, I’m asking you whether or not you’re ruling it out, putting in further taxpayers’ money.

English  Again, that would be getting ahead of the process to rule it in or rule it out.

Robertson G There’s a negotiation going on right now. You might not be part of it, but it’s going on right now. So you’re not ruling out putting further money in?

English  As I said, it’s getting ahead of the process. I’m not going to play the ruling-in, ruling-out game. We want a convention centre in Auckland. There’s an agreement to put a convention centre in place, and I don’t think we should get ahead of ourselves.

Robertson G You just did a really, really bad deal that the taxpayer now has to pay for.

Norman  Mr English, the National Party Government is not ruling out giving $100 million-plus to a casino is what’s on the table right now, and you’ve just acknowledged that you’re not ruling that out.

English  No, I didn’t say that. I said I’m not going to play the silly game of ruling in or ruling out. We’re not in a position.

Norman  It’s not a silly game. This is $100 million of taxpayers’ money. It’s not a silly game, Mr English. You’re responsible for the spending of taxpayer money.

English  No, the $100 million isn’t, but your silly game of ruling in, ruling out, I’m not going to play.

Norman  The taxpayer wants to know: are you planning to spend $100 million of their money to give to a casino?
I.3B BUDGET POLICY STATEMENT 2015 AND ANNUAL REVIEW OF FINANCIAL STATEMENTS

English Well, the taxpayer—there’ll be a fully transparent process when someone knows—when someone knows to tell them. When someone knows to tell them, they’ll be made aware of it.

Norman You’re proposing to give $100 million to a casino. That’s not a silly game.

English No, I have made no such proposal to give any money to anyone, and that is your silly game. You’re trying to say I’ve proposed $100 million for the casino. I’ve never said anything about it.

Norman So when Mr Joyce made the original agreement, did you seek an assurance from Mr Joyce that the casino would never come back to the Government and ask for more money?

English That was the nature of the agreement. So you’d need to look at—

Norman So you sought an agreement specifically from Mr Joyce?

English Well, it’s not a matter of assurances from Mr Joyce. It’s a matter of what’s in the contractual—

Norman So why don’t you enforce the contract?

English Well, that’s a matter for the Government—that’s a matter for the Government. That’s a position it can take. I’m just saying there’s the contract.

Norman So you’re saying you’ve got a contract that you could enforce that requires you to give no money to them, but you’re thinking about rolling on it?

English I’m not offering you legal advice about the contract. I’m saying it’s well within the Government’s power, simply, to say that we’re—it’s our wish to execute what’s there. Putting in taxpayers’ money is certainly the least preferred option.

Norman Since when does Bill English subsidise a casino?

Bennett That’s not a question.

Norman Yes, it is.

English Well, it’s not a matter of Bill English subsidising a casino.

Nash I change the subject slightly. The Government’s fiscal policy is reducing total debt to prudent levels, yet net debt increased by $4.1 billion to just under $60 billion last year—that’s over double the 2010 level. Gross debt’s nearly $82 billion. What does the Government consider to be a prudent level of debt?

English The thing is we’ve pointed out in the longer-term fiscal objectives—somewhere under 20 percent. So we’ve been aiming to get down to 20 percent of GDP net debt by 2020, and we think that’s prudent. And by any international standard, it’s not too bad. On the current sort of trajectory—current policy settings—it would continue to decrease beyond 20 percent, and we’d be happy with that.
Nash So at the moment, it’s not really sustainable to pay $4 billion a year in interest. At least I think it’s about $84 million every week in interest at the moment just servicing that debt.

English Well, it’s sustainable; it’s not desirable.

Nash One last question, if I may, for now. In this financial statement it’s got net gains and losses on financial assets. There’s a $1.5 billion loss when you were forecasting a $117 million gain. What’s that about?

English Look, I haven’t got those figures here. I’d need to get the Treasury to tell us about that.

Nash Could the Treasury perhaps answer?

Robertson V Sorry, what was the question?

Nash So on page 60 of this, there’s a—

English Sorry, of which document?

Nash Financial Statements of the Government. There’s a net gains and losses on financial assets. There’s a $1.5 billion loss, and there was a forecast of a $117 million profit. What’s gone on there? Why was there such a massive loss?

Robertson V It might be best that we come back to you on that in terms of [Inaudible]

English Generally—I mean, as you know, the measure that the previous Government and this Government used is this operating balance excluding the gains and losses. So those big shifts—we don’t—they’re specifically excluded because they move around so much with valuations of overseas share portfolios, discount rates, and that sort of stuff. So it’s not unusual that it would be fluctuating.

Nash Yes, but $1.5 billion is quite a lot of money.

English So I think Treasury should come back—Treasury should come back and explain just where that’s gone. But you’ll find in recent years there’s been some quite large upswings, and if you use our full total definition of operating balance, because of those upswings, we’ve been in surplus for a couple of years, I think. But just because—just changes in asset valuations, they’ve been, for the last 10 years, kind of put to one side.

Nash One last technical one. Just curious, but what’s the $5 billion in donations and ex gratia payments consist of?

English I don’t know. Again, you’d have to come back to you with detail about that.

Nash Can you answer that? Because there’s a line of $5 billion, and it’s headed “Donations and ex gratia payments”.

English I’m sure there’s some grateful recipients, but it sounds like a classification problem to me.

Peters It’s a rather large sum of money. Doesn’t anyone here know what that means?
Robertson V So, I mean, we can give you—I mean, I don’t have the detail on exactly all of them, but they are things like NGOs, in terms of what the Government provides through that mechanism. But we can come back to you on the specifics of that. That’s—

Robertson G Sorry, can you just say that again, Vicky? Is that NGOs?

Robertson V NGOs.

Robertson G Wouldn’t that normally be accounted for through departmental expenditure? It wouldn’t be seen as a donation in a line item?

Robertson V Yes, that’s just the way it’s described, those kind of [Inaudible]

Cosgrove Minister, how would you sort of characterise the quality of the casino deal, given that it was supposed to be a deal where the taxpayer didn’t take a bite, where there’s supposed to be a big, flash palace, and now the Prime Minister’s described it as an eyesore, hence the need—the potential eyesore—hence the need for $130 million potentially, which presumably means you guys didn’t have a look at the design or look at any of that detail? And if that money’s executed, it goes on the top of subsidising an entity that made $66 million last—just reported. So how would you characterise the quality of that negotiation? Also, given your track record with Solid Energy—knowing, doing nothing—Rio Tinto, $30 million, and you personally, yourself, in that negotiation never actually asked for a jobs guarantee, how would you sort of reassure the taxpayer that you guys are having quality negotiations with these sorts of things?

English That process has been quite transparent. The Auditor-General looked—

Cosgrove Sorry, which?

English That process was quite transparent, as it was with the other things that you listed. The Auditor-General—including Auditor-General scrutiny of the SkyCity deal. So we were satisfied with the deal. We wouldn’t have agreed to it.

Cosgrove Do you think those sort of negotiating strategies and tactics would provide a—would go down well in the private sector, or do you think if those sorts of strategies had been put in place, heads would have rolled in the private sector?

English I don’t know what sort of strategies you’re talking about. I mean the Government set out—

Cosgrove Well, the fact that you negotiate a deal that, technically, for the shareholder—which is the taxpayer—is free, and potentially you now could be up for a substantial—or the shareholder; the taxpayer—could be up for a substantial amount of money. The fact that you subsidised a multinational company on the basis of a jobs guarantee that you yourself admitted on National Radio in an interview with me you never bothered to ask for a jobs guarantee, and you let its SOE go down the swanny after having over a year and a half of information; you just sat there and did nothing. How do think somebody—shareholders—would react in the private sector with those sorts of so-called quality negotiating tactics?
English: I just disagree with your description of all of that.

Cosgrove: So you did ask for a jobs guarantee?

Bennett: No, the Minister has answered the question and he’s disagreed with it, so—

Cosgrove: So you did ask Rio Tinto for a jobs guarantee when you gave it the $30 million?

English: No, we didn’t.

Cosgrove: Oh, OK, so that’s a fact.

English: And I explained why that was at the time. Look, you might have a view about how it should have been conducted. We came to a view that’s turned out to be—

Cosgrove: Well, I’m just old fashioned—I think if you do a deal in the private sector and you sign the contract, you should enforce the contract. It’s just maybe I’m just out of touch and old fashioned.

Bennett: Maybe. Mr Cosgrove, just be quiet, and Mr English can say what he was going to say.

English: I just disagree with his description of all that stuff.

Peters: Look, you began with a $42 million subsidy by way of the extra pokie machines you allowed by legislation—which is pretty substantial, you know, because it’s annualised, and even—take out all the compounding effect you’re heading to sort of $1.3 billion to $1.4 billion over the next 27 years, minimum. It has to be much higher than that of course. Then you’re adding in possibly $130 million. This is a huge payment to a free enterprise that stood up and said: “We’re going to provide you with a convention centre; we just want you to facilitate the place and some of our utilities like the pokie machines.” Can you conceive of any other circumstance where this would sound remotely reasonable for the taxpayer?

English: Again, I think you are getting a bit ahead of the circumstances and events. Now, it’s not unusual for people to want to test agreements with the Crown—that happens all the time. Whatever they agreed to in negotiations, they’ll still try and test it. And they do. It’s about to happen with the Christchurch City Council.

Peters: At the moment you’re resisting. Is that what I am witnessing here?

English: I am not negotiating with it but, as I said, we would certainly resist the idea that there should be substantial new taxpayers’ money go into it.

Peters: Oh, so you are resisting it?

English: Of course we’d resist that; why wouldn’t we? I mean, there’s been an agreement to produce a convention centre, and putting in more taxpayers’ money would certainly be the least preferred option.

Robertson G: A supplementary on that: is that the advice that you are giving Mr Joyce then, that from your perspective as the finance Minister you don’t want to see any taxpayer money go into this.
The Government—it is not a matter of between me or Mr Joyce or any of your officials or anything. The Government will have a position and that’s what the Government will push.

No, I am asking you. You’re sitting here now, you’re the finance Minister, you’ve presented to us about your desire for fiscal responsibility and credibility. I’m asking you, as the finance Minister, is the advice that you’re giving your colleagues that they should not be putting any money into this deal?

I am always giving my colleagues advice not to put any money into things; that’s my default setting. Except with the respect to our most vulnerable and complex families, where sometimes we need to put more in. But the Government will take a position on this, and it will be the Government position.

Sorry, with respect, Mr Chair, I did ask a very specific question and I want to know whether you are have given that advice on this deal.

Mr Robertson, he answered it; he did answer it.

No, he did not, Mr Chair; he gave a general answer.

There has been no proposition.

I mean—to come back to the beginning of my questioning. Your answers today are designed to try and protect your position as somebody who likes to take credit for fiscal responsibility, but what you’re actually asking us to believe is that you’re not involved in any of the discussions that are currently going on—you’re not being updated, you’re not contributing—

You’re not listening to my answers. You’re way ahead of events. There’s no proposition turned up in the system to put more money into the convention centre. You guys seem to know more about it than anyone else does.

Well, what was the Prime Minister talking about then?

There was no proposition.

I mean, it’s a fair question though. You’re saying there’s no formal proposition, right? And yet there’s this public discourse about it led by the Prime Minister—so where is it coming from?

I don’t know. You’d have to go and see who said what, when. All I’m saying is that the Government will have a position. It’s got an agreement, and yet there’s got to be pretty high hurdles of moving away from that agreement, and we’d certainly not be preferring not to put taxpayers’ money in.

And yet you’re telling us you’ve had no conversations with John Key or Steven Joyce about this issue.

Oh, there’s been some general conversations but not a proposition.

Have there been any conversations where they have said to you there could be more money required?

Nothing that hasn’t been in the public arena.
Norman: So there has been conversations. Hang on, hang on—so that’s a yes. You’ve had conversations with Steven Joyce and John Key where the mention of more money going to Skycity has been mentioned.

English: As I said, nothing that hasn’t been in the public arena.

Norman: So you have had the conversations?

English: There’s issues in the paper, issues under discussion all the time; this one’s been dealt—been around.

Norman: I’m not asking about the paper; I’m asking about your conversations with Steven Joyce and John Key. I don’t care what’s in the paper. Have you talked about putting more cash into Skycity with Steven Joyce and John Key, or either of them?

English: Not that sort of discussion, no. There’s been—of course there has been discussions about the fact that there’s an issue, and it’s popped up one way or another. That’s it. There’s no proposition.

Cosgrove: So you’re asking us to believe that after Cabinet on Monday, the Prime Minister bowls out to the press conference and talks about $130 million of expenditure that might have to happen in order to prevent a possible eyesore, and you, the Minister, Joyce, and he have just sort of idly crossed each other over the tea trolley and not actually had an in-depth conversation about what that sort of signal might send? The Prime Minister has just run off at the mouth, as it were?

English: As I’ve said any number of times, I think you’re getting a bit ahead of—

Cosgrove: No, I’m quoting the Prime Minister’s words. This is the Prime Minister. Did he just run off at the mouth? He didn’t ring you up and say: “I want to talk about $130 million because the boys down the road have rung me up, what do you reckon?” He’s just gone out and spewed out a figure for the taxpayer, is that right?

English: No, I wouldn’t describe it as that. I mean, you can talk to the Prime Minister about what he said but—

Cosgrove: You had no input into that?

English: We would expect that if there’s a proposition, that will be looked at.

Cosgrove: So you had no input into the Prime Minister’s comment?

English: The Prime Minister comments extensively without my input. He—

Cosgrove: You had no input?

English: He has a track record of being pretty effective in his comments.

Peters: Given the timing of the Prime Minister’s statement on this eyesore, as he puts it—some would call it an absolute obscenity actually—but given the timing of it, was this on the Cabinet agenda last Monday?

English: I wouldn’t comment on that. The Prime Minister chairs Cabinet.

Peters: So he comes out of the Cabinet meeting, gives the public a press statement and it wasn’t on the agenda?
I’ve just said I wouldn’t comment on it. The Prime Minister’s the chair of Cabinet, and he comments on Cabinet.

OK, OK, let me ask you this question: are you concerned about the fiscal impact for you as Minister of Finance with what’s going on with KiwiRail and the Cook Strait ferry service for a start?

I’ve always been concerned about the fiscal impact of KiwiRail. I think we’ve put something like $1.1 billion into it over the last 4 or 5 years, and, as you know, an ongoing question about whether it can sustain itself to the extent that it falls short, then we have to find anything from $150 million to sort of $350 million a year to fill the gap.

You had any discussions about privatising the Cook Strait ferry service?

No. I’ve seen it referred to as an option, I think, in various assessments of KiwiRail over the years—over 4 or 5 years. But I’m not aware of any focused discussion about it with shareholding Ministers.

Foreign ships and foreign crews? No discussion about that?

No, I haven’t seen anything. I haven’t seen anything like that. I mean, look, this is a business where it’s a real challenge to get it to a sustainable basis, and we are now, I think, on about our third round of having a harder, deeper look at what drives KiwiRail costs and revenue. And in that process any number of options get canvassed, and probably have been for 10 years before that. So, I wouldn’t be surprised if somewhere in the paperwork there aren’t options that range from—or cover the whole range of possibilities including alternatives for the ferries. But, as you know, there has been quite a bit of disruption in the service. That’s no good for customers. They’ve got to find a settled, sustainable solution, which seems to be on the way. That’s about where it’s up to.

Treasury’s never sort of sat back, or stood back, and said: “Look, there’s such a disaster going on down here. Why don’t we have a look at all the aspects—its management, the qualifications of people, the safety regimes, the changes that they’ve made, the—how should I say it?—almost daily stoppages.” Surely somebody said: “Look, alarm bells should be ringing here. What are we going to do about it?”

Much as the Treasury is full of competent and capable people, their knowledge of the operational aspects of the ferries is probably not enough that—I’d rely on their opinion about it, but they do need to—but they are working progressively more closely with the board of KiwiRail. I mean, I think the Government’s—Treasury’s understanding of the business is now much greater than it was 2 or 3 years ago. And that’s a context in which issues such as the operational efficiency of various parts of the business will come up. But we would—the board—we would expect the board to rely on expert alternative opinion about the ferries if there were some real operational difficulties. We wouldn’t expect them to rely on the shareholders’ or Treasury’s opinion about it.

I want to move on to housing, Mr English. In response to the Reserve Bank Governor’s comments that much more needed to be done in terms of the
housing market, it sounded to me like a judgment on the Government’s failure on the supply side of the equation. We’re looking at a situation where in Auckland—just looking at the ANZ here, talking about an 18,000-dwelling shortfall in the Auckland housing market. Even with the kind of consents that you’re projecting that’ll come through, you’re looking at less than half of that being there. The Reserve Bank Governor’s right, isn’t he? Much more needs to be done, and the housing policy you’ve adopted up to now has failed.

Robertson G He did say much more needed to be done, didn’t he?

English He did say more can be—more should be done on the supply side, and we’re doing more. I mean, we’re doing about as much as we can short of taking the job off the Auckland City Council. What we’ve found is that working with them has proven useful. They’ve reorganised, they’re performing considerably better, they’re trying to deal with this issue at the same time as they’re doing their unitary plan on a fast-forward process—trying to do it in 3 years instead of 10, their new unitary plan. So we’ve found that by working with them, providing them with legislative tools, we’ve been able to get considerably better results.

The challenge with housing supply is always the pipeline effect, and that is it just takes quite a long time for anyone who wants to develop new housing to start with procuring the land through to actually getting the houses up—that just takes time, even with fast-forward processes. So I think we’re seeing a fairly solid build-up of volume through the pipeline. It needs to get up to over 10,000 consents, and I think the Auckland City Council—when everyone else is much more aware of the need to achieve that, to help to stabilise house prices. And the Reserve Bank has the same view as us. It’d be great to see more of it happen faster. The good news is more of it is starting to happen faster.

Robertson G With respect, the Reserve Bank Governor knew all of that when he made that statement last week, and the reality is that the moves you’re making to improve consent times and all of that, actually, will still only deliver less than half of the 18,000-house shortfall. Surely there is actually an argument here for building houses, for the Government’s role and actually actively doing more in supply? The Reserve Bank Governor is talking about all of the initiatives you’ve just mentioned and still says much more needs to be done.

English Yes, well, you wouldn’t want to—just to get the numbers right, the advice is somewhere over 10,000 a year would start a bit of catching up, and it’s currently running at a bit under 8,000 and building up. So it’s not the difference between 8 and 18; it’s the difference between 8 and 10, but of course, we want to get there. I think the next—so the special housing areas are picking up speed pretty quickly. Other developers are now getting the message that a lot of supply is coming and if they want to capture their margin, they need to act now, and I’ve spoken myself to developers in
recent times who’ve said that’s their shift in their attitude, and that’s exactly what you want to see. You want them to feel that, see the supply pipeline building up pretty rapidly, and, therefore, bringing forward their own projects before the gas goes out of the crisis too much.

The next tranche of activity, from the Government’s point of view, will be around the redevelopment of its own estate. The Government owns 7 percent of all housing stock in Auckland. Between the Government and the council, we own most of the underutilised housing land—and I don’t mean parks and reserves and stuff; I mean sites that have some housing on them but nothing like as intensive as it could be. So over the next 3 or 4 years, I’d imagine Government will become one of the major suppliers in medium-density housing to the Auckland market, and Auckland City Council will probably be the second major supplier of medium-density housing to the Auckland market.

Robertson G When the Reserve Bank Governor talks about a sharp correction; do you believe that means the housing bubble’s about to burst?

English Look, I don’t use terms like “bubble” because it’s pretty hard to tell when you’ve got one, but I just repeat what I said the other day: double-digit house price inflation can’t go on forever, and it won’t, particularly with the kind of supply reaction—the kind of supply reaction those high prices bring on. You’ve got a combination of the market responding to those high prices by getting more supply in, and Government trying to make that easier for them to do. So just by reason of greater supply coming through faster, you’re going to see, over the next—who knows?—2 to 3 years, changes in that—the dynamics of the pricing—but I’d, you know, who knows whether you’re in a bubble?

What we do know is that if it gets way out of line with the norms, you end up—you can end up with a mess like Ireland and Spain, and I believe that’s what motivates the Reserve Bank. It’s their concern about financial stability and excessive levels of debt in a highly speculative—if people are speculating, they’ve got to keep in mind asset prices can go down. Most New Zealanders believe housing goes up forever. Other countries believed the same thing, and it didn’t work out too well.

Robertson G Do you support the use of macro-prudential tools like limiting the number, or limiting lending to people with multiple investment properties?

English We put in place the macro-prudential framework with the Reserve Bank, so there’s this memorandum of understanding about who does what, and we support the Reserve Bank using a range of tools available to it.

Robertson G That specific one?

English The judgement—you know, to some extent—it is actually their responsibility.

Robertson G Sure, but I’m asking if you support the use of that specific tool.

English Under the arrangement, it’s not a matter of whether I support it or not. I suppose if the opportunity to influence them—if I thought—if the
Government thought it wasn’t a good idea and thought it was a seriously
bad idea, but otherwise we haven’t done that, and they are free to make
sensible use of those tools according to their remit, which is to look after
financial stability.

Robertson G Just one last question on that: do you think it’s time now for them to do
that?

English Again, we leave those judgments to the Reserve Bank. Our focus is on the
bit we control, which is the legislative structure around council decisions,
and the council are the ultimate decision makers. We can change the law,
and we can influence them, and we’re trying to use that as positively as
possible, and the next tranche of activity will be the Government lifting the
rate of development on its own State housing areas.

Norman Just to change the subject again to climate change. Treasury produced, in its
briefing to the incoming Minister—looked at some further projections
around greenhouse emissions and potential targets and the cost to the New
Zealand Government. In that, they concluded that from the 2021 to 2030
period, the cost to the New Zealand Government, looking at our current
trajectory, even if we just kept our current targets without increasing our
targets, is somewhere between $3 billion and $52 billion—the cost to the
government. Because our emissions are so way above that target, we’d have
to buy credits offshore, and depending on the cost of those credits, will
have a dramatic impact on the cost to the Government. What’s been your
response to Treasury’s report that the fiscal cost to New Zealand could be
between $3 billion and $52 billion if we continue with our current trajectory
of increasing greenhouse emissions?

English That’ll all get—that will be one of the considerations. The potential fiscal
cost will be one of the considerations in the Government’s discussion about
its sort of post-Kyoto targets, and in that sense, nothing’s particularly
changed. I mean, the cost last—all the discussions I’ve been part of for the
last 10 years have been trying to balance costs to households and business
with climate change effectiveness, and in the future the same issues—the
same issues will arise as we—in the run-up to this Paris conference, there’s
a discussion about what our targets should be.

Norman This isn’t about the cost to households; this is about the cost to the New
Zealand Government. So if we continue increasing our emissions way over
our target—we’re way over target now—we’re going to have to buy credits
offshore, basically. We won’t have any other options to meet our targets,
and so there’s a huge gap. I mean, Treasury identified a 315 million - tonne
gap that we’re going to have to cover somehow. If it’s $10 a tonne, that’s a
$3 billion cost; $150 a tonne, it’s going to balloon out, right? To $50 billion
potentially. So in your calculations, it’s not just about cost to the household
and cost to the environment, it’s also about the fiscal impact on the New
Zealand Government. Are you factoring that in when you’re saying: “What
are we going to do?”. Because if we don’t cut our emissions, it’s going to be
incredibly expensive for the New Zealand taxpayer.
English  Yes, we do have to pay attention to the Government’s long-term fiscal sustainability, and this will be a factor. It’s quite a tricky issue to deal with, partly because those estimates are so wide: $3 billion to $50 billion. Who knows what that means? And we know in the fairly short history of the ETS, the prices fluctuated enormously. So that’s one—one factor’s the uncertainty about what the prices will be. Another is the sort of increasingly positive track for technology that looks likely to assist with emissions reduction. So that’s another factor in the discussion.

What’s our view? If we’ve got to take a longer-term view, I, for instance, am increasingly optimistic about lower emissions technology becoming pretty ubiquitous reasonably quickly over the next 10 years. So those are all—I don’t think anyone else is more certain about it than we are about what’s going to happen, but certainly the outer bounds of those estimates would be a pretty concerning cost.

Norman  Do you accept that price is a significant factor in the uptake of technology? Because I agree with you: technology, I think, is going to have a huge impact. But obviously price makes a big difference as to whether that gets uptake. So you’ve—your policies have driven down the price domestically, dramatically, and so that means the uptake of that technology is much less likely. So you’re kind of factoring in a kind of high-carbon-intensive economy. The reason why I say that is I’ve been doing the numbers—looking at units of GDP versus a tonne of carbon, right? How intensive our economy is in terms of that. It’s getting worse. Our economy is getting less efficient in the use of carbon under your administration than it was previously. So we’re producing more carbon per unit of GDP than previously. Aren’t you worried about that trajectory?

English  I’d be interested to see those calculations. We’ve probably—I think most people probably assume that, on average, because of the existence of the ETS—even if the price is low—and a pretty strong focus on sustainability across a lot of businesses and organisations, they probably assume it’s getting a bit better, but I’d be interested to see the calculation.

Norman  I’d be happy to provide them. But it’s a long-term strategic risk to the New Zealand economy, don’t you think? If we’re going to end up with this very carbon-intensive economy when the whole world is putting a price on carbon, it leaves us at a bit of a dead end.

English  Well, I wouldn’t say a dead end, but I agree—in the circumstances you describe—it is a fiscal challenge, or could be a fiscal challenge. I wouldn’t say it is because we don’t know for sure.

Norman  And an economic challenge.

English  Yes, that’s right. And we’ve got this—I think there’s a—at least now we have a better understanding of New Zealand’s unique circumstances, which is to do with the forestry cycle and the large proportion of a developed country’s emissions that are agriculturally based. And they both pose fairly challenging hurdles to get over.
Nash Are you happy with the quality of foreign investment in the country at the moment?

English For people to invest—foreigners to invest here they’ve got to get through the OIO. That sets some quality bars. The courts lifted the bar over the Crafar farms case. So if they get through that process, we welcome the investment.

Nash The thing is, they get through the process but then there’s a 5-year reporting period where every year they’ve got to report on the milestones they said they would meet. My understanding is there are a number of investors that haven’t actually met those milestones or even reported to the OIO. Do you think we should be doing an audit on this—non-political, but just to satisfy Kiwis that actually the quality of foreign investment in this country is of a standard that we welcome?

English We’d expect the OIO to take reasonable steps to ensure that its conditions and agreements are honoured by the investors. I hear occasionally about people who may or may not have met their conditions, and it’s the job of the OIO to follow up, because they’re agreements made in good faith and they should be kept.

Nash And if they just haven’t got the staff or they’re not actually following up, what do you think we should be doing about that?

English That scenario hasn’t been put to us. They are free to come forward and, say, in order to put a case that monitoring’s going to require more resource, and that’ll be weighed up with everything else. But I wouldn’t see that as an excuse for not monitoring, and my understanding is they are monitoring. They have taken action as being, in recent years—some sales, forced sales. OIO have forced some sales, as I’m pretty sure I’ve been told, where conditions haven’t been met.

Peters One sale.

English Is it one? Yes. And that should be—illustrate to investors that the Government will take action if they are in some egregious breach of their conditions.

Nash Would you support an audit? A cross-party audit of foreign investment over the last 10 years since the Act came into place?

English I don’t know. I haven’t thought about that proposition, but I think OIO should be doing its job regardless of what other parties think.

Nash So if a proposition was put to you for a cross-party audit you’d consider it?

English I don’t know what a “cross-party audit” means. It sounds like a bunch of politicians doing trips around the country looking at golf courses.

Seymour Can I ask a question from the opposite point of view on this topic, which is that the history of our country is a history of foreign investment. One of our biggest challenges is getting capital. The OECD has ranked us 48th worst out of 54 as a place that’s easy to invest in, mainly due to restrictions on investing in land. Is the Government doing anything to actually make it
easier for people to invest in New Zealand? Because it’s actually something that we need.

The OECD does have a view which I think is a bit more negative than is the case. I've had a discussion with one OECD official about how it’s rated, and they just find the Overseas Investment Act very complex. So there’s something like 23 tests. I think the impact of it isn’t so much that people put in applications that then fail, it’s just that they look at it, see the costs, because the fees are pretty high—we’re getting complaints about the fees—and just don’t apply. So that’s probably the impact it has. Now, in all of this—

Has the government tried to survey or test the size of that chilling effect?

We had a bit of a look at it 4 or 5 years ago, and I think it’s—the impression I have—I was the MP for the Queenstown area, so you hear a lot about this stuff there—the impression I have is it’s a reasonably significant deterrent for people who aren’t determined. You’ve got to be pretty keen to actually invest in New Zealand to get through that process.

But we’re trying to get the right balance here. I mean, we do want keen investors committed to New Zealand, and we’ve got a lot of foreign investors who are, and do a good job. They bring in a lot of capital. I’ve just had, down south, a company essentially be bought out—a Kiwi company—with a significant injection of capital going with that purchase, and the community will benefit from it. So we think the balance is about right. It reflects New Zealanders’ concern about foreign investment, because they get pretty thoroughly tested, on the one hand; but on the other hand we are an attractive jurisdiction for foreign investors to come.

Probably the thing we do most that encourages foreign investors is just run sensible economic policy. If you’re an investor in New Zealand, regardless of whether you’re foreign or domestic, we’ve got a high-quality regulatory environment, a predictable Government, steady economic growth, and generally a welcoming community.

Look, just two or three questions. First of all, did you feel like saying something between November and January when banks were hiking interest rates up?

Did I feel like saying something?

Did you think that it wouldn’t be a time for you to say of this: “Something’s very disturbing here.”? We’ve got deflation. You talked about interest rates lower for longer. And, of course, the boast of your administration is: the lowest interest rates in 50 years. Despite the fact that, internationally, that is not the truth. Either in the EU, USA, UK, Japan, China, the whole hundred yards, it’s way different—lower than what you’ve got here. But the banks were rarking it up between November and January, and there wasn’t a word at all from this administration. Why was that?

Generally, because we can’t influence interest rates directly and because the governor of the Reserve Bank has independence in the conduct of monetary policy, we try to—we are somewhat restrained in giving opinions
about the track for interest rates. I mean, as it’s turned out, the downwards pressure has resumed.

Peters: Exactly, but for all those that got caught on the rejigging of three months, it went up.

English: Yes, but to be fair, that’s what everyone thought was going to happen then.

Peters: Have you seen the advertisement near the Auckland international airport?

English: See the what?

Peters: The huge advertisement at the Auckland international airport about the number of houses—the availability of housing in New Zealand for purchases offshore. Have you seen it?

English: No, I haven’t.

Peters: Has anybody brought it to your attention?

English: I mean, do you—if your question is: has anyone brought to my attention the fact that New Zealand residential housing is marketed offshore? Then, yes. I regularly get emails from all sorts of people showing me ads and pamphlets, and all sorts of stuff.

Peters: You were talking about the tools you were leaving to the Governor of the Reserve Bank—well, the offshore buying has been huge, and it’s in the recent Bayleys report, just a few weeks ago. It’s also in a Herald article in late January by Phillip Field—something the Herald has discovered rather belatedly: that there’s a crisis fuelled by offshore buying. But, anyways, there’s one tool. Then you’ve got high net migration, mostly going to Auckland. Again, fuelling demand in both housing and rentals. When do you propose to do something about that?

English: Some of these things we regard as measures of success. So New Zealand’s high net migration, which is I think the highest since 1994, is some indication that, particularly, Kiwis who were considering leaving have decided to stay home, and that’s a good thing. We all wanted to achieve that. That has added to some pretty—there’s other factors that are part of the strong demand for housing that, in my view, are probably much more significant. Interest rates are a bit lower than people thought they would be, their real wages are rising, they’ve got a bit of confidence about where the economy’s going; these are all things that make them more likely to go out and pay a bit more for a house.

It’s a bit hard to know exactly what impact any of those particular factors has, including the presence of some offshore buyers in the market. And the anecdotal evidence around that indicates that it’s a bit hard for people to tell who is an offshore buyer when they go along to the auction. So what we’re doing about it is—you’ve got a choice: you can try and constrain the demand somehow. We’ve tended to avoid that, although the macro-prudential measures have some impact, and there may be more to come; and we’ve just focused on supply, because in the long run that will be the dominant influence.
I.3B BUDGET POLICY STATEMENT 2015 AND ANNUAL REVIEW OF FINANCIAL STATEMENTS

Peters Look, that’s true, but then why don’t you loosen restrictions that are presently existing and double the number of immigrants coming in? Because if it’s a measure of success, and it’s good for the economy, why don’t we enjoy the full flush of it all? Just open up the gates.

English Well, it’s not so much that—the number of immigrants coming in has gone up somewhat, but the biggest shift has been the number of Kiwis not leaving, and we don’t want to—we’re happy about that.

Cosgrove In the BPS you use the words that you’re going to “rigorously test” Government’s expenditure and the value of it. Could I ask you what your view of this example is? Are you aware that EQC, which you mention in the BPS, is recruiting loss adjusters, paying them in advance for approximately 1 week a month’s work—if there’s no work, they still get paid—and the rates of pay are 30 percent higher than the top rate for commercial loss adjusters, and double that of the top rate for residential loss adjusters. So you’ve got an agency here that is paying people basically to do nothing—if there’s nothing to do, they still get paid—and a year’s salary, double and 30 percent extra for commercial residential top rates, you know, sort of, year’s salary for 1 week a month’s work, which might happen or might not. Do you think that meets your test of rigorous fiscal management?

English Look, on the face of it, that’s—I mean, I’ve seen that story and I’d be interested to know what’s behind it—

Cosgrove It’s confirmed by EQC.

English And I haven’t spoken to them directly; I expect the Minister would find out what the story is—

Cosgrove Have you spoken to the Minister?

English No, I haven’t directly about that. Bear in mind that whatever the details of that arrangement, one of the consistent complaints about process in Christchurch is that EQC are coming up with all these over-cap properties as they get into the more complex, harder end of the earthquake-damaged homes. I mean, even if you get 90 percent of them done, the last 10 percent are going to be the most difficult. So without being able to confirm it, I imagine they’re trying to get a high level of expertise readily available to deal with stuff as it arises. But it’s a fair enough question and we should get an answer to it.

Cosgrove Would you give us a commitment to rigorously test your Minister in charge of EQC, perhaps, to get an explanation and make that explanation public? Because I think we’d all like to know.

English I’ve found the Minister of EQC is quite capable of rigorously testing anything—

Cosgrove The difficulty is to date he hasn’t bothered to ask.

English He only needs a small invitation to do so.

Cosgrove To date—

Bennett Well thank you very much, Mr English. We’ve—
Cosgrove Excuse me—
Bennett No, we’ve done the—
Cosgrove No, we haven’t, we’ve got 3 minutes to go.
Bennett We started early, so—thank you very much—
Robertson G It’s not quarter to. Mr Chair, we have allocated until quarter to 1 for this debate and then we’ll keep going.
Bennett —and we’ve got Treasury as well to come—
English I can probably do 3 more minutes, Mr Chair.
Bennett You can do 3 more minutes? We’ll do one more question.
Peters Do you need protection from the Chairman here? With all your experience, do you really think you need protection from the Chairman?
English Oh, sometimes, I mean you guys can be pretty ferocious.
Robertson G Mr English, I want to take you back to Skycity, Mr English, for one more question. When you said that putting more money in was the least preferred option, does that mean that walking away from the deal is a more preferred option than putting more money in?
English Well, “least preferred” means what it is. Everything else is a bit more preferable.
Robertson G So walking away is more preferable to you than putting more money in?
English Look, again, I wouldn’t want to get ahead of the Government having a position, but certainly more taxpayers’ money is the least preferred option, so the logic is every other option—
Robertson G So walking away—
Bennett I think we’ve had enough of that. Thank you very much, Mr English; we appreciate the time spent. Thank you.
Cosgrove Point of order. I’ve got a procedural matter. Forgive me, I’m not going to labour this—we have an agenda, which you wrote, which stipulates the times that items of business conclude. Whether you deem it to be appropriate to start early is a matter for you, but we still have time on the clock, and actually technically we still do, with the Minister of Finance. And your argument that we’ve got Treasury next is correct, but Treasury was programmed in once that time had elapsed. So it is inappropriate for you to cauterise time because of your own mismanagement. If it says the Minister’s going to be here until quarter to, you wrote it, you should adhere to it.
Bennett Thank you. Yes.
Robertson V I’ll just keep it brief and, really, it’s just to note in summary some trends since our December update and to really note that the trends that we saw in our half-yearly update are more pronounced.

So, activity in the economy’s increasing, supported by domestic demand, as you know, and, at the same time, inflation, which is already low, has
dropped further. For many New Zealanders the combination of strong
growth and low inflation is, of course, positive. And we expect employment
will continue to grow. People will have more buying power from their
incomes and prices will stay down. Interest rates will remain low. For the
Government, though, low inflation does mean that we expect less tax than
we might have otherwise done in a growing economy.

There are still risks, and this is what’s been reinforced in the last few
months—that we’re living in a time that offers New Zealand a lot of
opportunity, but also comes with a lot of uncertainty. In this context,
important to continue to embed improvements in the Government’s
financial position, growing economy, shore up our prospects for a
sustainable growth and higher living standards over the long term. This will
continue to be Treasury’s focus for the year. Thank you.

One question: I mean, you said consumers are going to have more buying
power, but in your document it says that wages aren’t meeting—keeping
pace with—inflation. But if wages aren’t keeping pace with inflation, then
they’re going to have less buying power. It says in your document here:
“some of the principle drivers of tax revenue, e.g. compensation of
employees and private consumption, grew at a slower rate than overall
GDP, causing a related tax-to-GDP ratio to decrease by approximately .3
percent”.

So, there’s two things that are important to note there. So, real wages are
increasing, and, in terms of the impact of low inflation, that has both
positives and negatives in terms of consumer buying power. So, for
example, petrol prices have decreased, and that means that people can drive
their cars for longer at the same cost. But, we also make an assumption that
they will spend the savings they have on consumption goods. So, in terms
of people’s buying power, they actually can buy more with the real wage
increase that they’re seeing.

So, just going back to climate change: Treasury’s paper pointed to a 315
million tonne hole, if you like; that if we were going to even have the same
targets as now—5 percent below 1990 levels—in 2021 to 2030, there’s a
315 million tonne overshoot. Now, in Treasury’s document you kind of
suppress the relevant prices—in the document you released—but since then
we’ve kind of learnt what they were. So, in your advice to the Government
are you saying to the Government don’t make a decent target, or are you
saying: “Why don’t we reduce our emissions?”. Because it’s kind of like
you’ve got two choices here, right? If you want to avoid this fiscal risk, this
$3 billion to $50 billion fiscal risk to the New Zealand taxpayer, you can
either say our target’s going to be higher, so we’re not going to cut our
emissions, or you can say, actually, we’re going to try to cut our emissions.

So, couple of things there. One is that you mentioned the upper end of that
band, which—there was a large band that we mentioned in terms of the
potential cost to Government of that. So, that’s one point.

I think what our briefing really—what we’re saying is in climate change it’s
actually not an either/or here. You actually do have to have—as the
Government goes into Paris, some, you know—look at what it needs to consider, in terms of what New Zealand's target will be. We also think for a growing economy sustainability is absolutely critical, and we do think that’s still a thing that Government should have aims around. So, we don’t say, reduce your targets there and stop your emissions; we actually think it’s important for the New Zealand economy to be sustainable in that way.

In this context, greenhouse emissions per unit of GDP is kind of relevant, and New Zealand is—I’m just looking at the UNFCCC data now—it’s pretty much the worst in the world. So, our growth since 2008 is 13.8 percent. That is the greenhouse emissions per unit of GDP. And pretty much everyone else has cut their emissions per unit of GDP. So, everyone else is becoming more efficient, in terms of carbon intensity, and New Zealand’s becoming radically less efficient. How is that a good economic strategy?

I think, as you know, the biggest input into our emissions is agriculture. And, I think, it’s true to say that that is an area that New Zealand needs to continue to look at how we have increasing productivity in our agriculture sector as well as being sustainable. So, I think—we know our profile’s quite different from some of the other countries’ data that we see. And our strong agricultural part of our economy means that that profile is going to be different.

But even in the transport sector, which is the fastest growing sector, other countries have strategies to reduce their transport emissions; we have strategies to increase our transport emissions. So, aren’t you concerned that having an economy which is now a real outlier in terms of the increase in emissions per unit of GDP—I mean, a wild outlier when you look at the UNFCCC numbers—that is a systemic risk to the New Zealand economy, to be so inefficient, in terms of carbon, compared to all of our competing countries?

What we would say is that having good, sound policies around climate change and emissions is really important.

So, does that include a price on carbon?

That’s one option.

So what are the other options? Because every report I’ve ever read says the most efficient way to reduce greenhouse emissions is to have a price on carbon—everything I’ve ever read says that. Is that not the case?

As you know, you have to trade off with that, right? So, if you just want to reduce emissions, then you will have cost to the economy in doing that. So, that is our advice here is, look, you just have to balance those. And, in terms of the briefing for incoming Ministers, making sure that they understand what those balancing factors might be.

In fact, what your report said is there’s a cost to the Government of not reducing emissions. There’s a $3 billion to $50 billion fiscal risk of not reducing emissions is actually what your report said. Because, even if we maintain the current target, the fiscal risk to the New Zealand taxpayer is
enormous with this strategy of increasing emissions. So, aren’t you providing advice that says we should reduce the fiscal risk to the New Zealand taxpayer by actually trying to cut emissions?

Robertson V Other than our briefing to the incoming Government, we haven’t as yet provided further advice in terms of what they may—the Government may—decide in that area.

Norman So, in terms of a competitive economy, do you or do you not think having low greenhouse emissions and lowering greenhouse emissions per unit of GDP is the goal that we should have, or not?

Robertson V I would just say that it’s not the only goal that we have in terms of growing the economy.

Norman That wasn’t my question, thank you very much. My question was that is that a goal you think we should have—

Bennett Mr Norman, Mr Norman! She—

Norman No, she didn’t answer the question. Do you think that’s a goal we should have?

Bennett We had an answer. There’s been an answer, Mr Norman, so—

Norman No, there hasn’t, Mr Chair.

Bennett There has.

Norman So, do you think that one of the goals should be to reduce greenhouse emissions—

Bennett Mr Norman, it has been answered, have you got a new question?

Norman —per unit of GDP or not?

Robertson V Only where—I don’t think that is a sole goal in itself.

Seymour The thesis here really is that we may need—we, as New Zealand—may need to transfer funds off-shore if we get seriously behind the rest of the world in terms of the carbon intensity of our economy. That’s the threat. But how could that happen? We’re absorbing the same technology as the rest of the world, we’re of similar industries, etc.—agriculture, the rest of the world wants to buy food from us. So I don’t quite see how it’s plausible that such a large gap is going to open up. The rest of the world’s going to decarbonise and then charge us for continuing at the same level of carbon we have now, or worse. The whole thing doesn’t quite seem plausible in real terms.

Bennett I think the point’s made. Thank you very much. We appreciate staying afterwards as well.
2013/14 Annual review of the Ministry of Health
Report of the Health Committee

**Contents**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation</td>
<td>2</td>
</tr>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Appointment of Director-General of Health</td>
<td>2</td>
</tr>
<tr>
<td>Breast cancer treatment regimen</td>
<td>2</td>
</tr>
<tr>
<td>Health workforce</td>
<td>2</td>
</tr>
<tr>
<td>Mental health services</td>
<td>3</td>
</tr>
<tr>
<td>Free GP visits for children</td>
<td>3</td>
</tr>
<tr>
<td>Primary care funding</td>
<td>4</td>
</tr>
<tr>
<td>Aged care</td>
<td>4</td>
</tr>
<tr>
<td>Oral health promotion</td>
<td>4</td>
</tr>
<tr>
<td>E-prescribing</td>
<td>4</td>
</tr>
<tr>
<td>World Health Organisation</td>
<td>4</td>
</tr>
<tr>
<td>Appendix</td>
<td>6</td>
</tr>
</tbody>
</table>
Ministry of Health

Recommendation

The Health Committee has conducted the annual review of the 2013/14 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 core functions are to advise the Minister and the Government on health issues, protect the public via regulation, purchase national health and disability support services, and provide information and payment services to the health sector. Its total income in 2013/14 was $189.573 million, and its total expenditure was $188.515 million, resulting in a surplus of $1.058 million.

We heard that the Ministry of Health has not discussed with its Minister the likely new cost pressures arising from election promises, but its business planning for the financial year 2015/16 is well under way.

Appointment of Director-General of Health

We noted that the former Director-General Kevin Woods announced his departure in July 2013 and that an appointment was expected to be made within a few weeks of the announcement. We wondered what impact having an acting Director-General for an extended period has had upon the sector. After the ministry appeared before us, Chai Chuah, the Acting Director-General of Health since October 2013, was appointed to the position of Director-General. He is also the Chief Executive of the ministry. He assured us that during his time acting in the role he engaged strongly with the sector and the public service in general and that he did not feel that the health sector has lost any momentum. As well as having knowledge of the health sector, he considers that the Director-General needs to be familiar with the machinery of government, know how to work across the public service, and understand what it means to be the principal adviser to the Government on health issues.

Breast cancer treatment regimen

We asked about the implementation of the 11 standards for the treatment of breast cancer patients in New Zealand first announced by the Ministry in 2013. We heard that the standards provide patients undergoing the treatment with information, and the DHBs measure their performance against them. There is no obligation for the DHBs to report their findings back to the ministry. We noted significant improvements in recent years in the speed with which radiotherapy is made available to breast cancer patients in New Zealand. The average waiting time is now less than four weeks.

Health workforce

We noted that the Health Workforce New Zealand workplan for 2015/16 is not available yet and asked what kinds of issues are being raised with regard to the workforce. The Medical Workforce Taskforce, a joint project by Health Workforce New Zealand and other
stakeholders, has been working to ensure that New Zealand-trained doctors find places in hospitals here, and to fill the vacancies in speciality training, for example, general practice. We were pleased to hear that in recent years all New Zealand medical graduates entering their first post-graduate year have been placed in New Zealand hospitals. Following promotion of the benefits of specialising in general practice to medical students the courses have been fully subscribed.

With predictions of an upcoming nursing shortage and evidence that New Zealanders are living longer, we heard that tertiary education providers are increasing the number of places on their nursing training courses. Around 1,800 nurses graduate each year; this has increased from an approximate figure in 2010 of 1,200. The ministry works with the DHBs and other employers to ensure that nurse graduates are placed in jobs and we heard that within 12 months of graduating, almost all nursing graduates find jobs.

**Mental health services**

We were interested to hear that the majority of mental health care in New Zealand takes place in the community, and that within the mental health sector only around nine percent of people receive care in acute inpatient units or hospitals. Approximately 3.5 percent of New Zealanders access specialist mental health care each year, and this is in line with international statistics. Work is under way to improve the continuum of care, with a particular emphasis on primary care and the shared pathway, so people are able to see a specialist as required.

**Mental illness**

We heard that serious mental illness is a long-term condition. Practitioners want to enable people to manage their own conditions with access to specialist support as the need arises. In terms of public health campaigns, the destigmatising Like Minds, Like Mine strategy is being refreshed. New Zealand’s online work through the National Depression Initiative (NDI) is considered world-leading. As part of NDI, the Ministry of Health added a rural component in response to need. Sparx, the Prime Minister’s youth mental health project, has been rolled out online, and the ministry reports good uptake. The ministry follows international debate in the field of e-therapy and associated positive psychology tools. We heard that the ministry has also provided significant psycho-social support to post-earthquake recovery efforts in Canterbury. This support focused on building resilience, again drawing on positive psychology.

**Free GP visits for children**

GP visits will be free for under-13-year-olds from 1 July 2015; the ministry worked with general practices, pharmacies, and the ACC to ensure that this also applies to healthcare after an accident. The expanded scheme will not be widely advertised, but GPs will educate parents on the value of continuity of care. Primary health organisations and district health boards will record uptake on a practice-by-practice basis.

Uptake of free care for under six-year-olds is about 99 percent nationwide and 97 to 98 percent of children under six-years-old also have free access to after-hours care. The ministry told us that it encourages all general practices to offer free care to under six-year-olds, but that it is a voluntary scheme.
Primary care funding
We asked how targeted primary care funding is, and noted that basing the Low Cost Access (LCA) funding on a geographic rubric was flawed. The ministry is trying to improve primary health care access for vulnerable people and not all high-needs patients are currently captured by the LCA. The programme was reviewed 18 months ago and the sustainability of its practices reviewed. The addition of 45 new nurses to the programme had been a successful change. The LCA targets ethnicity-related needs and levels of socio-economic deprivation, but the ministry is conscious that children, older people, and mental health patients are equally in need of improved LCA provision. This is an ongoing challenge.

Aged care
We noted the shortcomings in aged care identified by the Human Rights Commission’s 2012 Caring Counts report, and asked what had been done by the ministry to remedy these. We heard that a range of work reforms are under way in the aged-care sector, many of which target specific issues. The ministry wants to align its aged care work programmes better and ensure they are more targeted.

The TerraNova case had drawn attention to inequitable pay practices in the sector; work to address this is ongoing and the DHBs and the Ministry of Health are in regular dialogue with the aged care industry to ensure better and more sustainable care for elderly patients. The ministry is also working on its programme covering travel done by homecare visitors, as recommended by a settlement last year. It is examining how best to enable home and community support workers to perform their jobs, with an emphasis on the client’s needs, and it is also investigating how to regularise the workforce. A report on the programme is due in June/July. Other work focuses on ratifying the settlement agreement, including the payments and funding.

Oral health promotion
The last Budget allocated $10 million over four years for oral health promotion. Implementation will focus on pre-school oral care through toothbrush and toothpaste distribution. The programme is not yet under way but planning is well advanced. The target demographic includes Māori, Pasifika, and low-income populations.

E-prescribing
GPs and pharmacies are now connected via the e-prescribing system. All pharmacies in New Zealand are now connected to the e-prescribing service, as are 25 percent of general practices. Within three months, all practices using MedTech (which accounts for around 80 percent of general practices) will join the programme. The end result will be a comprehensive national view of prescribing behaviour, which will enable general messaging from the Ministry of Health to primary care providers. The next step will extend the system to include decision support and medical reconciliations. The National Health IT board is strongly guided by clinical leaders. One of the resources enabling this progress is our formulary, which we were told is based on a British model, and is so successful that New Zealand ideas are being used in the United Kingdom.

World Health Organisation
New Zealand will shortly take up a three-year term on the World Health Organisation Board, nominated by colleagues in the Western Pacific region. We understand that within
that three-year period a new Director-General will be appointed, and reports on childhood obesity, and the global response to ebola will be released. Medsafe manager Dr Stewart Jessamine will attend the first meeting in May in Geneva.
Appendix

**Committee procedure**

We met on 18 March and 1 April 2015 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
Carmel Sepuloni
Scott Simpson
Barbara Stewart

**Evidence and advice received**

Ministry of Health, Responses to written questions, received 13 March and 30 March 2015.
Organisation briefing paper, prepared by committee staff, dated 17 March 2015.
2013/14 Annual review of the Inland Revenue Department

Report of the Finance and Expenditure Committee

Contents

Recommendation 2
Introduction 2
Financial and service performance 2
Business transformation 2
Child support reforms 3
Consultation with the Minister 4
Tax debt and overpayments 4
Compliance 4
International tax avoidance 5
Customer services 5
Information sharing 6
Labour Party minority view 6
Appendices
A Committee procedure 7
B Transcript of hearing 8
Inland Revenue Department

**Recommendation**

The Finance and Expenditure Committee has conducted the annual review of the 2013/14 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 80 percent of core Crown revenue—$56.2 billion in 2013/14—for funding Government programmes. As well as revenue from tax, it collects payments for child support and student loans. It distributes payments for tax refunds and rebates, Working for Families tax credits, child support, and paid parental leave. It administers KiwiSaver, and advises the Government on tax policy and certain social policy measures.

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

**Priorities in 2013/14**

IRD’s main areas of focus in 2013/14 were its business transformation programme and improving its customer services. It is seeking to make taxation simpler, more open, and more certain.

**Financial and service performance**

The department’s output expenses totalled $699.6 million in the year to 30 June 2014. This was nearly 7 percent higher than in the previous year, but below its operating budget for 2013/14. Increased funding had been approved for two major projects: the business transformation programme and reform of the child support scheme. However, delays with child support and IT initiatives resulted in some funding being carried over to 2014/15.

The department achieved 85 percent of its performance targets, compared with 76 percent the previous year. We are pleased to note that it has made some improvement in answering telephone requests, and customers continue to rate its online services highly.

**Business transformation**

As explained in previous reports by this committee, IRD is undertaking a major 10-year programme to upgrade its IT systems and modernise the way it administers tax and social policy. Early estimates placed the cost of the programme at $1–1.5 billion. We heard that $83 million has been spent so far.

In 2013/14 Cabinet approved the business case for change and a “roadmap” for the programme. The department started work on business cases for specific investment decisions, and in late 2014 it selected the US-based multinational Accenture to design the first stage and to carry out indicative design work for subsequent stages.

We are aware that Accenture was the principal contractor to the Australian Taxation Office (ATO) on a programme that incurred major cost escalation and was heavily criticised by the Australian national audit office. We asked whether the IRD is aware of this, and
whether it still has confidence in Accenture in the light of it. The commissioner told us that her team discussed the matter with the ATO extensively, so as to avoid similar problems here. She believes IRD is well set up to do so, and has confidence in Accenture.

We asked why IRD was not using a New Zealand company such as Xero in its transformation programme, noting that its chief executive, Rod Drury, has suggested his company could fix many of IRD’s systems at a much lower cost than proposed. The commissioner said IRD has discussed the transformation programme with Xero. She pointed out that it is primarily a supplier of business accounting software, and not really geared to support the type of “back-end” systems IRD needs. Nevertheless, there may be scope for it to provide support at the front end, improving the software that customers engage with. IRD will continue to explore such opportunities.

**Quality assurance**

The commissioner told us she is confident that the department’s preparations and quality assurance processes will allow it to manage the business transformation programme well. She said it has invested much time in understanding the current state of its IT system. It has also sought a great deal of quality assurance, with several independent reviews over the past year. It specifically sought review of whether its governance and capability could support a programme of this scale. Every independent review has indicated that the department is well set up for the project, with good risk management.

**Child support reforms**

As the House is aware, changes to the rules for payment of child support were delayed for a year so IRD could make necessary adjustments to its computer systems. The changes form part of the Taxation (Annual Rates for 2015–16, Research and Development, and Remedial Matters) Bill, which was introduced to the House on 26 February 2015. The first phase of the reforms is now being implemented from 1 April 2015.

We note that the original business case for the reforms estimated the cost at $30 million, but by the time the proposal came to the House in the taxation bill the cost had increased to $210 million. A decision was made to implement only part of the second phase of the reforms, reducing the cost to $163 million. We asked IRD how the cost had been misjudged so badly, noting that the business case appeared to have overlooked any allowance for capital costs, which seems extraordinary.

IRD said its IT systems for the child support scheme had been unchanged for 20 years, so it was initially hard to judge what would be required. The original $30-million estimate was made very early in the policy’s development, in an indicative business case. The initial assumptions were then tested and revised, and the IT requirements became clearer as policy requirements were finalised in the House.

The commissioner told us that when IRD realised in November 2013 that it would need to delay and revise the plans, she and the Government Chief Information Officer had commissioned an independent review of the approach IRD had taken. The review drew out numerous lessons and made recommendations. It found that IRD’s programme management approach had not been sufficiently robust. The commissioner said she holds herself and her department accountable for management of the project, and says the lessons are being taken on board.
We note that if the second phase were to be fully implemented, the total cost would still be $210 million. The commissioner assured us that the programme could be delivered within budget. She noted that phase one is now live and the programme has been meeting its milestones.

Consultation with the Minister

We questioned IRD about the extent to which it has kept the Minister, and his predecessor, informed about risks and costs of the business transformation project and the child support reforms. The commissioner assured us that the department has at all times kept its Minister appropriately informed.

The commissioner said the department meets the Minister formally once a month to report in detail on the business transformation programme. The report covers progress against milestones and against budget, and specific risks. In addition, such matters are often covered in her regular weekly meetings with the Minister.

With the child support reforms, the commissioner said similar regular meetings are held with the Minister. In addition, IRD had informed the Minister as soon as its own internal checks found that it could not meet the original timeframe of April 2014, and would need to incur more capital expenditure. The Minister requested that the department set to work on options for making savings.

Tax debt and overpayments

Funding provided in Budgets 2010 and 2012 to collect overdue taxes has produced returns considerably above targets. A total of $4.1 billion of tax debt was collected in 2013/14, $752 million more than in the previous year. We encourage IRD to remain vigilant and seek opportunities to ensure that people pay the tax they owe. However, some of us note that the overall level of tax debt continues to rise.

We asked whether the department could be equally proactive helping people to obtain refunds for any overpayment of tax. We understand that about $750 million is owed to people who have paid more than they actually owe in tax. IRD said its aim is to simplify its processes so that people will pay the right amount of tax in the first place. It is also exploring possible changes to tax policy that would help by allowing people to stay up to date with their tax affairs.

IRD told us it keeps a register of people’s tax positions, so they can check and request a refund for up to four preceding years. Each year when refunds become available it works with personal tax summary intermediaries, and through direct marketing, to alert people to check their IRD account to see whether money is owed to them.

We commend IRD for speeding up its systems so that tax refunds are now paid out more quickly—within days, rather than months. However, we note that its systems still require a person to take the initiative to check whether a refund is due. We suggested it should contact people directly or work with their employers to alert them. The commissioner said that working with employers is an interesting suggestion. It has been working with software developers on whether employers’ pay-as-you-earn systems could be linked with IRD’s system so that people paid the right amount of tax from the start.

Compliance

IRD has continued to investigate possible non-compliance in areas such as aggressive tax planning, the hidden economy, property speculation, and fraud. We were pleased to note
that this has helped it to uncover discrepancies amounting to $1.24 billion, which it will work on collecting.

We asked what more it can do in this area, and whether it believes there is still a large amount of tax going uncollected. IRD said it is hard to estimate, since the hidden economy is hidden. It believes it is doing at least as well as most tax administrations internationally, and better than many. It said that a strength of the New Zealand tax system is its simplicity. It continues to work to improve its systems to prevent any loss of revenue, and to invest in analytical capability to investigate information that suggests revenue leakage.

**International comparisons**

We are interested in IRD’s comment that the simplicity of New Zealand’s tax regime is an advantage. We asked if any comparisons have been made of its effectiveness in terms of the revenue collected against the rates charged on the base. IRD said it is difficult to get empirical data for benchmarking as tax systems vary so widely. A comparison of GST or VAT systems is easier to measure, and New Zealand is very efficient in the amount it collects for the rates charged. New Zealand typically rates very well in international surveys of the efficiency of tax systems.

**International tax avoidance**

We take a keen interest in work on “base erosion and profit shifting”, which aims to ensure that multinational companies pay their fair share of tax in the countries where they operate.

We asked IRD how it is responding to revelations in late 2014 that many large multinationals have been using internal lending arrangements set up in Luxembourg to minimise the tax they were paying in other jurisdictions. We note that a number of the named companies operate in New Zealand, and asked whether IRD investigates whether such arrangements are being used to avoid paying tax here.

The commissioner assured us that whenever information of this sort becomes available, her auditors and investigators move very fast to determine whether it implies any potential tax leakage in New Zealand: “Auditors and investigators live for that type of information becoming available”. She said that the first step would be to analyse the information fully and to explore its implications with colleagues in the Australian Taxation Office and authorities in other jurisdictions.

We note that IRD’s contractor Accenture was one of the companies named in reports about the Luxembourg arrangements, and asked what IRD is doing about it. The commissioner said she could not comment on the affairs of an individual taxpayer, and her mandate applies only to the New Zealand tax jurisdiction. However, she said it is IRD’s standard practice to have a clause in contracts that commits the contractor to tax compliance in New Zealand. She said IRD takes the tax integrity of its suppliers seriously, and has at times moved away from contracts when it did not feel that integrity was established.

**Customer services**

IRD has been working to improve its services to make tax simpler, more open, and more certain for customers.

It introduced several new or improved services during the year, and has also started to engage with customers about potentially useful changes. It has set up a simplification panel to discuss with business people what its business transformation could mean for their
customers. It also ran a pilot in Hawke’s Bay asking customers to prioritise possible changes. The top two are already being done—a quicker way of submitting nil GST returns, and providing email alerts when returns are outstanding—and it is working on another. IRD told us it will continue to engage with people in this way. It noted that business transformation as a concept is big and hard to grasp, but people readily appreciate how each component change can help them.

**Information sharing**

IRD told us it has been looking for opportunities to improve public services by sharing information with other government agencies. For example, following the necessary legislative change it signed an information-sharing agreement with the New Zealand Police in June 2014 to allow the reciprocal exchange of information in relation to serious offences. It has also worked with the Department of Internal Affairs to set up a simple process for issuing an IRD number when the birth of a child is registered.

We will be interested in any further proposals for the sharing of information to improve public services.

**Labour Party minority view**

Labour members of the committee were extremely concerned that despite Ministers being well informed of the cost escalations on the business transformation programme and in relation to child support, nothing appears to have been done in relation to accountability. The Labour members look forward to seeing what action the Government will take in respect of these matters.
Appendix A

Committee procedure
We met on 11 March and 1 April 2015 to consider the annual review of the Inland Revenue Department. We heard evidence from the department and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Inland Revenue Department, Responses to written questions, received 20 February and 25 March 2015.
Office of the Auditor-General, Briefing on Inland Revenue Department, dated 11 March 2015.
Organisation briefing paper, prepared by committee staff, dated 9 March 2015.
Appendix B

Transcript of hearing of evidence

Members
David Bennett (Chairperson)
Chris Bishop (Deputy Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Stuart Nash
Dr Russel Norman
Richard Prosser
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour
Stuart Smith

Witnesses
Naomi Ferguson, Commissioner and Chief Executive, Inland Revenue Department
Arlene White, Deputy Commissioner (Service Delivery)
Struan Little, Deputy Commissioner (Policy)

Bennett Welcome, Naomi, Commissioner and Chief Executive of the Inland Revenue Department, and your team. We’ve got until 1 o’clock. So if you want to give a brief introduction, then we can open it up for questions from members.

Ferguson Thank you, Mr Chairman, and members of the committee. Firstly, if I could introduce the colleagues who are with me. [Introductions]

I recognise, as well, that some committee members are new to the joys of the Inland Revenue portfolio and if, in any of my comments or responses, there are things that you need me to clarify that I perhaps inadvertently think that you may have remembered from previous times, then please tell me.

I want to make some opening comments about our overall performance and the performance as set out in the annual report. I am aware that committee members have signalled that they have some questions concerning the child support reform programme, in light of recent media coverage. I, again, will make some opening comments around that, but I’m very happy, obviously, to expand on those in response to your questions.

So turning to the annual report and the performance of Inland Revenue, 2013-14 was a very strong year for us. We collected some $55 billion in revenue for Government. That was an increase of $2.5 billion, and almost 80 percent of Government revenues. We met 85 percent of our
performance measures—that’s up from 76 percent in the previous year. And we overachieved in the compliance areas that have been specifically funded by Government for additional work such as property and hidden economy.

I’d like to highlight three areas of performance in particular. Our service levels: we handled 5.5 million contacts from customers, and customer satisfaction improved and remains high, particularly with our online services.

We introduced a number of new or improved services during the year—for example, the pay-as-you-earn registration allowing companies to register for pay as you earn at the same time as registering online with the Companies Office. We introduced a service that allowed parents to register the birth of their child with Inland Revenue at the same time as the birth registration. Both of these are examples of us looking for improvements that make it easier for people to work with us and save them time and effort.

We also started to engage with customers more directly around our transformation. We set up a simplification panel, which has a number of people from business engaged with us to understand the opportunities through transformation for customers. And we ran a campaign in Hawke’s Bay specifically to ask customers directly how they would like us to prioritise some changes. We put six propositions out through that campaign, and I’m pleased to say that the two highest priority requests from our customers were for being able to submit a GST return quickly when it’s a nil GST return; and email alerts whenever there’s an outstanding return. Those two requests from customers have already been implemented.

Finally, on debt, we collected a total cash amount last year of $4.1 billion in cash, which was $752 million higher than the previous year. We resolved 66 percent of debt cases within 3 months and exceeded our target again. We had additional Budget monies for that. The return of investment there was $13 for every dollar spent compared with the target of just over $8.

Importantly, for me, by getting in early and working with our customers to get their debt cases resolved in those early days, within that first 3 months, we knew that that actually supports long-term compliance and, indeed, makes it easier for them to stay on top of their tax affairs.

As I said, I wanted to acknowledge that recent media has looked to make links between our Business Transformation programme and the recent child support reforms. I think it’s extremely important that we understand that these are two separate and distinct programmes.

The new child support formula now takes into account the many different family arrangements that exist in New Zealand today; not the arrangements that were in place perhaps 20 or 25 years ago, when the scheme was first conceived. Because of this, the implementation of the reforms has been complex, and we are, of course, implementing it within our current operating environment. Our challenges in implementing child support
within that operating environment are a good example as to why we need to transform our system and our department.

First, it’s 30 years old, the first system. It was not intended to deal with the wide range of revenue and social policy systems that it now manages. It has served us well, but making changes of this nature are expensive and, indeed, that is something that I think any Government would not find acceptable. So that’s one of the reasons why we are progressing our transformation programme.

But let’s remember what BT is about. It’s about changing how we deliver services and about changing how we support New Zealand citizens to meet their obligations to pay the taxes that are due and get the entitlements that they are due. It’s about making tax more simple, more open, and more certain, and it’s about looking at our people, our processes, and our policy, as well as technology. We have work under way in all of those streams, and, importantly, what we have been doing is building the foundations that we need for a programme of this size.

A programme of such significant change that, as I say, covers policy through people, through process, and technology, comes with an element of risk. That is why we have been investing in our programme management office, in our programme capabilities, in our governance, and in our assurance.

We have conducted a number of assurance reviews during the year. For example, one was Deloitte, who look at our governance and supporting practices. All of those reviews have been positive. All of those reviews have found that the way in which we are setting this programme up is solid and is in line with international best practice. All of those reviews are publicly available on our website, as well.

We are conscious that through this programme we need to safeguard the tax system, and that’s why we will take the steps that we take carefully and with due consideration.

This is an exciting time to lead Inland Revenue, and I am proud of the performance of the department in 2013-14. The work that our people do every day to support the people of New Zealand, to ensure that Government has the revenues that it needs, is extremely important, and as I say, whether we are thinking about how we safeguard the system today or in the future, I and my team are confident that we are well positioned to ensure that that system is secure.

Bennett Thank you, Naomi, and thank you to all of your staff, as well. You’ve got a big organisation and they do have to do a lot of work. So we appreciate all that they do.

Ferguson Thank you, Mr Chair.

Cosgrove Could you tell me how much has been spent on the Business Transformation programme in total to date, and how much is budgeted for the next financial year?
Ferguson

So the amount that has been spent to date is $83 million, and the amount budgeted for the rest of this financial year, I would have to come back to you with. I’m sorry. One of my team can probably find that. I would say, and you haven’t asked, so forgive me if this is irrelevant, but, actually, we are under budget and we have delivered against every milestone that has been set as part of that programme to date.

Cosgrove

Are you satisfied with your principal contractor, Accenture? Do you have confidence in them?

Ferguson

Yes, Accenture started with us just at the turn of this year—that’s after a very long and extensive procurement process. Last year we spent in competitive dialogue with Accenture and Capgemini and, as a result of that, chose Accenture. They have been working with us now for a matter of months. It is, of course, very early days, but again they are meeting the—they are producing the outputs, etc. that we would expect at this time. As you know, as with any early days of an early relationship, there have been some points where we are working together to ensure that, actually, we are set for future success, but broadly, I’m very comfortable.

Cosgrove

The reason I ask is because my information is you’ve got 16 consultants commuting between Australia and Wellington on $245 a day, per diem, plus fees. Their total is about $1.3 million and expenses are included in part of the other $12 million of project high-level design work. Are you aware that in Australia, Accenture was the principal contractor to the Australian Taxation Office, and the Australian National Audit Office found that poor software and data management practices within the ATO system were leaving its records and reporting functions at risk and becoming unreliable? And are you also aware that in 2004 the ATO estimated their project cost $445 million, including Accenture’s fees of $230 million, but in 2010 the project cost $756.7 million, including Accenture’s fees of $677 million, a blowout of $300 million? Are you aware of that, and, basically, if you’re not, I would be interested to know why. If you are, do you still have confidence in your principal contractor?

Ferguson

Yes, I am aware. I was aware of the work that Accenture did with the ATO, as part of our due diligence, not just on this contract but in the context of transformation. There are a number of lessons that can be learnt from the ATO programme, and we, as a team, have again invested time in speaking with the ATO to understand those and to understand how to avoid those. I believe that we are well set up to do so, and, yes, I have confidence in Accenture.

Cosgrove

So are you saying that you feel the experience that Accenture have had in a massive budget blowout across the Tasman provides an additional skill base, say, as opposed to Rod Drury at Xero, who says he can fix many of your problems for about $200 million, but he couldn’t get through the tender process?

Ferguson

So we are actually engaging with and working with Mr Drury and his company, and other members of the software industry, to understand the role that they can play in transformation. I think there is a valuable role, as
do they. They provide business accounting software, They do not provide a tax software platform, nor are they in a business that supports that type of, if you like, back-system supporting.

We will work with Mr Drury and his colleagues, and indeed are, on thinking around how the business accounting software and the way in which he and others are developing that can actually support the front end of this transformation and how that allows customers to actually engage differently with us. We see that as one of the big opportunities in transformation. Customers, to be frank, at the moment you use your Xero, or your MYOB, or whoever’s software. You then take all of that information, put it on to another form for us, and send it through. That’s one of the points of opportunity for us all.

Cosgrove Over the period of the Business Transformation project you’ve had two Ministers. You’ve have Mr Dunne and you now have Mr McClay. How much information have you been providing, week to week, month to month, to both of those Ministers about the milestones of risk management and expenditure, not only of the Business Transformation project, but the blowout in budget in respect of parental issues? Mr Dunne himself has admitted that it went, under his watch, from $30 million to $120 million. So how much information have you been providing and at what frequency to Ministers? And I suppose the second part of that is, what questions and scrutiny have Ministers put you under in your department—both of those Ministers—over that time period?

Ferguson So, in terms of Business Transformation and other projects, we regularly provide the Ministers—any Ministers—with updates.

Cosgrove Including expenditure?

Ferguson Including expenditure. I have a formal meeting with the Minister of Revenue on Business Transformation where we present a comprehensive report of where we are on milestones, where we are on budget, the risks, the issues, as you would expect. That we do monthly because we report monthly in terms of the programme. It would not be unusual for there to be an item around business transformation on my regular catch up with him once a week, when we kind of do a stocktake of everything that’s happening across the department. It is such a significant programme that that is there.

Likewise, with child support we regularly report to both Ministers on that. When the child support reform project was in its early development stages, obviously we were working closely with the Minister at that point in time, as the policy was being developed and indeed coming through the House. It was at the point when the policy came to the House that the original business case was signed off, the detailed business case, with the cost of $120 million. As soon as we were aware that we were not going to be able to achieve the original time frame of April 2014, again we had early discussions with Ministers.

In terms of their assurance, I go back to my opening comments around the amount of external quality assurance that we put in and make available to
our Ministers. For Business Transformation, for example, in the past year we’ve had two independent quality assurance reviews plus one technical quality assurance review completed by KPMG. We’ve had a gateway review, and we have had a review completed by Deloitte where we specifically asked Deloitte to look at whether or not our governance and programme capability was set up in a way to support the success of a transformation of this size and scale. Most recently the NAO have been with us. Their review will come to Parliament in due course.

Ross Commissioner, you’ve mentioned that you’re under budget when it comes to Business Transformation. How confident are you going forward that you will be able to deliver this project on time and on budget?

Ferguson I think, again, every independent review that we have commissioned has indicated that we are well set up for the journey ahead, that we have got good risk management processes and good support. And the work that we’ve done to date, we’ve actually been investing in understanding our current state, and particularly the way in which our current FIRST system operates. As I say, it’s 30 years old. It has been built on for a number of reasons, a number of new policies—social policies, child support, KiwiSaver, student loans—since it was originally conceived. It is deeply integrated and complex in terms of how it works within itself, and we’ve done a significant amount of work to understand that and to put in new capabilities around our programme management office, and around our policy impacting assessment process. I am confident that all of those will allow us to manage this programme well. All of the work that we are doing, at every phase we will come back to Ministers with an updated view of those costs and that journey ahead.

At the moment, we’re in something called high-level design. That will be reaffirming that, and we’ll come back to Ministers later this year with a detailed business case that offers choices in all of that work—that is, reaffirming that what we have set out as the upper limits of that, both in terms of time and cost, are upper limits.

Ross You answered earlier that you have regular briefings with Ministers. I take it that Minister McClay was relatively unhappy and concerned when you provided him a briefing outlining that the budget was increasing? Would that be fair?

Ferguson So in child support, absolutely. When we went to Ministers to advise that, having done more detailed work on the design of child support, having understood more the complexity of the formula, the complexity has meant we’ve had to code 30,000 business rules into the new system—or into the old system rather—and explain that. Then, no, the Minister was not pleased. Of course any Minister would want a programme to be delivered on budget and on time—

Ross And concerned.

Ferguson However, if I may, he was appreciative of the fact that the department does come forward. It was through our own internal governance that we
identified that we did not have sufficient room in terms of the time line to hit the child support date in the last year, and that we were going to incur more capital expenditure.

Ross Did the Minister at the time demand that you find savings within that programme when you presented him with those briefings?

Ferguson So when we explained what the total programme would take, then yes, he was keen that we went back and relooked at ensuring that we got best value. Struan, you may want to add more to that.

Little So, obviously, as set out in the regulatory impact statement that the committee has, there’s a number of the choices that I think were confronting Ministers at the time. One of those was: what are the options to scale back the programme and maintain the integrity of what the intent of the policy is, and to get some fiscal savings? And as a result of that, an estimate of up to $210 million over the 10-year period was reduced to a $163 million over the 10-year period—

Ross Off the back of the Minister demanding savings?

Little Ah, yes.

Nash Just to change the subject slightly, I want to talk about tax debt. You say that Business Transformation is going to allow you to better interact with your customers. And I commend you for the fact that your budget for chasing tax debt has almost doubled, I think, and you go very hard against people who owe money. But I’m also aware from the Minister that there’s about $750 million which Kiwis have overpaid in their tax. Will the Business Transformation project allow you to get in touch with them in a proactive way, which I know you’re not doing at the moment?

Ferguson Business Transformation—our aim is actually to ensure that the way in which the tax processes work don’t allow people to get into either overpayments or underpayments; that people are paying the right amount of tax at the right time. There are a number of reasons why that doesn’t happen at the moment, in terms of how tax policy is designed, as well as process. So what you will see coming forward over the course of the next number of years are both some policy proposals that will allow people to stay more up to date with their tax affairs at the time, and indeed with some process design that will allow us to do more to ensure people’s affairs are right.

Nash Until that time arrives, whenever that may be, have you any plans to actually proactively contact Kiwis who are owed $750 million in overpaid taxes?

Ferguson So we regularly advise customers of what their tax position is, positive or negative. Where we have the information we will do that. Arlene, do you want to add?

White I think’s 100 percent accurate, in that we do and have a register which shows people if they are in an underpayment or overpayment situation that they can actually ask for their refund for up to 4 years back.

Nash Well how come so much money is owed by the IRD to Kiwis?
Ferguson I would ask any customer who feels that they are owed money, 1.8 million customers are registered for myIR. People can look at their account today and understand that, and then claim a refund.

Nash No, but the problem is that the vast majority of people who are owed money aren’t particularly enabled. They’re people who’ve been paying secondary tax or whatever. They’re not high end or engaged. My suggestion would be if you gave them a simple phone call, because you’ve got everyone’s details, to say: “Hey, we owe you $400. Have you got a bank account we can put this into?”.

Ferguson So at the point of the annual return cycle, which we’re about to go into, which is often when those refunds become available, we work very closely with both the personal tax summary intermediaries and indeed with direct marketing to advise people that actually they should have a look at that and they should see it.

Last year we introduced a new piece of analytical capability at our front end, to ensure that those refunds went out even faster than normal, and we processed those refunds within days rather than in within months for people. We will run that advertising again this year, encouraging people to look at their personal tax summaries, and to ensure that they get the refunds that are available to them.

Nash Would you consider working with your employers, so the money was direct-credited into their account immediately, without them having to be proactive? Because if you owe money, you know, you don’t sit there and look at your tax summary and go: “Oh, hell, I better give the IRD a call.” You call. You’re very proactive in chasing people with tax debt, and so you should be. But it would be good if you exercised the same level, I suppose, of enthusiasm when it comes to giving money back to people who have actually overpaid their tax. What is it—$750 million dollars is a lot of money and, as you say, after 4 years it’s written off. But if you owe tax, it’s not written off after 4 years.

Ferguson I think it is an interesting idea as to whether or not we can do more with employers. Again, in terms of Business Transformation, we are very conscious that, actually, there is more that we can do to work with employers to ensure that the right data is available at the right time so that people don’t get into that position in the first place.

One of the things, as I said, we’ve been working with the software industry around is whether or not we can do more to integrate pay-as-you-earn software straight into our system. There is a fair amount of error that happens because of the mistranslation of data from a pay-as-you-earn system to us, and that then does translate into people being either in debt or in refund. So if we can crack it at the front end, that’s what we’re actually aiming to do, and we are working already with those pay-as-you-earn software providers, which support a lot of the pay-as-you-earn community.

Robertson I just want to return back to the child support system. To be really clear, we have got a project here that started out being worth $30 million. It then
ballooned out to $120 million because someone, remarkably enough, realised that there would be a capital cost rather than just an operational cost—which I think is extraordinary, that in the original business case the capital cost wasn’t included. It then blows out further, all the way up to $210 million. It’s then scaled back to $163 million, but only because you’re not implementing part of the second phase of the project, so actually it’s still going to cost that money in the end. This all happens, and what’s the consequence within IRD? Is anyone being held to account? What’s being done about this? It’s an extraordinary blowout.

Ferguson So, if I may, the $30 million was an indicative business case done at the stages of very early policy development. At the point that the policy was worked through and came through to the House to be enacted, that is when the business case that came forward to the House, and it’s part of the reason it’s shown in there it was $120 million. So at that point we had done some more detailed work.

In terms of why we then understood that to be not the correct amount—the work that we then started to do, at the same time as the legislation was going through the House, and there were still changes being made to the way in which the policy was going to be applied and the formula, we started to actually look at and understand in more detail what would need to be coded into first.

We hadn’t made changes to child support for 20 years in our IT system. We didn’t understand what that was going to take. We used our information from other large-scale programmes that had happened more recently. When we started the work on child support we discovered that those assumptions were not strong. We did have them independently QAed by an external firm, as we normally do, and they were assumptions—on the basis of the information we knew, they were solid. We got more information through the design phase, and as the policy formula was finished in terms of its policy design in the House.

Robertson I’m sorry, but, frankly, that just sounds like a really bad business case—that you then, when you started to delve into it, discovered that it blew out. So that’s my first concern, that the business case must have been very poor to begin with. But then how did we go from $120 million to $210 million? And who’s been held to account for that?

Ferguson So the business case was robust on the information that we had at the time. We got more information through both the design phase and as the policy was finalised in the House, and that is when we revised our understanding for what—

Robertson So it’s the politicians’ fault for changing the policy?

Ferguson No. It’s not the politicians’ fault. It is the fact that we run a parallel process and that, as you rightly worked on what you wanted, we were updating our assumptions at the same time. We were also updating them because, as I say, we understood more around what it was actually going to take to code
and build that. As I said, the original one was through a level of scrutiny, and I am confident in that.

In terms of what we then did to go back and understand what lessons there were and what we needed to do differently, myself and the GCIO commissioned an independent review of the child support programme in November 2013, whenever we understood that we were going to ask for a delay and that we would have to revise the business case because of the issues that we were seeing.

As I say, those issues came to light through our internal governance, and as soon as they did then we took that to Ministers, and I commissioned that review, as I say, jointly with the GCIO. That review had 17 lessons and 25 recommendations, from memory. It found, for example, that our programme management approach had not been as robust as it could have been for a programme of this size and scale. I think your point around the capital expenditure is very fair. And so we have made changes to our policies and our processes in light of that review.

Robertson Who do you think is accountable for those mistakes that you now have those recommendations on? Is it IRD? What share does the then Minister, Mr Dunne, have for not keeping an eye on the project?

Ferguson So the management of a project is, I think, the accountability of myself and my department. The recommendations were around the processes and the way in which we set up that project. As I said with Business Transformation, we have absolutely sat back to ensure that our processes and projects are appropriate and right for the size and scale of that undertaking, and that has been learning those lessons from child support and, indeed, from other large programmes that have not been successful.

In terms of child support, I think it is worth remembering that, actually, we are now live, and that the programme from reset has met its milestones.

Robertson And we haven’t passed the legislation to facilitate that, I know. But it’s retrospective.

Ferguson That’s for phase two. So I was just—phase one is live, I should have said, I’m sorry.

Robertson One very last, small supplementary. If it’s fully implemented, phase two, we’re still looking at $210 million. Can you assure us that will be the extent of the money required?

Ferguson So our proposals are that we scale some of those back, and I’m conscious that that’s subject to the committee’s review at the moment. The child support reform programme, yes, I am confident that any of the figures that are now there and that the committee is considering in light of that bill, that we will deliver within that and, indeed, again, phase one, since the reset we have delivered within budget.

Norman My questions are about the international tax programme, and the base erosion profit shifting issues. I mean, as I’m sure you’re aware, at the end of last year the kinds of arrangements that were being organised out of
Luxembourg became widely understood, and implicated a large number of very large multinationals who were using internal lending to effectively minimise the tax they were paying in various other jurisdictions. Including, interestingly enough—Accenture got caught in that particular exposure. So how does the department respond when that happens? Suddenly there’s a whole bunch of new information about the activities of a set of named corporations, many of whom operate in New Zealand. Do you immediately respond by going: “OK, let’s find out what these companies are doing in relation to New Zealand, if they’re using the same kinds of arrangements as were exposed through Luxembourg in order to avoid paying tax in New Zealand.”?

Ferguson The first thing we would do would be understand with those overseas authorities, or with our other colleagues such as the Australian Tax Office, exactly what the information was, and how that applied to New Zealand. So we will work closely with other revenue authorities when such an information source becomes available, and we will then do exactly what you suggest, which is start to understand and analyse what does that mean in terms of New Zealand taxpayers, in terms of businesses or individuals operating here, and we will conduct a risk assessment on that information and on persons or businesses named in it, and then potentially take that through to further audit, where there is sufficient risk to do so.

Norman And can you tell us whether you did take that action. Because obviously there was a big international event when the kinds of Luxembourg arrangements were exposed. Did the IRD at that point go: “Well, this is an action for us to follow up on.”?

Ferguson I can absolutely assure the committee that whenever any of that sort of information is available, my auditors and investigators move very fast to understand whether or not there is an opportunity there to review any potential tax leakage in New Zealand. Auditors and investigators live for that type of information becoming available.

Norman I guess the follow-up question is about how to deal with Accenture itself, because it was caught up in this particular arrangement. So on the one hand it’s a company that’s offering you a lot of expertise, which is obviously incredibly valuable, and that’s why you’ve chosen them—you know, they’re incredibly useful to you. And on the other hand they got caught up in this massive tax-avoidance scandal. Do you sit down and say to them, you know: “Can you reassure us that none of your activities in New Zealand are going to reflect any of what’s been exposed in Luxembourg?” I mean, how do you—because I’m not saying it’s a simple problem; it’s [inaudible] a complicated problem. But do you raise it with them? Do you say to them, you know: “How’re you going to resolve this issue?” Because you’re in the tax business.

Ferguson I am indeed in the tax business. As some members of the committee will be well aware—others may be less familiar—I do not speak about the individual affairs of a particular taxpayer. The legislation, under section 81, prevents me from doing so. But I am happy to talk about how we manage
our contracts, particularly those with large suppliers. It is standard procedure that within a contract of that nature, we will have a clause that commits that contractor to be tax compliant in New Zealand.

Norman So it only applies to New Zealand. So if they are caught being non-tax compliant in a different jurisdiction, it doesn’t void the contract.

Ferguson Our jurisdiction covers New Zealand. Many international firms will operate through many different parts of their business in different places. I can only withhold or manage what I can have accountability for. I am telling you that in order to let you know that I take the tax integrity of our supplier seriously. I equally know that the department has at times moved away from contracts because it does not feel that the integrity of the supplier has been appropriate.

Scott I have a question regarding the initiatives around—you went to the Hawke’s Bay, I think it was. You got six ideas; two were implemented.

Ferguson Yep.

Scott Sounds a little bit like the Rules Reduction Taskforce that the Government is putting in the community, mainly aimed at councils and so on. How often do you go out and consult and ask for these sorts of rules reduction—you know, more efficient ideas coming from the community? And can you tell us about the other four that haven’t been implemented?

Ferguson The Hawke’s Bay campaign was a bit of a dip of the toe in the water. We have over periods of time asked for input and done pieces of research around what customers were wanting, but we recognise in the context of transformation that it’s very important that we are more visible in the community and more obviously listening, not just doing that through research. We’ll continue to do research, but, as I say, we introduced both the simplification panel and ran the Hawke’s Bay campaign. We would envisage doing more of that right through the transformation journey, particularly in the early stages when we’re making some of the design decisions.

In terms of the six, the other four again are things that we will look to do. One of them is under development at the moment. We are very conscious that transformation sounds vague. It is vague and it is significant, and there will be work that this committee sees and does as we bring forward policy, for example. To the person in the Hawke’s Bay high street at the moment, it is quite distant and hard to get your hands around what it actually looks like and feel like, so we will constantly look for those small to us, potentially small to you in the context of big policy change, things that we can do to improve their experience. But for customers being able to file a nil GST return with a couple of clicks, the feedback we had the other day: “What a breeze.” That is what’s really relevant to them.

Seymour I just wanted to follow up on the question from one of the Labour members on Accenture and the ATO. You said you’ve spoken with your counterparts at the ATO. Was their job made harder by the requirement to
collect a more complex range of taxes—for instance, having exemptions on GST, capital gains tax, tax-free thresholds, for example?

Ferguson

Obviously the more products and the more complex products that are in your existing business processes and technology that have to be moved into a new world, then, yes, that does increase the scale and complexity of the transformation.

In terms of the Australian Tax Office, one of the significant things that happened during the course of their switch of technology, and it was primarily a technology programme, was the introduction of some extensive superannuation changes, and that significantly changed the scope of the work that was involved in that programme and did then create some of the issues that were referred to by your colleague earlier. Again, that is a lesson for all of us that once there are points in time in this journey we’re creating, that significant amount of change will actually put the rest of the programme at risk.

Seymour

So are you aware of any comparisons of the effectiveness of New Zealand’s tax regime measured by the level of revenue collected in comparison to the actual rates charged on the base?

Ferguson

I will let Struan comment on that more specifically. All I can say is that you can tell from my accent I’ve spent some time working at the UK Revenue Authority, and a selection of Ministers there regularly asked me about why New Zealand was so well positioned in terms of being a great place to start and run a business. The PWC report, for example, always has us at one in three in that—New Zealand. Ministers were quite jealous of that and wondered from my 3 years here earlier in 2000 what I could do to help them with that problem. On the more specific comments—Struan.

Little

The difficulty you’ve got with them getting good empirical data is the tax systems are so different. Benchmarking is quite difficult. For some things that’s a little easier, like our VAT/GST systems; then you can measure that and New Zealand is very, very efficient in what it collects for its rates. More broadly, in non-empirical data you’re reliant on survey data and typically New Zealand performs very well in international surveys of how efficient the tax system is, what it does, and its delivery.

Bayly

Thank you for a great presentation, and I certainly agree with you that we’ve got a very simple tax system and it’s an amazingly good advantage for this country.

I just want to compliment you, and I really want to explore a little bit further. You’ve picked up about $750 million in overdue debt. You’ve picked up $1.25 billion on chasing more aggressive tax schemes, etc.—property speculation, etc. So that’s a significant increase in terms of the tax take for the country. What more can we do in that area to make sure that we continue to collect that type of tax that traditionally would never have been collected?

Ferguson

We have a number of strategies that we have put in place to achieve those results. The first point is actually to aim to prevent any loss of revenue,
rather than perhaps collect it at the back end, if I can say that—so working to ensure that actually our systems are right, from the start, that there’s less opportunity for businesses or individuals to get their tax wrong, or, indeed, to avoid it or evade it. So, for me, work on things like, again, through Business Transformation, the design of the tax system to ensure there’s less opportunity is quite important. And, equally, working our way through, them, with products such as taxpayer rulings, public rulings, so that people understand what they have to get right.

In terms of deliberate non-compliance, then the work that we are continuing to do there is to invest in our analytical capability and our risking, to be able to take the type of information that Mr Norman was raising earlier and to systematically use modern data analytic techniques to actually think about and investigate where there is a mismatch of information that would suggest revenue leakage.

So, again, in terms of transformation, thinking about how we will introduce more analytical capability at the front end to actually identify if people are trying to deliberately avoid or evade the system is an important part of the journey ahead.

Bayly And do you think there’s a big pot left?

Ferguson Again, we are confident that we can see that the work that we are doing makes an impact. I think it’s always—you know, one of the well-known phrases is: “The hidden economy is hidden.” So it’s quite hard to understand that. Struan can perhaps talk about some of the work that we have thought about and are doing in that space. But, you know, we do have a very simple tax system, and in that simplicity there is strength.

Little All I’d add is that by having a simple system—and we make it very easy for people who pay their tax. So we suspect that we do at least as well as most administrations and better than most. But as the Commissioner is saying, it’s very hard to measure what you don’t know, and so there always will be some question about how much is out there that’s left.

Bennett Following on from that, you’ve had some arrangements with organisations like the Police and that. How are those things going, and is there any room for an extension of those sorts of programmes?

Ferguson It is, indeed, one of the things that we have been working on over most recent years, to understand where there is opportunity for us to share more information for better services for New Zealand, or, indeed, to prevent crime, as you mentioned. So the information-sharing agreement with Police came into force last year. Again, through work that we will continue to bring forward, those information exchanges require legislative change.

But, again, one of the things that we see as a huge opportunity in our policy work ahead is to think about where there are further opportunities to share more information with other Government agencies that allow us to do, as I say, one of two things: make services better, so working with the DIA to have that birth registration process as one simple process where you register the birth and you get an IRD number at the same time, or, at the other end
of the extreme, in dealing with things like serious crime. That is a big step forward for the department and something that I know that the committee will want to work with us on as our thinking in that area develops.

Cosgrove Just for the record, could you advise us in respect of the Business Transformation project and the child support debacle. Do you believe that you and your department at all times kept the two respective revenue Ministers absolutely informed of all information? Did you execute your duty and did your department do that?

Ferguson Yes, I think is the point. We went to Ministers at the appropriate point, recognising that it is our responsibility to implement Government policy.

Bennett Thank you very much; appreciate your time.

conclusion of evidence
Recommendation
The Government Administration Committee has conducted the annual review of the 2013/14 performance and current operations of the Department of Internal Affairs and recommends that the House take note of its report.

Introduction
The Department of Internal Affairs is funded through a single Vote but its activities span six portfolios: Internal Affairs, Local Government, Ministerial Services, Ethnic Communities, Racing, and the Community and Voluntary Sector. Restructuring in recent years brought the National Library and Archives New Zealand within the department and, as of 1 April 2014, removed its responsibility for civil defence and emergency management.

Financial and service performance management
The department's total income in 2013/14 was $382.839 million and its total expenditure was $398.268 million, resulting in a net deficit of $15.429 million. (The forecast deficit was $7.87 million, revised to $30.244 million in the Supplementary Estimates.)

The Office of the Auditor-General rated as “good” most aspects of the department’s management control environment, as it did the previous year. But it reduced the rating for its financial information systems and controls to “needs improvement”, mainly because the department could not provide some of the necessary information as it was moving to a new financial management information system and a further restructuring of the finance function. The department is confident that its financial information systems and controls rating will be better next year.

The Department of Internal Affairs’s new financial management information system is administered by the Inland Revenue Department under a shared service arrangement. We were interested to hear that, as well as the standard post-implementation review, the Department of Internal Affairs intends to publish a case study to help other government departments make shared service arrangements.

Departmental mergers and transitions
Between 2011 and 2014 a number of government agencies merged with the department, including Archives New Zealand, the Charities Commission, the National Library of New Zealand, the Office for the Community and Voluntary Sector, the Office of Ethnic Affairs, and the Office of the Government Chief Information Officer. During the 2013/14 financial year the Ministry of Civil Defence and Emergency Management was transferred from the Department of Internal Affairs to the Department of the Prime Minister and Cabinet, and the Office of Ethnic Affairs took over the Settling In programme for migrants and refugees, from the Ministry of Social Development.

The department is not aware of any more planned mergers, but pointed out that such decisions are made by Ministers. It suggested that more change is inevitable at some point. We asked the department whether it had given any thought to how lines of accountability
and tracking of service performance for merged functions could be traced for the purposes of transparency and parliamentary scrutiny of Government expenditure.

We were pleased to hear that some thought has been given to this matter and particularly with the department’s undertaking to raise the issue with the State Services Commission. We will keep an eye on developments.

**Problem gambling**

In 2014 the department sent “mystery shoppers” into 102 gambling venues across the country to test whether patrons displaying signs of problem gambling were adequately dealt with. The results were extremely poor—with only one venue intervening—and we asked whether more resourcing might result in a better compliance ratio. The department said that it would not be possible to post staff at all gambling venues, and that its approach was to encourage voluntary compliance while making it clear that regulation and enforcement remain possible. It intends to undertake the mystery shopper exercise again, and if there was no measurable improvement, it would consider taking stronger measures.

The investigation was the first of its kind and, although what it revealed was disappointing, we are pleased that it was undertaken and we encourage the department to repeat the exercise as often as necessary to improve compliance.

**RealMe**

RealMe, launched in July 2013, is a government-backed secure online identity verification service operated by the department and provides two services—a RealMe basic account which gives users a single login to multiple online government services and a RealMe verified account, which works as an online ID with a wider range of participating organisations, including some banks. We heard that RealMe offers “passport strength confirmation” of users’ identities, and thus a high degree of certainty.

During the 2013/14 financial year 15,212 verified accounts and 532,591 basic accounts were created. The department acknowledged that its target of 50,000 to 100,000 new verified accounts was not met, but explained that the Electoral Commission was the only major government service to have integrated the service, and other organisations had only been using the service for a short time.

We were interested to learn that the department is looking at co-designing services with various agencies to expand the range of participating organisations. We look forward to a better uptake of the service.
Appendix

Approach to annual review
We met on 11 February, and 11 and 25 March 2015 to consider the annual review of the Department of Internal Affairs. Evidence was heard from the Department of Internal Affairs and advice received from the Office of the Auditor-General.

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

Evidence and advice received
Department of Internal Affairs, Responses to annual review questions, received 30 January and 6 March 2015.

Office of the Auditor-General, Briefing on the Department of Internal Affairs, dated 11 February 2015.

Organisation briefing paper, prepared by committee staff, dated 26 January 2015.
2013/14 Annual review of the Ministry of Justice

Report of the Justice and Electoral Committee

Contents

Recommendation 2
Introduction 2
Access to justice 2
Community law centre funding 3
Social investment budget approach 3
ACC tribunals 3
Audio visual links in courts 4
Offender levy 4
Alcohol and Other Drug Treatment Court 4
Appendix 5
Ministry of Justice

Recommendation

The Justice and Electoral Committee has conducted the annual review of the 2013/14 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, and negotiating Treaty of Waitangi settlements.

In 2013/14 the ministry’s total operating revenue was $585.101 million, up $18.536 million or 3 percent from 2012/13. It declared a net surplus of $2.333 million. The ministry employs approximately 3,540 full-time-equivalent staff.

Andrew Bridgman is the Secretary for Justice and chief executive of the ministry.

Access to justice

We were told about a recent comment by the Chief High Court Judge, Justice Helen Winkelmann, who pointed out that civil legal aid levels have fallen from $60 million to $49.4 million since 2010. We asked the ministry if an increase in self-represented litigants was due to fewer people qualifying for legal aid.

The ministry told us the financial threshold, which begins at $22,366 gross annual income, for civil legal aid has not changed since 2006/07. While noting anecdotal evidence, the ministry had not investigated whether the low threshold had contributed to the high proportions of self-represented litigants now appearing in the civil courts. The ministry did not comment on the adequacy of the income threshold.

Some of us noted the burden that self-represented litigants place on court staff and on the court system, and suggested that examining the reasons for this ought to be a key priority for the ministry to help reduce the backlog in courts. The ministry agreed that self-represented litigants posed problems for staff, but pointed out that people had a right to represent themselves in court proceedings. The same problem has emerged in other jurisdictions, and the ministry was trying to gauge its scale and impact in New Zealand. It observed that the internet made it easier for people without legal training to take matters into their own hands, which might be one of the reasons for the increase.

The ministry said that many other factors besides self-representation caused undue delays in the court system. It is focusing on expediting people through the system by improving rostering and scheduling, working with corrections staff and legal professionals.

Family Court reforms

Recent changes to the Family Court system have succeeded in reducing the inflow of cases into the court system, with an emphasis placed on mediation to resolve disputes without the need for engaging lawyers or entering into court proceedings. Mediation currently has a success rate of about 70 percent of those entering being able to avoid court proceedings.
We asked if there was an issue with results favouring parties who could afford legal advice outside of the mediation. The ministry had not received specific reports of this occurring. It said parties to mediation had a right to seek legal advice prior to mediation, and a family legal advice service had been established to help them do so.

To assist self-represented litigants in the Family Court, the ministry has updated its information forms to make their court experience easier. It will shortly begin a nine-month evaluation of the experiences of self-represented litigants and of those who have undergone mediation.

**Community law centre funding**

We noted anecdotal evidence that the changes to the Family Court system had increased the demand for community law centres, which had provided advice to over 48,000 clients in the previous year. As funding for law centres has not changed since 2008, we asked if the ministry intended to increase the support it provides.

Law centre funding has traditionally come from the Lawyers and Conveyancers Special Fund, which is derived from interest earned on lawyers’ trust accounts. This has been topped up by Government funding to compensate for lower returns from interest in recent years. The ministry had approached the bank recently to reduce the proportion of 60 percent of the special fund that is retained for overheads.

The ministry is adopting the Ministry of Business, Innovation, and Employment’s Results Based Accountability framework for its contracting with law centres, to allow it to focus on the outcomes and quality of the service provided. It does not envisage that this will impose a greater administrative burden on law centres. The ministry also funds Community Law Centres Aotearoa, which helps ensure quality and consistency between the 24 law centres in the country.

**Social investment budget approach**

The Government has set out a new “social investment” approach to the Budget process, in which investments will be made in individuals and families to achieve better long-term gains. The Minister of Finance recently stated that the new process would be disruptive to the way the Government conducts itself. We asked the ministry whether it feels ready for the disruption, and what role it will have in applying the new approach.

The ministry acknowledged that it would mean a different way of operating, and it was eager for its activities to have the biggest positive impact on its client base. It pointed to the collaboration of justice-sector agencies in areas with a high incidence of crime and marginalisation, and the expansion of initiatives such as the Hutt Project, where Courts, Corrections, Police, Youth Justice, and ACC are working together to reduce crime and improve service delivery.

**ACC tribunals**

The ministry told us of an intention to establish a specialist ACC tribunal to hear ACC appeals, a function currently undertaken by the District Court. The ministry cited the long delays with ACC cases in the District Court, and believes moving to a specialist tribunal would reduce them. A specialist tribunal would also save ACC about $400,000 per year. We asked about potential effects on natural justice, pointing out that currently 47 percent of such cases heard in the District Court are found against ACC.
The ministry was not concerned that the tribunal might have less expertise than the District Court, and said the selection process for tribunal members would be rigorous, and only candidates with considerable experience would be appointed. The ministry had begun consulting on the reforms, and it said concerns have already been raised by the Law Society and ACC advocacy groups.

**Audio visual links in courts**

The ministry is equipping court rooms with audio visual conferencing technology to allow people to participate remotely in court proceedings. We asked for an update on the progress of this initiative, and its benefits.

The ministry has been working with the Department of Corrections to provide audio visual links between Courts and prisons. It is in the final stages of connecting 16 courts with prisons. While the system is used mainly for remand prisoners, the ministry is working with the judiciary to determine the range of cases that can be dealt with in this way. The benefits were increased speed and ease in court proceeding, savings for Corrections in the costs of transporting prisoners and ensuring public safety, and less disruption to prisoners who no longer face removal from prison for their court appearances.

We will be interested in quantified cost savings once the system is fully established.

**Offender levy**

We asked what was funded by the offender levy, an automatically imposed $50 fee paid by anyone sentenced in the District or High Court, which is used to fund assistance for victims of serious crimes. The ministry said the approximately $4 million the levy realises each year provides the bulk of its victim services funding which is disseminated through its victim centre. We have been subsequently informed that in 2013/14 a total of $2.883 million was provided in grants and financial entitlement directly to victims of serious crimes, and $2.935 million was given to providers of specific services to victims of serious crimes.

**Alcohol and Other Drug Treatment Court**

This Court pilot scheme involves treating offenders whose crimes 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, and if it is successful, this is taken into account when they are sentenced. The pilot commenced in November 2012 in the Waitakere and Auckland District Courts, and is being trialled for five years to allow enough people to successfully complete the programme for the ministry to evaluate its impact on recidivism accurately. We note that the ministry will have to make recommendations to the government on the future of the court after the five year trial period has concluded, and before the results of the evaluation are known. Some of us think that the analysis of the specialist courts should be done before the trial period ends.

The ministry is carrying out a formative evaluation of the court, hoping to use the experiences of participants, case workers, programme directors and court staff to make adjustments and improvements.
Appendix

Committee procedure
We met on February 26 and 19 March 2015 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
Peeni Henare
Jono Naylor
Alfred Ngaro
Denis O’Rourke
James Shaw
Hon Louise Upston

Evidence and advice received
Ministry of Justice, response to committee questions, received 23 February 2015.
Organisation briefing paper, prepared by committee staff, dated 24 February 2015.
Contents

Recommendation 2
Introduction 2
Overseas investment 2
Landonline 3
Disposal of Crown property 4
Te Ture Whenua Māori Act 1993 review 4
Valuations 4
Property rights 4
Appendix 5
Land Information New Zealand

Recommendation

The Primary Production Committee has conducted the annual review of the 2013/14 performance and current operations of Land Information New Zealand, and recommends that the House take note of its report.

Introduction

Land Information New Zealand (LINZ) is a government department with four main functions: managing location information, managing Crown property, leading the development of a location system, and managing property rights. Its chief executive is Peter Mersi, and it is responsible to the Minister for Land Information.

Financial performance

LINZ is funded through Vote Lands and generates two-thirds of its revenue from third parties. In 2013/14 its total revenue was $122 million (a 6 percent increase from the previous year). LINZ reported a net surplus of $19.753 million.

Overseas investment

The Overseas Investment Office (OIO) assesses applications from overseas investors seeking to invest in “sensitive” assets such as land, fishing quota, and high-value businesses. In 2013/14, 148 out of 175 applications for overseas investment in New Zealand assets were approved by the office. LINZ said that overseas investors often have linkages to overseas markets and expertise in the application of innovation and technology available in these markets. We heard that each application for consent is taken at “face value”, assessed against the criteria, and returned if it does not meet the requirements; there is no limit on resubmission.

Application requirements

An additional economic requirement was recently introduced for overseas investors; we requested further information. LINZ said that the additional test required overseas investors to demonstrate the potential to deliver an economic benefit which equalled or exceeded the benefits that might be expected from a New Zealand investor of a similar sum. The OIO does not take a prescribed approach; it forms an opinion of the proposal and compares the expected benefits with those gained from similar activities by others. A judgement is also made about whether a New Zealand investor would be likely to invest in the asset in question.

We heard that additional benefits might be non-monetary, and asked LINZ for an example. We were told about four pastoral high-country farms where an overseas investor covenanted some of the land to the QEII Trust, thereby protecting some of the land’s values. The investor also committed a significant amount to removing wilding pines and eradicating pest animals from this land.

We questioned whether LINZ could accurately assess additional benefits proposed by an overseas offer of purchase, since they do not routinely assess actual local offers received on
the same property. LINZ said that the vendor was not required to provide this information to the OIO; however, the office would assess all information provided to it. We encouraged the department to ensure that the OIO is in a position to assess the relative merits of both local and overseas offers, and publicly communicate this to enable potential New Zealand investors to be involved in the process.

**Monitoring and investigations**

The OIO monitors the compliance of investors with the consent conditions of sale for at least five years. This process requires an annual declaration from the land-owner stating their progress against conditions. Between 1 July 2008 and 31 December 2014 the OIO undertook 2,627 monitoring actions. The office has 13 staff; we noted that although a number of people contribute to this work, only one staff member was dedicated solely to investigations and monitoring.

We were interested in the report outcomes of the initial investigation reports. Possible outcomes range from conditions being met to potential court action. We heard that it is not unusual for sale conditions to be unmet at least initially. However, the OIO would determine if this was a “justified breach”, its severity, and whether the remedies proposed by the investor were acceptable.

We asked how many monitoring reports in the last five years indicated that the investor had not met the conditions of consent. LINZ provided information to us indicating that of the 2,627 monitoring actions undertaken between 1 July 2008 and 31 December 2014, 21 were not complied with, four of which breaches are being investigated. We also noted that forced sales of property had taken place twice because of unmet conditions.

We understand that reporting on consent conditions and breaches is available on the OIO website. However, we consider that some of the requirements for overseas investment and the criteria for the assessment of the conditions by the OIO are somewhat unclear. We encourage LINZ to endeavour to improve transparency in this area.

**Register of foreign land ownership**

We suggested that perhaps a register of foreign land ownership might be established. LINZ said that scoping work was undertaken in 2014 to brief the incoming Minister. It included an assessment of the regulatory situation in other countries, and set out the main policy questions associated with such a register. We heard that the Minister was interested in keeping abreast of developments in Australia regarding agricultural holdings.

We also asked about the potential for creating a register of foreign ownership of housing. LINZ said that work on this topic had not been requested by the Minister. We were told that such a register was unlikely in New Zealand, as it would pose a number of complex policy questions including defining “foreign owner”, the management of any changes of ownership, data collection, regulatory responsibility, and monitoring. The opposition members of the committee strongly disagreed with this position.

**Landonline**

LINZ’s property rights transaction system, Landonline, is over a decade old; we asked about progress on its upgrading. Landonline will become unsupported within the next ten years, and LINZ is developing a business case for a new survey, title information, and transfer system. The business case is expected to be completed in the next couple of months and given to Cabinet for approval.
Disposal of Crown property

We asked whether Crown property can be sold at lower than market value if it is in the public interest, for example if it is a historically significant site. Land that is identified for “general disposal” under the Public Works Act 1981 has to be sold at current market value because of its impact on the Crown’s financial statements. However, we heard that a lower price might be possible provided LINZ had approval from the Minister of Finance.

Te Ture Whenua Māori Act 1993 review

In 2012, a review of Te Ture Whenua Māori Act was sought by the Government, seeking to develop and utilise Māori land whilst preserving its cultural significance. The review panel made a number of recommendations that could affect the operations of LINZ and asked about legislative progress. We were told the legislation to introduce reforms is still being developed.

Valuations

We heard that the methodology used in New Zealand for valuations draws on market information and also assesses the land and property use; it is still considered to represent best practice by the Valuer-General, who compares the method with international practice.

Property rights

Guaranteed property rights in New Zealand allow certain economic activities, such as the holding of mortgages against property rights. We asked whether the ability of the Government to acquire private property for certain uses challenged the certainty of property rights. We heard that the law in this area is clear and were assured that there is no threat to the certainty of property rights in New Zealand.
Appendix

Committee procedure

We met between 12 February and 12 March 2015 to consider the annual review of Land Information New Zealand. We heard evidence from Land Information New Zealand 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
Meka Whaitiri

Evidence and advice received

Land Information New Zealand, Annual Report 2014.


Land Information New Zealand, responses to written questions, received 5 and 24 February, and 3 March 2015.

Office of the Auditor-General, Briefing on Land Information New Zealand, dated 12 February 2015.

Organisation briefing paper, prepared by committee staff, dated 9 February 2015.
Arotakenga ā-Tau o Te Puni
Kōkiri mō te tau 2013/14

Te pūrongo a Te Komiti Whiriwhiri Take Māori

Ihirangi

Tūtuhutanga 2
Taha kaimahi me te tauira whakahaere hou 2
Whānau Ora 2
Ngā whakataunga tiriti 3
Te whakapakari i te whai ōhanga, whai ahurea a Māori mā 3
Te whakamaherehere ki te Minita mō Te Pire Reo Māori 4
Ngā Wātene Māori 4
Tāpiritanga 5
AROTAKENGA Ā-TAU O TE PUNI KŌKIRI MŌ TE TAU 2013/14

Te Puni Kōkiri

Tūtuhutanga

Kua whakahaerea e Te Komiti Whiriwhiri Take Māori te arotakenga ā-tau o te tau 2013/14 mō ngā otinga mahi me ngā mahi matua o te wā nei a Te Puni Kōkiri, ā, ka tūtohu kia aronga e Te Whare tāna pūrongo.

Kupu Whakatangi

Ko Te Puni Kōkiri te kaiwhakamaherehere matua ki Te Karauna mō ngā hononga a Te Karauna me Māori mā. Arahi ai, whakaawe kaupapa here kāwanatanga ai e pā ana ki a Māori mā, āwihina ai i te Kāwanatanga ki te whakahaere i ōna hononga i te taha o Māori mā, ā, whakangāwari i ngā kōkiringa hou kei roto a Māori mā i te taha Kāwanatanga me te rāngai tūmatatūi. Whakahaere hanganga ture ai, tae atu ki Te Ture mō Te Tiriti o Watangi o te tau 1975, Te Ture Reo Māori o te tau 1987 me Te Ture Whenua Māori o te tau 1993. Ko Michelle Hippolite tāna Manahautū.

Heke mai ai te nuinga o te pūtea āwihina a Te Puni Kōkiri i Te Pōti Take Māori. I te tau 2013/14, e $61,433 miriona te katoa o āna whakapaunga moni mō ngā mahi matua, ā, e $1,074 miriona te mutunga mai o te hemihemi.

Taha kaimahi me te tauira whakahaere hou

Kapa Kaiārahitanga

Ka pātai mātou ki Te Puni Kōkiri, mehemea i whakatūria tētahi kapa kaiārahitanga whai atu i te whakakuranga mai o tētahi tauira whakahaere hou. Ka rongo mātou, e whā ngā tūranga noho tahanga i toe mai, ā, ko tērā ka whāia e te manatū, kia whakakia mā te mutunga o te tau maramataka; ēngari, he tūranga mātanga kē ērā nā reira, ko te whiwhi ūngātonga tika mō ngā tūranga rā te mahi tuatahi, kāore i ngā anga wā. Kua tīmata kē ngā mahi whakahaere a te kapa kaiārahitanga matū, te whakakapi i te mahi whanaketanga kaupapa here, ngā whakahaerenga ā-arohe, te rautaki me ngā otinga mahi, ā, me ngā ratonga rangatōpū.

Ngā tūranga noho tahanga

E 40 ngā tūranga noho tahanga a te manatū, ā, i te wā nei e kimi kaimahi ana mō ngā tūranga e 16 o aua tūranga noho tahanga. Mai anō i te whakatinanatanga o te tauira whakahaere hou, tōmāu kē ana te kī haere o aua tūranga noho tahanga. Nā, mō ngā tokorua kihai rā i kaha ki te pupuri i ō rāua tūranga i roto i te tauira whakahaere hou, ka kē mai te manatū, kei roto tonu rāua i te rōpū whakahaere e mahi ana. Nā ngā tūranga noho tahanga, kua kaha kē te whirinaki atu ki ngā kaimahi he kirimana ā rātou, ā, ko te kaha whakapau moni mō te utu mātanga tērā ka hua mai.

Whānau Ora

Ka pātai mātou ki Te Puni Kōkiri, pēhea ai tāna aro turuki i te otinga mahi o te pūnaha hoatu pūtea āwihina ki ngā pokapū komihana mō Whānau Ora, tērā kua whakarerekēngia i nāia nei. Ko tāna kā ki, e piri tonu ana ōna whakapātanga ki ngā pokapū, kawe whakamaherehere ai mō ngā whakahaerenga kirimana pai, ā, he mahere whakahaerenga kirimana tāna mō ia pokapū. Whakatakoto pūrongo ai ngā pokapū ia hauwhā o te tau, ā, nā
ngā whakamōhiohio pūtea i roto i ngā whakaritenga mō te whakatakoto pūrongo, ka tere mōhio ai te manatū ki tētahi raruraru ka puaki mai.

Ka pātai mātou ki te manatū, he aha ki a ia te mōrea nui rawa kei mua i te aroaro o Whānau Ora. Ki a ia nei, ko te āta titiro kei te mārama te iwi ki āna mahi matua, me te titiro kei te tukua atu ngā kōrero whakaoohooho i te hunga whai pān ā. He wero nuna ērā. Kei te mōhio mātou, he roa kē te wā mō te whakapūmāia i a Whānau Ora, ā, nā runga i tērā, ka hiahia kī te i te whakatānanatanga o te kaupapa here. Ka kawea e mātou ngā āhutanga kia mārama ai, he aha tēnei i pēnei ai. I ngā wā e tika ana, ka hāngai tonu te māhi a te manatū i te taha o te whānau, ā, ka piri tonu tāna aro turuki hononga i te taha pokapū tuku pūtea āwhina. Ka pātai mātou mehemea kei te māhi tonu te manatū ki te whakapai ake i te māramatanga whānui e pā ana ki tōna tūranga te āna maori matua. Nā, ko tērā i rongo mātou, kei te māhi tonu i te taha o ētahi atu pokapū kāwanatanga i ngā taumata rohe, taumata kāwanatanga, ā, āta titiro ai kei te kōrero Te Minita ki ētahi atu o ngā Minita. Ai kia ai i ngā whānau e mārama ana ki ngā āria matua, kia kōrero tatau atu e rātou ki aua hunga kihai i te mārama.

Ka uui mātou, ko ēhea ngā momo hinonga ka tautokona e ngā pokapū tuku pūtea āwhina nā te mea, kua kīte mātou i te whānuitanga o te whānui o ngā hinonga i reira. Ka ki mai te manatū, mehemea he hirina tētahi hinonga ki tētahi ake whanau, ko tērā te ahunga ka kawea e ia. Ka tautokona e ia, ā, kei te whakatānanahia ngā tohu otinga maori matua i te wā nei. Mō Māori mā me ngā whānau, ko te whiwhi mahi te mea tino nui rawa atu i tō rātou ao. Kāore i kō atu, kāore i kō mai. Nā, mā te tautoko i ngā hinonga nei e whai maori ai rātou.

Ngā whakataunga tiriti

Hoatu whakamaherehere ai te manatū ki Te Karanga mō ngā take e pā ana ki Te Tiriti o Waitangi. Kua tae kē mai te whakamārama ki a mātou, ka tukitukia ngā whakataunga o ēnei wā e ngā whakataunga tawhito rā. Ka pātai mātou ki te manatū pēhea ai tāna aro turuki, whakamātauatū, ā, me te whakatakoto pūrongo i runga te whakamaherehere kua oti te hōmai. Ka rongo mātou, whakaela mai ai e ia ngā urupare nō mai i ngā taha kei roto i ngā whakataunga, otiā, nō mai i te nuinga o rātou i tētahi taumata ā-rote. Āwhina kūene ai hoki mō te mana kiri, ā, tuku whakamaherehere atu ai ki te Minita nō mai i āna kitenga, i āna whakataunga.

Ngā hinonga whakahauere kaupapa here e pā ana ki tētahi whakataunga-tōmuri

Ka pātai mātou ki te manatū, pēhea ai tāna hoatu tautoko mā ngā hinonga whakahauere kaupapa here e pā ana ki tētahi whakataunga-tōmuri. Ko tāna, kei te hanga rautaki a ia kia uru ā-tinana mai ai te hunga hiahia tautoko ki roto, otiā, mō te whakahauere kaupapa here. Ā, i te wā nei, hoatu tautoko ai pēnā ka tōno mai.

Te whakapakari i te whai ōhanga, whai ahurea a Māori mā

Ka pātai mātou ki te manatū mō ngā kōrero hou e pā ana ki ngā kōkiringa hou mō te whakapai ake i te whai ōhanga, whai ahurea a Māori mā, kia mōhio ai mātou, he aha ngā nekeneke hou; inā hoki, ko tērā tētahi o ēna maori tuatahi kua whakapuakina e ia, ā, pēhea hoki ai tāna aro turuki i te angitu o aua kōkiringa hou. Ka ki mai te manatū, ko tāna e rapu ai, he tautoko i a Māori mā e hiahia ana ki te whakahauere pakihi kia whai hua ai mō rātou ake me ō ōtou whānau. Tautoko anō ai hoki i aua hunga he pakihi tuku iho ā ōrātou mehemea kei roto kē ngā hua i te whenua e mau ana, otiā, whenua kihai e taea te hoko, hei tauira, ki te āwhina i te maori hokohoko rawa ki tāwāhi.
**Te whakamaherehere ki te Minita mō Te Pire Reo Māori**

Ka pātai mātou ki te manatū mehemea ki ōna whakaaro, he pai te whakamaherehere i hoatu ki te Minita mō te pire nei, me te mea atu anō ki a ia, tērā pea ko Te Taura Whiri i Te Reo Māori kē te kaituku matua tīka ki te tuku whakamaherehere mō te pire. Ko tāna, kua hoatu he tūranga e Te Rautaki Reo Māori mā ngā rōpū whakahaere e rua, ā, nā te mea he pokapū kāwanatanga a ia, ko tāna mahi matua he hoatu whakamaherehere ki Te Minita ēngari, nā te mea he Hinonga Karauna Te Taura Whiri i te Reo Māori, ko tōna haepapa matua kē he hoatu whakamaherehere ki tāna ake poari. Whai atu i tērā, ka hoatu whakamaherehere taua poari ki te Minita. Tautoko tahi ai ngā tūranga nei i a rāua.

**Ngā Wātene Māori**

Ka pātai mātou ki te manatū, he aha i iti iho ai mā te $111,000 tāna whakapaunga moni, ki tērā i tohua e ia i roto i te pūtea mā ngā Wātene Māori. I rongo mātou, nā te kore utua o te tahua mō ngā mahi whakahaere i te tau 2013/14, te take nui i noho ai te whakapaunga ki raro.
Tāpiritanga

Huarahi o te komiti
I hui mātou i te 18 o Hui-tanguru, i te 11 me te 25 o Poutū-te-rangi tau 2015, ki te whakaaroaro i te arotakenga ā-tau o Te Puni Kōkiri. I rongo tauanakitanga nō mai i Te Manatū, ā, i whiwhi whakamaherehere nō mai i Te Tari o Te Tumuaki o Te Mana Arotake.

Ko ngā mema o te komiti, ko
Tūtehounuku Kōrako (Heamana)
Hōnore Chester Borrows
Mārama Fox
Joanne Hayes
Hōnore Nanaia Mahuta
Pita Paraone
Rino Tirikātene
Mētīria Tūrei

Te taunakitanga me te whakamaherehere i whiwhi
Te whakatakotoranga tohutohu mō Te Puni Kōkiri i te 11 o Poutū-te-rangi tau 2015, a Te Tari o Te Tumuaki.

Te pepa whakatakotoranga tohutohu mō te rōpū whakahaere nā ngā kaimahi o te komiti i takarū i te 18 o Hui-tanguru tau 2015.

Ngā urupare a Te Puni Kōkiri ki ngā pātai i tuhia, ā, i whiwhi i te marama o Poutū-te-rangi tau 2015,
2013/14 Annual review of the Ministry of Maori Development

Report of the Māori Affairs Committee

Contents
Recommendation 7
Introduction 7
Staffing and new operating model 7
Whānau Ora 7
Treaty settlements 8
Strengthening the economic and cultural wealth of Māori 8
Advice to the Minister on the Māori Language (Te Reo Māori) Bill 8
Māori Wardens 8
Appendix 9
Ministry of Maori Development

Recommendation

The Māori Affairs Committee has conducted the annual review of the 2013/14 performance and current operations of the Ministry of Māori Development (Te Puni Kōkiri), and recommends that the House take note of its report.

Introduction


Te Puni Kōkiri is funded mainly through Vote Māori Affairs. The total operating expenses for Te Puni Kōkiri in 2013/14 were $61.433 million, resulting in a surplus of $1.074 million.

Staffing and new operating model

Leadership team

We asked Te Puni Kōkiri if a leadership team had been established following the introduction of a new operating model. We heard that there were four vacancies remaining, which the ministry is aiming to fill by the end of the calendar year; but they are specialist roles, so getting the right people for the roles is the priority rather than timeframes. The core leadership team is already operating, covering policy development, regional management, strategy and performance, and corporate services.

Vacancies

The ministry has 40 vacancies, and is recruiting for 16 of them at present. It has been filling vacancies steadily since the implementation of the new operating model. The ministry said two people who were not successful in retaining their jobs in the new operating model were still working in the organisation. The vacancies have led to dependence on contracted staff, which resulted in overspending on consultancy fees.

Whānau Ora

We asked Te Puni Kōkiri how it monitors the performance of the system for funding the commissioning agencies for Whānau Ora, which has been changed. It said it maintains close contact with the agencies, takes advice on good contract management, and has a contract management plan for each of the agencies. The agencies report quarterly, and financial information in the reporting requirements allows the ministry to become aware quickly of any emerging issues.

We asked the ministry what it considers to be the greatest risk Whānau Ora faces. It regards ensuring people understand its function, and keeping interested parties informed, as big challenges. We recognise that Whānau Ora has taken some time to establish, and will
be interested to see implementation of policy, and we will take steps to understand why this is. It will continue to work with whānau directly where necessary, and monitor closely relations with the commissioning agencies. We asked if the ministry was still working to improve general understanding of its role and functions, and heard that it is working with other government agencies at regional and government levels, and ensuring that the Minister talks with other Ministers. It is also encouraging whānau who understand the key concepts to talk to those who do not.

We asked what sort of enterprises the commissioning agencies will support, noting that there is a diverse range. The ministry told us that it takes the approach that if an enterprise is important to a particular whānau, it will be supported, and key performance indicators are being developed. Employment is critical for Māori and whānau, and supporting these enterprises contributes to it.

**Treaty settlements**

The ministry advises the Crown on Treaty of Waitangi issues. We had been made aware of contemporary settlements that directly affect older settlements. We asked the ministry how it monitors, evaluates, and reports on the advice given. We heard that it gathers responses to settlements from the parties involved, largely at a regional level. It also assists in any mandate disputes, and provides advice to the Minister on the basis of its findings.

**Post-settlement governance entities**

We asked the ministry how it provides support for post-settlement governance entities. It said that it is devising strategies to provide support proactively for those who need it, particularly with governance, and that at present it provides support on request.

**Strengthening the economic and cultural wealth of Māori**

We asked the ministry to update us on the initiatives to improve the economic and cultural wealth of Māori, which is one of its stated priorities, and how it monitored their success. The ministry said it seeks to support Māori who want to run businesses to make profit for themselves and their whānau. It also supports those with legacy business, where assets are held in land that is not available to be sold, for example by assisting with exporting goods.

**Advice to the Minister on the Māori Language (Te Reo Māori) Bill**

We asked the ministry if it considered that the advice given to the Minister on this bill was sound, and suggested that possibly Te Taura Whiri I Te Reo Māori (the Māori Language Commission) should have been the lead adviser on the bill. It said that the Māori Language Strategy has given both organisations a role, and as a government agency, its principle role is to provide advice to the Minister, whereas Te Taura Whiri I Te Reo Māori, as a Crown Entity, was principally responsible for providing advice to its board, which in turn advises the Minister. These roles complement each other.

**Māori Wardens**

We asked the ministry why it has spent $111,000 less than it had budgeted for Māori Wardens, and heard that the underspend is largely a result of non-payment of the administrative grant in 2013/14.
Appendix

Committee procedure
We met on 18 February, 11 and 25 March 2015 to consider the annual review of the Ministry of Maori Development (Te Puni Kōkiri). We heard evidence from the ministry and received advice from the Office of the Auditor-General.

Committee members
Tutehounuku Korako (Chairperson)
Hon Chester Borrows
Marama Fox
Joanne Hayes
Hon Nanaia Mahuta
Pita Paraone
Rino Tirikatene
Metiria Turei

Evidence and advice received
Office of the Auditor-General, Briefing on Te Puni Kōkiri dated 11 March 2015.
Organisation briefing paper, prepared by committee staff, dated 18 February 2015.
Ministry of Māori Development (Te Puni Kōkiri), Responses to written questions, received March 2015.
2013/14 Annual review of the
New Zealand Customs Service

Report of the Foreign Affairs, Defence
and Trade Committee

Contents

Recommendation 2
Introduction 2
Joint Border Management System 2
Passwords 2
Language assistance 3
Trade with China 3
GST on goods bought online 3
Appendix 4
2013/14 ANNUAL REVIEW OF THE NEW ZEALAND CUSTOMS SERVICE

New Zealand Customs Service

Recommendation
The Foreign Affairs, Defence and Trade Committee has conducted the annual review of the 2013/14 performance and current operations of the New Zealand Customs Service, and recommends that the House take note of its report.

Introduction
The New Zealand Customs Service is responsible for ensuring the security of New Zealand’s borders. It protects the economy from illegal imports and exports, and facilitates the movement of lawful travellers and goods. The service also collects around 15 percent of the Crown’s total revenue, investigates illegal activity, and prosecutes where necessary.

In 2013/14 the Customs Service’s total income was $165.918 million, and its total expenditure was $163.439 million, resulting in a surplus of $2.479 million.

Joint Border Management System
Customs updated us on the Joint Border Management System (JBMS) which has two main components, the Trade Single Window (TSW) for one-stop border processing of imports and exports, and enhanced risk and intelligence (R&I) capability for detecting and minimising border violations. The single window was introduced in August 2013 and has now processed 1.6 million transactions. Customs assured us that the JBMS was on track despite budget increases.

The R&I functionality, which is only partly developed as yet, requires more sophisticated and advanced technology, and more capability within the Customs Service. Off-line analytics are already in operation, and real-time analytics are being designed. We heard that the old system, CusMod, is still running alongside the new one, providing data that is being trialled for compatibility with the R&I tools being developed.

Passwords
We discussed Customs’ request for the power to demand the opening of password-protected devices; it was publicised by the media following the release of a Customs discussion document on the review of the Customs and Excise Act 1996. We heard that the Act, which is quite old, gives Customs the right to inspect goods, which Customs considers to include mobile phones, laptops, iPads and other portable internet-enabled devices. Where in the past people appeared with a locked briefcase and were asked to unlock it, now they are asked to enter their password to unlock their device. This is only required where there is a level of suspicion, established by Customs’ system of profiles and alerts. The request for a password to be entered takes place in a secondary search environment. Currently people are asked to enter their password in their device; Customs does not ask for the password.

Last year the service looked at around 1,500 devices in the course of about 260 investigations. Not all investigations take place at airports; a large proportion take place in other premises where search warrants have been used. We heard that the discovery of
objectionable material is increasingly common, and that evidence of the commission of offences is also sometimes found on devices.

We asked about the legal grounds for the power to demand the use of passwords, and heard that the Customs and Excise Act provides the legal authority for Customs to search goods in an airport environment, and that the legality of this understanding of the provision has been tested in the courts. The Act has not been reviewed for over 20 years and it has not kept up with evolving technology. We suggested that there is a difference of degree between a suitcase of limited capacity and a laptop containing a million pieces of private information. The Customs Service says it has put forward a view in its discussion document and it is now listening to what the public has to say in its consultation process.

Language assistance

We asked whether staff who speak other languages are available to help at borders, and heard that multilingual staff are available from Customs and other agencies. Customs’ recruitment process also seeks to represent New Zealand’s cultural diversity.

Trade with China

We asked what Customs is doing to support trade with China and heard that the service has a Customs counsellor in Beijing who works with New Zealand Embassy staff to make sure that New Zealand traders have a good understanding of China’s customs requirements. The Customs Service also works with Export New Zealand to make sure that exporters get support from Customs, and has put forward a budget bid for more staff to support exporters to China. The service has a good working relationship with Customs China, undertaking enforcement activity with them and working on commercial and trade matters.

GST on goods bought online

We asked about the collection of GST on goods bought online and heard that Customs is working with the IRD on this. Customs regularly reviews compliance levels at the border, focusing on the accurate description of goods. Goods bought through the mail are more difficult to assess because the amount of information is limited and the work is labour intensive. In the future, relationships, systems, and information sharing—locally and internationally with organisations like the Universal Postal Union will be important. Multiple initiatives will probably be needed to tackle the issue.

We discussed the cost of processing a transaction, assessed at from $22 to $26, and heard that the administrative burden has to be balanced with the return.
Appendix

Committee procedure
We met on 19 March and 2 April 2015 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.

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

Evidence and advice received

Organisation briefing paper, prepared by committee staff, dated 19 March 2015.

New Zealand Customs Service, Responses to written questions, received 13 February 2015 and 30 March 2015.
2013/14 Annual review of the New Zealand Police

Report of the Law and Order Committee

Contents

Recommendation 2
Introduction 2
Budgeting and operational efficiency 2
Social-sector trials 3
Alternative resolutions 3
Resolution rates 3
Sexual violence offences 4
Commitment to Māori 4
Police custodial management 4
Anti-money-laundering 5
Official Information Act requests 5
Appendix 6
New Zealand Police

Recommendation
The Law and Order Committee has conducted the annual review of the 2013/14 performance and current operations of the New Zealand Police, and recommends that the House take note of its report.

Introduction
The New Zealand Police is the principal agency responsible for reducing crime and ensuring the safety of the community. It aims to be a world-class police service, working with communities to prevent crime and road trauma, enhance public safety, and maintain law and order.

The New Zealand Police’s revenue in 2013/14 was $1.511 billion, and its operating expenses were $1.491 billion, resulting in a net surplus of $19.509 million.

Financial and service performance management
The Office of the Auditor-General rated the Police’s management control environment as good, down from very good in 2012/13. Service performance information and associated systems and controls were rated as needing improvement for the fourth year running, and the office recommends that the Police make the necessary improvements at the earliest reasonable opportunity.

Budgeting and operational efficiency
We observed that the Police have absorbed approximately $300 million in cost pressures over the last four years; we asked the Police where they had done so, in light of minimal increases to their revenue and expenditure on wage increases. Some of us were concerned that the increase in revenue for Police has lagged behind the increase in costs of the Police caused by inflation, including wage increases, and the increasing demand for police services.

The Police said that their “Prevention First” model, which aims to increase the mobility and visibility of the force in the community, has also helped minimise cost pressures. They explained that by positioning staff strategically and deploying new technologies to increase their mobility, the Police have made productivity gains, which they can reinvest in front-line policing.

The “Prevention First” model has helped the Police to make improvements in various areas. They have also streamlined their case-management system, increasing operational efficiency in the way that they progress the investigation of incidents.

Besides increasing operational efficiency, the Police told us they had reduced several of their budgets, cutting the budget for travel expenses by about 20 percent, and for motor vehicle expenses by 10 percent.
Staffing

We had heard rumours of decreased staffing and possible station closures in several places around the country, and asked whether they were true, and if so, how staffing changes might affect the Police’s intention to increase their mobility and visibility as part of their Prevention First model. The Police said that they were not considering closing police stations, but that the more mobile service delivery model had made them consider the strategic positioning of staff to best meet the community’s shifting demands.

We noted that attrition was increasing, from around 2.4 percent in 2008/9 to 5.1 percent in 2013/14; the Police said that the rate was very low and they were satisfied with their ability to retain staff. We observed that in the Police’s Workplace Survey 2014, only 57 percent of police said that they had the tools and resources needed to do their job, and wondered if this dissatisfaction was lowering staff morale. The Police said that they work to determine objectively what resources staff need, and aim to meet these needs appropriately.

Social-sector trials

The Police are involved in ministerial social-sector trials, in an effort to deliver more collaborative, directed, and effective social services with the cooperation of local organisations and agencies. The Police are a key partner, with district commanders leading governance of the trials in some sector areas. This approach works well with the Prevention First policing model and its emphasis on collaborating with other agencies to address the drivers of offending.

Alternative resolutions

The Police’s “alternative resolutions” strategy involves alternatives to prosecutions, such as family group or youth conferences, warnings, or cautions. It allows them to save time and the staff and other costs entailed in prosecuting offences. The Police are pursuing alternative resolutions for about 41 percent of low-level offences they would have prosecuted as little as three years ago; this equates to about 63,000 people who would previously have been prosecuted. The Police have added “empathy” to their core operating values; they consider it to be vital to understanding and changing criminal behaviour.

Resolution rates

Although crime rates are decreasing, we asked why police resolution rates were falling, especially in high-volume crime such as domestic burglary. The Police assured us that they were also concerned about this, but that their primary focus was on crime prevention. They maintained that the best thing they could do for people was to ensure they did not become victims in the first place. The Police said that they had been successful in this; burglary rates, for example, were at an all-time low in New Zealand.

We heard that resolution rates for some crimes were also decreasing because the Police prioritise their investigative efforts to favour the more serious cases, as reflected in the higher resolution rates for homicide, violent crime, and other serious offences.

Deterrence

Acknowledging the Police’s focus on prevention, we stressed our belief that better resolution rates would act as a deterrent to prospective offenders. The Police said that, although the resolution rate for a particular type of crime might be low, the offenders they apprehend do not necessarily own up to every crime they have committed. So while some cases might go unresolved, their perpetrators are nevertheless being caught.
To link an offender to a crime, the Police admitted that they are constrained by the memory and honesty of the offender, intelligence resources, and forensic or property evidence. They question offenders thoroughly, and have even taken offenders to burglary sites in an attempt to “jog their memory”.

**Sexual violence offences**

We asked what the Police were doing to address the low reporting rate for sexual violence crimes. The Police acknowledged that sexual violence crimes, like family violence, were under-reported. They were working alongside other agencies to change the culture of reporting, seeking to lower community tolerance of family and sexual violence. They also seek to increase the comfort and security of those reporting the crimes, by training staff in handling sensitive issues and by providing victim services and facilities. Although reporting is increasing, the Police posit that the low resolution rates for these cases reflect a backlog of historic cases, where evidence is much harder to corroborate.

**Commitment to Māori**

We asked the Police what they were doing to engage with iwi in order to deliver better outcomes for Māori. The Police recognized that Māori were over-represented in the justice system, in both victimisation and offending. The Police have reflected their commitment to Māori and Treaty values in their governance, by establishing the role of a Deputy Chief Executive Māori, and having that role represented in the governance of each of their twelve districts. The Police are also increasing their recruitment of Māori into the force.

The Police Commissioner attends an iwi leaders’ forum at least four times a year to discuss topical issues and the persistent issue of Māori over-representation in the justice system. Together, the Police and iwi leaders implement a variety of initiatives, including the Police’s alternative resolutions strategy which aims to prevent young Māori, among others, from entering the justice system. Feedback from the iwi leaders has been positive. We congratulated the Police on their work on alternative resolutions and their engagement with Māori.

**Police custodial management**

We highlighted a number of issues we had heard concerning the Department of Correction’s use of police cells, especially in the Auckland districts: overcrowding in police cells; the use of untrained security guards to oversee prisoners; and high-risk prisoners being kept in police cells suitable only for low-risk prisoners. The Police Commissioner said that he personally receives a twice-daily report monitoring the use of the cells by the Department of Corrections. The Police are aware of the heavy demand by Corrections but have always striven to support their partner in the justice sector without compromising safety.

The Police said the number of prisoners they could safely hold in their cells depended on the number of staff available to oversee them, and that there was a cap on the number of remand prisoners they could detain on behalf of Corrections, but that their own day-to-day prisoner count could be much higher. A hazard report regarding the number of prisoners in police cells at Henderson Police Station had been issued by two non-commissioned officers at the station; the Police said they had treated this as a health and safety issue, and responded accordingly. They were satisfied with the solutions implemented.
Anti-money-laundering

We asked the Police to comment on their efforts in investigating money-laundering, considering that we are looking at strengthening anti-money-laundering provisions in the Organised Crime and Anti-Corruption Legislation Bill. The Police told us that they give investigating money-laundering a high priority, and that they cooperate with other law-enforcement agencies to investigate organised crime. The Police are satisfied with the resources they devote to organised crime, and feel that they have been successful in combatting it: since the Criminal Proceeds Recovery Act 2009 came into effect they have opened 815 cases and investigated approximately $417.8 million worth of assets.

Official Information Act requests

We asked the Police why the number of complaints to the Ombudsman regarding official information requests to the Police has increased. The Police said their response times depend on the complexity of request. They suggested this might account for an increase in official information request complaints, but the increase might also result from a proportional rise in the number of official information requests.
Appendix

Committee procedure
We met on 11 March 2015 and 25 March 2015 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
Kelvin Davis
Hon Phil Goff
Ian McKelvie
Lindsay Tisch
Jonathan Young

Evidence and advice received
Office of the Auditor-General, Briefing on New Zealand Police, dated 9 March 2015.
Committee staff briefing paper, dated 9 March 2015.
New Zealand Police, responses to questions 1–306, received 6 March 2015.
New Zealand Police, responses to questions 307–325, received 20 March 2015.
The Intelligence and Security Committee has conducted the annual review of the 2013/14 performance of the New Zealand Security Intelligence Service. The committee heard evidence in public from the New Zealand Security Intelligence Service and received advice from the Office of the Auditor-General.

The committee has no matters to bring to the attention of the House and recommends that the House take note of its report.

Rt Hon John Key
Chairperson
The Government Administration Committee has conducted the annual reviews of the 2013/14 performance and current operations of the Ministry of Pacific Island Affairs and 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
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation</td>
<td>2</td>
</tr>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Environmental reporting</td>
<td>2</td>
</tr>
<tr>
<td>Staffing</td>
<td>3</td>
</tr>
<tr>
<td>Response to investigations and reports</td>
<td>3</td>
</tr>
<tr>
<td>Public communication and engagement</td>
<td>4</td>
</tr>
<tr>
<td>Local government</td>
<td>4</td>
</tr>
<tr>
<td>Appendix</td>
<td>5</td>
</tr>
</tbody>
</table>
Recommendation

The Local Government and Environment Committee has conducted the annual review of the 2013/14 performance and current operations of the Parliamentary Commissioner for the Environment, and recommends that the House take note of its report.

Introduction

The Parliamentary Commissioner for the Environment is an Officer of Parliament appointed under section 4 of the Environment Act 1986. The role of the commissioner is to provide independent advice to Parliament on environmental matters. The principal work of the office is undertaking investigations and providing advice and reports on environmental matters.

The Speaker of the House is responsible for PCE’s financial performance, and the Officers of Parliament Committee reviews its budget annually. The current Commissioner, Dr Jan Wright, was reappointed for a second five-year term in 2012.

Financial performance

The office’s total budget for 2013/14 was $2.808 million. This sum included a $100,000 increase to baseline funding relative to the previous year. The office’s total expenditure was $2.712 million, leaving a surplus of $21,000, 3.4 percent higher than that of the previous financial year.

Performance information and systems

The Office of the Auditor-General recommended that PCE make a number of improvements to its service performance information and associated systems and controls. The PCE pointed out that it is difficult to measure the success of the office’s reports and their impact.

Environmental reporting

The Local Government and Environment Committee is currently considering the Environmental Reporting Bill. If enacted, this legislation would enable the PCE to comment on environmental reports produced by the Ministry for the Environment and Statistics New Zealand. These reports would be produced every six months and concern one of five domains—air, atmosphere, fresh water, marine, and land. A synthesis report would be produced every three years. In anticipation of the new legislation, the PCE has produced her first report about air quality.

We asked if it may be necessary to contract expert advisers regarding the different environmental domains, and if so, whether funding would be sufficient to allow that. The PCE said that the use of external advisers would be managed in much the same way as any other investigation carried out by the office. The PCE believes she has sufficient funding to support the provision of independent expert comment on environmental reports. She acknowledged that some of the work currently undertaken by the office may come under pressure if funding reduces alongside the increased reporting expectations, but she would...
not compromise on the work; however, it may take longer to complete. She noted the office’s capability is continually improving.

**Staffing**

At the end of the 2014 financial year, the PCE employed 15 staff, a reduction of five from the previous year. The staffing structure was reviewed in light of the PCE’s new role in environmental reporting. As a result, corporate functions have been streamlined to free up resources for research. The PCE did not want this new role to interfere with the office’s existing responsibilities, therefore additional researchers and analysts are being recruited. Additional funding of $450,000 has been approved to fund the new hires. We asked if the additional funding was sufficient to support the PCE’s new reporting function. She told us that the increased funding will be sufficient and is to be provided for the next two years, after which it would drop to $300,000. That drop may put pressure on the office and could possibly result in staff layoffs.

We asked if the restructure of the office had had an impact on its communications capacity. Report writing and analysis is done in house, but external communications is contracted out. The PCE also told us that information technology, human resources, and legal analysis are also contracted out, as the office of the PCE is too small to justify managing these business areas internally.

The PCE acknowledged that her office has a shortage of expertise in mātauranga Māori, with no Māori staff currently employed. The intention is to contract in advisers with this knowledge. There are no specified roles in the permanent staffing structure. The PCE noted that she does not receive many job applications from Māori. The PCE told us that consideration of te ao Māori is a key feature in all the office’s investigations.

Due to the small size of the office of the PCE, staff are not expected to spend a long time working there. The lack of opportunities for advancement means that many employees spend less than five years with the office.

**Response to investigations and reports**

The PCE monitors the response from Ministers, agencies, and the public to the reports the office produces, and if she deems it valuable, follows them up with update reports. The office is considering producing updates to a number of its earlier reports, including those on water quality in New Zealand, investigating the future of conservation, and evaluating solar water heating. Some of these reports make projections, and the update reports allow the PCE to follow up on data and examine how predictions have played out.

The next investigation report to be published by the PCE will be about air quality, and later this year another report on sea level rise is expected. Further reports on marine protected areas and water quality are also planned. Additional topics are being scoped. The ordering of investigations is determined by a number of criteria, including the cumulative environmental impacts and tipping points involved, as well as staff capacity.

A number of groups make use of the PCE’s reports, but her priority is to inform consideration by Parliament. A key function of follow-up reports is to monitor ministerial responses to recommendations. She said she is encouraged by the responses to her recommendations from both Government and the Opposition. Councils are among the biggest users of the information and findings in PCE reports.
1080 and pest management

The PCE has previously reported on the use of 1080 poison, and is pleased with the impact of the Department of Conservation’s Battle for the Birds project. She is particularly interested in the results of rat tracking in beech forests. In many areas 1080 drops succeeded in reducing rat, possum, and stoat populations. The PCE said she has no plans to investigate the management of feral cats.

Public communication and engagement

We asked if the commissioner was considering measuring effectiveness regarding public awareness, and heard that this area is also difficult to measure, as media exposure is not a clear indicator of effectiveness. The PCE is considering improving its website to increase its accessibility. The office uses Twitter to make announcements, but not as an engagement forum.

The PCE is strategic in deciding which speaking invitations to accept, often prioritising sectors of the community that may not have a high awareness of her work and the issues it addresses. However her next report, on air quality, will be released soon and the PCE will be speaking publicly about it in Christchurch, as she recognises the level of interest from residents in air quality issues. While the office does not spend money on advertising, it puts out press releases and has a distribution list for its reports.

Local government

The PCE receives a few complaints about local authorities, some of which lead to investigations. Some complainants are referred to other agencies, including the Ombudsmen. The PCE noted that responding to these complaints is not one of her statutory functions.

Legislation requires consultation with the PCE regarding local government reform. She is about to meet with the Local Government Commission to discuss the proposed super-city in the Wellington region.
Appendix

Committee procedure

We met on 19 February and 26 March 2015 to consider the annual review of the Parliamentary Commissioner for the Environment. We heard evidence from the Parliamentary Commissioner for the Environment and received advice from the Office of the Auditor-General.

Committee members

Scott Simpson (Chairperson)
Matt Doocy
Paul Foster-Bell
Joanne Hayes
Julie Anne Genter
Tutehounuku Korako
Ron Mark
Todd Muller
Eugenie Sage
Su’a William Sio
Dr Megan Woods

Evidence and advice received


Organisation briefing paper, prepared by committee staff, dated 17 February 2015.

Parliamentary Commissioner for the Environment, Responses to written questions, received 19 February and 10 March 2015.

# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation</td>
<td>2</td>
</tr>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Innovation in drafting</td>
<td>2</td>
</tr>
<tr>
<td>Pacific drafting assistance</td>
<td>3</td>
</tr>
<tr>
<td>Access to tertiary legislation</td>
<td>3</td>
</tr>
<tr>
<td>Succession planning</td>
<td>3</td>
</tr>
<tr>
<td>Legislation in Māori</td>
<td>3</td>
</tr>
<tr>
<td>Appendix</td>
<td>4</td>
</tr>
</tbody>
</table>
Parliamentary Counsel Office

Recommendation
The Justice and Electoral Committee has conducted the annual review of the 2013/14 performance and current operations of the Parliamentary Counsel Office, and recommends that the House take note of its report.

Introduction
The purpose of the Parliamentary Counsel Office (PCO) is to provide impartial legislative drafting services and advice, and ultimately to enable easy, free access to the laws of New Zealand. It drafts legislation, including Government bills (other than revenue bills), regulations, and amendments for Ministers and select committees. Under Part 2 of the Legislation Act 2012 the office also revises statutes to make them more accessible.

Financial and service performance management
In 2013/14, the total revenue of the PCO was $19.396 million, and its total expenditure was $17.291 million, resulting in a net surplus of $2.105 million (in 2012/13 the office reported a smaller surplus of $1.062 million).

Innovation in drafting
We discussed innovation in the drafting of legislation. The Chief Parliamentary Counsel said that the office is innovative in its practices; for example, New Zealand led the world in plain language drafting. Recently the office has focussed on access to legislation by making the New Zealand Legislation website an official source of legislation.

PCO is now looking at the way amended draft legislation is presented for select committee consideration, in an effort to make it easier to read the amendments. The office is also considering drafting bills with amendments incorporated into them, removing the need to look at an amendment bill alongside the Act that it amends. The aim is to give parliamentarians a much clearer picture of what changes are proposed and what is staying the same.

Purpose clauses
We asked about the use of purpose clauses and heard that they are a New Zealand innovation, and not used in the UK. They replace the long title of an Act, and provide a useful summary, but people should not stop there rather than read legislation.

Technology
We asked whether the office would consider using technology such as group decision-making tools. The Chief Parliamentary Counsel said that he would be comfortable with Wiki-style white papers, where people could post their comments on a topic at its consultative stage. However, he did not consider it appropriate at the legislative drafting stage, where policy decisions are finely honed into very detailed legal provisions. The office uses various kinds of technology once legislation has been published. For example, an application is to be developed for people to use to find out which fisheries legislation applies to an area where they are wanting to fish in. Having an official source of legislation
electronically available leaves considerable scope for such initiatives, which the office encourages.

**Pacific drafting assistance**

We were pleased to hear that the Ministry of Foreign Affairs and Trade has agreed to provide permanent funding for PCO’s drafting assistance to Pacific countries. PCO is hoping the funding will allow them to employ two drafters, rather than the present one, and that interest expressed by their Australian counterparts will translate into help with the resourcing of a comprehensive service.

We discussed the demand for assistance and the building of drafting capacity in Pacific countries. Some countries, such as Samoa, have managed to build their capacity with some mentoring assistance. However, PCO can help the smaller countries more effectively by controlling the quality of the legislation provided by consultants. The development of drafting manuals and templates can be helpful in this respect. In many Pacific countries lawyers carry out multiple functions, and dedicated legal drafters do not exist.

We asked whether developing an outpost of New Zealand’s PCO in the Pacific has been considered. The Chief Parliamentary Counsel said that this could be worth examining.

**Access to tertiary legislation**

We asked the PCO’s view of the development of a register of tertiary legislation. PCO said that while the idea is attractive, it would have to be costed: it took Australia several years to implement such a register, although it had far fewer tertiary instruments than New Zealand. We heard that the implications of a register would be considerable: agencies drafting the instruments would have to comply with certain requirements; and there would be a consequential effect on the New Zealand Gazette as the documented record of such instruments.

The PCO currently provides 841 links on the New Zealand Legislation website to tertiary legislation drafted by other agencies. However, it is dependent on the agencies informing it of the promulgation of these instruments.

**Succession planning**

We asked about the office’s succession planning. We heard that a number of PCO staff have retired recently and it is now recruiting drafters with various amounts of experience. With less than 31 full-time-equivalent drafters, the PCO is a small operation, and we learned that it takes about three years to train a drafter to become fully competent.

**Legislation in Māori**

We asked the office’s view on legislation being published in Māori as well as English. Māori wording within legislation has been used often and is considered to work well, especially where the terms are well understood. However, multiple-language drafting is not easily resourced and the office does not have the resources to draft in Māori. At the moment legislation in Māori is generally translated from the English and certified as accurate by the Māori Language Commission. The office would like to lift its capacity to draft in Māori, but it struggles to find suitable people to do the job.
Appendix

Committee procedure
We met on 19 February and 19 March 2015 to consider the annual review of the Parliamentary Counsel Office. We heard evidence from the Parliamentary Counsel Office and received advice from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
Jacinda Ardern
Chris Bishop
Marama Fox
Peeni Henare
Jono Naylor
Alfred Ngaro
Denis O’Rourke
James Shaw
Hon Louise Upston

Evidence and advice received
Parliamentary Counsel Office, Annual report 2013/14
Parliamentary Counsel Office, responses to committee questions, received 5 March 2015.
Organisation briefing paper, prepared by committee staff, dated 24 February 2015.
Contents

Recommendation 2
Introduction 2
1080 contamination threat 2
Food safety regime 3
Biosecurity 4
Primary Growth Partnership programmes 4
Improving access to overseas markets 5
Māori agribusiness 5
Pesticide residues 5
Climate change 5
Appendix 6
Ministry for Primary Industries

Recommendation

The Primary Production Committee has conducted the annual review of the 2013/14 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 (MPI) was established on 30 April 2012. MPI provides policy and regulatory advice and market access and trade services, and operates biosecurity, food safety, fisheries management, forestry, and animal welfare programmes. Its work centres on biosecurity, food safety, and sustainable economic development and trade.

MPI has four stated long-term objectives: maximising export opportunities, improving the productivity of the sector, increasing sustainable resource use, and protecting from biological risk. It is a large employer with over 2,200 staff. Martyn Dunne is the Director-General.

Financial performance

In 2013/14 the ministry’s revenue totalled $395.1 million (compared with $380.9 million the previous year). MPI reported a net deficit of $2.1 million. Higher expenditure was attributed to factors including increasing its overseas presence, costs associated with a Government inquiry into a whey protein contamination incident, and increased surveillance and response activity.

1080 contamination threat

On 10 March 2015 the Government announced that threats had been made in November 2014 to lace infant formula with the 1080 toxin used for pest control. The public was advised that the Ministry for Primary Industries had been working with the New Zealand Police to assess and respond to this threat; this operation is referred to as “Operation Concord”. We heard that a number of MPI staff had been diverted from their regular duties to work on this operation, and asked if MPI had sufficient resources to carry out this operation. MPI is confident that it had undertaken its responsibilities appropriately, and also that more resourcing would be available if necessary.

Overseas markets

We asked about the response to the threat from overseas markets. MPI said that New Zealand’s major trading partners had been notified before the public was made aware on 10 March 2015. Since then, it has been in contact with the remaining markets. MPI considers the response to be “mature” and “reasonable”. We heard that the response to the threat seeks to protect the chain of supply, from manufacturers to supermarket shelves. Many overseas markets have had threats to breach the security of food supply, and MPI believes this experience, and the stringent management of Operation Concord, has resulted in a measured response from trading partners.
We were interested in the impact on trade with China as it is New Zealand’s largest export market. MPI said that China had requested additional certification and testing but no product had been stopped from entering the country. MPI has sent a team of toxicologists to China to carry out tests and advise border officials on continuing testing. A certificate of analysis has also added to the regular certification process; a certificate is affixed to each batch of tested product before it is shipped to China as an additional assurance of its safety.

In general, MPI considers that the response from China has been “very good” and they have been working with the Ministry of Foreign Affairs and Trade and the industry to ensure that adverse effects remain minimal. MPI also considers that its recently increased presence in strategic areas such as Beijing and Shanghai has helped manage the trade relationship.

**Delayed notification**

We asked why New Zealand manufacturers and exporters of infant formula were apparently not notified of the threat although trading partners had been contacted. MPI said that delaying the announcement of the threat had been deliberate, to allow the Police to begin their investigation in earnest and until testing for 1080 in milk could be improved; it is now four times as sensitive. Subsequently over 50,000 tests were carried out on infant formula, to ensure the safety of the product. MPI said that eight key trading partners were notified in early February, and New Zealand manufacturers received a confidential briefing the next day. Smaller trading partners were notified at the same time as the general public.

We note that MPI acknowledged that the cooperation and effective response of the industry had helped MPI and the Police to ensure the safety of the supply chain. MPI said the delayed notification allowed a measured approach to be taken to testing, investigation, and assurance, thus avoiding unnecessary panic. This decision was balanced against the risk of the threat being carried out.

**Complaints to Police**

We asked whether manufacturers were being duly notified of complaints by the public of potentially tampered products, citing an instance that had come to our attention. MPI said that the example in question was not known at the time of the daily briefing with manufacturers, so they were not notified until the next day. However, we heard that MPI is in regular contact with the Police about complaints, and that almost all of those received so far have been found to be manufacturing faults causing the appearance of damaged tins and seals. MPI considers that they are making announcements once the information is confirmed and when it is most appropriate.

**Food safety regime**

We suggested that MPI’s broad responsibilities might lead to compromises between divergent interests, such as food safety and trade. MPI considers that grouping related interests provides a crucial structural link between primary industries and food safety. MPI also said that its expertise in food safety is high and it is very capable of addressing food safety issues.

We drew attention to the recommendations from the Government inquiry into the whey protein contamination incident, which called for improvements in MPI’s food safety system. MPI said that all the recommendations from the inquiry had been accepted and most of them have been or are being implemented. MPI believes that its food safety
system is robust, and its response model had been proven by its handling of Operation Concord.

**Biosecurity**

We asked whether MPI had reassessed its baggage screening policy in the wake of the latest Queensland fruit fly incursion in Auckland, which is believed to have almost certainly entered the country in passenger baggage. MPI reported that in 2013/14 the number of detector dog teams increased by 12 to 40, and 24 new quarantine inspectors completed their training. We suggested that the reinstatement of 100 percent baggage screening might be more effective in protecting New Zealand from biological risk.

MPI said it attempts to defend New Zealand from biological risk through numerous channels. An import health standard must be met for the importation of any biosecurity risk goods into New Zealand to be allowed: we heard that these standards are reviewed regularly and can be revoked if products are deemed to be unsafe. Passengers arriving in the country are also profiled for risk. After collecting their baggage passengers are questioned by biosecurity officers, and directed to exit through the “green lane” if they have nothing to declare and do not appear to present any kind of risk, or alternatively are directed to x-ray and screening by dogs selected for their ability to detect food.

MPI said it commissioned a survey of several thousand passengers. The results indicated that 99.4 percent of people who used the green lane were compliant, compared with 94 percent who were subjected to baggage screening alone. MPI said it believes that these methods, combined with random checks by detector dogs of passengers leaving the green lane, were more effective than total baggage screening. We note that complete screening may be reinstated at any time by the Director-General.

We asked if a thorough analysis of MPI’s biosecurity spending would be undertaken following the response required by the Queensland fruit fly incursion in Auckland. We were told that lessons are taken from every response and resourcing is assessed regularly. MPI currently has 180 staff working on its fruit fly response in Auckland. We were pleased to hear that the Government Industry Agreement with Kiwifruit Vine Health and Pipfruit New Zealand was proving useful in managing the response.

**Primary Growth Partnership programmes**

The New Zealand Institute of Economic Research published a report in May 2014 which estimated that the Primary Growth Partnership programmes (PGPs) will deliver $6.4 billion annually in economic growth by 2025. We asked where this growth was expected to come from. MPI said it was calculated on the basis of the funded programmes achieving their intended outcomes and enabling the production of value-added products.

We heard for example about precision seafood harvesting, which allows larger fish to be landed live and in better condition whilst releasing smaller fish unharmed. Live or minimally handled fish fetch a premium overseas, and the release of small fish contributes to sustainability. We understand that net trials being undertaken by some iwi on a relatively small scale are seeking similar outcomes. We encouraged the ministry to demonstrate more clearly the additional benefits which could be achieved with the significant amount of large-scale funding through the PGP. MPI said that proof of the programme’s effectiveness and potential was apparent in industry uptake; Aotearoa Fisheries Limited is investing $30 million to equip its fleet with this particular technology.
We encourage MPI to demonstrate clearly the benefits delivered by PGPs in return for the funding which they receive. MPI argues that the benefits of the PGPs are typically long term, and private sector partners were required to provide half the funding for any programme. MPI considers it is highly unlikely that shareholders would allow significant investment in these programmes if they were not confident of long-term benefits. MPI also said that programme funding decisions are made by an independent review panel, and it is confident that private sector partners are held to account. Some of us noted that some recently completed PGP programmes appear not to have met their projected outcomes. We will continue to watch developments in this area with interest.

**Improving access to overseas markets**

We queried MPI’s capability to explore opportunities to improve access to markets outside of traditional trading partners, and China. MPI has staff based overseas for this purpose and said it reviews these positions regularly. We heard it is placing staff in new export markets such as Dubai and Taiwan. MPI is aware that it needs a succession plan to ensure constant support for exporters in these markets. It works with the Ministry of Foreign Affairs and Trade on the negotiation of free trade agreements and consults industry on its market access needs.

**Māori agribusiness**

We remarked on the significant opportunities presented by Māori agribusiness and asked what was being done to develop it. MPI said that it is focussing energy on small Māori organisations where land has multiple owners. Assessments are carried out in partnership with Beef and Lamb New Zealand, which lends expertise to increase the productivity of such farms. More challenging work is being done with the Māori trustee and Landcorp Farming Limited to influence the development of smaller land blocks into economic units whilst ensuring that owners do not feel alienated. We note that there are inherent complexities. MPI said it does not offer commercial advice to iwi on developing their land, but it offers the resources for iwi to purchase this advice if it is required.

**Pesticide residues**

We asked whether the better testing regime developed for Operation Concord could be applied to test for pesticide residues on crops used as animal feed. MPI said that the new tests were specific to raw milk and finished milk products. A number of tests are carried out in its national chemical contamination and national contaminant residue programmes, and MPI encourages consumers who are concerned about specific crops or products to contact them. MPI said that the cause of the deaths of dairy cows in Southland that had ingested brassica crops was not “clear cut”; despite a number of tests the cause has not yet been determined. However, work is continuing with the industry to clarify this issue, and we look forward to the outcome of this inquiry.

**Climate change**

We asked about the advice that MPI gives industry regarding climate change. MPI said that it is aware of the serious effects of climate change and is currently providing advice to Ministers for the 2015 United Nations Climate Change Conference. We also heard about MPI’s work with industry, such as programmes to investigate the precision application of fertiliser in the high country, and providing information to farmers to improve farming practices. We note that the dairy industry PGPs do not include mitigation of climate change impacts among the programme objectives.
Appendix

Committee procedure
We met on 19 March and 2 April 2015 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
Meka Whaitiri

Evidence and advice received
Ministry for Primary Industries, Responses to written questions, received 26 February and 30 March 2015.

Office of the Auditor-General, Briefing on the Ministry for Primary Industries, dated 19 March 2015.

Organisation briefing paper, prepared by committee staff, dated 16 March 2015.
# 2013/14 Annual review of the Department of the Prime Minister and Cabinet

Report of the Government Administration Committee

## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation</td>
<td>2</td>
</tr>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>Financial and service performance management</td>
<td>2</td>
</tr>
<tr>
<td>Crisis management</td>
<td>2</td>
</tr>
<tr>
<td>Canterbury Earthquake Recovery Authority</td>
<td>2</td>
</tr>
<tr>
<td>Official information requests</td>
<td>3</td>
</tr>
<tr>
<td>Appendix</td>
<td>4</td>
</tr>
</tbody>
</table>
Department of the Prime Minister and Cabinet

**Recommendation**

The Government Administration Committee has conducted the annual review of the 2013/14 performance and current operations of the Department of the Prime Minister and Cabinet and recommends that the House take note of its report.

**Introduction**

The Department of the Prime Minister and Cabinet’s main role is to provide impartial advice and support to the Executive (the Prime Minister, the Governor-General, and the Cabinet). It is also one of the three central agencies responsible for coordinating and managing public-sector performance, and particularly New Zealand’s intelligence system, national security priorities, and crisis management.

**Financial and service performance management**

The department is funded through Vote Prime Minister and Cabinet. Its total revenue in 2013/14 was $27.763 million and its total expenditure $24.733 million, resulting in a surplus of $3.03 million.

The Office of the Auditor-General raised no significant issues about the department’s performance, and gave it largely the same ratings as last year. Its rating for financial information systems and controls improved from “good” to “very good”.

**Crisis management**

From 1 April 2014 the department took on responsibility for the Ministry of Civil Defence and Emergency Management from the Department of Internal Affairs. We heard that this change has allowed the department to investigate synergies between its new civil defence function and its national intelligence and security functions.

An independent review of the civil defence emergency management response to the Christchurch earthquake, released in 2012, made a number of recommendations. We heard that implementing the recommendations adopted by the Government was 80 percent complete, although some were taking longer than others and had proved to be larger tasks than expected.

**Canterbury Earthquake Recovery Authority**

On 1 February 2015 the Canterbury Earthquake Recovery Authority (CERA) became a departmental agency within the Department of the Prime Minister and Cabinet. Under the Canterbury Earthquake Recovery Act 2011 the authority will be disestablished in 2016. Over the past four years considerable institutional knowledge about rebuilding after a disaster has been amassed, much of which resides in CERA. Since CERA has a limited lifespan, we wanted to know what has been done to preserve this knowledge. The department said that work on this was already under way, and that one reason for moving CERA into the department was its natural fit with civil defence and intelligence functions.
While we are pleased that steps are being taken to retain institutional knowledge about what happened in Canterbury, we have some concern that it will reside in Wellington.

On 17 November 2014 CERA’s chief executive resigned following an investigation by the State Services Commission into an allegation of sexual harassment. We were pleased to hear that CERA’s acting chief executive—who now reports to DPMC’s chief executive—has assured CERA staff that anyone can raise complaints of inappropriate behaviour, and should do so if necessary regardless of the seniority of the person concerned.

While we would rather that harassment of any kind did not happen, we endorse the principle that people should always feel able to seek redress. We also acknowledge that an organisation as a whole should not be judged by the alleged actions of an individual staff member.

**Official information requests**

During the 2013/14 financial year the department completed 318 responses to requests made under the Official Information Act 1982 and the Privacy Act 1993. We are aware of concern that the information requests made by high-profile media personnel were processed faster than similar requests from others. The department assured us that it operated under an “even-handed” policy and denied that anyone was afforded preferential treatment. It also said that its response does not vary with political risk, and that it keeps Ministers apprised of requests under the “no surprises” rule that applies to all government agencies.
Appendix

Approach to annual review

We met on 11 February, and 11 and 25 March 2015 to consider the annual review of the Department of the Prime Minister and Cabinet. Evidence was heard from the Department of the Prime Minister and Cabinet and advice received from the Office of the Auditor-General.

Committee members

Hon Ruth Dyson (Chairperson)
Sarah Dowie
Brett Hudson
Mojo Mathers
Mark Mitchell
Adrian Rurawhe

Evidence and advice received

Department of the Prime Minister and Cabinet, Responses to annual review questions, received 30 January, 10 February, and 9 March 2015.

Office of the Auditor-General, Briefing on the Department of the Prime Minister and Cabinet, dated 11 February 2015.

Organisation briefing paper, prepared by committee staff, dated 26 January 2015.
2013/14 Annual review of the Serious Fraud Office

Report of the Law and Order Committee

Contents
Recommendation 2
Introduction 2
Funding 2
Prosecutions and convictions 2
Complaints by region 3
Appendix 4
Serious Fraud Office

Recommendation

The Law and Order Committee has conducted the annual review of the 2013/14 performance and current operations of the Serious Fraud Office, and recommends that the House take note of its report.

Introduction

The Serious Fraud Office was established as an operational department by the Serious Fraud Office Act 1990. It is a specialist law enforcement agency, which detects, investigates, and prosecutes serious and complex financial crime. Its revenue for the 2013/14 year was $9.386 million and total expenditure was $8.961 million, resulting in a net surplus of approximately $425,000.

Funding

The office had been receiving extra funding since 2011/12 to cope with a number of large and complex cases arising from the Global Financial Crisis. From 2014/15, its funding will be reduced by $2.5 million, returning to its previous baseline. We asked the office how the reduction in funding will affect their ability to operate. The office told us that it was preparing for the return to baseline funding in 2015/16 and that it did not expect much effect on current operations or the number of cases that could be investigated.

The office told us that it had successfully petitioned the Justice Sector Fund for $1.5 million in additional funding. That funding would be for one year only and the office would have to seek a top-up from the fund again next year. The office said it had made a case for a longer-term increase in its operating funding in the next Budget, on the basis of its recent Performance Improvement Framework and Expenditure reviews.

Proportion of complaints investigated

In 2013/14, the office received 595 complaints, resulting in the initiation of 22 evaluations. A total of 30 investigations were formally commenced. The office said that the small proportion of progressed cases did not reflect any impact from funding and staff cuts. It did not consider that there were complaints that it should have investigated but could not. We heard that many of the complaints the office receives fall outside of its jurisdiction, and are referred to other agencies, such as the police, the Ombudsman, or the Financial Markets Authority.

We were interested in the office’s average investigation timeframes, and were told that the office aims to complete 30 percent of investigations within six months, and 80 percent within 12 months, and have generally succeeded in doing so.

Prosecutions and convictions

We asked the office why several of the finance company prosecutions documented in their 2014 annual report had outcomes listed as “case closed”. The office said that these cases were investigated in parallel with the FMA; when it was determined that the FMA was the better agency to continue with a prosecution, the case was closed for the office’s purposes.
South Canterbury Finance

We discussed the outcome of the South Canterbury Finance prosecution, and asked the office whether it would have been better to write off the prosecution, considering the high cost to the taxpayer; we suggested that the sentence of home detention for a single defendant might not deter comparable offenders. The office expressed disappointment at the outcome of the prosecution; however, it considered that the public might have more reason to be aggrieved had they not brought the case at all. The court had established that the decision to prosecute was appropriate, after reviewing a submission by one of the defendants that there was no case to answer.

Complaints by region

We asked the office to account for the big differences in the number of complaints received in different regions, asking whether it was indicative of the resources available in particular areas. The office pointed out that the number of complaints received in regions with financial centres such as Auckland are predictably higher. Nevertheless, they acknowledged the possibility that strengthening the office’s ties to some regions might bring more complaints in.

Canterbury complaints

The office explained that the number of complaints received from the Canterbury region had halved since 2012/13, because complaints relating to the rebuilding of Christchurch have fallen markedly; the city is moving towards rebuilding infrastructure, and away from the repair of private dwellings which generated many individual complaints.

The office continues to work with their various insurance and State-sector partners in Christchurch in an effort to prevent financial crime and investigate it efficiently.
Appendix

Committee procedure
We met on 25 February 2015 and 18 March 2015 to consider the annual review of the Serious Fraud Office. We heard evidence from 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
Kelvin Davis
Hon Phil Goff
Ian McKelvie
Lindsay Tisch
Jonathan Young

Evidence and advice received
Serious Fraud Office, Annual Report 2014.
Office of the Auditor-General, Briefing on the Serious Fraud Office, dated February 2015.
Serious Fraud Office, responses to questions 1–152, dated February 2015.
Serious Fraud Office, responses to questions 153–158, dated March 2015.
2013/14 Annual review of the Ministry of Social Development

Report of the Social Services Committee

Contents
Recommendation 2
Introduction 2
Reducing welfare dependency 2
Supporting vulnerable children 3
Social housing 5
Security of staff 5
Appendix 7
Ministry of Social Development

Recommendation
The Social Services Committee has conducted the annual review of the 2013/14 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 is New Zealand's largest government department and the principal provider of social policy advice to the Government. It provides services and assistance to improve social outcomes for individuals, families, and communities. The ministry has statutory responsibilities for the care and protection of children and for administering and managing several pieces of legislation.

The ministry administers Vote Social Development and Vote Senior Citizens, which allocate over $23.3 billion. It provides services and assistance to over 1.1 million New Zealanders and 110,000 families.

In 2013/14 the ministry’s total income was $1.261 billion and its total expenditure was $1.25 billion, resulting in a surplus of $11.6 million.

The ministry maintained a central focus on delivering the Government’s Better Public Services (BPS) programme in 2013/14. The ministry is the lead agency for, and directly responsible for the achievement of, two of the BPS target results: reducing long-term welfare dependency, and reducing the number of assaults on children.

Reducing welfare dependency
The Government’s welfare reform programme was advanced in 2013/14. The reforms are aligned with the BPS target of “reducing the number of people continuously receiving Jobseeker Support for more than 12 months by 30 percent, from 78,000 in April 2012 to 55,000 by June 2017”.

In 2013/14 specific changes to the welfare system included new obligations for welfare recipients with dependent children, a new approach to working with clients with a health condition or disability, powers to stop benefit payments to beneficiaries with outstanding warrants for arrest, and pre-employment drug test requirements. In July 2013 the number of benefit types was reduced to three to reflect more clearly the work expectations applying to welfare recipients.

We heard that the ministry’s welfare reform work is on track, with benefit numbers falling below 300,000 for the first time in five years, and actuarial evidence indicating that the estimated future liability of the benefit system has decreased by approximately $10 billion over the past year. The ministry is also on track to achieve the BPS target result in this area, with a 9.4 percent decrease in the number of long-term beneficiaries receiving a working-age benefit in 2013/14. We also heard that the number of sole parents receiving a benefit is currently the lowest it has been for 20 years, and that a large majority, almost 70 percent, of sole parents who cease to receive the benefit have not returned to the system six months later.
We heard that when people move off or return to benefits the ministry records the reasons, but that it does not track outcomes for individuals and their families once they are no longer receiving financial assistance. Some of us were concerned to hear this and asked how the ministry could be sure that those coming off welfare were in fact achieving better outcomes—particularly those with children, as the ministry has an explicit responsibility to support vulnerable children. We were told that the ministry assumes that people who exit the system have entered the workforce and are therefore financially better off, but that it does not monitor them as it believes that this group no longer wants to maintain contact.

We heard that although the ministry records why former beneficiaries return to the system so that it can tailor the services provided to them, it does not specifically track the reasons that some return after only a short time. We were pleased to hear that the ministry is working to understand how to connect with clients more quickly so that it can meet their needs more effectively. For example, if someone has lost their job, the ministry will attempt to get them back into the workforce as soon as possible.

**Supporting vulnerable children**

Supporting vulnerable children is one of the Government’s priority areas, reflected in three of the ten BPS targets. Given the ministry’s role in leading the social services sector to improve social outcomes, and its accountability for achieving the BPS target of “halting the 10-year rise in children experiencing physical abuse and reducing current numbers by 5 percent by 2017”, supporting vulnerable children is also a key priority for the ministry.

The Children’s Action Plan (CAP) sets out 25 specific measures planned by the Government to protect vulnerable children. In 2013/14 the ministry was involved directly in a number of steps to implement the plan, including the establishment of a directorate for the plan, the setting up of the first two Children’s Teams, the passing of the Vulnerable Children Act in June 2014, and drafting of an Approved Information Sharing Agreement to allow information sharing between government and non-government organisations.

Under the plan a free service was to be set up by the end of 2014 to allow members of the public to report concerns by phone, email, text, or online. The ministry has decided to use Child, Youth and Family’s existing infrastructure such as its call centre, rather than set up a whole new system. Planning to extend the system to provide access to services, including Children’s Teams, has taken longer than expected. The appropriation of $1.5 million for the phone line has been carried forward. We encourage the ministry to continue to pursue the goal of establishing a hub for the public to contact with concerns about children.

**Children’s Teams**

The rollout of the Children’s Team initiative is a central part of the CAP, with local education, health, and social sector professionals collaborating to deliver a comprehensive support service to children who are recognised to be at risk of harm but do not meet the threshold for statutory intervention from Child, Youth and Family. We heard that in 2013/14 the first two teams, in Rotorua and Whangarei, began providing services, and that teams are now also operating in Horowhenua and Malborough.

The ministry is aiming for the teams to support 20,000 more children who do not receive services from Child, Youth and Family. As of late January 2015 the Children’s Teams had received 308 referrals and accepted 249 children. We heard, once fully up and running, the bigger sites will be dealing with just under 2,000 children each. The ministry is funding a
director to coordinate all the agencies concerned, and an administrator for each team. Some of us are concerned that no additional staff are being funded to deliver services to the children referred, and that the social workers who do so may be stretched in consequence, creating problems elsewhere. The ministry told us that it does not consider a lack of resources to be the reason that the children cared for by the Children’s Teams have not been helped previously, nor does it see a problem with professional interventions for these children being paid for out of baseline funding.

The ministry says the teams are making a difference for children in three ways: getting better information about the child and their family’s needs, using agencies’ time and resources more efficiently with each family (for example, having just one plan and one counsellor per family), and securing faster access to services.

Since the number of children accessing these services is small as yet, the ministry does not have enough information yet to estimate how long on average children using the service will need it. At this early stage, the ministry thinks the Children’s Teams are likely to be working with children for at least six months and perhaps for two years as the upper limit, but it concedes that it does not have a clear idea about this yet. The ministry expects that about 20 Children’s Teams will be rolled out across the country; it considers the district health board areas provide appropriate boundaries for the teams’ areas of responsibility. Some of the bigger district health boards may need more than one team. The ministry said it intends to have 10 sites operating within the next 12 months.

We support the Children’s Team initiative and expect to be updated on the number of teams operating, and the initial outcomes for the children involved, at the ministry’s next annual review.

Notifications of child abuse

The ministry is directly accountable for the BPS target of “halting the 10-year rise in children experiencing physical abuse and reducing current numbers by 5 percent by 2017”. We heard that the number of cases of substantiated abuse of children each year remains static, so the ministry is clearly not yet on track to achieve this target. The trend in substantiated physical assaults on children is also mirrored in agency statistics, with Child, Youth and Family recording similar numbers of cases of child abuse or neglect in 2013/14 year (146,657) as it did in the 2012/13 year (148,209), despite an upward trend in notifications in the past five years.

Although there have been 20,000 more notifications of child abuse or neglect since 2009, the number of cases that Child, Youth and Family decide require further action has decreased. According to police records there has also been a 56 percent increase in recorded offences against children and a 40 percent increase in sexual offences against children since 2009. We heard that the ministry attributed these offences partly to a group of children, estimated to be around 20,000, who do not qualify for statutory intervention by Child, Youth and Family but need a little more attention than the usual social services can provide. The ministry expects these children to be supported via the Children’s Team initiative.

We also heard that Child, Youth and Family is getting better information and is working more with non-governmental organisations, the health sector, education sector, and the Police to perceive the dynamics behind notifications and offences. One of the ministry’s objectives related to the Children’s Action Plan is to ensure that children get the right
Social housing

In 2013/14 responsibility for administering social housing needs assessments, and for managing the waiting list for social housing, was transferred from Housing New Zealand Corporation to the ministry. The ministry also became responsible for reviewing social housing tenancies and for administering income-related rents for tenants and income-related rent subsidies for social housing providers. We were pleased to hear that the transfer of these functions has gone smoothly, and that the ministry’s case managers have been working with Housing New Zealand Corporation tenancy managers to ensure that clients do not fall down the cracks between service providers. We will, however, expect an update on the ministry’s performance targets, and progress against these, at the next annual review.

We asked the ministry how it is tracking the benefits of the system of income-related rents for community organisations. We were told that there are now 23 community housing providers that can access income-related rent subsidies through the ministry, and that to date about 190 people have been placed in properties provided by these groups. Some of us are concerned that community housing providers who purchase the 2,000 state homes to be sold may have difficulty managing a larger number of properties. However, we accept that the ministry has only a limited role regarding social housing and does not set the policy concerned.

Tenancy reviews

In July 2014 the ministry began reviewing the tenancies of state housing clients for the first time. To date there have been almost 400 tenancy reviews, and 32 people have moved out of State houses as a result. The tenancy review policy is that everyone must be assessed for continuing eligibility for a Housing New Zealand Corporation house and this means that the ministry does not exempt the disabled, the elderly, or families with younger children from this process; but we heard that people in these groups often do not go through the full review process. The ministry emphasised that the review was being done slowly, case by case, and assured us that it is engaging with tenants throughout the process.

Security of staff

We heard that, in the week following a tragic incident at Ashburton’s Work and Income office on 1 September 2014, the number of security guards posted at Work and Income sites rose from 160 to over 400. Although the ministry concedes that an increase in the number of security guards might not have prevented the incident in Ashburton, it has given staff more confidence. Also a larger proportion of clients have been asked for identification as they arrive at the offices, and more incidents have been escalated or followed up. We heard that the Police have reacted quickly to threats and have taken action, at times through the Courts, against people who have made threats.

As a result of the Ashburton incident there have been several examinations of the security arrangements at the Ashburton Work and Income office, including an independent review commissioned by the ministry. The ministry notes that the reviews have highlighted a culture in the ministry that is very tolerant of bad behaviour towards staff. We were told...
that bad behaviour toward staff must not be tolerated, but this is difficult and it needs to be vigilant. We consider the open-plan design of Work and Income offices to be desirable and were reassured that the security reviews have emphasised that this layout is good. It keeps sightlines open for staff and security guards, people are close to others, and people feel that if something were to go wrong others could intervene quickly.

The ministry told us that a proper risk analysis of each Work and Income site needs to be undertaken. The ministry, with input from staff, can then decide appropriate security measures for each site. We note a recent decision by WorkSafe to lay one charge against the Ministry of Social Development, alleging that the ministry failed to take all practicable steps to ensure the safety of its employees at work. We encourage the ministry to complete required evaluations and reports on the safety of its workers as soon as possible and implement the changes. We intend to monitor the ministry’s progress in this area.
Appendix

Approach to annual review

We met on 18 February and 1 April 2015 to consider the annual review of the Ministry of Social Development. We heard evidence from the ministry and received advice from the Office of the Auditor-General.

Committee members

Alfred Ngaro (Chairperson)
Darroch Ball
Matt Doocesy
Jan Logie
Todd Muller
Jono Naylor
Dr Parmjeet Parmar
Stuart Smith
Louisa Wall
Poto Williams

Evidence and advice received

Ministry of Social Development, responses to written questions, received 5 February, and 11 and 30 March 2015.

Office of the Auditor-General, Briefing on the Ministry of Social Development, dated 18 February 2015.

Organisation briefing paper, prepared by committee staff, dated 18 February 2015.
2013/14 Annual review of the State Services Commission

Report of the Government Administration Committee

Contents

Recommendation 2
Introduction 2
Performance measures 2
Sector leadership 2
Wage equality 3
Appendix 4
State Services Commission

Recommendation

The Government Administration Committee has conducted the annual review of the 2013/14 performance and current operations of the State Services Commission, and recommends that the House take note of its report.

Introduction

The State Services Commission is the Government’s lead adviser on New Zealand’s public management system. It works with Government agencies to support the delivery of public services.

The commission is funded through Vote State Services. Its total income in 2013/14 was $28.269 million and total expenditure was $27.524 million, resulting in a net surplus of $745,000.

Performance measures

State Services Commission

The Office of the Auditor-General gave the commission’s management control environment, and its systems, and controls for measuring financial and service performance the same ratings as last year—including a “needs improvement” grade for its service performance information and associated systems and controls. We note that some improvement has been made in this area, and encourage the commission to continue to improve the clarity of its performance measures and the underlying framework.

Public service

During the 2013/14 financial year the commission introduced a revised performance management system, designed to align the chief executive’s stewardship obligations more closely. We heard that performance measures for chief executives had become “silenced”, each position having bespoke measures. The revised system means that public service chief executives now have common sets of measures, particularly for financial and people management, to signal that chief executive positions are not unique to particular organisations.

Sector leadership

The commission’s declared purpose is to lead “a State sector New Zealand is proud of”.1 Since leadership is central to the commission’s role, and indeed that of the commissioner, we were concerned that very little of it was displayed when the commission arranged a media conference to announce the resignation of Roger Sutton—then chief executive of the Canterbury Earthquake Recovery Authority—in which Mr Sutton was allowed to participate. Some of us also expressed our disappointment that the press release associated with the media conference included no recognition that a finding of serious misconduct against Mr Sutton had been made by the commission after an internal investigation.

---

1 State Services Commission, Annual report 2014, p. 7.
The commissioner acknowledged that he had focused on the substance of the issue rather than the communication of the commission’s findings. He suggested, however, that the commission’s prompt investigation as soon as it received a complaint is evidence that leadership was exercised.

While the commission’s quick response to a complaint of misconduct may well constitute leadership, in the event it was overshadowed by the failure to manage media communications appropriately. We suggest the commission, and the commissioner, should consider how it might improve its media strategy, as we do not want to see a repeat.

The commission has subsequently reviewed guidance for both staff and managers regarding harassment, and all chief executives have been reminded of their obligation to review policies and procedures. The commission has also formed a group to come up with practical tools for public sector organisations to use in this area. The group consists of government agencies with pertinent experience regarding workplace harassment, and the Public Service Association. It is to report at the end of April 2015, and we look forward to seeing the results.

**Wage equality**

The commission has sought to understand what is driving an increase in the gender pay gap. For some years the gap was decreasing steadily, until in 2013 it increased 0.8 percent, falling only 0.2 percent in 2014. The commission published the Human Resource Capability in the New Zealand State Services Report in 2014. Its finding that the gender pay gap of 14.1 percent for the public service as a whole is largely unchanged is disappointing. In a public service which, at 30 June 2014, was 60.2 percent female, the number of part-time positions decreases with each successive salary band. The commissioner also observed that the concept of job-sharing has never really taken off in New Zealand.

---

Appendix

Committee procedure
We met on 25 February and 1 April 2015 to consider the annual review of the State Services Commission. We heard evidence from the State Services Commission and received advice from the Office of the Auditor-General.

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

Evidence and advice received
State Services Commission, Responses to annual review questions, received 13 February and 13 March 2015.
Organisation briefing paper, prepared by committee staff, dated 24 February 2015.
2013/14 Annual review of the Treasury, and Half-year economic and fiscal update, December 2014

Report of the Finance and Expenditure Committee

Contents

Recommendation 2
Introduction 2
Financial performance 2
The Treasury’s vision 2
Managing Crown assets and liabilities 3
Monitoring Crown entities 3
Central agencies shared services 4
Welfare reform 4
Social housing 5
Auckland housing 5
Exports 5
Half-year economic and fiscal update 6

Appendices

A Committee procedure 8
B Transcript of hearing 9
The Treasury, and Half-year economic and fiscal update, December 2014

Recommendation
The Finance and Expenditure Committee has conducted the annual review of the 2013/14 performance and current operations of the Treasury, and has considered the Treasury’s Half-year economic and fiscal update, December 2014. We recommend that the House take note of our report.

Introduction
The Treasury is the Government’s main economic, financial, and regulatory advisor. It acts as the Crown’s chief financial officer, managing the Crown’s balance sheet to get the best value possible from it. As one of the three “central agencies” it also leads the drive to improve the performance of State sector agencies. It describes its vision as “securing higher living standards for all New Zealanders”.

The Secretary to the Treasury is Gabriel Makhlouf.

Financial performance
Departmental spending in 2013/14 totalled $92.6 million, about 10 percent above the previous year. The increase largely reflects additional roles and responsibilities taken on by the Treasury during the year, including extra funding for the Central Agencies Shared Services (CASS) unit as a result of the transfer of civil defence and emergency management functions from the Department of Internal Affairs to the Department of Prime Minister and Cabinet (DPMC). The Treasury also took on the Gateway review function for the monitoring of major projects from the State Services Commission (SSC), and received new funding for work on social housing. The department recorded a deficit for the year of $402,000, compared with a surplus of the same amount the previous year.

The Treasury also administered on behalf of the Crown $4.4 billion of spending on non-departmental outputs. The bulk, $3.5 billion, was for borrowing expenses on Crown debt, which were about 3 percent lower than in 2012/13.

The Treasury’s vision
The Treasury told us its post-election briefing to the incoming Minister was a major piece of work in which it explored the issues it sees as central to its vision of achieving a more prosperous, sustainable, inclusive New Zealand; one that is confident, internationally connected, and innovative. It explained that the briefing’s title, “Holding on and letting go”, captured the idea that achieving a better future for New Zealand will entail retaining its values and strengths—such things as the principles of inclusiveness and sustainability, excellence in agriculture, and high-quality State services—while moving forward by improving our international connections and fostering investment and export growth. In doing this work, the Treasury said, it drew on its own analysis and research but also consulted widely with non-government groups around the country.
Some of us question whether the economy is in fact moving forward and becoming more diverse, or whether current growth is reliant on earthquake reconstruction activity.

**Sustainability and the living standards framework**

As we have noted previously, the Treasury is increasingly using a “living standards framework” in its policy analysis, looking at other dimensions as well as economic growth: considerations like sustainability, equality, social infrastructure, and managing risk.

The ACT member of the committee queried whether the Treasury had the resources to measure such dispersive information as required to measure happiness. The Treasury replied that it felt that it did not, but it did have sufficient resources to measure living standards.

We asked how much sustainability actually figures in its analysis, as it is not mentioned among the various outcomes the Treasury says it is pursuing. The Treasury said sustainability is very much part of the lens through which it considers policy issues, and that it covers dimensions like equity as well as environmental issues.

Asked whether it is looking into carbon intensity, where some measures show New Zealand performing very poorly, increasing its net emissions per unit of GDP at a rapid rate, the Treasury says its data does not support this assessment. It said New Zealand is meeting the targets under the Kyoto Protocol, and the Treasury’s work on climate change is focused on determining an appropriate next target for New Zealand, in the lead-up to the United Nations Climate Change Conference in Paris in December 2015.

**Managing Crown assets and liabilities**

The Treasury has increasingly focused on managing the Crown’s assets and liabilities to maximise value from them. It notes among the highlights of its work in 2013/14 the publication of the Investment Statement, where it describes how the Crown’s balance sheet has changed in recent years and may evolve in the future. It examines the performance of the Crown’s major asset and liability classes, and discusses the principles of good balance-sheet management. The investment statement details the Treasury’s efforts to improve the data available for decision-making, and to recognise and manage risks. It highlights a number of areas where management of the Crown’s balance sheet could be improved.

We note that the recent amendments to the Public Finance Act 1989 have made the Investment Statement one of the core documents the Treasury must produce regularly, at least every four years.

**Monitoring Crown entities**

The Treasury gave high priority during the year to strengthening its monitoring of commercial assets owned by the Crown. A Commercial Operations Advisory Board was established to help improve its commercial analysis and advice, and the Treasury is now carrying out more frequent strategic reviews of critical agencies on a rolling basis, rather than reviewing them all on a quarterly cycle, as the Crown Ownership Monitoring Unit used to do. Over the past year there have been strategic reviews of several agencies including Landcorp, KiwiRail, and New Zealand Post.

The Treasury believes the changes have improved the quality of its advice to Government remarkably. Because it now works closely with agency boards, and even seconds people to work within the entities, it says it is better able to question boards about the assumptions
on which they base their decisions; it also considers the advisory board to be of great value as it draws on seasoned commercial expertise to test the Treasury’s advice.

**Solid Energy**

Some of us question whether the changes described above are sufficient to make sure that boards do their jobs properly, and to avoid problems such as the Solid Energy debacle. Noting that an external review of the Treasury published in May 2014 was generally positive about the timeliness and quality of Treasury’s fiscal policy advice, some of us conclude that the Treasury’s advice was simply ignored by Ministers in the case of Solid Energy, and question whether the changes would make a material difference should such a situation arise again. The Treasury said that the new system focuses continually on boards’ performance, linking it to entities’ strategy and performance, so in future it should not be a case of relying on ministerial decision-making at the end, once things had reached crisis-point; boards should reach the necessary decisions at an earlier stage.

**Central agencies shared services**

Since March 2012 the Treasury, the SSC, and the DPMC have combined their administrative functions in a central agencies shared services (CASS) unit. We recalled a performance audit in which the Auditor-General raised serious concerns about the way CASS was set up, and sought an assurance that the unit is now operating in a way that addresses the Auditor-General’s recommendations.

The Treasury said it had already acknowledged the problems CASS encountered in its first 12–18 months; it had been set up too quickly, and had incorrectly assumed that all three agencies had similar capability. A lot had been done since the Auditor-General’s report to address IT infrastructure issues and improve DPMC’s finance and information management, and work continues on improving CASS’s HR capabilities. It said CASS’s establishment troubles provided valuable lessons for other public-sector agencies, and the unit was now in a much better position, focusing on adding value through its services.

We asked whether CASS is robust enough to cope with the additional demands being placed on it now that the Canterbury Earthquake Recovery Authority and the Ministry of Civil Defence and Emergency Management are becoming part of DPMC. The Treasury assured us it is confident that the transition is going smoothly. The unit is now focused on the services it can provide as a hub for small agencies in the public sector, and has received very positive responses from recent stakeholder engagement surveys. It added that the target of saving $1 million a year by sharing services has been achieved.

**Welfare reform**

We note that the Treasury has been working to embed an “investment approach” to reducing long-term welfare dependency; and that the Minister of Finance has said in a recent speech to the Institute of Public Administration that Cabinet has directed the Treasury and social-sector agencies to develop a new Budget process called “social investment”, which he says will entail major changes in the way government operates.¹ We asked what these approaches will involve, and what the Treasury’s role will be.

The Treasury said there are essentially two new approaches. One is to consider how the type of work currently being done in the Justice sector to reduce rates of recidivism could

be applied more broadly, by investing at an early stage in people who are at risk of imposing high costs on the welfare system over time. The other involves considering how the Government can make cross-sector investments—health, education, welfare, and potentially justice—to achieve the best outcomes in particular areas, such as helping vulnerable children.

We note that the Treasury has expressed doubts about the quality of the four-year plans being produced by some agencies, considering only about 40 percent of them up to standard in their projections of spending. We asked whether it intends to leave investment decisions up to public-sector agencies, or would be guiding them under the new approaches. The Treasury says four-year plans have been improving; it works with groups of agencies, and with a social-sector board and Ministers, so there is a transparent discussion about the best investments.

Some of us consider that the Minister of Finance seemed to be signalling that the provision of social services could involve a contestable process, with private agencies also involved in delivering government services.

**Social housing**

The Treasury reports that it has worked with the Ministry of Business, Innovation and Employment (MBIE), the Ministry of Social Development (MSD), and Housing New Zealand Corporation over the past year on options for the provision of social housing, and gained Cabinet approval for the next phase of planned reforms. It has set up a Social Housing Establishment Unit, which will lead work on establishing an independent transactions unit to develop the social housing market.

We sought more information about this work, and were told that the ultimate focus is on getting better outcomes for tenants. The Treasury says research has shown that the market for social housing is not working well at the moment, and others may be able to provide better services for tenants than the Government. The work has three purposes: ensuring that MSD’s role is carried out as well as possible; improving housing affordability—that is, getting more people on the way to being able to afford homes; and improving the way housing is provided.

**Auckland housing**

We asked what advice the Treasury had given about two issues on which the Governor of the Reserve Bank has commented: that “much more needs to be done” to increase the supply of housing in Auckland, and that there is “a risk of a sharp correction” in the housing market. The Treasury said its work to improve the affordability of housing has focused on increasing the supply of housing, leaving the demand side to the Reserve Bank’s management of interest rates. It noted that the Government has been taking steps to encourage an increase in supply, but as MBIE has remarked, it is hard to get supply moving more quickly. It believes the supply of land is the critical factor.

**Exports**

We sought the Treasury’s view on the composition of New Zealand’s exports. We note that while the New Zealand economy is often characterised as heavily dependent on agricultural exports, in fact the services sector accounts for about a quarter of exports, and manufacturing is growing rapidly. The Treasury said that both manufacturing and services have been growing strongly. While the services sector has a large export component, much
of the growth in manufacturing is servicing the domestic economy, for housing construction and the like. The Treasury stated that on a trend basis, manufacturing has been declining in aggregate as a proportion of GDP but that in recent times it has picked up, largely to service the domestic as well as the international sector. The Treasury’s focus is on trying to improve the productivity of all sectors of the economy, adding value to what New Zealand produces, and improving international connections.

**Half-year economic and fiscal update**

The Treasury’s half-year economic and fiscal update (HYEFU) was published on 16 December 2014. It contains the forecasts supplied to the Minister of Finance for preparation of his budget policy statement (BPS), in which he outlined the Government’s broad plans for Budget 2015. (We reported to the House on the BPS on 3 March 2015.)

The HYEFU states that the outlook for the New Zealand economy is positive: economic activity is continuing to increase at a solid rate, with continued growth expected in employment and real wages. Real GDP grew by 3.2 percent over the year to March 2014, and growth of around 3.5 percent is expected for 2015 and 2016, before slowing slightly over the following few years. Unemployment is forecast to fall steadily, from 6 percent in the year to March 2014, to 4.5 percent in 2017.

Annual Consumers Price Index (CPI) inflation has been weaker than expected; it is forecast to return to around the middle of the Reserve Bank’s 1–3 percent target band in late 2015 or early 2016, with interest rates expected to increase gradually from late 2015. The Treasury noted that while low inflation has been good for consumers’ buying power, it has also meant that the Government’s tax take is lower than forecast.

**Budget deficit**

The Treasury is forecasting a deficit of $572 million (0.2 percent of GDP) for 2014/15, followed by a surplus of $565 million in 2015/16, rising to $4.1 billion in 2018/19. We note that, despite the Treasury’s forecasts, the Minister of Finance has stated that the Government continues to expect a surplus for 2014/15 when the final accounts are published in October 2015.

We asked the Treasury whether it is concerned that its own Minister questions its forecasts in this way. The Treasury said it stands by its forecasts, but it is aware that the difference between deficit and surplus at this stage is very small, and with government revenue and spending so large, the balance is easily affected by variables such as oil prices, which can change very quickly. It said the outcome would be known in October, when the Government’s financial statements for 2014/15 are finalised.

The following table sets out the Treasury’s main forecasts from the HYEFU.
### Summary of the Treasury’s economic and fiscal forecasts

<table>
<thead>
<tr>
<th>Economic forecasts (March years, %)</th>
<th>2014 Actual</th>
<th>2015 Forecast</th>
<th>2016 Forecast</th>
<th>2017 Forecast</th>
<th>2018 Forecast</th>
<th>2019 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic growth</td>
<td>3.2</td>
<td>3.5</td>
<td>3.4</td>
<td>2.8</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>CPI inflation</td>
<td>1.5</td>
<td>1.3</td>
<td>2.0</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Unemployment rate (March quarter)</td>
<td>6.0</td>
<td>5.4</td>
<td>5.1</td>
<td>4.7</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Current account (% of GDP)</td>
<td>-2.7</td>
<td>-5.3</td>
<td>-6.2</td>
<td>-5.8</td>
<td>-5.7</td>
<td>-5.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal forecasts (June years)</th>
<th>Total Crown OBEGAL&lt;sup&gt;3&lt;/sup&gt; ($ million)</th>
<th>2014</th>
<th>2015 Forecast</th>
<th>2016 Forecast</th>
<th>2017 Forecast</th>
<th>2018 Forecast</th>
<th>2019 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(2,933)</td>
<td>(572)</td>
<td>565</td>
<td>2,602</td>
<td>3,074</td>
<td>4,101</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Crown OBEGAL (% of GDP)</td>
<td>-1.3</td>
<td>-0.2</td>
<td>0.2</td>
<td>1.0</td>
<td>1.1</td>
<td>1.4</td>
</tr>
<tr>
<td></td>
<td>Net core Crown debt (% of GDP)</td>
<td>25.6</td>
<td>26.5</td>
<td>26.5</td>
<td>25.2</td>
<td>24.0</td>
<td>22.5</td>
</tr>
</tbody>
</table>

**Update to the HYEFU**

The Treasury said that since the forecasts were prepared the economy has continued to grow strongly, supported by domestic demand, the construction sector, and business investment. Inflation has dropped further. In the December quarter, the number of people in employment rose by 1.2 percent, with an increase of 3.5 percent—80,000 people—in the year to December 2014. Dairy prices have increased in line with forecasts, but the global outlook remains weak.

---

2 Half-year Economic and Fiscal Update, December 2014, pp. 6 and 135.
3 Operating balance before gains and losses.
Appendix A

Committee procedure
We met on 25 February and 25 March 2015 to consider the annual review of the Treasury, and the Treasury’s Half-year Economic and Fiscal Update, December 2014. 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
Stuart Nash
Dr Russel Norman
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 25 February 2015.
The Treasury, Responses to written questions, received February and March 2015.
Appendix B

Transcript of hearing of evidence 25 February 2015

Members

David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Stuart Nash
Dr Russel Norman
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour
Fletcher Tabuteau

Witnesses

Vicky Robertson, Acting Secretary to the Treasury
Girol Karacaoglu, Deputy Secretary, Macroeconomic, International, Economic Research Portfolio
Fiona Ross, Deputy Secretary, Budget and Public Services Portfolio
Bill Moran, Deputy Secretary, Strategy, Change, and Performance Portfolio
Fergus Welsh, Chief Financial Officer

Bennett

Good morning and welcome, everybody, to the annual review of the Treasury—and so welcome to you and your staff for coming along. We are also doing the Half Year Economic and Fiscal Update as well, so we’re sort of running them together. If there haven’t been any questions or anything around that, then we can leave the last 10 or 15 minutes for that if we want to go back to it, OK? So we’re in your hands. If you want to give us a brief introduction, then we’ll open up for questions from members, OK?

V. Robertson

Kia ora tātou. I’d like to make a few brief comments about the HYEFU—Half Year Economic and Fiscal Update—and just quickly touch on a few highlights from Treasury’s work from the year.

A couple of weeks ago I gave this committee a brief update on developments since HYEFU. To reiterate the main trends: activity in the economy is increasing, supported by domestic demand. At the same time inflation, which was already low, has dropped further. For the Government, lower inflation means we expect to collect less tax; on the other hand, for New Zealanders low inflation is a good thing for their buying power.

Other matters to note are the number of people in employment has increased by 1.2 percent—so there are 28,000 people in the December quarter—and by 3.5 percent, 80,000 people in the year to December. In
dairy, prices are developing in line with our forecasts, with two large increases in the last two auctions, although they will have to keep improving to maintain farm incomes at the level we projected. On the downside, I should add that the global outlook for economic activity and demand remains weak.

On the Treasury side, of course it’s been another busy year for us, and I’d like to single out three very important examples of our work, starting with the publication of our Investment Statement. The Investment Statement reports on the past, present, and future of the Crown’s balance sheet, which comprises hundreds of billions of dollars’ worth of assets and liabilities. We want to make sure our mix of assets continues to promote higher living standards and leaves New Zealand well placed to meet social and financial challenges ahead. Good balance sheet management has helped to ensure services are provided cost-effectively and efficiently, and taxpayers can be assured they’re getting value for money out of the assets they own by the Crown. At the same time they can be confident that we have built in resilience to the inevitable next big economic, financial, or natural disaster shock that comes along.

There is scope to further strengthen the quality of information gathering and sharing on the Crown’s balance sheet. This includes equality, the utilisation of assets, and the asset classes and liabilities we have on our balance sheet, and we’ll keep working with agencies on this.

The second big highlight has been the work on our centrepiece for the briefing to the incoming Minister—which you might have read—which is called *Holding on and letting go*. It’s an exploration of the issue that Treasury sees as key to the more prosperous, sustainable, and inclusive New Zealand, that is, a confident, connected, and innovative New Zealand. It’s pretty rare for economists to quote poetry but the title of *Holding on and letting go* draws from lines from “The trick of standing upright here”, a poem by Wellingtonian Glen Colquhoun. This really resonated with us. It captures the idea of making progress towards a better future for New Zealand by the retaining of things that New Zealanders value and that are our strengths, while at the same time steering forward towards new ideas, insights, and solutions.

For example, New Zealand should be holding on to the principle that prosperity should be inclusive and sustainable, to our excellence in agriculture, and to our generally high-quality State services. At the same time we need to be letting go, through improving our international connections, continue to move economic activity more towards investment and export growth, and better enabling all New Zealanders to reach their potential and play a meaningful role in the economy and society. While developing this work Treasury has held on to our traditional strengths of credible analysis and well-researched evidence. But it has also had to let go a bit, and go out and talk to real New Zealanders all around the country about what’s important to them—engaging with people from non-Government organisations, iwi and Māori, businesses, social services, and many other sectors. Our work has been made much richer by this because of the quality
and extent of the dialogue we have had. This is just one example of the broader thinking and more outward-faced approach that Treasury applies across a range of what we do now.

The third and final highlight I’d like to mention is the challenge set down by the Prime Minister for Treasury to work alongside DPMC, the Ministry of Social Development, and others to come up with new ideas and more effective ways to get better outcomes for vulnerable families and children. It’s a challenge we welcome. It gets to the heart of what we mean by a more inclusive New Zealand and by better enabling all New Zealanders to reach their potential. And, in closing, it’s a challenge that strikes a chord with Treasury’s view and our vision, working towards higher living standards for New Zealanders. Thank you.

Peters With respect, are we getting a political report or are we getting an analytical state of affairs of the economy? It sounds highly aspirational—I’ve heard that one before. Sounds highly ambitious. But I didn’t hear anything about manufacturing decline, exports against imports—all those figures. I’m interested in that, because that’s about the quality of the economy, and whether GDP growth is consumable growth from exports and production. That’s what I’m interested in—well, some of us are.

V. Robertson That’s good. So in terms of what are we—the currently—

Peters Yes, that’s what I’m here for. We’re not here to hear some PR campaign by our Civil Service.

V. Robertson Great. So—this is also a review of Treasury, so we’re doing both here. On the economic side, the economy is growing very strongly. That is both from domestic demand, the construction sectors, and also business investment. So that we actually—there is some real strength in how the economy is going at the moment.

Peters How are you going on the quality of the Christchurch rebuild? How many shonky repair jobs have been done, and why are there hundreds of homes being examined now as a sort of pilot to see the level of fraud against the insurance companies—or the taxpayer, for that matter?

V. Robertson So we—in terms of the Christchurch rebuild—we focus on the overall quality of that. Ninety percent of claims have been met—

Peters How do you do that? How do you focus on the quality of that rebuild when right now, as you know, there’s a secret investigation being done into a 100 homes to try and analyse the degree of fraud and default on contractual obligations in those repair jobs?

V. Robertson That’s something for EQC to answer, actually.

Peters I’ll tell you what it’s to do with Treasury—she said “we focus on the quality of the rebuild”. She said that. It’s a lot to do with it, hasn’t it, because—

G. Robertson I’ve got a comment and a question, the comment being that the Glen Colquhoun poem is a good one, but, of course, it comes from Allen Curnow’s original poem, which is called “The skeleton of the giant moa in the Canterbury Museum”, because it’s one of the best New Zealand poems
ever written. I guess my comment would be, the risk for Treasury is that the New Zealand economy looks more like “The skeleton of the giant moa” than it does “The trick of standing upright here”, in terms of diversity in the economy and how we’re actually adding value rather than relying so much on one sector, so you might choose to comment on that. But my question—this is the danger of having arts graduates as finance spokespeople isn’t it—my question’s actually about CASS and the Auditor-General’s review into the central agencies shared support services.

The Auditor-General produced a report on CASS that was one of the most damning that we’ve seen in terms of investigations of agencies. It included statements like the fact that the planning of the project was poor, and the agencies didn’t follow best practice, there were weaknesses in governance and management, there was not effective collection of baseline data. It concludes by saying that some service users had told the Auditor-General that they might look elsewhere for the services that they need.

I have a two-part question: how on earth was it set up so poorly; and, secondly, what confidence can you give this committee that CASS is now operating in a way that meets the concerns of the Auditor-General?

V. Robertson I won’t come back to you on the poem. The only thing I would say about that is, we stand by—the economy is doing very well at the moment. So that’s all I would say on that. On CASS, yes, there are some lessons, absolutely, from the way that CASS was set up, and I think—as you go into anything that’s new—sometimes pace was a bit quick, is one of the big lessons out of that. One of the things that came out very strongly was there wasn’t enough diligence done on what the quality of the services, or the quality of the organisations, were in going into that. So there was an assumption made that we were all at the same level, for example, and that just wasn’t the case. So a lot of the first year of CASS was actually around building up the resilience, around DPMC, in particular.

G. Robertson Sorry, what do you mean by that: building up the resilience around DPMC?

V. Robertson Because the quality and the level of service for DPMC was a lot less than, say, what Treasury had been used to. So there was probably—what was thought was the case versus what CASS went into was quite different. The other thing I can say is, right now—and I’ll ask Bill in a minute to talk about this because he’s the chair of the CASS partnership board, so he can give you much more detail—we have changed quite a lot since that report. The other thing to note is that this service is saving money, and we are, right now, in a better place. So one of the key things in there was around the HR services, and I can assure you that those are in a different place than when that report was made.

G. Robertson Bill might be able to answer this—when you make your comments, Bill—but how much money is it saving?

Moran OK. I'll just answer your question, but I'll build on what Vicky was saying. I think, at the time the OAG report was released, our chief executive, Gabriel Makhlouf, basically took it on the chin and said we probably could have
done the process of establishing CASS differently in terms of taking up a little bit more time, and there are a lot of lessons that can be learnt for the public sector around how that business was established. And the first 12 to 18 months was rocky.

We’re 2½ years in now, and the three agencies are happy with the services we’re getting. There are areas of focus around strategic HR that we’re really focusing on in terms of implementing a new model to give the three agencies not just good transactional services but good strategic organisational development advice. And the other area of focus has been around ICT. In the first 2½ years, there was a huge backlog of IT infrastructure that CASS had to address and have done so effectively, and a lot of it’s been under the water in terms of—the actual users haven’t seen the benefits of that, but they’re focusing more strongly now on the value-add in terms of how the businesses can actually leverage off that IT infrastructure.

So from a [Inaudible] perspective, in terms of the four functions—IT, finance, HR, and information management—HR’s still an area of focus, in terms of we need to get the level of capability up. In terms of IT, it’s turning it from delivering IT infrastructure to delivering business solutions that actually enable the agencies to perform much more effectively.

In terms of your question around savings, the original target was just over a million dollars per annum, and that’s been achieved. As with all our other agencies, the three agencies that share the service, we have to find 4-year efficiency dividends, and CASS will contribute to that, as will other parts of Treasury.

G. Robertson Sorry, I missed that bit—so it’s meeting the million dollars, is that what you said?

Moran Yep.

G. Robertson Just a supplementary on that—you’ve now got CERA coming in as part of DPMC; you’ve got Civil Defence joining in as well. Can this committee have confidence that CASS is robust enough to be able to handle the introduction of that, given that this—I mean, we’re not talking about this report being ancient history. This is the middle of last year.

V. Robertson I think—and Bill, carry on, too—one of the key factors, key indicators of better success here is that CASS has taken on the MCDEM function, and that’s been a really smooth transition. So that tells us that they are in a really good place, and we expect they’re doing the right things around CERA as well. So, really confident about that.

The other part of it is in terms of staff stress, which was in that report as well. So that has eased, and we’ve got better engagement with CASS staff as well. I think they’re doing pretty well now.

G. Robertson So just to clarify, the service users who were looking, potentially, elsewhere for services—you’re not going to be coming back to this committee next year and telling us that some of them are no longer interested?
Moran  In fact, it’s the reverse. The discussions we’ve been having have been around what’s the future for CASS; what does it look like in 3 to 5 years’ time. So we’re thinking about what functions could be included that aren’t currently included, and what’s its scope to provide a hub for small agencies across the public sector. So it’s reaching a point of stabilisation. Now it’s a case of thinking about “What does the future look like for CASS?”.

So I think, in terms of how you measure that, in terms of stakeholder engagement surveys, we’ve done two, and the last one, which was done just before Christmas, was extremely positive in terms of the three agencies—went out to probably 60 percent of staff in those agencies, so very positive for the service. In terms of the engagement surveys within CASS itself—much stronger than, say, 12 months ago. So they’ve done two, and one we did last year, late last year, again, was very strong in terms of how staff were feeling about their role and the vision for CASS and how they saw the future.

Norman  My question is about Treasury’s vision of higher living standards and the Living Standards Framework. Now, the idea, when it was announced with a lot of fanfare, was that you were going to be looking at things other than economic growth—in particular, sustainability, as well as equality. But when we look at your three key outcomes, and then your six intermediate outcomes, sustainability doesn’t really appear at all in any of those measures. And so it’s hard to see how it’s tracking within the kind of goals that you’re setting yourself and the outcomes you’re trying to achieve—how, for example, sustainability’s being incorporated at all.

V. Robertson  So there’s two things about that. Within our *Holding on and letting go* we have three themes. You don’t see them as specific themes within each of our outcomes, but they are within each, if you like. In terms of the Living Standards Framework, every piece of work is starting to be looked at across all of those frames, and I’ll get Girol to talk more about—it’s really your question about how far have we come with that framework since 2, 3 years ago now.

Karacaoglu  A very good example of that is what we did with the long-term fiscal statement, which is *Affording Our Future*, where we said that, given the projections we have on population ageing, and so on, what are the pressures that are building up? And then we looked at the whole range of policies and, assessing those policies, we ran a Living Standards Framework screen through them, as it were. So that was the first time we really took it to the wider public. Now in *Holding on and letting go*, again, we are saying that—framing it we are talking about prosperity, we are talking about resilience, we are talking about inclusiveness.

In terms of sustainability, it comes in at various levels. Equity is one—in terms of the fiscal side, economic side, is one. The broader environment issues are in there. So sustainability and all its dimensions are very much part of our policy. Thank you.

Norman  A key measure is carbon intensity of the economy. New Zealand’s one of the very few developed countries that’s increasing its carbon intensity
rapidly. Most other countries are reducing carbon intensity. Where’s your work stream to deal with that?

V. Robertson We have different figures on that from you, and so our work on the climate change area is focused on what is the appropriate target for New Zealand. We are pretty focused on that at the moment, given we’re going in to Paris this year. Our view on that is that New Zealand should have a fair target, which is not necessarily equal, numerically, to other countries. That’s kind of where our work is focused now.

Norman In terms of, though, carbon intensity as a key metric, in terms of sustainability—the UNFCCC have it as one of their key metrics. So as net greenhouse gas emissions per unit of real GDP—there’s two countries that are going in the wrong direction: Estonia and New Zealand. Estonia is increasing its intensity; New Zealand is increasing its intensity rapidly. You don’t see that as an issue for your Living Standards Framework—that our greenhouse emissions per unit of GDP are increasing rapidly?

V. Robertson Well, we don’t agree with you in terms of whether they’re increasing.

Norman So you think the UNFCCC’s got it wrong?

V. Robertson We don’t think that that is the profile for New Zealand, as you’ve put it—so we’re actually meeting the targets that we have set to date.

Norman So what’s your carbon intensity target?

V. Robertson It’s under the Kyoto Protocol.

Norman Kyoto Protocol isn’t a carbon intensity target. You don’t know what you’re talking about. It’s not a carbon intensity target.

Bishop Can I just take you away from carbon intensity? Your annual report notes that 2013/14 you worked with MSD to embed an investment approach to reducing long-term welfare dependency, and it states that since the BEFU in 2012, $360 million in savings has flowed through the forecasts. I note that the Minister of Finance gave a speech last week, I think, to IPANZ, talked about that social investment approach, and said that Cabinet has directed Treasury and social sector agencies to embed that social investment process into the Budget process and he said that that would be disruptive to Government.

So I just wonder if you could provide some comment on what the role of the Treasury will be, going forward, in terms of that, and talk a little bit more about what that approach will involve and how the Treasury will be involved in that.

V. Robertson A frame effectively looks at where you should put your investment early in order to get better outcomes, right? So, in a blunt way, if you invest early in some of the high-profile, high-cost people in welfare early, then that means they won’t be on welfare for long term. So what we’re supporting the Government to do is to consider how that approach can be applied to elsewhere within social service provisions. If you think about Justice, that is one obvious case, and there is already work that’s been done in that area in the justice pipeline.
The second part of that is when you’re thinking about where you allocate Budget to shifting outcomes with, say, vulnerable children—looking across how you might invest across health, education, welfare, and, potentially, the justice sector. So what is the investment across those services in order to get better outcomes? That is quite a new approach to both the Budget process and also the way that agencies have worked to date. It has the potential to really get to the programmes that will make a difference for those populations. So that’s how we’re going to support that.

Bishop Just a very quick supplementary, because I know Grant’s got one as well—will you be getting alongside agencies and providing advice on what the best investments are, or will you be leaving that up to agencies? Because I note, also, that the annual report also expresses a fair degree of scepticism about the quality of the 4-year plans that other agencies have. I think only about 40 percent are up to standard for forward projections of spending. Are you going to get alongside agencies to make sure they’re really running the ruler over spending and making sure it’s rigorous and in the right places?

V. Robertson Yes, so on the 4-year plans—they are improving, so that’s the right trajectory. They’re a lot better than they were last time, and we are getting alongside agencies around their 4-year plans. We’re also getting alongside groups of agencies. We have a social sector board and that links to social sector Ministers as well. So, getting alongside that kind of bigger conversation, which is across the 4-year plans, how would you make the best investments? I think there’s some way to go to be really transparent about which programmes have been delivering to the populations that we’re interested in and which are working—which of those programmes are working. That’s the work now.

G. Robertson And the supplementary I had was on Mr Bishop’s question about that speech, because it was quite clear in that speech that this was a disruptive process that Mr English was talking about. And it wasn’t just the delivery of services, because we’ve had a lot of services delivered by non-Government agencies for a long period of time. He seemed to be talking about something much more fundamental than that. They didn’t say the Justice sector. There would be a contestable process between Government and some other agency for, I guess, the overall management of these programmes. Is that what you understand that he was saying in that speech?

V. Robertson I’d hate to try and understand exactly what was in the Minister’s head when he was talking about that, but the general idea is that Government needs to get better at understanding what programmes are actually going to make a difference. That may be through contestable processes; it may also be through looking across the various agencies and what they’re actually delivering and where they can put the best money.

G. Robertson You’re not undertaking any specific work about that contestable process between Government and non-Government agencies for the overall programme delivery?

V. Robertson Well, we’ve got bits of that happening already, right?
G. Robertson But this was clearly something more than that.

V. Robertson We’ve got social investment bonds, and that’s the kind of work that we’ll keep progressing.

Scott I want to talk about balance sheets, State sector balance sheets. Can you explain, or give us some comfort, that things have changed since Solid Energy’s debacle? You’ve got balance sheets, you’ve got Landcorp balance sheets, you’ve got university balance sheets. So, just generally, how’s your attitude changed to make sure the Governors—which are the appropriate people to make decisions—how are you making sure that they’re doing their job properly?

V. Robertson We’ve done quite a lot of work over the last 18 months on changing what was called COMU before, which is basically our Crown monitoring function. We have completely shifted our approach to that and brought in quite a different capability, which we are now moving to an approach where we’re looking at strategic reviews for key agencies and key entities over a rolling period of time.

Over this last year we have done strategic reviews of some critical agencies, including Landcorp, KiwiRail, New Zealand Post, and we’re doing those with the agencies—so both with the boards and the entities themselves. In KiwiRail’s case, we had somebody seconded into that to do that. The quality of our advice to Government has remarkably improved.

We’ve also got a commercial operations board, which is recognising that Treasury will need access to expertise with people who have been in the commercial world for a long time—and, you know, they’re not going to be working in Treasury. That board tests our advice—so works with me and that group to basically test the quality of our advice to Government around some of these key issues, and also test us on that shift in the way that we’re doing our job, what capability we’ve got, other approaches that we should be taking.

The other part of this that’s really important is the approach to our balance sheet work—that has, again, changed quite dramatically. So we’ve got the two functions within Treasury, one looking at capital and investment in capital. That’s a new function that we’ve brought over from SSC and we’ve refocused that. And we’ve also got now what we call a capital investment committee at the ministerial level—so capital’s coming in quite strongly to Budget decisions. We also have a balance sheet team that is looking at shifting the quality of how the assets on the balance sheet are managed. So yeah, quite a shift in our approach.

Ross In your opening comments you reference the briefing to the incoming to the incoming Minister—Holding on and letting go. Can I read out some paragraphs—a paragraph from that BIM: “While New Zealand’s low public debt helped in coping with the crisis,”—that’s the global financial crisis—“in hindsight our fiscal policy settings may have been too loose before the crisis. While strong revenue growth kept the government’s books back in the black,”—you have Government books in the black—“growing public
spending was putting upward pressure on inflation. This meant that monetary policy had to be tighter—and interest and exchange rates higher—than they otherwise would have been.”

Member Is this a poem as well?

Cosgrove Is there a question anywhere—

Ross It’s not a poem.

Member Well, you had a bit of a ramble before your question, so.

Robertson I’m glad you saw it as a ramble.

Bennett OK, let’s get on to it eh? Come on Jami.

Ross Can you tell us: has the Treasury and the Government learnt any lessons from the global financial crisis? Has fiscal policy tightened more so than it was previously? And when you say “low public debt helped with coping with the crisis” is debt that was projected to be at 60 percent of GDP in the mid-2020s what you would have called low public debt?

Karacaoglu The key issue which relates back to our broader living standards work is one of resilience. And we believe that one dimension of resilience is building fiscal buffers, whether you’re working in your family or in the wider public arena. So, what we have learnt, from both the global financial crisis and what happened in Christchurch, is when you do have your books in good shape and order then you can have access to broader financial markets at a good price. And since then, of course, we have put a lot of stress on that issue and our target for 2020 now is to get to 20 percent of GDP on a net-debt basis and, going beyond that, even lowering it further. So that’s sort of what we have learnt from it and it will help us [Inaudible] in terms of access quantum wise as well as the price that we can pay.

Ross What changes in the growth rate of public spending have been made since the global financial crisis?

Karacaoglu In terms of growth in public spending, I don’t have the growth figure, but I certainly know that we can provide information. But, in terms of the level and relationship of that relative to our gross domestic product, on a—as we call—OBEAGL basis certainly what we are trying to do is to manage both the tax side and, especially, the expenditure side to get that deficit low. And once the cash surpluses start coming in, that’s the way we start generating the means through which we can start reducing our debt.

Ross But yet you’ve highlighted growing public spending as something that was putting upward pressure on inflation. Has the Government turned that around? Has debt projection been turned around considerably? Did you consider 60 percent of GDP as the debt level—which was projected in 2020—to be sustainable?

Karacaoglu Yeah, well, those projections were around 60 percent in the absence of any policy. With policy they were deemed to be forecast around 30 percent. In fact, what we are getting to is close to 20 percent and then going below that. So that’s absolutely what’s happening. It’s primarily a management of the
quantum, but, equally important, you know, the quality of that investment both in terms of generating economic growth and in terms of making the economy more inclusive. So on both counts I think the quality and the composition of that spending is also extremely important.

Nash With regard to that poem: was that recommended by the Minister of Finance considering he has a Bachelor of Arts in literature from Victoria? I mean, I must admit I read that document and I thought it was a pretty damning indictment of the way the Government had performed in terms of export growth, in terms of decisions around [Inaudible] and this sort of carry on. But that’s not my question. [Interruption] Wasn’t as long a Jami-Lee! [Interruption]

It must be quite galling for you guys who are experts in the economy and econometrics and this sort of carry on, to keep having the Minister of Finance come out and say that your forecasts are wrong. And the last two forecasts you’ve given, he has said “No, they are wrong. We are going to get back into surplus.” Who is right? I mean, is the Government going to get back into surplus this year? Or, is he right, and you wrong?

Robertson V Well, I mean, we’ll know the answer to that in October this year. So, I mean, so—

Nash But what’s different between your forecasts and this forecast?

Bennett Stuart, let’s let her finish, OK?

Robertson V So, what’s important to remember there is this is the difference between two really large numbers. So things could change quite quickly. And we’ve seen some changes over the last—even since December—that have an impact on those numbers. So, the fall in oil prices is a lot lower than we expected it be. So, I mean, look, who’s right and who’s wrong is not the issue; it’s what actually happens in October.

Nash Would you still stand by your forecast?

Robertson V Absolutely.

Nash Because the thing for me is—

Robertson V That’s our job.

Nash —one’s a politician, and you are the experts. So we rely on your forecasts because, you know, you are experts in this area. And so you say we’re not—

Robertson V We stand by our forecasts and I would keep saying these are—you know, this is a difference between two very large numbers. So, things can change and, you know, the difference between surplus and deficit at the moment is very small.

Nash There’s one other question—last question. You’ve established a social housing establishment unit to put into practice the Government’s social housing policy, I assume. Do you think this is going to meet the Government’s expectations around revenue, around—well, can you give me a very brief overview of what the social housing establishment unit has actually found with regard to this Government policy?
Robertson V  So, two things about that. So, we’re working with MSD and MBIE—so social housing has basically three arms to it. And so we’re running that as a social housing programme. One is around MSD’s purchasing role—the quality in how that’s run is really, really important to the whole social housing reform programme. The other part is housing affordability and how do we actually get more people on a pathway to being able to afford homes. And then there’s the third part—which is sitting in Treasury, working with those two—which is around how do we get different people within, who are actually providing the services with the houses?

And the whole idea, as you know, is that we have the right houses in the right place at the right time and tenants actually have the opportunity to have better outcomes for them. So it’s not about the house; it’s about the tenant. And that’s what we’re focused on.

Nash  Have all your research and study shown that actually selling off State houses is the right thing to do?

Robertson V  So what our research has shown—and the Government’s policy is—is that there are people out there who might provide better services for those tenants. So, for example, people who are in the aged care market might actually look after those tenants better than a big State monopoly.

Nash  They might, but they might not as well.

Robertson  But I think that is, you know—we want to see better things for the tenants. So, we want to improve here, and your question really is about “Well, how will you know?”. And—

Nash  It’s about risk, isn’t it? Really.

Robertson V  Well, I think the fact of the matter is we’re not doing that well now so let’s look for ways that we can improve.

Bennett  Andrew Bayly—

Nash  One last question. Just on this one. This—

Bennett  No. Andrew Bayly.

Nash  Maybe you can ask then: has the Treasury ever advocated not selling assets?

Bayly  No, I’ve got another.

Cosgrove  Never in their history!

Bennett  Just do a preamble next time.

Bayly  There’s a number of people who always try and characterise the New Zealand economy being heavily reliant on agricultural exports. In fact, we heard it this morning. That doesn’t accord to what the latest stats I saw—and I’m keen to get your views on where we’re going with manufacturing and service industry—because when I last looked at the exports, the service industry accounted for 25 percent of exports, about $15 billion out of our $60 billion a year. And the manufacturing side of it—and I’m not talking about agriculture—is quite a significant component of that tradable sector. And the NZ PMI was at 57.7, so it all looks very positive, but we
continually get people who characterise this economy as just being a one-dimensional economy. I want to get your view on that.

Robertson V So, you’re right in that there is range of exporting and between the tradable and the non-tradable. So, Girol might have the detailed figures on that. But one of the things that I think’s important is that the question is not really about whether we’re totally reliant on agriculture or we’re totally reliant on something else. The question is what is the productivity level within our economy? And there is some benefit to improving that in agriculture, as there is to service industry. So that’s the kind of thing that we would be focused on.

We have a strength in agriculture that we don’t want to lose, as well, and it’s not a matter of saying this or that, but how productive and how connected into the international markets are the rest of the economy, is probably what we would focus on more. Do you have the figures on exports?

Karacaoglu I don’t have the exact figures, but I can say that the—this is there to just re-emphasise the point Vicky made—our mind has been much on using the core of the New Zealand economy and making it more innovative and generating more value from it, whether it’s our farm produce, whether it’s our forestry products, and so on. And that’s the way to get the quality margin premium in the world markets. So it’s just adding value to that; that is really the key issue here.

Bayly My understanding is that manufacturing is the fastest-growing part of this economy.

Karacaoglu Manufacturing is growing, but quite a chunk of manufacturing is also servicing the domestic economy, for example, housing and suchlike. So, on a trend basis, manufacturing has been declining in aggregate as a proportion of GDP. But in recent times manufacturing has picked up and quite a bit of that is explained by the fact that manufacturing is servicing quite strongly our domestic as well as our international sectors. The other part that’s growing, of course, is the services sector in general, which has a large export component.

Cosgrove I’ve got a few questions, around two topics. One is the reorganisation of the Crown Ownership Monitoring Unit, and the other is some of the stuff around [Inaudible]. The reorganisation to the new structure, from COMU to the new organisation—that will still be dealing with monitoring to changes in boards and the normal sets of characteristics around State-owned assets?

V. Robertson Yes.

Cosgrove Could you tell me—why did Ms Dunphy then resign as chair of Solid Energy, having been less than a year in the job?

? 18 months.

Cosgrove Oh, it was 18 months.

V. Robertson Well, you’ll need to ask her that specific question.

Cosgrove Well, did she tender a letter of resignation?
So, Ms Dunphy has resigned, and for reasons that you’ll need to ask her about. We’re really happy with what she has done—

No, I thank you, but answer the question. My question is: she will have tendered a letter of resignation; what is the content of that letter of resignation?

I couldn’t tell you; it’s not to me.

I don’t think it’s really Treasury’s role. Have you got another question? She’s answered the question.

Excuse me, we’ve just established that the structure will be monitoring the changes in board personnel; they verify. So presumably Treasury has in its possession—it’ll be made public anyway—a letter of resignation, presumably, but not necessarily providing reasons as to why Ms Dunphy resigned. I’m asking you: one, has she provided reasons; and, two, what were those reasons? They are two legitimate questions.

Look, I haven’t seen the letter myself. What we’re focused on—

Have any of your staff seen it?

What we’re focused on is the acting chair arrangements and looking for a permanent chair. That’s what we’re focused on.

So have any of your staff in that unit—they’re your staff—have they seen the letter?

I think, Clayton, you’ve got to be fair in asking a question. You can’t ask someone that kind of question. How are they going to answer that?

Simple: the secretary would turn to the person who’s in the monitoring unit and ask, one, have you received a letter; and what was the content of that letter? They are the acting secretary staff, so—

No, we’ve had an answer to that. If you’ve got another question, ask it.

Yeah, I do. Could you tell us, then—when you were giving advice on Solid Energy during the debacle, it is correct that Treasury embarked on an independent assessment of the quality and timeliness and efficiency of its advice, correct?

That’s right.

And is it correct that that assessment actually showed, to your credit, that your advice was high quality, that it was timely, and you provided all relevant information to the Minister in respect of that issue—is that correct?

It also said that—

No, no, I didn’t ask for “also”, I said, is that correct? It gave you a clean bill of health. It said you’d done a good job—to characterise it.

Yeah, it did say, and it said that there were some things that we also needed to focus on.
Cosgrove: So under the new structure, and given—I know it’s a slightly different kettle of fish—the CASS difficulties, what measurement will you have as to the quality, efficacy, timeliness, and efficiency, but, particularly, quality of advice that the new structure is going to provide to the Minister? And how’s that actually going to make a material difference given the independent report, which showed that Treasury had provided quality advice—the Minister simply had ignored it?

V. Robertson: Well, I think there’s different views of what quality is, here. So what I’m actually looking for, for commercial operations—in that case we did quality advice within the frame that we expected then. Now I expect my staff to think about that entity, or any entity within the industry that it’s in: so, for example, if we look at KiwiRail—being able to give really strong advice around all the options that Government might have around the performance of that entity, but also the performance of that entity within the context of transport. I think it’s true to say the quality of our advice now is a lot deeper and richer, and testing of boards and the assumptions they make. In the Solid Energy case, the board made an assumption around the coal price. I now would expect a lot more testing from my staff on that assumption.

Cosgrove: Isn’t it correct, on that particular issue, that—and the record shows this—that there was, if you like, a disagreement in respect of that very issue? And that yourselves—and forgive me, I can’t remember the name of the independent consultants that were commissioned to scope for a sale—but they came back, along with the Treasury, and said you know, “What goes up can come down.”, if you will, and that was ignored by the board, that information was provided to the Minister and that was ignored also?

V. Robertson: What we’ve learnt over the time—

Cosgrove: Sorry, forgive me, did you not hear the question? I didn’t ask what you’d learnt, with respect.

V. Robertson: I’m answering the question.

Cosgrove: I asked, is the characterisation I’ve made correct, please?

Bennett: Clayton, stop interrupting. Let Vicky answer the question. You’ve made a long question, let her answer it—just go for it, OK?

V. Robertson: So, what have we learnt from that? One of the key things is that we can have great advice but we need to have ways to make it more compelling, and have escalation paths when advice isn’t—heard, I suppose. We’ve been really focused on the quality of what our advice is, and bringing in the commercial operations advisory board has actually been part of testing the advice that we’ve got, with people who are seasoned, very experienced—either on current boards, chairs—who actually can test the advice that Treasury has. Because one of the key things we struggle with is that anybody can say: “Well, Treasury would not know.” So what we’re really focusing on—and it happened in Solid Energy’s case—is, well actually we’ve tested this advice, there’s a really strong group of external people who are saying: “Actually, you’ve got something here that you need to focus on.”
The other key thing I would say that’s really changed, is the interaction between us and boards is quite different now than it was even 2 years ago. So we are working really closely with board chairs and whole boards to think about the performance of their entities. That is quite different from kind of a quarterly monitoring cycle that we used to do.

Cosgrove  Could I ask you, though—what I’m struggling with is simply this, that you talk about, and I accept it, wanting an independent component to bolster your advice. In the case of—and I’ll come back to it, even though the chairman doesn’t like it—in the case of the valuation issue, where there was a dispute between, if you like, Treasury and the board, there was quite a number of disputes, that was actually, in your opinion, was verified by the independent consultants who went in there to scope for sale. And so that was independent advice. So I can’t actually see the difference.

You were right; you had your advice, independently vetted, that showed you were right; you provided that advice in the most robust way you could in this—and there’s metres of paper to show you did. That went to the Minister—it was expedited—he had it for a considerable period of time, as did two other Ministers, and it was ignored. So what other safeguard—what is the taxpayer getting for a reorganisation that’s actually any different?

V. Robertson  Well I think it is different. The other part I think is really different is that in hindsight—coming now, wouldn’t it better if that board reached decisions it needed to earlier? And that’s what we’re actually focused on. So if we have a system that just relies on ministerial decision-making at the end of things, then that’s only one lever. We’re actually really focused now on board performance, quality of board performance, and linking board performance to the actual strategy and performance of the entities. And I think you get a better system if you have boards who are making the right calls at the right time, and if we did that with Solid then we wouldn’t be in this situation we’re in now.

Bennett  OK Vicky, we’ve just got a little bit of time left. Do you want to mention anything in regards to the Half Year Economic and Fiscal Update—anything in addition, at the moment, at this stage?

V. Robertson  No, I think that’s—

Bayly  The Colmar Brunton review of savings is an interesting report, just a little while ago, talking about why people save and the excuses why they didn’t save. Obviously, the saving rates have improved quite substantially over recent times. What have you learnt out of that, and is there anything you’re applying towards actually trying to get a higher savings rate, that’s reduced the personal debt or—and it is very much tailored to personal—but is Treasury actually focused on how we can improve our savings rate across the economy?

Karacaoglu  What matters is the overall national saving rate, and in that context the direct contribution that the public sector government can make is to improve its own saving rate. So to that extent that has significant improvement. In terms of private saving rate, that’s quite flat, both in terms
of what’s been happening and looking forward. It’s very difficult to predict and forecast that, but one of the initiatives that has been taken is around KiwiSaver, for example. It’s enrolling people and encouraging them to save towards their retirements. So that’s one area. And the public sector’s, as I said, own contribution to [Inaudible] the two pillars through which we can work.

The final one, I guess, is more creating the kind of broader environment where people are investing and saving—a stable environment—and that’s also good for attracting overseas investment and saving to our shores in terms of funding productive investments. So those are the levers through which—the other one that does help on the saving side is the interest rate profile. Of course, that has been relatively low and that’s good for quite a few reasons, but that’s in the short term a discouragement for the private sector.

G. Robertson I just want to turn to the housing issue briefly. What advice has Treasury given the Government in response to two issues that the Governor of the Reserve Bank has been concerned about? One is his call for much more to be done in the housing supply area. What advice has Treasury given the Government about that? Secondly, what advice has he given around the question of the likelihood of a sharp correction in the market and what that might mean for the economy in general and house owners in particular?

V. Robertson I’ll start and Girol can finish. Our advice on housing affordability has been around increasing supply, so the things that the Government has got under way we think are steps towards that. As you would have heard from the MBIE, it’s quite hard to get that moving any faster than it’s going. But that has been our key advice, particularly in Auckland and Christchurch. The supply of land is really, really the critical aspect. Do you want to talk about interest rates?

Karacaoglu It’s just finding the right balance between encouraging supply while at the same time making sure that the demand side is properly managed, and that’s, of course, the focus of the central bank. Finding that balance and using instruments like LVR and so on in a way that will contain it where it’s heating up without effecting the broader economy, and finding that official cash rate versus the LVR mix are the kind of areas that are being focused on. But the fundamental solution, while containing credit growth and demand growth, is to make sure that the supply side is kicking in.

Seymour I just had a question about this shift in the last couple of years towards a Living Standards Framework. You seem to have made a shift away from measuring the efficacy and outputs of Government departments towards trying to assess outcomes for a whole community, so you’re talking about things like the level of social capital and trust, and what the priorities for New Zealanders should be when they seek happiness. Just from a resourcing perspective, do you think the Treasury has sufficient resources to work out how 4.5 million people should be happy? If not, have you thought about how much more you will need?
V. Robertson  Our job’s not to find out from 4.5 million people whether they are happy. Our job is to assess the key changes or key interventions Government can make in order to improve living standards. So, yes, we think we’re well-resourced to do that. As I said before, we’re holding on to the things that we were absolutely fantastic at before, which is a real focus on fiscal and economic growth, and actually complementing that with some better, broader things that we think are important for New Zealanders.

Seymour So it’s a cost-effective expansion of your role is what you’re saying?

V. Robertson Yeah. We’re doing it within, you know, a reducing baseline.

Tabuteau It was just a supplementary to one of the questions asked earlier. I was generally curious to understand around the interest rate balancing act that you’re undertaking if there been any regional solutions debated or thought through in terms of attacking the Auckland housing crisis, for example?

Karacaoglu Certainly that is not the area where we focus on, and that’s the Reserve Bank’s area of focus. We are not privy to those discussions. That has not been explicitly talked about as a real option.

Tabuteau So Treasury itself is not—

Karacaoglu No, you consider a whole variety of options, of course, when you’re looking at these kinds of pressures, but it is not something that is being actively pursued right now.

**conclusion of evidence**
2013/14 Annual review of the Ministry of Transport, the New Zealand Transport Agency, KiwiRail Holdings Limited, and the New Zealand Railways Corporation

Report of the Transport and Industrial Relations Committee

Contents

Recommendation 2
Introduction 2
Capital spending on roads 2
Road maintenance and renewals 3
Rail performance 3
Future of rail 4
Public transport 4
Long-distance passenger trains 5
Cycle paths 5
Safety 5
Appendix 7
The Ministry of Transport, the New Zealand Transport Agency, KiwiRail Holdings Limited, and the New Zealand Railways Corporation

Recommendation

The Transport and Industrial Relations Committee has conducted the annual review of the 2013/14 performance and current operations of the Ministry of Transport, the New Zealand Transport Agency, KiwiRail Holdings Limited, and the New Zealand Railways Corporation, and recommends that the House take note of its report.

Introduction

The transport sector includes road, rail, air, and sea transport. Government organisations in the sector include the four entities that we have examined in this review. Also part of the sector, but not covered by this review, are the Transport Accident Investigation Commission, Maritime New Zealand, the Civil Aviation Authority of New Zealand, and Airways Corporation of New Zealand Limited. Other public organisations with roles in the transport sector include the Meteorological Service of New Zealand (MetService, for public weather forecasting and information for international air navigation), local governments (responsible for local roads and transport planning), and the New Zealand Police (road safety).

In the 2013/14 year, Vote Transport was appropriated approximately $4.1 billion. About 90 percent of this was for roads, and most went to the New Zealand Transport Agency via the National Land Transport Fund (NLTF).

In December 2014, the Government Policy Statement on Land Transport was published, and it takes effect on 1 July 2015. It sets out the transport investment priorities for the next 10 years.

Capital spending on roads

The number of vehicle-kilometres travelled has been static since the early 2000s and we were told it has been the same around the world. Nevertheless, the Ministry of Transport predicts a 50 percent growth in total freight volume in the next 30 years, although not evenly across the country. We heard that there are pressure points at particular areas of the network, and this is where capital is invested.

In 2013/14, approximately $776 million was spent on capital works for new infrastructure and renewal of state highways.

We note that cost-benefit ratio values for new state highways since 2008/09 have dropped from an average of over 3.5 to a little over 2; also, some projects have started before others with higher cost-benefit ratios. We learnt that cost-benefit analysis is a useful tool, but can distort the picture if used alone to plan capital expenditure. Projects with very long-term benefits will tend to get a lower rating than they deserve, because benefits in the future are discounted relative to earlier benefits in this model. The Transport Agency also said it plans...
on a wider basis than individual projects: it plans for large areas of the network, and then it looks in detail at the levels of performance it wants within those areas.

We heard that sometimes improvements to local roads do not proceed because of local authorities’ financial constraints. We hope to see this change as a result of the new formula for calculating NLTF financial assistance rates, due to come into effect on 30 June 2015. Under the new formula, the NLTF will fund 53 percent of local roads. Each project will get at least 51 percent NLTF funding, and at most 75 percent, determined by a formula based on the ability of local councils to pay.

**Road maintenance and renewals**

Road maintenance is a funding pressure point, and we heard about changes to the Transport Agency’s renewals and maintenance programme. Under a new business model for renewal and maintenance contracts, the Transport Agency has amalgamated a number of contracts and secured economies of scale in “network outcome” contracts. Approximately seven of these new contracts have been completed and there are another 14 in progress. The Transport Agency told us that in the past, contractors have been risk-averse, leading to over-maintenance. The new contract model moves away from maintaining roads according to a schedule, towards maintenance responding to the condition of the road.

We also heard about the Transport Agency’s new network classification system, which sets performance measures for every road in New Zealand against a minimum required level of service. The expected level of service varies according to how busy particular roads are.

**Rail performance**

The operating surplus of KiwiRail Holdings Limited, before depreciation and grant income, was $77.5 million, compared with $108.2 million in 2012/13. The result was only 65 percent of the $120.1 million target. KiwiRail said it expects an operating surplus of $90–95 million at the end of the 2014/15 year, which is 82–86 percent of the target.

Most of KiwiRail’s revenue came from its freight business unit, which contributed $462 million to the total of $740.9 million. Rail transports about 16 percent of all freight, and 30 percent of exports. We heard that this is expected to increase until 2042 by two percent each year, and over the next three to four years, KiwiRail wants to increase its freight share to 20 percent.

In early 2014, asbestos was discovered in 40 new Chinese-made locomotives. The manufacturer accepted responsibility for the problem, and is removing the asbestos at KiwiRail’s Hutt workshops. Half of the locomotives have had their asbestos removed, and the other half will be worked on from April 2015, during the winter months, when freight volume is lightest. KiwiRail told us the total cost to the business of the asbestos was less than $12 million.

KiwiRail could not say whether workers who had arrived from China to fix the asbestos problem were paid at or above the minimum wage. Although these staff are employed by the manufacturer of the locomotives, some of us consider KiwiRail should ensure appropriate remuneration for staff working on its rolling stock in New Zealand.

We also heard that $7 million has been spent replacing sleepers that were rotting prematurely, and KiwiRail has spent $100,000 trying unsuccessfully to recover this from the suppliers. Despite this and the asbestos problem, KiwiRail assured us it is satisfied with
its procurement practices. We were told its procurement process manual has been updated and it has a new dedicated procurement intranet site. We also heard KiwiRail is moving towards standardising its assets and processes generally. It said that instead of seven different types of locomotive, it wants only two; and instead of 65 different wagon types, it wants three. This will help in areas such as maintenance and training. We will watch closely KiwiRail’s performance in procurement.

We learnt that some property and freight contracts which were unfavourable to KiwiRail are coming to an end and KiwiRail is seeking to improve its commercial margins in these areas.

**Timeliness of ferries and trains**

KiwiRail failed to reach its on-time performance targets for scenic trains, premium freight trains, and ferries. The latter two were affected by locomotives being taken out of service to remove the asbestos, and the loss of a propeller from the *Aratere* ferry in late 2013. However, we heard that almost all ferry sailings in December 2014 and January 2015 were on time.

We were told the *Stena Alogra* is now making more crossings and KiwiRail hopes this will ease the pressure on the *Aratere*. It considers the *Aratere* is a reliable ship, but it is working at its limits.

KiwiRail achieved its target of 95 percent of Wellington metropolitan trains arriving within five minutes of their due time, and this train service was considered by Australia Rail to be the best in Australia or New Zealand. KiwiRail intends to communicate its success in these areas to the public more effectively.

**Future of rail**

We asked about a commercial review of KiwiRail which was conducted by KiwiRail in conjunction with the Treasury. It aimed to examine rail’s role in New Zealand’s economy over the next 30 years, and to consider the most appropriate operating model. The review examined every KiwiRail route, and provided a range of options for the Government to consider. The review, which cost $800,000, was presented to shareholding Ministers in December 2014 and is being considered by the Government and Treasury.

KiwiRail wants to see the growth of “intermodal freight villages” such as the transport hubs near Christchurch, Palmerston North, Hamilton, and Auckland, where freight is switched between different modes of transport. KiwiRail sees itself as a key partner, owning the property involved and offering freight services.

KiwiRail said that one barrier to growth is the high export volume leaving the South Island, but transport returning empty because of the small population there. The issue of our uneven population also has social and economic impacts.

**Public transport**

The Transport Agency said it does not plan to invest in the early enabling works for Auckland’s City Rail Link, a 3.5-km double-track underground railway.

The project proper is due to start in 2020, or in 2017 if rail patronage and employment in the central city increase to the targeted extent. Rail passenger trips have increased to 12.5 million trips per year, and KiwiRail is confident the target of 20 million will soon be
reached. However, we are aware that a 25 percent increase in employment in the central business district is unlikely because of a lack of office space there.

We heard about technology helping to improve public transport services and increase patronage. We heard about the success of the integrated ticketing system in Auckland, which could form the basis of similar systems in other cities. We also heard about online, real-time public transport schedules, integrated links between buses and trains, and “park and ride” options.

We note KiwiRail’s interest in providing a new commuter train service between Hamilton and Auckland should local and central governments commission one. Some of us are disappointed that no formal analysis was made comparing the Waikato Expressway project with a commuter train service between Hamilton and Auckland.

**Long-distance passenger trains**

Passenger numbers on the Tranz Alpine railway between Christchurch and Greymouth are at their highest since before the Canterbury earthquakes, with almost 9,000 more passengers in 2013/14 than in 2012/13. The Coastal Pacific service between Picton and Christchurch transported about 2,000 fewer passengers. KiwiRail speculated that other infrastructure elements may be needed before passenger numbers on this tourist service increase. Along with the Northern Explorer between Wellington and Auckland (which transported 32,144 passengers: about 1,500 more than in 2012/13 but almost 23,000 fewer than in 2011/12), KiwiRail considers the Coastal Pacific “sub-marginal.” It is trying to run the passenger trains more efficiently to save fuel.

Patronage has dropped on the Capital Connection line, between Palmerston North and Wellington, and we were told it needs another 100 passengers per day to be financially viable. Some of us consider it should be run as a commuter service rather than as a tourist service, so that it could be funded as public transport.

**Cycle paths**

A cycle infrastructure programme is funded as part of the National Land Transport Programme. In addition, an extra $100 million over the next three years is allocated for urban cycleways in the Government Policy Statement on Land Transport. A third funding stream is investment from local authorities, and in total, the Transport Agency estimates that about $300 million over the next three years will be available for urban cycleways.

**Safety**

**Road safety**

Work under the Safer Journeys Action Plan included lowering breath and blood alcohol limits for adult drivers, reviewing drink-drive sanctions, developing speed management initiatives, making electronic stability control compulsory for all new motor vehicles, identifying 100 high-risk intersections, and reviewing drug-driving enforcement. Options have also been explored for removing less safe vehicles more quickly from the national fleet, but no major proposals were made. The ministry said the average age of our vehicle fleet is over 13 years: very old, compared with those of other developed countries.

We were told that the increase in road deaths between 2013 and 2014 would be considered in an evaluation of the Safer Journeys Action Plan and any causal factors that might be found could be included in the next Safer Journeys Action Plan.
We were told that six percent of crashes involve visiting drivers, mainly from Australia and the United Kingdom, and part of the Safer Journeys Action Plan is a project dealing with safety in relation to visiting drivers. It was initiated in response to the difficult road conditions in some popular tourist regions, and the increasing number of international visitors who drive. The project involves the Transport Agency, local authorities, the New Zealand Police, and industry representatives working to find strategies for improving road safety for international and domestic visitors travelling in the lower South Island.

**Rail safety**

KiwiRail told us that a sector working group has been established to (among other things) improve the safety of level crossings. Bells or barriers control about half of New Zealand’s 1,300 level crossings, and new bells or barriers are installed at 15 to 20 additional crossings each year. In Auckland, we heard, KiwiRail, the Transport Agency, and Auckland Transport are cooperating to make crossings safer. We note KiwiRail mentioned new bridges as a possible design solution for some crossings.

KiwiRail had 17 percent fewer lost time injuries in the 12 months to February 2015. Over the same period there was a 51 percent reduction in the total injury rate, and the KiwiRail unit responsible for line maintenance and renewals had an injury-free period in the second quarter of 2014/15. We were also told of safety improvements in train control.

However, KiwiRail acknowledged a cultural problem regarding safety, which it said it is working to change; it could take three to five years. KiwiRail said that in New Zealand generally, work health and safety is poor, particularly compared with Australia. KiwiRail believes this is an issue for businesses throughout the country. It was suggested that part of the solution could be customers and suppliers insisting on high safety standards in their contracts.

We heard about KiwiRail’s site-specific “hazard action teams.” There are 40 such teams, each including elected and appointed KiwiRail staff, plus on-site contractors or customers. The teams are responsible, for example, for hazard registers. KiwiRail intends to give them also responsibility for reducing hazards, with a budget to do so, and it expects the teams to share their lessons with the organisational hierarchy.

We will continue to watch KiwiRail’s safety performance.
Appendix

Committee procedure
We met on 4 and 9 December 2014, 12, 19, and 26 February, 12, 19, and 26 March, and 2 April 2015 to consider the annual review of the Ministry of Transport, the New Zealand Transport Agency, KiwiRail Holdings Limited, and the New Zealand Railways Corporation. We heard evidence from the Ministry of Transport, the New Zealand Transport Agency, KiwiRail Holdings Limited, and the New Zealand Railways Corporation, and received advice from the Office of the Auditor-General.

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

Julie Anne Genter was present for most of this item of business.

Evidence and advice received


Transport sector briefing paper, prepared by committee staff, dated 18 February 2015.

KiwiRail Holdings Limited, Responses to pre-hearing questions 131–176, received 2 February 2015.

KiwiRail Holdings Limited, Post-hearing responses, received 17 March 2015.

Ministry of Transport, Responses to pre-hearing questions, received 2 February 2015.

Ministry of Transport, Post-hearing responses, received 12 March 2015.

New Zealand Railways Corporation, Responses to pre-hearing questions 131–133, received 2 February 2015.

New Zealand Railways Corporation, Response to post-hearing questions 1 and 2, received 9 March 2015.

New Zealand Transport Agency, Responses to pre-hearing questions 1–173, received 2 February 2015.

New Zealand Transport Agency, Post-hearing responses, received 12 and 19 March 2015.
2013/ 14 Annual review of the Ministry of Women’s Affairs

Report of the Government Administration Committee

Contents

Recommendation 2
Introduction 2
Financial and service performance management 2
Performance goals 2
Re-victimisation 3
Appendix 4
Ministry of Women’s Affairs

Recommendation

The Government Administration Committee has conducted the annual review of the 2013/14 performance and current operations of the Ministry of Women’s Affairs, and recommends that the House take note of its report.

Introduction

The ministry is the Government’s principal adviser on achieving better outcomes for women. The ministry works toward three strategic goals: greater economic independence for women, more women in leadership, and better safety from violence for women. It also supports the Minister of Women’s Affairs by managing the Government’s international reporting obligations concerning the status of women.

Financial and service performance management

The ministry’s total income in 2013/14 was $4.904 million and its total expenditure was $4.782 million (4.5 percent more than the previous year), resulting in a net surplus of $122,000. In mid-2014 the ministry moved premises, and in December 2014 it was announced that its English name would be changed from the Ministry of Women’s Affairs to the Ministry for Women. Its Māori name, Minitatanga mō ngā Wāhine, remains unchanged. For the 21013/14 year, 12 percent of the ministry’s budget was for moving premises and rebranding. We heard that this expenditure came from an accumulated capital budget, and that further cost savings may be made from lower rent and heating bills in the new smaller accommodation.

Performance goals

One of the measures of economic independence set out in the ministry’s 2013–16 statement of intent was that

“the percentage in the lowest two income quintile who are women will reduce from 59 percent by 2016”.1

In its 2014–18 strategic intentions document, this measure had become

the percentage of women in the lower income quintiles will decrease and the percentage of women in the upper quintiles will increase by 2018.2

There remains no indication of the size of the demographic change sought. We queried the reworking of this and other performance goals, as they seem to have become less specific and more opaque. The ministry said that its goals have remained the same; but the goal of 45 percent of people in leadership being women has always been more aspirational than absolute. It pointed out that this goal was well regarded internationally and that the standard aspiration was expressed as a 40/40/20 split with 40 percent men, 40 percent women, with a 20 percent leeway.

---

2 Ministry of Women’s Affairs, Strategic intentions 2014–18, p. 8.
International approval aside, we remain concerned about inconsistency between the ministry’s governance documents, including its United Nations Convention to Eliminate All Forms of Discrimination Against Women reporting. If the performance goal is 45 percent, this needs to be clearly and consistently stated in all documentation. The ministry told us that the differences may be of phrasing, not substance. It said it was working with the Office of the Auditor-General regarding its performance measures to tell its story better. We suggest that these efforts might helpfully include the development of consistent language regarding its performance goals.

**Re-victimisation**

One of the ministry’s strategic goals is to increase women’s safety from violence. We were concerned to learn that 50 percent of women subjected to sexual violence will be re-victimised. The ministry told us that the reasons for this are not well understood, but observed that victims are often in situations where re-victimisation is likely. It said that perpetrators are also known to target the vulnerable, and the contexts that allows them to do so need closer investigation.
Committee procedure
We met on 25 February and 25 March 2015 to consider the annual review of the Ministry of Women’s Affairs. We heard evidence from the Ministry of Women’s Affairs and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Ministry of Women’s Affairs, Responses to annual review questions, received 30 January and 13 March 2015.
Office of the Auditor-General, Briefing on the Ministry of Women’s Affairs, dated 25 February 2015.
Organisation briefing paper, prepared by committee staff, dated 25 February 2015.